Zurich Insurance Group

Annual Report 2013

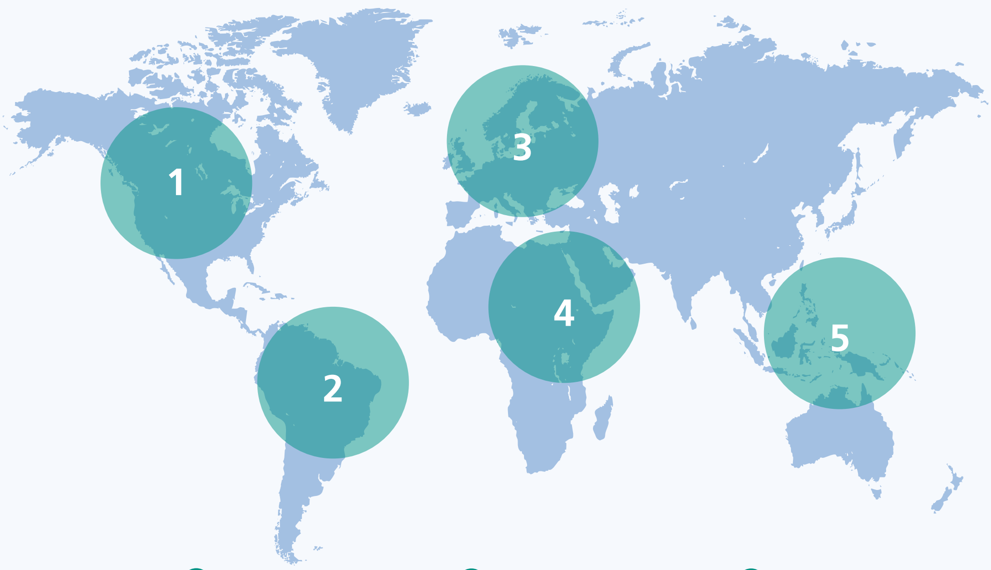
About Zurich

Zurich is a leading multi-line insurer that serves its customers in global and local markets. With over 55,000 employees, we provide a wide range of general insurance and life insurance products and services. We serve individuals, small businesses, and mid-sized and large companies, including multinational corporations, in more than 170 countries.

Zurich at a glance

A global presence

Zurich operates globally and locally, according to our customers' needs.



1 **North America**
In North America, Zurich is a leading commercial property-casualty insurance provider serving the global corporate, large corporate, middle market, specialties and programs sectors.

2 **Latin America**
Zurich operates in Argentina, Brazil, Chile, Mexico, Uruguay and Venezuela.

3 **Europe**
Zurich has major operations in Germany, Italy, Spain, Switzerland, and the UK and a significant presence in other countries.

4 **Middle East & Africa**
Our business spans the region with key operations in the Middle East, South Africa, Morocco and Turkey.

5 **Asia-Pacific**
Zurich has operations in Australia, China, Hong Kong, Indonesia, Japan, Malaysia, New Zealand, Singapore and Taiwan.

Our cover
Talking to customers: At Zurich, we are using direct customer feedback and market analysis to reshape our business.

For more information about Zurich, please visit **www.zurich.com**

Contents

Our business segments

General Insurance

Business
Property and casualty insurance and services

Market segments
Individual, commercial and corporate customers

Distribution channels
Agents, banks, brokers, direct

Geography
Global

USD 2,859m
Business operating profit

USD 36,438m
Gross written premiums and policy fees

Global Life

Business
Protection, savings and investment solutions

Market segments
Individual, commercial and corporate customers

Distribution channels
Agents, banks, brokers, employee benefit consultants, direct

Geography
Global

USD 1,272m
Business operating profit

USD 27,095m
Gross written premiums, policy fees and insurance deposits

Farmers

Business
Management services related to property and casualty insurance

Market segments of the Farmers Exchanges[1]
Individual and commercial customers

Distribution channels of the Farmers Exchanges[1]
Agents, direct

Geography
United States

USD 1,516m
Business operating profit

USD 2,810m
Management fees and other related revenues

[1] All references to 'Farmers Exchanges' mean Farmers Insurance Exchange, Fire Insurance Exchange, Truck Insurance Exchange and their subsidiaries and affiliates. The three Exchanges are California domiciled interinsurance exchanges owned by their policyholders with governance oversight by their Boards of Governors.

Performance overview

Financial highlights (unaudited)

in USD millions, for the years ended December 31, unless otherwise stated	2013	2012[1]	Change[2]
Business operating profit	**4,680**	4,084	15%
Net income attributable to shareholders	**4,028**	3,887	4%
General Insurance gross written premiums and policy fees	**36,438**	35,610	2%
Global Life gross written premiums, policy fees and insurance deposits	**27,095**	30,259	(10%)
Farmers Management Services management fees and other related revenues	**2,810**	2,846	(1%)
Farmers Re gross written premiums and policy fees	**4,045**	4,361	(7%)
General Insurance business operating profit	**2,859**	2,112	35%
General Insurance combined ratio	**95.5%**	98.4%	2.9 pts
Global Life business operating profit	**1,272**	1,351	(6%)
Global Life new business annual premium equivalent (APE)[3]	**4,418**	4,030	10%
Global Life new business margin, after tax (as % of APE)[3]	**28.3%**	22.1%	6.2 pts
Global Life new business value, after tax[3]	**1,251**	890	41%
Farmers business operating profit	**1,516**	1,402	8%
Farmers Management Services gross management result	**1,353**	1,366	(1%)
Farmers Management Services managed gross earned premium margin	**7.2%**	7.3%	(0.1 pts)
Average Group investments	**208,431**	204,066	2%
Net investment result on Group investments	**7,398**	8,983	(18%)
Net investment return on Group investments[4]	**3.5%**	4.4%	(0.9 pts)
Total return on Group investments[4]	**1.3%**	7.0%	(5.7 pts)
Shareholders' equity	**32,503**	34,505	(6%)
Swiss Solvency Test capitalization ratio[5]	**206%**	185%	21 pts
Diluted earnings per share (in CHF)	**25.23**	24.72	2%
Book value per share (in CHF)	**196.14**	214.86	(9%)
Return on shareholders' equity (ROE)	**12.0%**	11.8%	0.2 pts
Business operating profit (after tax) return on shareholders' equity (BOPAT ROE)	**10.5%**	9.3%	1.2 pts

[1] December 31, 2012 has been restated as set out in note 1 of the Consolidated financial statements.
[2] Parentheses around numbers represent an adverse variance.
[3] New business amounts are calculated on embedded value principles before the effect of non-controlling interests. See Embedded value report for details of these principles. New business amounts for the year ended December 31, 2012 do not include Zurich Santander or new operations in Asia (including Zurich Insurance Malaysia Berhad – ZIMB).
[4] Calculated on average Group investments.
[5] Ratios as of July 1, 2013 and January 1, 2013, respectively, are calculated based on the Group's internal model, which is subject to the review and approval of the Group's regulator, the Swiss Financial Market Supervisory Authority (FINMA).

Operational highlights

- In General Insurance, the underlying loss ratio improved in 2013 through disciplined underwriting and cost efficiencies, while also benefitting from a lower level of severe catastrophes than in 2012.
- Global Life business operating profit benefited from growth in protection business and continued to show increases in Latin America, although these were more than offset by reductions elsewhere.
- Farmers showed robust profit growth due to an improved underwriting result at Farmers Re, partly offset by lower business operating profit in Farmers Management Services.

USD 4.7bn
Business operating profit
(December 31, 2013)

121%
Zurich Economic Capital Model ratio[1]
(July 1, 2013)

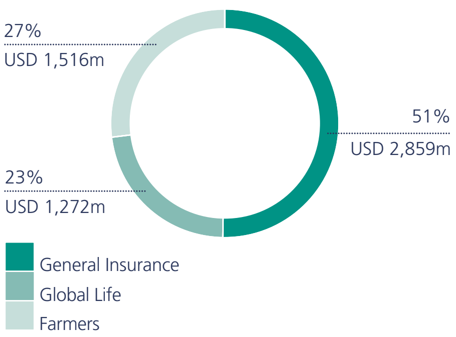
USD 32.5bn
Shareholders' equity
(December 31, 2013)

55,000+
Employees (approximately)
(December 31, 2013)

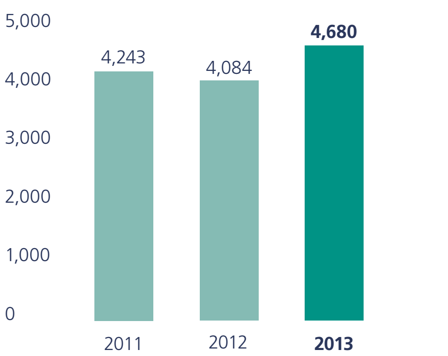
170+
Countries
(December 31, 2013)

AA–/stable
Standard & Poor's financial strength rating on Zurich Insurance Company Ltd
(December 31, 2013)

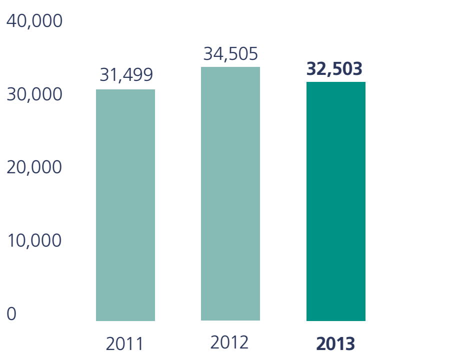
2013 Business operating profit by segment[2, 3]



Business operating profit
(in USD millions)



Shareholders' equity
(in USD millions)



[1] The Zurich Economic Capital Model (Z-ECM) is an internal measure of capital adequacy, which also forms the basis of Zurich's Swiss Solvency Test (SST) model. As of July 1, 2013, the Group's SST ratio was 206%.
[2] All amounts are shown in U.S. dollars and rounded to the nearest million unless otherwise stated, with the consequence that the rounded percentages may not add to 100 percent in all cases. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts.
[3] Excludes Other Operating Businesses and Non-Core Businesses..

Message from the Chairman and CEO

Dear Shareholder,

We are pleased to present our financial results for 2013. We delivered a solid operating profit in all core businesses, experiencing good growth in priority markets in both General Insurance and Global Life. Farmers is focusing on implementing its new consumer strategy, while at the same time delivering resilient margins.

Tom de Swaan and Martin Senn

Business operating profit (BOP) increased 15 percent to USD 4.7 billion compared with 2012. Net income attributable to shareholders (NIAS) rose 4 percent to USD 4.0 billion in the same period. Our solid results and strong cash generation have given us the confidence to propose a dividend of CHF 17 per share. In the final three months of 2013, BOP was USD 1.1 billion, an increase of 94 percent compared with the same period of 2012, which included the impact of Storm Sandy in North America. NIAS rose by 9 percent to USD 1.1 billion.[1]

Our results in 2013 benefited from a continued focus on profitability, underpinned by the sustained execution of our product, underwriting and pricing strategies. There were fewer severe catastrophe events compared with 2012. This helped to offset the impacts of an increase in both large and weather-related losses in 2013, as well as a decrease in investment income resulting from persistent low investment yields.

Setting our course for 2014–2016

In 2010, we set ambitious targets for the three years to 2013, some of which we did not achieve. However, we have made good progress in many areas. We reduced costs in mature markets and delivered strong growth in our priority developing markets. But the environment in which we operate has changed and we must change with it.

Our strategy for 2014–2016 has three cornerstones. First, we are prioritizing investment in markets and customer segments with strong potential for growth. Examples include the corporate market, in which we are building on the success of our combined General Insurance and Global Life offering to large corporate customers, and our North America Commercial business, where we are investing to better serve our commercial mid-market customers. And we have completed our field work on customer

[1] Business operating profit indicates the underlying performance of the Group's business units by eliminating the impact of financial market volatility and other non-operational variables.

segmentation within three retail markets, where we believe our brand strength and market position give us a competitive edge.

Second, we are managing other businesses for value. This means optimizing Global Life in-force books and maximizing returns in our smaller General Insurance markets, while turning around or exiting underperforming businesses. Examples include Hong Kong, where we have withdrawn from an underperforming distribution channel, and the Middle East, where we combined the regional management structures of the Middle East, Africa and Europe, creating additional economies of scale.

Third, we aim to grow our operating profits. In 2013, we initiated a major project to reduce complexity and thereby overhead burden across the Group. We are focusing on improving the profitability of a number of our General Insurance portfolios. We are also seeking higher returns from our investment portfolio – without compromising investment discipline.

During the 2014–2016 period, our objective is to deliver an attractive total return to our shareholders. To help us achieve this, we have set new targets. We aim to generate a BOP after tax return on equity of 12 to 14 percent[2]; maintain a strong capital position, with a Zurich Economic Capital Model[3] ratio of 100 to 120 percent; and achieve high levels of free cash flow, with net cash remittances to the Group in excess of USD 9 billion[4]. We will be reporting on our progress against these targets at the half- and full-year.

Progress in corporate responsibility initiatives

During 2013, we also made significant progress in our two leading corporate responsibility initiatives. We announced a flood resilience program, a five-year commitment that includes an initial investment of USD 36 million. The program taps into our insurance expertise and employs a new approach to cross-sector collaboration. The International Federation of Red Cross and Red Crescent Societies (IFRC) and the international non-governmental organization Practical Action are part of an alliance that links research, community-based programs and risk expertise. Work has begun in Mexico and Indonesia, which will serve as models for future efforts. We also announced that we plan to invest up to USD 1 billion in 'green bonds' issued by borrowers such as the World Bank, International Finance Corporation and other development finance institutions. These bonds have the same rating as standard bonds from their issuers and earn returns fully compensating for the risk. The proceeds are used exclusively to help communities mitigate or adapt to the consequences of climate change.

Changes in leadership

In early 2014, we announced senior management changes that will further strengthen Zurich's General Executive Committee. George Quinn, previously with Swiss Re, will become Chief Financial Officer (CFO) from May 2014. Robert Dickie joins Zurich from AIG as Chief Operations and Technology Officer in March 2014. His remit includes Zurich's shared services, information technology, procurement and sourcing as well as operational transformation. We would like to thank Vibhu Sharma, Group Controller, who stepped in as ad interim CFO, and Markus Nordlin, Chief Information Technology Officer, who took on responsibility for Group Operations ad interim.

Economic outlook

Despite a more challenging environment for emerging markets, the global economy continues to strengthen, led by better activity in developed regions and supported by stabilization in China. U.S. growth is expected to rise above trend in 2014, leading an acceleration in global activity. The outlook for Europe is also more positive. Emerging markets will face capital outflows and tighter domestic policy, while political uncertainty is also high in many regions. Stronger activity in developed markets should support exports, however. Asian economies are expected to see steady, if unspectacular, growth. In Latin America, Chile and Mexico are set to do well, while growth in Brazil will probably slow.

Delivering on our targets

This is a year in which we are taking firm actions in relation to each of the three cornerstones of our strategy. We expect some of the benefits of these actions will start to be visible this year, as we lay a strong foundation for the delivery of our strategic targets for 2014 to 2016.

We would like to thank all our stakeholders – our customers, our people, our shareholders and the communities in which we live and work – for their support. We look forward to updating you on the progress we are making toward our strategic goals in the months ahead.

Tom de Swaan
Chairman of the Board of Directors

Martin Senn
Chief Executive Officer

[2] Excluding net unrealized gains and losses.
[3] The Zurich Economic Capital Model (Z-ECM) is an internal measure of capital adequacy, which also forms the basis of Zurich's Swiss Solvency Test model.
[4] Cumulative net cash remittances to Zurich Insurance Company Ltd, after deducting central costs, in 2014–2016.

Market environment

Zurich's strategy for 2014–2016 is underpinned by market developments in the global economy, technology and customer buying behavior.

We believe that a number of factors – the steadily improving economic environment, accelerating globalization, and the evolving technological landscape – favor us because Zurich is a global and composite insurer.

An improving global economic environment

There are clear signs that a number of the mature markets in which Zurich has a strong competitive position are starting to recover, while we expect developing markets to continue delivering solid growth. The more positive outlook compared to the period 2010–2013 means that we can be more assertive in our quest for growth, though we need to remain vigilant as there are still downside risks, and we do not intend to compromise the discipline and focus that served us well in recent years.

At the same time, the progress of globalization is driving the growth of cross-border insurance. Global trade is increasing after an uneven period during the last three years. This growth is likely to continue in line with the global economic recovery, driving demand for cross-border insurance as complexity in supply chains continues to increase and risks become more interconnected. We also see a counter-trend toward local protectionism (see the following section on regulatory matters). This will make it much harder to build cross-border business models in retail financial services – which could benefit established global insurers such as Zurich.

“The progress of globalization is driving the growth of cross-border insurance.”

For corporate and commercial customers, these trends translate into an increasing need for complex bespoke international solutions, which can best be crafted by focused insurers with strong skills and global reach. We strongly believe that this plays to Zurich's strengths, particularly our global capabilities and technical expertise.

Technology and changing customer needs create opportunities

Significant changes in technology and how individuals and companies use it are altering the way in which customers access insurance, creating new opportunities. These developments have lowered the cost of delivering insurance products and services, and increased price transparency in retail markets. At the same time, we are also re-evaluating how we use technology and rethinking our value proposition in some markets.

The evolution of 'Big Data' (the processing and analysis of large, complex data sets) enables insurers to develop a far more detailed understanding of the risk landscape, a trend which plays to our strengths in the commercial insurance sector. In parallel with these external drivers, we see a change in customers' behavior and needs. Corporate, commercial mid-market and retail customers are affected differently.

Within the corporate insurance market, there is a trend toward centralization and coordination of insurance purchasing. Corporate customers and brokers are beginning to request combined life and general insurance solutions. The main benefits perceived by customers are operational simplification, with a single point of contact and one platform, as well as better risk insights and better-informed pricing. Distributors in the corporate insurance world are also adapting to this trend.

Commercial mid-market customers are shifting from predominantly relationship-driven to more data-driven decisions. Commercial insurers are now using the same analytical approach that has been in use in the retail markets for many years. Insurers – including Zurich – and brokers are now investing in predictive analytics, which allow the identification of trends, patterns, and relationships among data to improve customer risk selection.

Retail insurance markets are mainly locally-concentrated and highly competitive. Technology is driving change: Customers expect to access services through many channels, including the telephone, websites and social media. To succeed, insurers must identify the most attractive customer segments that can be served profitably on a large scale, and keep up with technological change.

"We can capitalize on these opportunities and build on the strong platform we have developed."

Life insurance in particular faces challenges from increased regulatory oversight and a stronger focus on customer protection that has put pressure on commissions. But demand for company-sponsored and individual protection and savings solutions is increasing as governments and corporations look to reduce the costs associated with providing pensions for aging populations. In developing countries, too, individual life coverage has often failed to keep pace with rising incomes, which could raise demand.

Zurich well positioned to capitalize on these opportunities

Zurich is a global and composite insurer. We can realize economies of scale within our business, and have the capital resources to stay at the forefront of technology and innovation. Our global scope allows us to offer a more holistic service to our increasingly globalized customers and provides intermediaries with more integrated solutions that generate greater value for customers. It also gives Zurich an edge in the battle for talent, because we can make use of our global capabilities across regions to offer our employees far richer career opportunities.

We can capitalize on the opportunities that will drive the industry and build on the strong platform that we have developed over the past decade, across the corporate, commercial mid-market and retail sectors. We are particularly strong in corporate risks, where we are one of a handful of insurers that can offer our customers a genuinely global service. Zurich also has a leading position in the commercial insurance market in North America. This is an area where our global business model will give us an advantage: We see many opportunities to mirror that success in other markets over time.

We have strong positions in select retail markets and will focus our investments to strengthen our presence where we can develop and sustain distinctive positions.

Regulatory environment

Since the financial crisis, regulatory change has become a key driver for the insurance industry. At Zurich, we have identified five regulatory trends which are relevant to our business from a strategic perspective.

> Governmental challenges to the global management of insurance capital are growing."

Tension between new global and national regulations
During the financial crisis, the existing regulatory and supervisory framework struggled to deal with risks presented by large, multi-national financial institutions. As a result, policymakers have called for improved financial stability through stronger global regulatory standards. Insurance, as a key contributor to the global financial economy, is one of many sectors affected by this evolution.

A more focused Financial Stability Board has mandated the International Association of Insurance Supervisors (IAIS) to identify systemically-relevant insurers and to develop new capital and governance standards for the insurance industry. Zurich is not part of the initial round of insurance-related systemic risk ('too big to fail') designations made by the IAIS because the company conducts very little non-traditional and non-insurance business. However, the underlying concepts are likely to be exported to Zurich due to its status as a large internationally-active insurer. Enhanced group supervision through the ComFrame initiative, a broader group supervisory role for FINMA, and the development of new capital standards aimed at globally-active insurers are anticipated over time.

Despite the emphasis on supra-national approaches to systemic risk, standards for multinational insurance groups, group supervision concepts and a trend toward a risk-based capital approach, local prudential regulation is and will remain fractured. For example, the European Union (EU) and Switzerland focus more on a consolidated view looking at the total balance sheet, while the U.S. and other regulators favor a bottom-up view looking at balance sheets at legal-entity level.

Insurance groups are being affected by these tensions. Regulatory oversight of large international insurance groups continues to progress but there will be limited consistency in approach between regulators. Zurich therefore expects to work with regulators that have overlapping remits.

Protection of national interests and new insurance taxes
Governmental challenges to the global management of insurance capital are growing, out of concern for the competitiveness of local insurers, the need to raise revenues or simple political expediency.

In recent years, governments have increasingly introduced or maintained nationalistic measures that affect the insurance industry. Examples include mandated reinsurance cessions in Brazil, and dividend and investment restrictions in Argentina. The U.S. is considering taxes on foreign affiliate reinsurance transactions. Canada imposes registration requirements for foreign-affiliated reinsurers. China has also introduced new restrictions.

Governments are also turning to the insurance industry to help raise revenue. The U.S. Foreign Account Tax Compliance Act (FATCA) utilizes banks and insurance companies to track down offshore assets held by U.S. taxpayers. The EU is in the process of creating its own FATCA, one which is not necessarily compatible with the U.S. approach. Other governments are likely to follow suit.

It is likely that additional operational, compliance and reporting obligations will be imposed on the insurance industry, some of which will have cross-border implications. These schemes tend to generate high compliance costs and require considerable management attention. Global risk pooling, and global capital and liquidity management will come under pressure. Initiatives to raise revenue could affect insurers' relationships with customers and intermediaries, while skewing the competitive playing field against global players as local players tend to secure more favorable terms.

Consumer regulation and its impact on products and services
Since the onset of the financial crisis, there has been a trend toward greater consumer protection. Global standard-setters have adopted principles that center on the avoidance or disclosure of conflicts in the provision of advice; greater choice and ease of switching; the suitability and transparency of products; and recourse for customers if they are dissatisfied.

“The financial crisis has changed the way corporate governance is perceived.”

For Zurich, the impact of increased consumer protection will be felt mostly in our personal lines business, although some spillover into commercial business is likely. This will require the alignment of our distribution strategies with emerging regulatory influences, which will differ by jurisdiction and product. Greater transparency could also affect product configuration. We will need to make information disclosures to customers while mitigating legal and administrative challenges arising from errors and disputes.

Data privacy and data management

Advances in information technology have made it easier to share and analyze personal data. At the same time, the public and policymakers have become increasingly concerned about data privacy.

Insurers compete by developing deep insights into classifications of risks and by relating them to potential customers. As more data sources and computational capabilities grow, so does the insurer's capability to select and price risk. However, this requires acceptance by the public and regulators as well as technological capabilities.

Zurich expects regulation of data privacy and data use to remain unsettled. Regulations may develop unevenly over time and in conflict with technological advances. This could affect the industry's ability to apply new data sources for risk selection. Movement of personal data of customers across borders can be constrained. Companies can be required to maintain data for the benefit of the data subject as much as for themselves as data custodians.

Reshaping of corporate governance and remuneration concerns

The financial crisis has changed the way corporate governance is perceived. The role of boards, their composition and the qualification of their members are at the center of public concern. Regional initiatives such as Solvency II and national reforms accompany the global call for better corporate governance. Likewise, corporate governance expectations previously applicable to stock exchange-listed companies are increasingly applied to the boards of their subsidiaries. The management of organizational complexity (particularly in multinational groups) has become a concern of regulators.

In the aftermath of the financial crisis, global standard setters have released principles for sound compensation practices. Of most relevance to Zurich, FINMA has introduced strict remuneration requirements. And in March 2013, the people of Switzerland overwhelmingly approved the so-called Minder or 'say on pay' initiative to strengthen shareholders' rights with respect to executive compensation. The new requirements are applicable to all publicly-listed companies.

Zurich expects policymakers and supervisors to be assertive regarding group and local legal structure and organizational matters. There will be continued pressure to reduce complexity at group and subsidiary levels. Public opinion – through voter-booth initiatives or regulatory demands – may also extend to compensation and liability exposures, potentially having an impact on recruitment and retention issues.

Zurich's strategy 2014–2016

Zurich's strategy for 2014–2016 is designed to deliver sustainable, profitable growth in a changing and more competitive business environment. It builds on our strengths. It places customers and their needs at the center of our business.

> We are focusing our investments on markets with the highest potential, including mature and emerging markets."

To take Zurich to the next level, we are focusing more closely on the markets and customer segments where we have a competitive edge: those where we can offer a superior value proposition to our customers. We are investing for growth in mature and emerging markets with the highest potential, managing other businesses for value, and growing operating earnings by further reducing complexity and operational costs while extracting additional profits from our business and investments.

Working together as One Zurich, we aim to offer corporate, commercial mid-market and retail customers a superior service and products tailored to their requirements. We are doing this by striving to understand their needs, investing in the capabilities required, increasing our visibility through advertising, measuring our success and using the knowledge we have gained across the business.

We are investing in our people and making Zurich a great place to build a career. We are investing in the systems and processes we need to understand our customers, serve them in the way they prefer, increase collaboration and improve efficiency.

The Zurich brand is bringing us closer to our individual and business customers, positioning Zurich as the intelligent choice for those who wish to protect the people and things they truly love. And in line with our strategy, we are doing business responsibly.

The way to success will be the flawless and relentless execution of our strategic plan to build a more competitive, more successful Zurich – a business that will be recognized as the best in its chosen markets, worldwide.

We summarize our strategy under the headings 'who we are, what we do and how we do it'. 'Who we are' is about our purpose and identity. 'What we do' describes the markets and customers we serve. 'How we do it' defines the enablers of success.

Who we are

Founded in Switzerland in 1872, Zurich is one of the world's most experienced insurers. Our customers choose Zurich to protect the people and things they love because they value our knowledge, expertise and stability.

At Zurich, we are in business to help our customers understand and protect themselves from risk. Risk is part of everyone's life. Individuals, families, businesses and communities can prosper only when they are protected against critical risks. We help our customers to manage the risks they face, making their lives more secure and helping them to grow their businesses.

We care about our customers, employees, shareholders and the communities in which we live and work. We need the trust and support of these stakeholders to achieve our goals. We want them to see Zurich as the best insurer so that we can grow profitably, attract talented people, retain the support of our investors and build our reputation as a responsible company. We believe that our values make us a stronger business. That is why we emphasize integrity, customer centricity, excellence, sustainable value creation and teamwork in all that we do.

Zurich's culture keeps us focused on the execution of our strategy while upholding our values and the commitment we have made to our stakeholders.

What we do

At Zurich, we are focusing our investments on markets with the highest potential, including mature and emerging markets. We have set clear priorities that will enable us to build on our distinctive market positions in corporate, commercial mid-market and select retail markets.

We are managing other businesses for value. This means optimizing Global Life in-force books and maximizing returns in our smaller General Insurance markets, while turning around or exiting underperforming businesses.

We take a focused approach to customers. That means understanding the needs of the customer segments we can serve profitably with superior propositions. We are investing in the capabilities needed to serve them and ensure we are visible through targeted advertising. We measure our success and use the knowledge we have gained right across our business.

Working together as One Zurich, we aim to offer our customers a superior service and products tailored to their requirements.

Corporate sector: Growth in trade, globalization and inter-connectivity play to our strengths. We are investing in our capabilities and stepping up our 'One Zurich' Global Corporate – Corporate Life & Pensions approach to cross-selling, aligning our approach to geographic territories and integrating our offerings.

Commercial mid-market sector: There has been a shift from relationship-driven toward data-driven decisions. Both competitors and brokers are now investing heavily in predictive analytics. At North America Commercial we have begun investing in customer insights, broker value propositions and predictive analytics, with a view to emulating this in other markets.

Retail sector: Retail markets are mainly locally-concentrated and highly competitive. As a result, new technology, regulation and changing customer expectations are forcing a re-evaluation of traditional business models.

In Farmers and three other markets, a shift is underway from a product to a customer segment focus. More markets will follow later.

We will continue to seek out bancassurance deals where we can offer value to our business partners.

Managing for value: We will optimize our existing businesses and manage them more tightly for value so we can grow earnings and fund growth in other areas. This means extracting more value from the large Global Life in-force books, particularly those in the UK, Germany, Switzerland and the U.S., and continuing to capture value from profitable, smaller General Insurance markets by focusing on and turning around or exiting some of our non-performing operations. This will free up resources for investment in our priority markets.

How we do it

Zurich's strategy is clear about the 'enablers of success' – actions we need to take to achieve our objectives.

Zurich needs to be lean, efficient and profitable to deliver on our strategy. That means reducing complexity and improving operating margins. Our shared operational services support these goals.

We are investing in our people and building a culture that is focused on the execution of our strategy – one in which our employees will feel motivated, challenged and proud to be part of Zurich.

Our digital and IT strategies will enable us to analyze market opportunities, serve our customers in the way they prefer and make use of social media. The Zurich Way program aids efficiency by creating a common way of working, based on global capabilities.

We are investing in the Zurich brand, including brand metrics in priority markets. And as we drive for profitable growth we are acting responsibly in all we do, in line with our strategy.

Zurich Basics and The Zurich Commitment will continue to guide our actions with respect to our four key stakeholders groups: our customers, our people, our shareholders and the communities in which we live and work.

Delivering an attractive total return to our shareholders

Zurich's targets for 2014–2016	Measured by:
Improving return on equity	**BOPAT ROE target 12–14%**[1]
Maintaining a very strong capital position	**Z-ECM ratio**[2] **100–120%**
Generating high levels of free cash flow	**Net cash remittances to Group**[3] **>USD 9 billion**
Delivering sustainable growth	**Bi-annual report cards providing proof points on the execution of our strategy**

[1] Excluding unrealized gains and losses.
[2] The Zurich Economic Capital Model (Z-ECM) is an internal measure of capital adequacy, which also forms the basis of Zurich's Swiss Solvency Test model.
[3] Cumulative net cash remittances to Zurich Insurance Company Ltd, after deducting central costs, in 2014–2016.

Our performance

The Group delivered solid results in all core businesses. These results together with the Group's continued strong capital position have enabled the Board of Directors to propose a dividend of CHF 17.00 per share.

The performance in the core businesses was achieved through a continued focus on profitability, underpinned by the sustained execution of the Group's product, underwriting and pricing strategies.

The result also benefited from fewer major catastrophe events in 2013, though this benefit was partly offset by a higher level of large and weather-related losses. Overall the performance has more than absorbed the impact of the decrease in investment income resulting from persistent low investment yields.

Improvement in profitability continued, and the Group's focus on growth was maintained in its priority markets in both General Insurance and Global Life.

The Group's solvency measured on an economic basis as determined under the Swiss Solvency Test improved by 21 percentage points, rising to 206 percent as of July 1, 2013. Shareholders' equity decreased by USD 2.0 billion to USD 32.5 billion during 2013 including net income attributable to shareholders of USD 4.0 billion, and after a decrease in net unrealized gains on investments of USD 2.8 billion and the dividend of USD 2.7 billion paid in April 2013.

Business operating profit (BOP) increased by USD 596 million to USD 4.7 billion, or 15 percent compared with 2012.

Net income attributable to shareholders increased by USD 141 million to USD 4.0 billion, or 4 percent. The increase in business operating profit was partly offset by lower net capital gains on investments and by several non-recurring costs relating to the restructuring of business operations.

Business volumes for the core business segments, comprising gross written premiums, policy fees, insurance deposits and management fees, decreased by USD 2.7 billion to USD 70.4 billion, or by 4 percent.

Return on Equity (ROE) of 12.0 percent and BOP after tax ROE of 10.5 percent improved by 0.2 percentage points and 1.2 percentage points respectively compared with 2012, driven by the increased earnings. Diluted earnings per share increased by 2 percent to CHF 25.23 for the year ended December 31, 2013, compared with CHF 24.72 in 2012.

Group investments decreased by USD 2.3 billion to USD 207.3 billion, or by 1 percent during the year. The decline in total Group investments was primarily driven by the impact of rising yields on the value of debt securities, partly offset by new cash flows invested in debt and equity securities. The Group maintains a disciplined strategy focused on asset and liability management, and continues to limit risks that it believes are not rewarded. The quality of the investment portfolio remains high, with investment-grade securities comprising 98 percent of the Group's debt securities.

General Insurance

General Insurance business operating profit increased by USD 747 million to USD 2.9 billion, or by 35 percent. The underlying loss experience and expenses improved in 2013, with savings initiatives to reduce expenses reflected in a lower expense ratio. The business also benefited from fewer major catastrophe events. These improvements were partly offset by an increase in large and weather-related losses. Investment income declined compared with 2012.

The net underwriting result increased by USD 868 million to USD 1.3 billion, reflected in the 2.9 percentage points improvement in the combined ratio to 95.5 percent. The improvement also reflected a higher level of favorable development of reserves established in prior years. Gross written premiums and policy fees increased by 828 million to USD 36.4 billion, or by 2 percent.

Global Life

Global Life business operating profit decreased by USD 80 million to USD 1.3 billion, or by 6 percent. Increases in Latin America were more than offset by reductions in North America, Europe and Asia-Pacific and Middle East (APME). Improvements from the increased contribution from Zurich Santander, after non-controlling interests, and improvements in the expense and risk margins, were largely offset by a significant reduction in the investment margin and a lower level of positive special operating items.

USD 4.7 bn
Business operating profit
(2012: USD 4.1bn)

USD 4.0 bn
Net income attributable to shareholders
(2012: USD 3.9bn)

Gross written premiums, policy fees and insurance deposits decreased by USD 3.2 billion to USD 27.1 billion, or by 10 percent. Growth in gross written premiums in the higher-margin protection business was more than offset by an expected reduction in insurance deposits in the UK, due to discontinuation of low-margin single premium products in Private Banking Client Solutions.

Farmers
Farmers business operating profit increased by USD 114 million to USD 1.5 billion, or by 8 percent. This was due to an improved underwriting result in Farmers Re, which benefited from rate increases and the re-underwriting of business in the Farmers Exchanges, which are owned by their policyholders and managed by Farmers Group Inc., a wholly owned subsidiary of the Group.

Farmers Management Services business operating profit decreased by USD 38 million to USD 1.4 billion, mainly due to a decrease in management fees and other related revenues, as well as lower investment income. This decrease was more than offset by the improved underwriting result in Farmers Re, where business operating profit improved by USD 152 million to USD 125 million. Farmers Management Services management fees and other related revenues decreased by USD 36 million to USD 2.8 billion, or by 1 percent. Farmers Re gross written premiums and policy fees decreased by USD 316 million to USD 4.0 billion, or by 7 percent.

Creating sustainable value

At Zurich, we aim to create sustainable value for all our stakeholders, in line with our values, as set out in Zurich Basics, our code of conduct, and with The Zurich Commitment, our statement of purpose.

"Our wider contribution to society is not separable from our business. It is part of how we do business."

More about Corporate responsibility: www.zurich.com/aboutus/corporateresponsibility/

Creating sustainable value

In this section of our Annual Report you can read about how we aim to create sustainable value by acting responsibly in all aspects of our business and by investing in our people.

Corporate responsibility and our business strategy
Corporate responsibility is integrated within Zurich's strategy 2014–2016 (see pages 10–11). As part of our strategy, we are focusing on our strengths as a business, and on key enablers of success – actions we need to take to achieve our strategic objectives. We think about corporate responsibility in the same way. For Zurich, corporate responsibility is about focusing on what we do best and on the enablers of business success.

Our flood resilience program taps into our insurance expertise in protecting against the risks posed by natural disasters, including floods. Our responsible investment program grew out of another of our core competencies: our role as one of the world's largest institutional investors. And our work with corporate customers on corporate responsibility risks is a natural extension of our market position as one of the world's most prominent corporate and commercial insurers.

We pursue other corporate responsibility initiatives because they are key enablers of success. That includes community investment, which brings us closer to the communities in which we live and work and provides unique development opportunities for our people. Our environmental activities help us economize on resources and cut costs while protecting the environment. Health & safety practices protect our employees at work. And responsible sourcing & procurement practices help extend Zurich's high standards to our supply chain.

We play an important social and economic role through our core insurance business. Insurance allows people and businesses to protect themselves from risk, helping them to become prosperous, resilient and stable. The premiums we invest in the capital markets help to finance businesses and socially-important projects. Thus insurance creates social and economic value. This means that our wider contribution to society is not separable from our business. It is part of how we do business.

CR management framework
To ensure that we execute on our corporate responsibility strategy, the Group Executive Committee has formed a CR Working Group to advise it on strategy, priorities and objectives, and to drive our performance.

This Working Group ensures that the Group's corporate responsibility strategy remains integrated in the Group strategy and enables us to live up to Zurich Basics, the Zurich Commitment and the UN Global Compact's principles on human and labor rights, the environment and anti-corruption. It reports to the GEC twice a year on progress and developments.

The Working Group comprises senior representatives from General Insurance, Global Life, Group Operations, Investment Management, Group Finance and our Group Chief of Staff, who represents the Group's functions. It is chaired by Mike Kerner, CEO General Insurance, a member of the Group Executive Committee. The composition of the Working Group is reviewed annually.

External commitments and indices
Zurich became a signatory of the United Nations Global Compact in July 2011. As a signatory, we are committed to aligning our strategy, culture and day-to-day operations with the Global Compact's 10 universally-accepted principles in the areas of human rights, labor, environment and anti-corruption. The principles of the Global Compact complement Zurich Basics, our code of conduct. All Zurich employees are expected to live up to both.

Zurich became a signatory of the Principles for Responsible Investment (PRI) in July 2012. This global investor initiative, in partnership with the United Nations Environment Programme (UNEP) Finance Initiative and the UN Global Compact, is designed to provide a framework for better integration of environmental, social and governance factors into investment practice. Managing Zurich's more than USD 200 billion portfolio of Group investments, our investment management function is fully committed to responsible investment.

To monitor our progress and improve our corporate responsibility performance, we use stakeholder feedback provided through customer and employee surveys, as well as measures such as the FTSE4Good Index Series and the Dow Jones Sustainability Indexes (DJSI). In 2013, Zurich again qualified for inclusion in the DJSI World Index and the FTSE4Good Index Series.

Corporate responsibility

Enhancing community flood resilience
Purpose:
Floods affect more people globally than any other type of natural disaster and cause some of the largest economic, social and humanitarian losses. By using our risk expertise as a global insurer, we can help customers and communities to reduce the devastating impacts of floods. Zurich's program to increase flood resilience represents a new approach to cross-sector collaboration, based on an innovative alliance linking flood research, community-based programs and risk expertise. The collaboration includes the International Federation of Red Cross and Red Crescent Societies (IFRC), with its 187 national societies; Practical Action, a UK-based international non-governmental organization; and two research institutes – the International Institute for Applied Systems Analysis (IIASA) and the Wharton Risk Management and Decision Processes Center. The research carried out with these institutions will generate new ideas to enable more effective decision-making, while examining the role of government and insurance related to floods. All members of the collaboration share a common vision of enhancing communities' well-being by making them more resilient to floods. We seek to demonstrate the benefits of pre-event risk reduction over post-event disaster relief, and to improve public dialogue around flood resilience.

Zurich works with its alliance partners to ensure that knowledge and ideas fit the needs of local communities and can be put into practice on the ground. As part of its involvement, Zurich not only provides funding, but also supplies resources including the contributions of time, knowledge and expertise of its employees around the world. What we learn through these activities will be made publicly available and shared across a wide group, including with customers, governments and communities.

The Z Zurich Foundation plays an important role in our flood resilience program, bringing together key participants through long-term strategic alliances. This close alignment with one of Zurich's focus areas allows it to increase its impact on issues of global concern.

Programs:
Zurich launched a flood resilience program in 2013. The program comprises a five-year commitment, and includes an initial investment of USD 35.6 million by the Z Zurich Foundation. The IFRC was the first to join the new alliance. In March 2013, we announced that we will enhance an existing cooperation with this humanitarian organization that includes a commitment of up to USD 22.7 million over five years. Through the IFRC and the Red Cross national societies, we are putting in place community flood resilience programs in both urban and rural settings. Decisions on which communities to include were based on an approach supported by Zurich's expertise in hazard assessments. The first priority country programs integrate our risk management knowledge and experience with that of the Red Cross and local communities.

During the year, Zurich and the IFRC took the initial steps toward implementing flood resilience programs in Mexico, as the first priority country, starting in the Tabasco region. After an assessment by the Mexican Red Cross, Zurich and the IFRC, work has started on the ground to establish the required relationships and define a detailed action plan. In 2013 we also started working in Indonesia with the Indonesian Red Cross, where a detailed action plan is being developed. These programs in Mexico and Indonesia will serve as models for future efforts that build on our risk engineering and analytical skills, and complement the on-the-ground knowledge and experience of the IFRC. In these countries we are also testing ways to measure community flood resilience against key indicators.

Creating sustainable value *continued*

Flood resilience
Total contributions through Z Zurich Foundation

[1] Commitment over five years starting in 2013.
[2] Commitment over four years starting in 2013.

> "Zurich launched a flood resilience program in 2013."

As a further part of this flood resilience program, Zurich also collaborates with development organization Practical Action, which focuses on providing innovative and sustainable solutions to poverty. In September 2013, as a further strategic commitment to build flood resilience, we enhanced our cooperation with Practical Action by agreeing to invest up to USD 9.7 million over five years. The collaboration will include projects in Nepal, where we will be working on early-warning systems that can make communities better prepared for flash floods. It also includes seeking ways to build flood resilience in an urban environment in Peru, and looking at how the El Niño phenomenon affects flood risks. In Bangladesh, the alliance is helping communities and individuals to better cope with recurring floods.

In July 2013 Zurich added two research institutions to its alliances: the IIASA, a non-governmental research organization located in Austria, and the Risk Management and Decision Processes Center at the Wharton School of the University of Pennsylvania in the U.S. The initial focus is on addressing gaps in flood resilience research, and efforts to develop a systems-based model of the drivers of flood risk. We also published a white paper on floods in Central Europe in June 2013 offering recommendations for ways to mitigate damage from such events in future. It included observations from Zurich risk engineers and claims experts, who were on the ground right after the floods to gain firsthand insights.

Zurich employees with relevant skills have the opportunity to invest about 500 working days per year. To effectively deploy their skills and resources, and deliver on our commitment of employees' time, we are developing an employee secondment program, allowing employees to contribute their time, skills and expertise to projects where they can make a difference. For an agreed period of time, employees can be seconded to a project. Selection will be based on their expertise and their manager's support. Secondments can be with one of Zurich's development partner organizations such as the IFRC or Practical Action, with a research partner such as Wharton, IIASA, or with a local Red Cross society on the ground.

Investing our Group assets responsibly
Purpose:
Zurich manages its portfolio of over USD 200 billion in assets in a way that aims to generate superior risk-adjusted returns, while making a positive impact on the environment, communities and society. In 2012, we developed a comprehensive program for responsible investment and became a signatory of the Principles for Responsible Investment (PRI). Zurich believes that environmental, social and governance (ESG) factors can have a material impact on investment risk and opportunity, and has formulated a three-pillar approach to support its responsible investment aims. These three areas of focus cover all aspects of our responsible investing. We seek to integrate ESG factors into the investment process across asset classes and alongside traditional financial metrics. We invest in assets that generate a targeted and measurable positive impact, and a return commensurate with risk. Through these 'impact investments,' we seek to incorporate our aims of supporting sustainable economic development and making communities more resilient. We also devote resources and engage in collaborative initiatives that support the advancement of responsible investment practices, encouraging their adoption within the mainstream.

Programs:
In 2013, Zurich piloted an ESG integration approach with four of its largest in-house asset management teams. We have also fully integrated an assessment of responsible investment practices into our asset manager selection process for external mandates. In 2012, we established a target to reduce greenhouse gas emissions from our Swiss real estate investment portfolio – which accounts for over half of the Group's real estate assets – by 20 percent by 2020 (compared with 2010). As part of the impact investing strategy, we announced in November 2013 a mandate, to be managed by BlackRock, to invest up to USD 1 billion in green bonds issued by the World Bank, International Finance Corporation and other development finance institutions. The proceeds of these bonds are used exclusively for projects that mitigate climate change or help communities to adapt to the consequences of climate change.

Over the course of 2013 Zurich further expanded its activities through collaborations and efforts to develop new insights.

Zurich will invest up to USD 1 billion in green bonds."

Together with PSI, a global non-government organization dedicated to improving the health of people in the developing world, we launched and funded a project to determine what role return-seeking capital could play in helping NGOs to achieve more impact, and what opportunities this could present for impact investors. Zurich also became one of the founding members of the Investment Leaders Group (ILG). The ILG brings together 12 leading asset owners and asset managers in a three-year project led by the University of Cambridge Programme for Sustainability Leadership, with the objective of helping to shift the investment chain toward responsible, long-term value creation. Zurich has also continued its active involvement as a member of the Green Growth Action Alliance, the ClimateWise low-carbon investment collaboration group, and the PRI's environmental- and social-themed investments working group.

CR in business transactions

Purpose:

Zurich works with its customers, brokers and other distribution partners to ensure responsible and sustainable business practices and to protect reputations, while promoting best practices in managing environmental, social and governance risks. Our aim is to promote international best practice standards that help ensure that potentially adverse social, environmental and economic impacts are adequately managed. By doing this, we integrate our commitment to corporate responsibility and the UN Global Compact in our underwriting and business decisions.

Programs:

In 2013, Zurich developed and implemented a three-step approach that systematically detects, assesses, and mitigates major environmental, social and ethical risks that are inherent in specific business transactions. Using our proprietary risk-profiling methodology, we have prioritized four key areas of concern: banned cluster munitions and anti-personnel land mines; and governance, human rights and environmental risks in dam construction, mining, and oil and gas activities. For each area of concern, we have drawn up a corporate responsibility issue brief that sets out our position and best practices. We also provide guidance and training for underwriters and other relevant stakeholder groups, and implemented corporate responsibility risk assessment and referral processes. In 2013, we also started to engage with brokers and corporate customers to promote best practices in corporate responsibility.

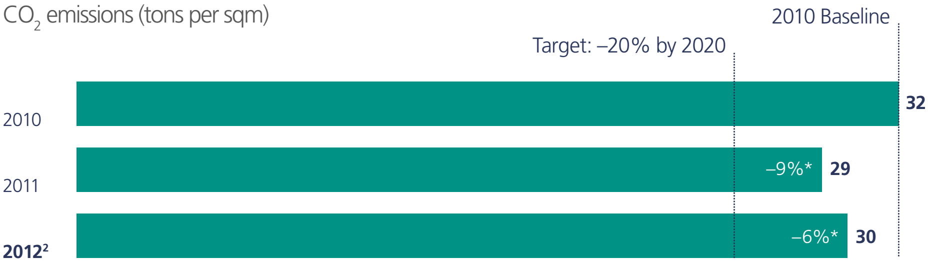
Responsible investment KPIs

	2013	2012	Change
External asset managers who are signatories to PRI (%)	**58.3%**	**50.0%**	**8.3 pts**
Group assets managed by PRI signatories (%)[1]	**95.1%**	**92.2%**	**3.0 pts**
Total amount of impact investments (USD millions)[2]	**236**	**25**	**851%**
Total Group investments (USD millions)	**207,280**	**209,582**	**(1%)**

[1] Including assets managed by Zurich.
[2] Impact investments consist of 100 percent green bonds in 2012 and 2013. Green bonds investment target: up to USD 1 billion.

Impact of real estate investment[1]

CO_2 emissions (tons per sqm)



*Total change vs baseline

[1] Scope includes real estate investments in Switzerland (61% of global direct real estate investment value). Buildings in the real estate investment portfolio are largely not used by Zurich. The environmental footprint of Zurich's own-use real estate is reported in Zurich's environmental section.
[2] Impact of real estate investment data 2013 will be available in Q2 2014.

Investing in our local communities

Purpose:

Through local programs and the Z Zurich Foundation, Zurich shares its resources and expertise to help build more resilient communities. This type of investment has a positive impact on local communities, contributing to their well-being and encouraging sustainable development that goes beyond the social and economic value of our business.

Programs:

Zurich enables and supports the development of local long-term community activities run by local offices, making it easier for them to share guidance and best practices across the Group, while providing access to funding by the Z Zurich Foundation. In 2013, the Foundation supported Zurich North America in its efforts to help rebuild neighborhoods on Staten Island damaged by Storm Sandy, and Zurich Nordic in building a mentoring program with young disadvantaged adults.

Creating sustainable value *continued*

Employees in 43 countries took part in Global Community Week 2013."

Zurich also provided support to communities through its second Global Community Week in June 2013. Employees volunteered approximately 28,000 business hours, nearly triple the hours in 2012, and raised almost USD 1 million in cash and in-kind contributions (including Z Zurich Foundation matching). Participation in activities to benefit local communities doubled to 24 percent of all employees in 2013 from 12 percent in 2012. Employees based in 43 countries took part in 700 unique projects, increasing from 34 countries and 278 projects in 2012. Many Zurich offices are considering how to build on Global Community Week activities and form long-term alliances with their local communities to provide positive benefits throughout the year.

Environmental performance, health & safety in our office buildings

Purpose:

At Zurich, we are mindful of our impact on the environment. By improving our operational performance in terms of the environment, we aim to minimize our direct and indirect environmental impact, as defined in our Group Environmental Policy. For example, our vision is to create truly smart, innovative and sustainable office buildings. We manage our office buildings in line with best practice standards that take into account our environmental footprint and efficiency opportunities. In addition, we aim to minimize business travel through increased use of technology such as video-conferencing. Zurich is setting clear environmental targets and working to increase data transparency, quality and scope of reporting in areas relevant to the environment. Beyond setting concrete targets, we measure and report our environmental performance using relevant key performance indicators (KPIs).

In terms of health & safety, we aim to ensure well-being in the working environment, taking precautions to prevent people from becoming ill or working in conditions that might pose a health risk.

Programs:

In 2013, Zurich began implementing a Group-wide environmental management system that includes market-leading environmental reporting software, which will build on and integrate existing activities throughout the company. Further, it will allow us to accurately measure and continuously improve our environmental footprint across all countries in which we operate. Besides reducing our global carbon footprint, this system addresses other areas of environmental impact in our office buildings, such as paper use, water consumption and waste generation. A global network of environmental managers is managing initiatives across the world to actively reduce Zurich's environmental footprint and aid progress toward the achievement of our environmental targets.

We are developing highly energy-efficient office buildings, and are installing technology

Global Community Week KPIs

	2013	2012	Change
Contributions (cash in USD millions)	**0.8**	**0.1**	**656%**
of which contribution from employees (USD millions)	**0.4**	**0.1**	**296%**
of which contribution from Z Zurich Foundation (USD millions)	**0.4**	**–**	**–**
Total time volunteered from workforce (business hours)	**28,000**	**10,000**	**180%**
Workforce actively volunteering (%)	**24.0%**	**12.0%**	**12.0 pts**
Countries involved	**43**	**34**	**26%**
Total number of projects	**700**	**278**	**152%**

> At the end of 2012, Zurich exceeded its carbon reduction target."

to produce energy for the company's own use. SkyKey in Zurich, our new headquarters for the Swiss market, will provide sustainable workplaces for around 2,500 employees and external staff and aim for the highest 'platinum' ranking under the Leadership in Energy & Environmental Design (LEED) certification system. The building will flush toilets with rainwater and recycled faucet water using a 100,000-liter water tank. It incorporates environmentally-friendly construction materials from the region.

From a health & safety perspective, projects that we initiated during 2013 included a phased roll-out of a global health & safety incident management system, which went live in the UK, South Africa, Australia and New Zealand. We also deployed a global health & safety induction training module in all the countries where English is spoken as the first language, as well as for Hong Kong. In some countries this module proved so popular that the local business required participation not only by new starters, but also all existing employees. It is currently being translated into nine other languages for global deployment during 2014.

Performance:

We committed in 2008 to reducing our carbon footprint per employee by 10 percent by 2013, measured against a 2007 baseline. At the end of 2012 Zurich had exceeded this target, reducing carbon emissions per employee by 17 percent. Our efforts to meet this goal included adopting energy-efficiency measures and better utilizing space in office buildings, purchasing renewable energy, and reducing business travel. New Group-wide environmental targets will be communicated in the second quarter of 2014. These will include, but not be limited to further reduction of carbon emissions.

Responsible sourcing & procurement

Purpose:

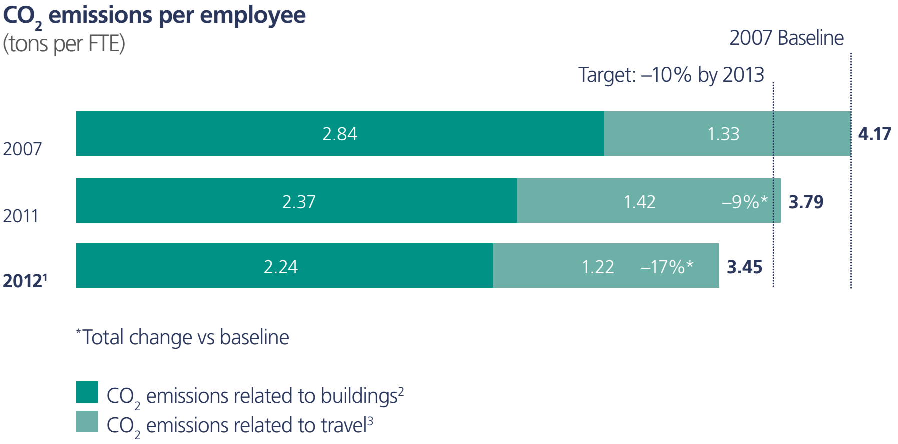
Zurich, due to the nature of its business, is predominantly a consumer of services, and not products or raw materials. Compared with other industry sectors such as manufacturing, the risks associated with the environmental, social and governance impact of Zurich's supply chain are low. Nonetheless, we are committed to effectively managing such issues within our supply chain. We aim to work with suppliers who share our values, and we expect high standards of business conduct from those who represent us or do business with us.

Programs:

In 2013, Zurich introduced the supplier contract assurance framework. Corporate responsibility clauses reflecting the UN Global Compact criteria are included in major contracts. Throughout the contract term the adherence of suppliers to these obligations is regularly assessed as part of the supplier relationship management process.

Environment KPIs

CO_2 emissions per employee
(tons per FTE)



[1] 2013 data will be available in Q2 2014, calculation methodology currently under revision.
[2] Includes emissions from own-use real estate (electricity and heat).
[3] Includes emissions from air travel and cars (rental cars and car fleet).

Creating sustainable value *continued*

Our diversity and inclusion strategy aims to ensure that our employees reflect our customer base."

Our people

Effective people management plays a key role in Zurich's strategy. We take a global approach to the development of our people and the retention and attraction of talent.

Group overview

Zurich's people management practices support our ambition to be the best global insurer as measured by our customers, employees and shareholders, while making a positive contribution to the communities in which we live and work. Our approach to managing our people is designed to benefit our business, helping us adapt to a changing market environment and meet customers' needs, while supporting the organization and our people through change. Effective people management will help ensure that we have the skills and talent we need to achieve our business objectives and position us as an employer of choice within the insurance industry.

Our global practices promote consistency and a sense of unity for our employees. We can offer international career opportunities in areas including risk engineering, marketing, claims, human resources, finance, underwriting, IT, investment management and many others. Mobility plays an important role, including international rotations that give employees opportunities to work in different countries and cultures while providing agility to deploy skills where needed. Further, employees benefit from working in an environment where they can learn from each other and gain insight through different perspectives. Our aim is to provide lifelong learning and development opportunities for all of our employees.

We want our people to make a positive difference in the world and our communities. We encourage employees to live by our core values, the Zurich Basics, and to take responsibility and care for customers, colleagues, shareholders and communities in line with our Zurich Commitment to stakeholders. We hold our employees accountable to do so.

Building talent

Purpose:

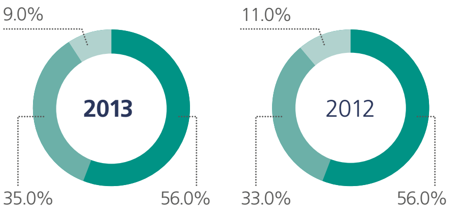
Attracting and retaining a talented and diverse workforce is one of our strategic goals. Our global approach, supported by regional structures, helps us to attract, retain and develop the right candidates to ensure that we remain competitive.

At Zurich, we are working to create a leaner and more efficient organization with clear accountability for delivering results. As part of Zurich's strategy for 2014–2016, our focus will increasingly shift toward customer centricity and growth. To ensure we attract and retain the right talent for our strategy, we are continuing to build an approach to talent acquisition and talent management that ensures we are able to deliver talent where it is needed, at the right time, place, and in the right role with robust talent pipelines and succession planning practices. As part of our talent-building efforts, diversity and inclusion (D&I) is critical to our success. Our Group-wide diversity and inclusion strategy is anchored in the business, and aims to ensure that our employees reflect the diversity of the customers we serve in the different communities in which we operate. This is part of our identity, helping to position Zurich as an employer of choice, while encouraging different perspectives to promote innovation and learning for all.

Group overview – operational KPIs

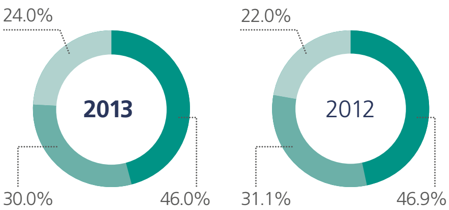
	2013	2012	Change
Total number of employees – Headcount	56,565	56,781	(0%)
Total number of employees – Full Time Employees	55,102	55,312	(0%)
Employee turnover rate (%)	12.3%	12.7%	(0.4 pts)
Average tenure (years)	9	9	n.m.

Nationalities represented in Leadership Team



Europe
North America
Other regions

Nationalities represented in workforce



Europe
North America
Other regions

Programs:
In 2013, Zurich's Chief Executive Officer and the Group Executive Committee approved a Group-wide diversity and inclusion strategy, which helps ensure that the best and brightest want to work for Zurich. Our inclusive culture provides lifelong learning and development opportunities so that employees can reach their full potential. We are aligning our approach to attracting talent to ensure that our inclusive approach is fully integrated into our search and vetting practices. Our aim is to have a workforce reflecting the breadth and diversity of the customers we serve globally.

In 2013, as part of efforts to establish a global approach to talent management, we commissioned a global recruitment management system. This included an internal global job board that provides transparency of international career opportunities to employees across the globe, helping to foster greater international mobility. Deployment of the global platform started in 2013 within Europe and will continue throughout 2014, with deployments scheduled for Latin America, and Middle East and Africa.

Driving HR Performance

Purpose:
We use centrally-managed HR technology and 'master data' to underpin our people practices More than 95 percent of our global employee population has access to HR technology which enables employees and line managers to undertake a number of 'self-service' transactions. Efficient, centralized HR processes are key to helping Zurich deliver on the HR aspects of its strategy.

Programs:
Examples of how we are addressing the people management needs of the modern world with the support of specific HR tools include the deployment of a global talent management system to help drive robust succession planning and talent pipelines, and our ongoing Zurich Workforce Analytics activities, which provide management information on key human capital indicators, enabling the entire business to prioritize people interventions based on consistent data and metrics. Technology also plays an important role in terms of people management administration, for example, in our HR Service Centers across several locations – some of which have been recognized externally for the quality of the service provided. This approach helps us to provide focused HR services to our employees and candidates, as well as to measure customer feedback as we strive for continuous improvement.

Developing our people

Purpose:
We support learning and development for all employees. Developing people is a core element of Zurich's ambition to be the best global insurance company and of our strategy for 2014–2016. Our aim is to provide personal development and career opportunities in line with what we need to do to achieve our objectives. Employees are in charge of their own careers, and line managers are expected to provide support in terms of on-the-job development, career advice, coaching, feedback and encouragement. Employees are encouraged to have an Individual Development Plan (IDP), which is regarded as a key tool in understanding their personal learning and career development.

Building talent KPIs

	2013	2012	Change
Female workforce participation (%)	**52.6%**	**52.6%**	**n.m.**
Female participation in Leadership Team (%)	**16.0%**	**16.0%**	**n.m.**

Creating sustainable value *continued*

Programs:
In 2013 we appointed a Chief Learning Officer. This is a new role with responsibility for defining and developing a global approach to learning. A global learning strategy was approved in spring 2013 by the Chief Executive Officer and the Group Executive Committee. This is designed to ensure that all employees are trained according to business needs, and that a strong leadership culture is embedded in all levels of the organization to support the retention and attraction of talent. We have implemented a new joiners training program as well as a senior leadership course. We continue to expand technical academies across the organization. Further programs for new leaders and leadership development programs are planned for 2014.

Our global people activities help employees to take responsibility for their own careers and be the best they can be. Zurich's Individual Development Plans and Competency Assessments supports the development of their skills and capabilities to meet and support business needs.

Building a high-performance working environment
Purpose:
We foster an organization in which employees are challenged, motivated and proud to be part of Zurich. We want to create a work environment in which everyone can perform to his or her full potential. Our aim is to foster a customer-oriented mindset, and embed this in people management processes and practices. We believe this is not only critical to our business success. It also allows us to make best use of our resources by employing people in roles that best suit their skills and ambitions and enables us to draw on a global pool of talent. We encourage an environment in which performance is openly discussed. Living up to our Zurich Commitment is an important part of fostering engagement and ultimately business results. We manage performance aligned with our principles, grounded in the Zurich Basics, our Group's code of conduct, and our strategic goals. To help us do this, our leaders listen to employees and act on their feedback. Zurich is a global business, and adapting to the changing global marketplace is key to maintaining competitive advantage. While we focus on attracting and retaining talent, our people practices must also help to change the organization so that it will remain a market leader, and one where our customers' interests are our priority.

Developing our people KPIs

	2013	2012	Change
Employees with active Individual Development Plan (%)	**75.5%**	**74.1%**	**1.4 pts**
Active learners (%)[1]	**96.9%**	**89.6%**	**7.3 pts**

[1] Employees who have taken at least one course during the year reported.

Programs:
Zurich is committed to serving our main stakeholder groups. To reinforce this, during 2013 the performance of our senior Leadership Team was measured according to the results and behavior required by our Zurich Commitment. In 2014, the work and behavior of all employees will be similarly evaluated through our standard performance management process.

As part of our efforts to ensure we have the best people in the right jobs, we have continued to progress the consistent evaluation of all roles within the organization with a view to establishing global consistency in role structures and the rewards framework. The benefits of global role evaluation for employees and the organization include the provision of a consistent global approach to roles and hierarchies, ultimately helping us to ensure we have people in place with the necessary skills at the right place and time.

We are addressing the need to put our customers at the heart of all we do by further building our change management capabilities, as well as embedding a customer perspective into our people activities to attract and manage talent, and in our leadership development programs.

We also use Global Employee Engagement Surveys (GEES), anonymous voluntary online surveys conducted globally every two years, to help shape the company's future. These allow us to track progress based on our employees' perceptions of how well we are doing in delivering on our strategy and priorities. The GEES 2013 received responses from 74 percent of Zurich's employees. The insights afforded by the survey results will be used by leaders and managers to plan interventions to further improve employee engagement and commitment throughout 2014.

Building a high-performance working environment KPIs

	2013	2012	Change
Global engagement survey participation rate (%)	**74.0%**	**78.0%[1]**	**(4.0 pts)**
Employee engagement score (%)	**65.0%**	**66.0%[1]**	**(1.0 pts)**
High performer retention rate (%)[2]	**94.8%**	**94.6%**	**0.3 pts**
Low performer turnover rate (%)[3]	**43.5%**	**42.4%**	**1.2 pts**

[1] The Global Employee Engagement Survey (GEES) is carried out every other year, therefore the prior year data is 2011 and not 2012.
[2] 'High Performer' group is defined as employees with performance ratings 4 and 5 (out of 5) during 2 consecutive years.
[3] 'Low Performer' group is defined as employees with performance ratings 1 and 2 (out of 5) during 1 year.

Governance

In this section

Chairman’s statement on corporate governance

Dear shareholders

Zurich experienced a difficult summer in 2013 following the death of our Chief Financial Officer and the resignation of our former Chairman. Employees, the management team and the Board of Directors stayed focused during this challenging time. Zurich’s corporate governance framework proved its ability to absorb tests of this nature, providing us with sound procedures that helped us take decisive action.

During this time I assumed the role of Chairman of the Board of Directors to lead the efforts to help maintain the confidence of our stakeholders in Zurich’s strength and resilience.

When I was appointed I promised you that my focus would be on ensuring the continued stability of the company and that a strong management team was our top priority.

We have progressed well toward this goal. As announced on December 16, 2013, George Quinn has been appointed as Group Chief Financial Officer and member of the Group Executive Board (GEC), effective 1 May 2014. Also, on January 8, 2014 we announced the appointment of Robert Dickie as Chief Operations and Technology Officer and member of the GEC, effective March 17, 2014. Both have a proven track record in their fields and the Board is assured that the GEC will benefit greatly from their skills and experience, especially with regard to their contribution to the delivery of Zurich’s strategy.

With regard to the Board of Directors, in 2013, besides my appointment, Fred Kindle assumed the role of Vice Chairman last summer and in April, Monica Mächler was elected as a new member.

The Board carries out a self-assessment once a year and every third or fourth year, an external consultant conducts an independent review of the Board. In 2013, following this prescribed pattern, an independent review was carried out by a consultant. The review considered three key aspects of board effectiveness: the Board environment (culture and composition), the work of the Board (strategy, risk and control, and performance management), and the use of time and process (planning and allocation). A detailed report on the findings was produced and considered by the Board, and its recommendations are currently being implemented.

When I was appointed I promised you that my focus would be on ensuring the continued stability of the company and that a strong management team was our top priority."

In the area of corporate governance, we have seen clear trends in the development of greater transparency and a strengthening of the position of shareholders. Switzerland has been at the forefront of these developments. On March 3, 2013, Swiss citizens voted in favor of the 'Minder' initiative. This resulted in an amendment of the Swiss Constitution that introduces stricter corporate governance requirements for Swiss listed companies. We have closely monitored the discussions and the process leading to the subsequent Ordinance Against Excessive Compensation at Public Corporations that was issued on November 20, 2013 and which came into effect on January 1, 2014. At the AGM on April 2, 2014, you, our shareholders, will decide on the revised Articles of Incorporation which we have drafted in line with this ordinance.

My fellow Board members and I would like to thank you for your continued support. Our commitment to you, our shareholders, and to our customers, employees and the communities in which we live and work, requires that we keep Zurich in the front rank of the insurance industry through profitable growth. To guide us on this journey, we will maintain and further strengthen our corporate governance framework.

Tom de Swaan
Chairman of the Board of Directors

Corporate governance report

Good corporate governance enables Zurich to create sustainable value for the benefit of its shareholders, customers, employees and other stakeholders.

The Corporate governance report describes the structures, rules and processes that are in place to provide for effective governance by Zurich's Board of Directors and Management. It also reports on the work of the Board of Directors and its committees.

Contents

Introduction

The Zurich Insurance Group consisting of Zurich Insurance Group Ltd and its subsidiaries (the 'Group' or 'Zurich') is committed to effective corporate governance for the benefit of its shareholders, customers, employees and other stakeholders based on the principles of fairness, transparency and accountability. Structures, rules and processes are designed to provide for proper organization and conduct of business within Zurich and to define the powers and responsibilities of its corporate bodies and employees.

This report describes the Group's approach to corporate governance and illustrates the key elements of corporate governance within the Group. It includes the information required by the following rules, with which Zurich comply:

- Directive on Information Relating to Corporate Governance of the SIX Swiss Exchange (as of October 29, 2008, effective July 1, 2009).

- Swiss Code of Best Practice for Corporate Governance (Swiss Code of Best Practice), issued in 2002 by economiesuisse, as amended in October 2007.

- The Group continues to publish a Risk Management and Internal Control Statement (see pages 67 and 68) in accordance with the Internal Control: Revised Guidance to Directors on the UK Corporate Governance Code (formerly known as UK Turnbull Guidance) as of October 2005.

Zurich Insurance Group Ltd is listed on the SIX Swiss Exchange. Certain Group companies have listed debt issued under its Euro Medium Term Note Program and other financial instruments.

The Zurich Insurance Group is subject to insurance group supervision by the Swiss Financial Market Supervisory Authority (FINMA). As set out in its decree of December 28, 2011, FINMA stated that Zurich is subject to insurance group supervision according to art. 64 et seq. of the Swiss Insurance Supervision Law (ISL) and no longer qualifies as a conglomerate. The Joint Committee of the European Supervisory Authorities has also designated the Group as an insurance group and not as an insurance conglomerate because of the small size of its non-insurance activities. The (ISL) requires Swiss insurance companies and groups to establish and maintain strong governance and risk management systems as well as effective internal control systems that are appropriate to their business activities. It prescribes the calculation of a risk-based solvency margin on a Group wide basis and at legal entity level, pursuant to the Swiss Solvency Test (SST) and also a Solvency I margin. All major intra-group transactions must be reported to FINMA. In addition to the group supervision exercised by FINMA and its supervision of the legal entities Zurich Insurance Company Ltd and Zurich Life Insurance Company Ltd, the insurance subsidiaries and remaining financial services entities of the Group are supervised by relevant regional and local supervisory authorities.

The principles of corporate governance and the standards described above are incorporated and are reflected in a number of corporate documents, in particular in the articles of incorporation, the Organizational Rules and the Charters of the Board Committees. The Governance and Nominations Committee, which is responsible for governance in the Group, regularly reviews the Group's corporate governance against best practice standards and ensures compliance with corporate governance requirements.

An effective structure is in place providing for cooperation between the Board of Directors of Zurich Insurance Group Ltd (Board), management and internal control functions. This structure establishes checks and balances and is designed to provide for institutional independence of the Board from the Group Chief Executive Officer (CEO) and the Group Executive Committee (GEC) who together are responsible for managing the Group on a day-to-day basis. The Board is composed entirely of non-executive members independent from the management. The roles of Chairman of the Board and CEO are separated, thus providing for separation of powers between the functions and ensuring the autonomy of the Board.

This report essentially follows the recommended structure outlined in the Directive on Information Relating to Corporate Governance of the SIX Swiss Exchange. The chapter on compensation, shareholdings and loans to Directors and the members of the GEC is dealt with in a separate report, the Remuneration report (see pages 70 to 99) which supplements this Corporate governance report and also includes the information as required by the Circular 2010/1 on remuneration schemes (minimum standards for remuneration schemes of financial institutions) issued by the Swiss Financial Market Supervisory Authority (FINMA) on October 21, 2009 as amended on June 1, 2012.

Corporate governance report *continued*

Key governance developments in 2013 – at a glance
as of December 31, 2013

Board of Directors

Elections:
- Tom de Swaan, former Vice-Chairman, elected as Chairman[1]
- Fred Kindle, former member, elected as Vice-Chairman[1]
- Monica Mächler, elected as a new member[2]

Retirements and resignations:
- Josef Ackermann, former Chairman
- Armin Meyer, former member

Group Executive Committee

Change of role:
- Kristof Terryn, CEO Global Life, former Group Head of Operations

Retirements and resignations:
- Kevin Hogan, former CEO Global Life
- Pierre Wauthier, former Chief Financial Officer

Other

New appointments:
- Markus Nordlin, Group Head of Operations (ad interim)[3]
- Vibhu Sharma, Chief Financial Officer (ad interim)[3]

[1]Elected by the Board [2]Elected by the Shareholders' Meeting [3]Not members of the GEC

Group structure and shareholders

Operational Group structure

Zurich Insurance Group Ltd, the Group's holding company, is a Swiss corporation organized in accordance with the laws of Switzerland. In recent years, Zurich has streamlined its business portfolio to concentrate on insurance.

Operational Group Structure
as of December 31, 2013

Core business segments Regions Non-core business segments

*For General Insurance this includes Africa

The Group pursues a customer-centric strategy and is managed on a matrix basis, reflecting both lines of business and geography. The GEC is headed by the CEO. The CEOs of the business segments General Insurance, Global Life and Farmers as well as the Chief Financial Officer (CFO), the Chief Investment Officer (CIO), the Chief Risk Officer (CRO), the Group Head of Operations and the Group General Counsel are members of the GEC. The geographic regions of Europe, North America, Latin America, Asia-Pacific and Middle East and Africa are represented on the GEC by Regional Chairmen – of which those for Europe, North America and Asia-Pacific and Middle East and Africa are currently members of the GEC – who focus on stakeholder management and business development in respective regions. For further information on the GEC see pages 54 to 62.

The Group's operating segments have been identified on the basis of the businesses operated by the Group and how these are strategically managed to offer different products and services to specific customer groups. The Group's reportable segments are as follows:

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

- Global Life pursues a strategy with market-leading propositions in unit-linked and protection products as well as fee-based solutions managed through three global pillars (Bank Distribution, Corporate Life & Pensions and Inforce Management) to develop leadership positions in its target markets.

- Farmers provides, through Farmers Group, Inc. and its subsidiaries (FGI), non-claims related management services to the Farmers Exchanges. FGI receives fee income for the provision of services to the Farmers Exchanges, which are owned by their policyholders and managed by Farmers Group, Inc. a wholly owned subsidiary of the Group. This segment also includes all reinsurance assumed from the Farmers Exchanges by the Group. Farmers Exchanges are prominent writers of personal and small commercial lines of business in the U.S.

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

- Other Operating Businesses predominantly consist of the Group's headquarter and Holding and Financing activities. In addition, certain alternative investment positions not allocated to business operating segments are included within Holding and Financing.

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

At a secondary level, the General Insurance segment is managed based on market-facing businesses, including: Global Corporate, North America Commercial, Europe, Latin America and Asia-Pacific, Middle East and Africa.

In September 2013, the Group decided that from January 1, 2014, the General Insurance business will manage Middle East and Africa together with Europe as a single market-facing business called Europe, Middle East & Africa (EMEA).

The Global Life segment is managed on a regionally based structure within a global framework, including: North America, Latin America, Europe and Asia-Pacific and Middle East.

A detailed review of the respective business segment results during 2013 can be found in the Operating and financial review starting on page 84. Furthermore, an overview of the Group's business strengths and activities is contained in the Annual Review, available on Zurich's website www.zurich.com (http://www.zurich.com/internet/main/sitecollectiondocuments/financial-reports/annual-review-2013-en.pdf).

A list of the Group's significant subsidiaries, including additional information on significant subsidiaries that are listed, can be found on pages 297 to 299. For further information on the share listing of Zurich Insurance Group Ltd, see the Shareholder Information on page 362 to 364.

Significant shareholders

According to the rules regarding the disclosure of significant shareholdings of Swiss companies listed in Switzerland, disclosure has to be made if certain thresholds starting at three percent are reached or if the shareholding subsequently falls below those thresholds. Call options and other financial instruments are added to any share position, even if they

Corporate governance report *continued*

allow for cash settlement only. Disclosure must be made separately for purchase positions (including shares, long call options and short put options) and sale positions (including long put options and short call options). The percentage thresholds are calculated on the basis of the total amount of voting rights according to the entry in the commercial register.

Zurich Insurance Group Ltd is obliged to announce shareholdings by third parties in its shares when notification is received from a third party that a threshold has been reached. During 2013 the Group received several notifications by third parties that they had either exceeded or subsequently fallen below the threshold of three percent as a result of purchases or sales.

As of December 31, 2013, Zurich Insurance Group Ltd is not aware of any person or institution, other than Black Rock, Inc., New York (4.97%) and Norges Bank, Oslo (3.07%), which, directly or indirectly, had an interest as a beneficial owner in shares, option rights and/or conversion rights relating to shares of Zurich Insurance Group Ltd representing three percent or more of its issued shares.

The announcements related to these notifications can be found via the search facility on the SIX Disclosure Office's platform: http://www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html.

Zurich Insurance Group Ltd is not aware of any person or institution which, as of December 31, 2013, directly or indirectly, alone or with others, exercised or was a party to any arrangements to exercise control over Zurich Insurance Group Ltd.

Overview on shareholder structure

Number of shares held

as of December 31, 2013	Number of registered shareholders	% of registered share capital
1–500	118,393	13.5
501–1,000	5,049	4
1,001–10,000	4,102	11.2
10,001–100,000	380	12.1
100,001+	68	59.2
Total registered shares	127,992	100.0

Registered shareholders by type

as of December 31, 2013	Registered shareholders in %	Registered shares in %
Individual shareholders	95.6	26.2
Legal entities	3.7	23.9
Nominees, fiduciaries	0.7	49.9
Total	**100.0**	**100.0**

Registered shareholders by geography

as of December 31, 2013	Registered shareholders in %	Registered shares in %
Switzerland	93.4	44
UK	1.4	27.7
North America	0.8	13.4
Asia	0.2	0.8
Latin America	0.1	–
Rest of the World	4.1	14.1

Cross-shareholdings

Zurich Insurance Group Ltd has no interest in any other company exceeding five percent of the voting rights of that other company, where such other company has an interest in Zurich Insurance Group Ltd exceeding five percent of the voting rights in Zurich Insurance Group Ltd.

Capital structure

Share capital

As of December 31, 2013, the ordinary share capital of Zurich Insurance Group Ltd amounted to CHF 14,890,322.20 divided into 148,903,222 fully paid registered shares with a nominal value of CHF 0.10 each. The Board will propose to the shareholders at the Annual General Meeting on April 2, 2014 a dividend of CHF 17.00 per share. As the dividend payment is planned to be made from the capital contribution reserve, it will be exempt from Swiss withholding tax.

Authorized and contingent share capital

As of December 31, 2013, as specified in Article 5^{bis}(1) of the Articles of Incorporation, the Board is authorized to increase share capital by up to CHF 1,000,000 representing 10,000,000 fully paid registered shares with a nominal value of CHF 0.10 each until March 29, 2014. The contingent share capital of Zurich Insurance Group Ltd, as specified in Article 5^{ter}(1a) of the articles of incorporation, may be increased by an amount not exceeding CHF 1,000,000 by issuing up to 10,000,000 fully paid registered shares with a nominal value of CHF 0.10 each by exercising conversion and/or option rights which are granted in connection with the issuance of bonds or similar debt instruments by Zurich Insurance Group Ltd or one of its Group companies in national or international capital markets and/or option rights which are granted to the shareholders. Moreover, there is an additional contingent share capital of CHF 239,203.70 as specified in Article 5^{ter}(2a) of the articles of incorporation, representing 2,392,037 fully paid registered shares with a nominal value of CHF 0.10 each, which may be issued to employees of the Group. For further information on the capital structure and the authorized and contingent share capital, see the audited Consolidated financial statements, note 21 on pages 249 and 250.

Changes of share capital during 2013

During 2013, a total of 603,099 shares were issued to employees out of contingent capital. As a result, on December 31, 2013, the share capital amounted to CHF 14,890,322.20 (148,903,222 shares) and both the authorized capital and the contingent share capital (as specified in Article 5^{bis}(1) and in Article 5^{ter}(1a) of the articles of incorporation, respectively) amounted to CHF 1,000,000 (10,000,000 shares) and the other contingent share capital (as specified in Article 5^{ter}(2a) of the articles of incorporation) amounted to CHF 239,203.70 (2,392,037 shares).

Changes of share capital during 2012

During 2012, a total of 914,301 shares were issued to employees out of contingent capital. As a result, on December 31, 2012, the share capital amounted to CHF 14,830,012.30 (148,300,123 shares) and both the authorized capital and the contingent share capital (as specified in Article 5^{bis}(1) and in Article 5^{ter}(1a) of the articles of incorporation, respectively) amounted to CHF 1,000,000 (10,000,000 shares) and the other contingent share capital (as specified in Article 5^{ter}(2a) of the articles of incorporation) amounted to CHF 299,513.60 (2,995,136 shares).

Corporate governance report *continued*

Summary of changes in the ordinary share capital over the last two years

	Share Capital in CHF	Number of Shares	Nominal Value in CHF
As of December 31, 2011	14,738,582.20	147,385,822	0.10
Newly issued shares from contingent capital	91,430.10	914,301	0.10
As of December 31, 2012	14,830,012.30	148,300,123	0.10
Newly issued shares from contingent capital	60,309.90	603,099	0.10
As of December 31, 2013	14,890,322.20	148,903,222	0.10

For information on changes of share capital during 2011, see the Annual Report 2012 of Zurich Insurance Group, page 22, pages 172 to 173 and pages 237 to 238.

Shares and participation certificates

Zurich Insurance Group Ltd's shares are registered shares with a nominal value of CHF 0.10 each. The shares are fully paid. Pursuant to Article 14 of the Articles of Incorporation, each share carries one vote at shareholders' meetings and entitles the registered holder to exercise all other membership rights in respect of that share.

Some interests in shares are held by investors in the form of American Depositary Receipts (ADRs)[1]. As of December 31, 2013, investors held 27,931,150 ADRs (representing 2,793,115 Zurich Insurance Group Ltd shares).

Profit sharing certificates

Zurich Insurance Group Ltd has not issued any profit-sharing certificates.

Limitations on transferability and nominee registrations

The articles of incorporation do not provide for any limitations on transferability except for the following:

Registration as a shareholder requires a declaration that the shareholder has acquired the shares in his or her own name and for his or her own account. Nominees holding Zurich Insurance Group Ltd shares may for the benefit of, or as nominee for, another person be registered for up to 200,000 shares with voting rights notwithstanding that the nominee does not disclose the identity of the beneficial owner. A nominee, however, is entitled to be registered as a shareholder with voting rights of more than 200,000 shares if the nominee undertakes to disclose the identity of each beneficial owner and to inform the beneficial owners about corporate actions, to consult as to the exercise of voting rights and pre-emptive rights, to transfer dividends and to act in the interests of and in accordance with the instructions of the beneficial owner.

There are special provisions relating to the registration of and exercise of rights attaching to shares by The Bank of New York Mellon Corporation in connection with the Zurich Insurance Group Ltd ADR program.

Convertible bonds and options

Zurich Insurance Group Ltd had no public convertibles or options outstanding as of December 31, 2013. For information on employee share option plans, see the audited Consolidated financial statements, note 23 on pages 259 to 261.

[1] Zurich Insurance Group Ltd has established an American Depositary Share, or ADS, level 1 program in the U.S. Under this program, The Bank of New York Mellon Corporation issues the ADSs. Each ADS represents the right to receive one-tenth of one share of Zurich Insurance Group Ltd. Each ADS also represents securities, cash or other property deposited with The Bank of New York Mellon Corporation but not distributed to ADS holders. Zurich's ADSs are traded over the counter (OTC) and are evidenced by American Depositary Receipts, or ADRs. Since 1st July 2010, Zurich's ADRs have been traded on "OTCQX", an electronic platform operated by OTC Markets Group Inc. (formerly "Pink OTC Markets Inc.") under the symbol ZURVY. ADS holders are not treated as shareholders of Zurich Insurance Group Ltd and are not able to directly enforce or exercise shareholder rights. Only The Bank of New York Mellon Corporation as Depositary of the level 1 program may exercise voting rights with respect to instructions received from beneficial owners of ADRs.

THIS PAGE HAS INTENTIONALLY BEEN LEFT BLANK

Board of Directors

Relations between our Board and our Management are structured to support both bodies in fulfilling their commitments to deliver. This structure establishes checks and balances and is designed to provide for institutional independence of the Board of Directors from the Chief Executive Officer and the Group Executive Committee.


1


2


3


4


5


6


7


8


9


10

1 Tom de Swaan
Chairman of the Board,
Chairperson of the Governance and Nominations Committee,
Member of the Remuneration Committee

2 Fred Kindle
Vice-Chairman of the Board,
Member of the Audit Committee,
Member of the Governance and Nominations Committee

3 Susan Bies
Director,
Chairperson of the Risk Committee,
Member of the Audit Committee

4 Dame Alison Carnwath
Director,
Member of the Risk Committee,
Member of the Remuneration Committee

5 Victor L.L. Chu
Director,
Member of the Governance and Nominations Committee

6 Rafael del Pino
Director,
Member of the Governance and Nominations Committee,
Member of the Remuneration Committee

7 Thomas K. Escher
Director,
Chairperson of the Remuneration Committee,
Member of the Governance and Nominations Committee

8 Monica Mächler
Director,
Member of the Governance and Nominations Committee,
Member of the Risk Committee

9 Don Nicolaisen
Director,
Chairperson of the Audit Committee,
Member of the Risk Committee

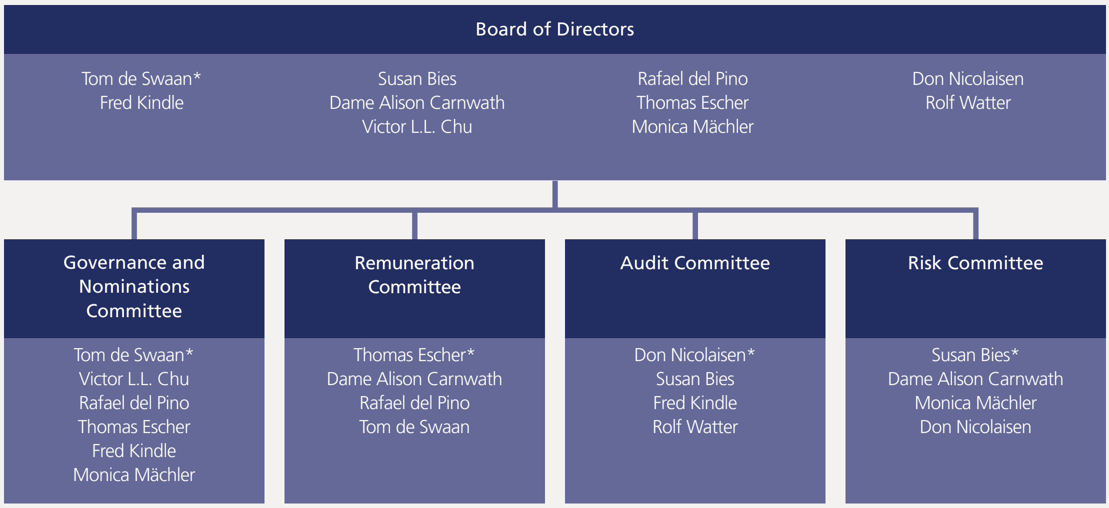
10 Rolf Watter
Director,
Member of the Audit Committee

Board of Directors

The Board, under the leadership of the Chairman, is responsible for determining the overall strategy of the Group and the supervision of senior management. It holds the ultimate decision-making authority for Zurich Insurance Group Ltd, except for decisions on matters reserved for the shareholders.

Board of Directors and its Committees

as of December 31, 2013



* Chairman of Board or Chairperson of Board Committee, respectively

The members of the Board are elected by the shareholders at the AGM. The Board constitutes itself in its first meeting, except for the Chairman and the members of the Remuneration Committee who, as required by the Ordinance Against Excessive Compensation (AEC), in force since January 1, 2014, must be elected by the shareholders.

The Ordinance AEC requires that the term of office of a board member ends after completion of the next AGM. As a consequence, each member of the Board will have to be re-elected at the AGM each year, commencing with the AGM in 2014.

Corporate governance report *continued*

Members of the Board of Directors, as of December 31, 2013

Name	Nationality	Year of Birth	Position held	Year of initial appointment	Expiration of current term of office[1]
Tom de Swaan	Dutch	1946	Chairman of the Board Chairperson of the Governance and Nominations Committee Member of the Remuneration Committee	2006	2014
Fred Kindle	Swiss and Liechtenstein	1959	Vice-Chairman of the Board Member of the Audit Committee Member of the Governance and Nominations Committee	2006	2014
Susan Bies	American	1947	Director Chairperson of the Risk Committee Member of the Audit Committee	2008	2014
Dame Alison Carnwath	British	1953	Director Member of the Risk Committee Member of the Remuneration Committee	2012	2014
Victor L.L. Chu	British	1957	Director Member of the Governance and Nominations Committee	2008	2014
Rafael del Pino	Spanish	1958	Director Member of the Governance and Nominations Committee Member of the Remuneration Committee	2012	2014
Thomas Escher	Swiss	1949	Director Chairperson of the Remuneration Committee Member of the Governance and Nominations Committee	2004	2014
Monica Mächler	Swiss	1956	Director Member of the Governance and Nominations Committee Member of the Risk Committee	2013	2014
Don Nicolaisen	American	1944	Director Chairperson of the Audit Committee Member of the Risk Committee	2006	2014
Rolf Watter	Swiss	1958	Director Member of the Audit Committee	2002	2014

[1] As per Ordinance AEC, in force since January 1, 2014, the term of office of a Board member ends after completion of the next ordinary shareholders' meeting. Members of the Board will have to be re-elected annually. According to the transitional provisions of the Ordinance AEC, members of the Board will have to stand for re-election at the next AGM on April 2, 2014. Except for Victor L.L. Chu and Rolf Watter, who will not stand for re-election, all current members of the Board are proposed for re-election.

All Directors of Zurich Insurance Group Ltd are also members of the board of directors of Zurich Insurance Company Ltd. Mr. de Swaan also serves as chairman of that board. In addition, Mr. de Swaan is a member of the board of directors of Zurich Insurance plc. Mr. Nicolaisen and Ms. Bies are members of the board of directors of Zurich Holding Company of America, Inc. With the exception of Ms. Bies, Mr. Nicolaisen and Mr. de Swaan, the Directors have no further board memberships within the Group.

Fritz Gerber is the Honorary Chairman of Zurich Insurance Group Ltd. He was chairman of Zurich Insurance Company between 1977 and 1995 and its Chief Executive Officer between 1977 and 1991. In recognition of his leadership and services to that company, he was appointed Honorary Chairman. Such designation does not confer Board membership or any Director's duties or rights, nor does it entitle him to any Directors' fees.

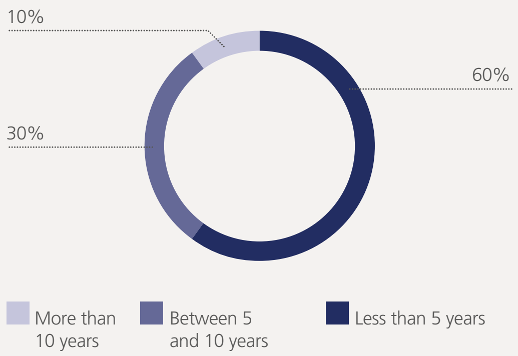
Board Composition

Diversity is a key success factor in today's fast changing global environment. Zurich's Board consists of individuals with wide-ranging relevant backgrounds, experiences, skills and knowledge resulting in a favorable balance that enables the Board as a group to exercise its tasks and responsibilities while fully taking into account contemporary business needs.

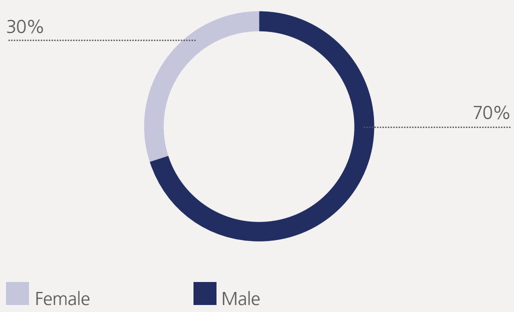
As of December 31, 2013, the Board included members of six nationalities. The Board members gained their business experience in a broad range of jurisdictions resulting in a profound collective knowledge of international business practices. The Board also benefits from the broad cultural, educational and professional backgrounds of its members, which collectively include financial services, manufacturing, engineering, as well as legal and regulatory experience.

The current composition as of December 31, 2013 in terms of length of tenure and gender representation is as follows:

Board by length of tenure
as of December 31, 2013



Board by gender
as of December 31, 2013



Corporate governance report *continued*

Biographies

Tom de Swaan (1946), Dutch Citizen
Chairman of the Board
Skills and experience: Mr. de Swaan has served in the banking industry of The Netherlands for over 40 years. He joined De Nederlandsche Bank N.V. in 1972 and from 1986 until 1998 was a member of the governing board. In January 1999, he became a member of the managing board and chief financial officer of ABN AMRO Bank. He retired from ABN AMRO in May 2006, but continued as an advisor to the managing board until June 2007. Between 1987 and 1988, Mr. de Swaan was chairman of the Amsterdam Financial Center and from 1995 to 1997 chairman of the banking supervisory sub-committee of the European Monetary Institute. He was also a member of the Basel Committee on Banking Supervision from 1991 to 1996, its chairman from 1997 to 1998 and a non-executive director on the board of the UK's Financial Services Authority from January 2001 until the end of 2006. He has been a member of the Boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since April 2006. In March 2012 he was elected Vice-Chairman, acting as Chairman from August 2013 on. He was elected Chairman of the Board in September 2013.
Committee membership: Governance and Nominations Committee (Chairperson), Remuneration Committee
Other directorships within the Group: Zurich Insurance Company Ltd, Zurich Insurance plc
External appointments: Mr. de Swaan has been a non-executive member of the board of GlaxoSmithKline Plc since 2006. He has been a member of the supervisory board of Royal DSM, a Netherlands-based nutrition group, since 2006 and chairman of the supervisory board of Van Lanschot NV, the holding company of F. van Lanschot Bankiers, an independent Dutch bank, since 2008. In addition Mr. de Swaan is chairman of the board of the Netherlands Cancer Institute, chairman of the board of trustees of the Van Leer Jerusalem Institute and acts as director of certain other non-profit organizations. He is also a member of the advisory board of China Banking Regulatory Committee in Beijing and a member of the International Advisory Board of the National Bank of Kuwait since 2007.
Educational background: Mr. de Swaan graduated from the University of Amsterdam with a master's degree in economics.

Fred Kindle (1959), Citizen of Fürstentum Liechtenstein and Switzerland
Vice-Chairman of the Board
Skills and experience: Mr. Kindle began working as a marketing project manager with Hilti AG in Liechtenstein from 1984. From 1988 until 1992, he was a consultant with McKinsey & Company in New York and Zurich. He then joined Sulzer Chemtech AG in Switzerland as the head of the Mass Transfer Department and in 1996 became the head of the Product Division. In 1999, he was appointed CEO of Sulzer Industries, one of the two operating groups of Sulzer AG. Two years later he became CEO of Sulzer AG, where he also served as a board member. After joining ABB Ltd. in 2004, Mr. Kindle was appointed CEO of ABB Group in January 2005, a position he held until February 2008. He then became a partner of Clayton, Dubilier & Rice LLP, a private equity firm based in New York and London. He has been a member of the Boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since April 2006. He was elected Vice-Chairman in September 2013.
Committee membership: Governance and Nominations Committee, Audit Committee
Other directorships within the Group: Zurich Insurance Company Ltd
External appointments: In his capacity as a partner of Clayton, Dubilier & Rice, Mr. Kindle has served as a chairman of Exova Ltd., Scotland since 2008 and as a chairman of BCA Group, United Kingdom since 2010. He has also been on the board of VZ Holding Ltd., Zurich since 2002 and Stadler Rail AG, Bussnang since 2008.
Educational background: Mr. Kindle graduated from the Swiss Federal Institute of Technology (ETH) in Zurich with a master's degree in engineering and holds an MBA from Northwestern University, Evanston, United States

Susan Bies (1947), U.S. Citizen
Member of the Board

Skills and experience: Ms. Bies began her career in 1970 as regional and banking structure economist with the Federal Reserve Bank of St. Louis, Missouri and two years later became assistant professor of economics at Wayne State University, Detroit, Michigan. In 1977, she moved to Rhodes College, Memphis, Tennessee, in a similar role and in 1979 joined First Tennessee National Corporation in Memphis, where she remained until 2001. During the early years, her areas of responsibility included tactical planning and corporate development. In 1984, she became chief financial officer and chairman of the asset/liability committee. In 1995, she became executive vice president of risk management and auditor and chairman of the risk management committee, as well as continuing her duties with the asset/liability committee. From 2001 until 2007, she was a member of the board of governors of the Federal Reserve System. Between 1996 and 2001, Ms. Bies was a member of the Emerging Issues Task Force of the Financial Accounting Standards Board. She has been a member of the Boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since April 2008.

Committee membership: Risk Committee (Chairperson), Audit Committee

Other directorships within the Group: Zurich Insurance Company Ltd, Zurich Holding Company of America, Inc.

External appointments: Susan Bies has served as a member of the board of directors of The Bank of America Corporation since June 2009, and joined the board of directors of Merrill Lynch International, London, a subsidiary of Bank of America Corporation, in 2013. She has also been a member of the Senior Advisory Board of Oliver Wyman since 2009. Susan Bies is a member of the board of trustees of the Global Association of Risk Professionals (GARP).

Educational background: Ms. Bies graduated with a BS degree from the State University College at Buffalo, New York and with a MA degree from Northwestern University, Evanston, where she later gained a PhD.

Dame Alison Carnwath (1953), British Citizen
Member of the Board

Skills and experience: Dame Alison Carnwath has substantial financial industry experience. She began her career with Peat Marwick Mitchell, now KPMG, in 1975 to 1980 and practiced as a chartered accountant. From 1980 to 1982, she worked as a corporate financier for Lloyds Bank International. From 1982 to 1993, she was Assistant Director, then Director at J. Henry Schroder Wagg & Co in London and New York. From 1993 to 1997, Dame Alison Carnwath was a Senior Partner at the financial advisory firm Phoenix Partnership. The firm was taken over by Donaldson Lufkin Jenrette (DLJ) in late 1997; Dame Alison Carnwath continued working for DLJ until 2000. Dame Alison Carnwath has held several board offices. From 2000 to 2005, she was the Chairman of the board of Vitec Group plc, from 2001 to 2006 a director of Welsh Water, from 2004 to 2007 of Friends Provident plc, from 2004 to 2007 of Gallaher Group and from 2007 to 2010, she was the independent Chairman of MF Global Inc. She also served on the boards of directors of Barclays from 2010 to 2012, and of Man Group plc from 2001 to 2013. She has been a member of the Boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since March 2012. She was awarded a Dame of the British Empire (DBE) in the 2014 New Years Honours List in the UK.

Committee membership: Remuneration Committee, Risk Committee

Other directorships within the Group: Zurich Insurance Company Ltd

External appointments: Dame Alison Carnwath has been a Senior Advisor of Evercore Partners since 2011 and an independent Chairman of ISIS Equity Partners LLP since 2000. She has been a Chairman of the Board of Land Securities Group plc since 2008 and a member of the board of PACCAR Inc. since 2005. Dame Alison Carnwath is also a Trustee of the British Library. In September 2013, she was appointed to the advisory council of the St George's Society in New York.

Educational background: Dame Alison Carnwath graduated in economics and German from the University of Reading. She was also awarded an honorary doctorate (LLB) from the University of Reading.

Corporate governance report *continued*

Victor L.L. Chu (1957), British Citizen
Member of the Board
Skills and experience: Mr. Chu has expertise in the field of corporate, commercial and securities laws spanning 30 years, with special emphasis on China and regional investment transactions. From 1995 to 2000, Mr. Chu was deputy secretary-general of the International Bar Association. Over the past 25 years he has served at various times as director and council member of the Hong Kong Stock Exchange, a member of the Hong Kong Takeovers and Mergers Panel, a member of the Hong Kong Securities and Futures Commission's advisory committee and a part-time member of the Hong Kong Government's Central Policy Unit. He is admitted to practice law in England and Hong Kong. He has been a member of the Boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since April 2008.
Committee membership: Governance and Nominations Committee
Other directorships within the Group: Zurich Insurance Company Ltd
External appointments: Mr. Chu has been chairman of First Eastern Investment Group, a leading direct investment firm focusing on China and Asia-related opportunities, since 1988. He has also been chairman of First Eastern Investment Bank Limited since 2006 and of FE Securities Limited since 1994. He is currently a foundation board member of the World Economic Forum and co-chairs the Forum's International Business Council. Mr. Chu is also chairman of the Hong Kong-Europe Business Council, vice-chairman of Asia House in London and a member of the Mayor of London's International Business Advisory Council.
Educational background: Mr. Chu graduated with a LL.B. from the University College London where he is now a Honorary Fellow. He was awarded the 2011 Global Economy Prize by the Kiel Institute for the World Economy.

Rafael del Pino (1958), Spanish Citizen
Member of the Board
Skills and experience: Mr. del Pino possesses more than 30 years of international management experience. From 1992 to 1999, he was CEO of Grupo Ferrovial and in 1999, he was appointed executive vice-chairman. In 2000, Mr. del Pino assumed the position of executive chairman and managing director of Ferrovial S.A. During his career at Ferrovial he has transformed the company from a mostly domestic construction company to a leading provider of infrastructure services around the world. In addition, Mr. del Pino was a member of the board of Banesto (Banco Español de Crédito S.A.) from 2003 to 2012. He has been a member of the Boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since March 2012.
Committee membership: Governance and Nominations Committee, Remuneration Committee
Other directorships within the Group: Zurich Insurance Company Ltd
External appointments: Mr. del Pino has been a member of the International Advisory Board of Blackstone since 2007. He also maintains contact with the academic world through membership on the MIT Corporation, the International Advisory Board of IESE and the European Advisory Board of Harvard Business School.
Educational background: Mr. del Pino graduated in civil engineering from the Universidad Politécnica Madrid and obtained an MBA from MIT Sloan School of Management.

Thomas K. Escher (1949), Swiss Citizen
Member of the Board
Skills and experience: Mr. Escher has extensive experience in the fields of information technology and banking. He joined IBM in 1974 and had managerial responsibility for several international markets. In 1996, Mr. Escher joined Swiss Bank Corporation as a member of the executive board and was CEO for the major market region in Switzerland and for the information technology organization. Following the merger of Swiss Bank Corporation and Union Bank of Switzerland to form UBS AG in 1998, he headed the IT business area of the wealth management and business banking division until mid-2005 as a member of the group managing board. Mr. Escher assumed the function of vice-chairman in the Business Group Global Wealth Management & Swiss Bank of UBS AG in 2005. He has been a member of the Boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since April 2004.
Committee membership: Remuneration Committee (Chairperson), Governance and Nominations Committee
Other directorships within the Group: Zurich Insurance Company Ltd
External appointments: Mr. Escher has been a member of the board of directors of Silent-Power AG of Cham, Switzerland, a company in the alternative energy field, since 2012, and its Chairman since 2013. Furthermore Mr. Escher has been the president of the Genossenschaft zum Rüden since 2010.
Educational background: Mr. Escher graduated in electrical engineering and in Business Administration from the Swiss Federal Institute of Technology (ETH)

Monica Mächler (1956), Swiss Citizen
Member of the Board
Skills and experience: Monica Mächler has substantial legal, regulatory and governance expertise in a national and international context. Monica Mächler served as Vice-Chair of the Board of Directors to the integrated Swiss Financial Market Supervisory Authority (FINMA) from 2009 to 2012, after having been the Director of the Swiss Federal Office of Private Insurance from 2007 to 2008. From 2010 to 2012, Ms. Mächler chaired the Technical Committee of the International Association of Insurance Supervisors (IAIS). She assumed the roles of Group General Counsel and Head of the Board Secretariat of Zurich Insurance Group from 1999 to 2006 and was appointed a member of the Group Management Board in 2001 after joining in 1990. During the years 1985 to 1990 she was in private practice specializing in banking and business law. Monica Mächler has been a member of several Swiss federal expert commissions on regulatory projects and is regularly speaking, lecturing as well as publishing on international business law and regulation and their impact. She has been a member of the Boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since April 2013.
Committee membership: Governance and Nominations Committee, Risk Committee
Other directorships within the Group: Zurich Insurance Company Ltd
External appointments: Ms. Mächler has been a member of the Supervisory Board of Directors of Deutsche Börse AG since May 2012. She also serves on the Advisory Board of the International Center for Insurance Regulation at the Goethe University Frankfurt am Main.
Educational background: Monica Mächler earned her JD at the University of Zurich's Law School and complemented her studies by attending programs on UK, U.S. and private international law. She is admitted to the bar of the Canton of Zurich.

Corporate governance report *continued*

Don Nicolaisen (1944), U.S. Citizen
Member of the Board
Skills and experience: Mr. Nicolaisen has substantial expertise in accounting, auditing and financial reporting. He joined Price Waterhouse in 1967 (which subsequently became PricewaterhouseCoopers or PwC) and was admitted to partnership in 1978. He served in various capacities, including as an auditor and as chairman of their financial services practice. Mr. Nicolaisen also led PwC's national office for accounting and Securities and Exchange Commission services from 1988 to 1994 and served on both the U.S. and global boards of PwC from 1994 to 2001. From September 2003 to November 2005, he was Chief Accountant of the U.S. Securities and Exchange Commission and was principal adviser to the Commission on accounting and auditing matters. He has been a member of the Boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since April 2006.
Committee membership: Audit Committee (Chairperson), Risk Committee
Other directorships within the Group: Zurich Insurance Company Ltd, Zurich Holding Company of America, Inc.
External appointments: Mr. Nicolaisen has been a member of the board of directors of Verizon Communications Inc. since 2005, Morgan Stanley since 2006 and MGIC Investment Corporation since 2006. In addition, he serves on the board of advisors for the University of Southern California Leventhal School of Accounting.
Educational background: Mr. Nicolaisen graduated from the University of Wisconsin-Whitewater with a BBA degree.

Rolf Urs Watter (1958), Swiss Citizen
Member of the Board
Skills and experience: Mr. Watter possesses extensive experience in the field of corporate law, particularly complex cross-border transactions and corporate governance questions and has been a partner at Bär & Karrer AG in Zurich since 1994. He was a member of its executive board from 2000 and an executive director upon the incorporation of Bär & Karrer AG in 2007 until September 2009. Mr. Watter serves as a part-time professor at the Law School of the University of Zurich. He was formerly a non-executive chairman of Cablecom Holding AG from 2004 to 2008. Mr. Watter was also a non-executive director of Syngenta AG from 2000 to 2012, of Centerpulse AG from 2002 to 2003, of Forbo Holding AG from 1999 to 2005 and of Feldschlösschen Getränke AG from 2001 to 2004. He has been a member of the Boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since May 2002.
Committee membership: Audit Committee
Other directorships within the Group: Zurich Insurance Company Ltd
External appointments: Mr. Watter has been a non-executive director of Nobel Biocare Holding AG since 2007 and has served as non-executive chairman of the board since summer 2012; he is also a non-executive chairman of PostFinance AG since mid 2013 and serves as a non-executive director of UBS Alternative Portfolio AG since 2000 and of A.W. Faber-Castell (Holding) AG since 1997. He is a member of the SIX admission board and of its Disclosure Commission of Experts. He is also chairman of two charity institutions.
Educational background: Mr. Watter graduated from the University of Zurich with a doctorate in law and holds a master of laws degree from Georgetown University in the U.S. He is admitted to the bar of the Canton of Zurich.

THIS PAGE HAS INTENTIONALLY BEEN LEFT BLANK

Corporate governance report *continued*

The business address for each Board member is Mythenquai 2, 8002 Zurich, Switzerland.

Elections and terms of office

The articles of incorporation require that the Board shall consist of not fewer than seven and not more than thirteen members. On the expiration of their terms of office, Directors may be re-elected immediately. According to the Group's internal guidelines, in general, the maximum tenure of Board members may not exceed twelve years and no individual of 70 years of age or older shall be nominated or stay in office as a Director, although exceptions may be made under special circumstances.

The election of a member of the Board is effected on an individual basis. Directors are elected by a majority of the votes cast.

At the AGM on April 4, 2013, Ms. Monica Mächler and Ms. Susan Bies were elected or re-elected respectively to the Board for a term of three years. Messrs. Victor Chu and Rolf Watter were re-elected to the Board for a term of one year.

Mr. Josef Ackermann resigned from the Board and Mr. Tom de Swaan assumed the role as acting Chairman on August 28, 2013. Subsequently, the Board appointed Mr. Tom de Swaan as Chairman and Mr. Fred Kindle as Vice-Chairman on September 11, 2013.

On January 1, 2014, the Ordinance AEC came into force. In accordance with the Ordinance AEC, at the AGM to be held on April 2, 2014, each incumbent Board member will stand for re-election for a term of one year except for Mr. Rolf Watter, whose maximum tenure of office will be reached and Mr. Victor L.L. Chu, who will not stand for re-election.

As required by the Ordinance AEC, shareholders also have to elect a member of the Board of Directors as the Chairman, the members of the Remuneration Committee, and the independent voting rights representative at the AGM on April 2, 2014. The board proposes the following:

- As Chairman: Mr. Tom de Swaan

- As members of the Remuneration Committee: Mr. Thomas Escher, Dame Alison Carnwath, Mr. Rafael del Pino and Mr. Tom de Swaan

- As independent voting rights representative: Mr. lic. iur. Andreas G. Keller, Attorney at Law

Governance

Internal organizational structure and responsibilities

The Board is chaired by the Chairman, or in his absence the Vice-Chairman, and has a program of topics that is presented at its meetings throughout the year. It is regularly informed of developments regarding the Group and is provided with timely information in a form and of a quality appropriate to the discharge of its duties in accordance with the standards of care set out in Article 717 of the Swiss Code of Obligations.

The Board consists entirely of Directors who are non-executive, independent from the Management and who – except for Ms. Mächler – have never held an executive position in the Group. Ms. Mächler joined Zurich Insurance Group in 1990, she assumed the roles of Group General Counsel and Head of the Board Secretariat from 1999 to 2006 and was appointed a member of the Group Management Board in 2001. She left the company in 2006. According to the guidelines of the Swiss Code of Best Practice Ms. Mächler meets the requirements with regard to independence. The Governance and Nominations Committee reviews the independence of the Board members annually and reports its findings to the Board for final determination. Board members are also subject to rules and regulations to avoid conflicts of interest and the use of inside information.

A self-assessment of the full Board is carried out once a year. In 2013, this assessment was carried out through an independent review by an external consultant. The review considered three key aspects of board effectiveness: the Board environment (culture and composition), the work of the Board (strategy, risk and control, and performance management), and the use of time and process (planning and allocation). A detailed report on the findings and recommendations was produced. The recommendations included consideration of further strengthening of the Board's experience in the insurance sector and in emerging markets, enhancement of cross-membership in the Board's committees and an increase in the time allowed for informal discussions and training sessions. The Board considered the report, and its recommendations are currently being implemented.

Given the separation of the roles of Chairman and CEO and the fact that the Board consists entirely of non-executive members, there is no requirement for a lead director to be appointed under the Swiss Code of Best Practice.

The CEO attends Board meetings ex officio. Members of the GEC are regularly invited by the Board to attend meetings. Other executives also attend meetings from time to time at the invitation of the Board. Most Board meetings include private sessions of the Board without the participation of Management.

In the past, the Board elected the Chairman and the Vice-Chairman from its members. With the coming into force of the Ordinance AEC on January 1, 2014, in the future the Chairman of the Board will be elected by the shareholders' meeting each year, commencing with the AGM on April 2, 2014. The Board appoints its Secretary.

The Board is required to meet at least six times each year. During 2013 it held 18 meetings (of which 14 were partly attended by tele-/videoconference and five were held over two days). One meeting was fully dedicated to the discussion of strategic topics. Six meetings lasted four or more hours during the course of a day, three meetings took about three hours on average and nine meetings lasted less than three hours. In addition, the Board approved one circular resolution.

In 2013, average attendance at Board meetings was 91 percent. In fulfillment of their duties, the members of the Board spent additional time participating in Board Committee meetings and preparing for meetings.

Overview of meeting attendance

Overview of meeting attendance

as of December 31, 2013	Board of Directors	Governance & Nominations Committee	Audit Committee	Remuneration Committee	Risk Committee
No. of meetings held	18	8	10	8	6
No. of members	10[1]	6[1]	4	4	4
Meeting attendance, in %	90	84	97	93	93

[1] Until August 28, 2013, the Board had 11 and the GNC 4 members, respectively.

Corporate governance report *continued*

The Board is responsible for the ultimate management of Zurich Insurance Group Ltd and, to the extent legally permissible, of the Group as well as for the supervision of Management. In particular, it is responsible for taking actions in the following topics:

- **Group strategy:** The Board regularly reviews and discusses in particular the Group's business portfolio including its target market, acquisition, customer and intermediaries strategy and its HR strategy;

- **Finance:** The Board particularly approves the financial and operating plan annually, establishes guidelines for capital allocation and financial planning. Further, the Board reviews and approves the annual and interim (half year and quarterly) consolidated financial statements of the Group. Above certain thresholds, the Board approves major lending and borrowing transactions;

- **Structure and organization of the Group:** The Board determines and regularly reviews the basic principles of the Group's structure and major changes in the Group's management organization including major changes of management functions. In this respect, the Board particularly discusses the Group's corporate governance framework and its remuneration system. The Board also adopts and regularly reviews the basic principles of conduct, compliance and risk management for the Group. Further, as part of its duty to convene the shareholders' meeting and submit proposals to the shareholders' meeting, it discusses the dividend policy and the Board's proposal for the payment of dividends. Within its authorities the Board also makes resolutions on capital increases and the certification of capital increases and respective amendments to the articles of incorporation;

- **Business Development:** Above certain thresholds, the Board regularly discusses and approves acquisitions and disposals of businesses and assets, investments, new businesses, mergers, joint ventures, co-operations and restructurings of business units or books of businesses.

In 2013, the Board specifically focused on the following topics:

- Strategy review 2014 – 2016 including capital planning performance improvement, growth and structural improvement, the consequences of the persistent low interest environment on e.g. the product mix in the Global Life businesses and investment management;

- developments with regard to corporate governance and remuneration-related matters and their implication for the Group, in particular due to the popular say-on-pay initiatives ('inititative against excessive management remuneration' and '1:12 initiative');

- the Board efficiency assessment, supported by an external consultant

The Board may establish committees for specific topics and terms of reference and rules with respect to delegated tasks and responsibilities and reporting to the Board. Except for the Remuneration Committee, the Board constitutes such committees from among its members at its own discretion. From the introduction of the Ordinance AEC on January 1, 2014, the members of the Remuneration Committee will be elected by the shareholders' meeting. The committees assist the Board in performing its duties. They discuss and propose matters to the Board to take appropriate actions and pass resolutions unless they are authorized to take resolutions in specific areas on their own. In 2013, committee meetings lasted two hours on average.

The Board has the following standing committees, which regularly report to the Board and submit proposals for resolution by the Board:

Governance and Nominations Committee

Composition and membership: The Governance and Nominations Committee consists of at least four Board members. Currently, Tom de Swaan (Chairperson), Victor L.L. Chu, Rafael del Pino, Thomas Escher, Fred Kindle and Monica Mächler serve on this committee.

Key tasks and responsibilities: In general, the Governance and Nominations Committee:

- oversees the Group's governance and measures it against best practice with a view to ensuring that the rights of shareholders are fully protected;
- develops and proposes guidelines to the Board for corporate governance and reviews them from time to time;
- ensures compliance with corporate governance disclosure requirements as well as legal and regulatory requirements;
- is entrusted with succession planning for the Board, the CEO and members of the GEC. In this regard, it proposes the principles for the nomination and ongoing qualification of members of the Board and makes proposals to the Board on the composition of the Board, the appointment of the Chairman, the Vice-Chairman, the CEO and members of the GEC. Final decisions for nominations and appointments are made by the Board, subject to shareholder approval, where required; and,
- reviews the system for management development and supervises progress made in respect of succession planning.

Activities 2013: During 2013, in particular the following topics were discussed:

- developments with regard to corporate governance related matters, including the implementation of legislative and regulatory change regarding the granting of shareholder rights and say-on-pay regimes;
- Board succession planning
- management succession planning, talent management and group learning strategies; and,
- external Board assessment and consequent recommendations.

Remuneration Committee

Composition and membership: Zurich Insurance Group Ltd's Organizational Rules require the Remuneration Committee to consist of at least four non-executive Board members. Currently, Thomas Escher (Chairperson), Dame Alison Carnwath, Rafael del Pino and Tom de Swaan serve on this committee.

Key tasks and responsibilities: In general, the Remuneration Committee:

- evaluates regularly the Group's remuneration system and the remuneration rules and, if appropriate, proposes amendments to the Board which is responsible for the design, implementation and monitoring of the Group's remuneration architecture;

  Further details of the Group's remuneration governance and the remuneration rules are set out in the Remuneration report on pages 70 to 99.
- proposes the Directors' remuneration to the Board for approval;
- based on the Remuneration Rules, negotiates the terms and conditions of employment of the CEO and reviews those of other members of the GEC, as negotiated by the CEO, before submitting them to the Board for approval;
- liaises with the CEO on other important employment, salary and benefit matters;

Corporate governance report *continued*

- reviews performance relating to senior management's short-term and long-term incentive plans. In addition, in order to help align remuneration with the Group's risk-taking capacity, Group Risk Management consults with other governance, control and assurance functions to provide a review of risk factors for consideration when overall performance for annual incentives is assessed. The Chief Risk Officer is available to discuss these findings with the Remuneration Committee and the Board.

Activities 2013: During 2013, in particular the following topics were discussed:

- the performance of the Group, the segments and the GEC as well as the approval of STIP and LTIP awards for 2012 including the approval of the total variable remuneration pool for 2012;
- the regulatory environment such as implications from the FINMA Circular 2010/1 Remuneration Schemes and remuneration aspects raised by Ethos and ISS;
- developments for remuneration-related matters and their potential effect on Zurich;
- share ownership levels of the members of the Board and the GEC (for more details see the Remuneration report on page 85 and 91 to 92).
- in the annual joint meeting with the Risk Committee, risk management aspects of the Group's remuneration architecture;
- in its annual review, the Remuneration Report, the Remuneration Rules and the Remuneration Committee rules; these documents were approved;
- in its annual review, the Board and GEC compensation;
- understanding the requirements of the 'Minder' initiative, and of the Ordinance AEC, and
- a review of the incentive architecture for 2013.

The Remuneration Committee has retained its own independent advisors, Meridian Compensation Partners, LLC and Aon Hewitt to assist in its review of the remuneration structures and practices.

Audit Committee

Composition and membership: Zurich Insurance Group Ltd's Organizational Rules require the Audit Committee to consist of at least four non-executive Board members independent from the Management. Currently, Don Nicolaisen (Chairperson), Fred Kindle, Rolf Watter and Susan Bies, all of whom meet the relevant requirements for independence and qualification, serve on this committee.

The Audit Committee Charter provides that the Audit Committee as a whole should have (i) an understanding of IFRS and financial statements, (ii) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves, (iii) experience in preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to those of Zurich Insurance Group Ltd and the Group, or experience in actively supervising one or more persons engaged in these activities, (iv) an understanding of internal controls and procedures for financial reporting and (v) an understanding of audit committee functions.

To facilitate an ongoing exchange of information between the Risk Committee and the Audit Committee, the Chairperson of the Audit Committee is a member of the Risk Committee and a member of the Risk Committee is a member of the Audit Committee. The Chairman of the Board regularly participates in both the Audit and Risk Committee meetings as a guest.

The external auditors, the internal auditors and appropriate members of the GEC and other executives attend its meetings in order to, inter alia, discuss auditors' reports, review and assess the auditing concept and the examination process and to assess the activities of both external and internal auditors. Private sessions with external and internal auditors are scheduled at the majority of the Audit Committee meetings to enable discussions without the presence of management.

For more information on the supervision and control of the external audit process, see pages 65 and 66.

Key tasks and responsibilities: In general, the Audit Committee:

- serves as a focal point for communication and oversight regarding financial accounting and reporting, internal control, actuarial practice and compliance;
- reviews the Group's auditing process (including establishing the basic principles relating to and making proposals for the audit of Zurich Insurance Group Ltd and the Group);
- at least annually, reviews the standards of internal control, including the activities, plans, organization and the quality of internal audit and Group Compliance. Internal control and the procedures relating to their review were in accordance with Internal Control: Revised Guidance to Directors on the UK Corporate Governance Code (formerly known as UK Turnbull Guidance) as of October 2005 see pages 67 and 68; and
- reviews the annual, half-year and quarterly financial reporting of the Group before submission to the Board.

Activities 2013: During 2013, in particular the following topics were discussed:

- accounting policy changes (for example IFRS 10 which has been adopted in 2013);
- quarterly reporting with a strong focus on accounting and reserving matters;
- the effectiveness of the internal control framework;
- Group Audit work plans, Group Audit findings and management implementation of remediation actions;
- the work of the external auditors, the terms of their engagement and the external auditor's findings on key judgments and estimates in financial statements; and,
- the annual Group Compliance Plan, which it approved and against which it monitored progress during the year. The Audit Committee also discussed compliance issues and trends, such as the evolving regulatory expectations with regard to the compliance function.

Risk Committee

Composition and membership: Zurich Insurance Group Ltd's Organizational Rules require the Risk Committee to consist of at least four non-executive Board members independent from the Management. Currently, Susan Bies (Chairperson), Dame Alison Carnwath, Monica Mächler and Don Nicolaisen serve on this committee.

To facilitate an ongoing exchange of information between the Risk Committee and the Audit Committee, the Chairperson of the Audit Committee is a member of the Risk Committee and a member of the Risk Committee (currently Susan Bies) is a member of the Audit Committee. The Chairman of the Board regularly participates in both the Audit and Risk Committee meetings as a guest.

Key tasks and responsibilities: In general, the Risk Committee:

- oversees the Group's risk management, in particular the Group's risk tolerance, including agreed limits that the Board regards as acceptable for Zurich to bear, the aggregation of agreed limits across the Group, the measurement of adherence to agreed risk limits and the Group's risk tolerance in relation to anticipated capital levels;
- further oversees the Group-wide risk governance framework, including risk management and control, risk policies, their implementation and the risk strategy and the monitoring of operational risks;
- reviews the methodologies for risk measurement and the Group's adherence to its risk limits and reviews the performance of the risk management function;
- reviews, with business management and the Group risk management function, the Group's general policies and procedures and satisfies itself that effective systems of risk management are established and maintained; and,

Corporate governance report *continued*

- receives periodic reports from the Group risk management function and assesses whether significant issues of a risk management and control nature are being appropriately addressed by management in a timely manner.

Activities 2013: During 2013, the Risk Committee met six times. From an enterprise risk management perspective, the Risk Committee particularly discussed the following topics:

- the results of the Group's risk profile assessment, and the development and assessment of the Group's economic and regulatory capital;
- the results of the Group Total Risk Profiling™ (TRP) assessment including an update regarding risk ownership and mitigation actions;
- Zurich Risk Policy (ZRP) including the annual review and approval of new and changed chapters;
- market and credit risks and controls including a report on derivatives;
- implementation of a new market-specific risk and valuation model in Global Life, including updated assumptions to the current economic environment;
- operational risks and controls;
- in the annual joint meeting with the Remuneration Committee, risk management aspects of the Group's remuneration architecture.

Moreover, from a segment and regional risk perspective, the Risk Committee discussed:

- General Insurance risks and controls, including emerging risks, catastrophe risk, accumulation management, underwriting reviews and reinsurance;
- Global Life risks and controls, including product approval process;
- investment and asset/liability management risks and controls; and
- business specific risks and controls and topical deep-dives (e.g. Farmers and Asia Pacific, cyber risk and data security, regulatory risk updates).

For further information on risk governance, see the Risk review on pages 127–177.

Areas of responsibility of the Board and management

The Board determines the overall strategy of the Group, supervises senior management and addresses key matters in the area of strategy, finance, structure and organization and business development. Particularly, the Board approves the Group's strategic plan and the annual financial plans developed by management and reviews and approves the annual, half-year and quarterly financial statements of Zurich Insurance Group Ltd and the Group. For more details with regard to the responsibilities of the Board see page 47 to 48.

Subject to the powers reserved to the Board as set out above, the Board has delegated the management of the Group to the CEO. The CEO and, under his leadership, the GEC are responsible for the development and execution of the strategic and financial plans approved by the Board. The CEO has specific powers and duties relating to strategic, financial and other matters as well as to the structure and organization of the Group and manages, supervises and coordinates the activities of members of the GEC. The CEO ensures that appropriate management tools for the Group are developed and implemented and represents the overall interests of the Group. The CEO holds delegated authority to approve certain acquisitions and divestments of businesses and assets, investments and the establishment of new businesses, mergers, joint ventures or cooperation with other organizations.

Information and control instruments vis-à-vis the Group Executive Committee

The Board supervises Management and monitors its performance through reporting and controlling processes. Regular reporting by the CEO and other executives to the Board provides for appropriate information and updates, including key data for the core businesses, financial information, existing and upcoming risks, and updates on developments in important markets and with regard to major competitors and other significant events. The Chairman of the Board regularly meets with the CEO. He also meets from time to time with all other GEC members and executives outside regular Board meetings. The other members of the Board do so as well, especially with the Chief Financial Officer and the Chief Risk Officer.

The Group has an information and financial reporting system. The annual plan for the Group, which includes a summary of financial and operational metrics, is reviewed by the GEC in detail and approved by the Board. Monthly updates are prepared to compare actual performance to the plan. Full-year forecasts are revised if necessary to reflect changes in sensitivities and risks that may affect the results of the Group. Action is taken, where appropriate, when variances arise. This information is reviewed monthly by the GEC and quarterly by the Board.

The Group has adopted and implemented a coordinated, formalized and consistent approach to risk management and control. Information concerning the Group's risk management processes is included in the Risk Review starting on page 127. The Risk Management & Internal Control Statement on pages 67 to 68 describes the Group's approach with regard to risk management and internal control according to the Internal Control: Revised Guidance to Directors on the UK Corporate Governance Code (formerly known as UK Turnbull Guidance) as of October 2005.

The internal audit function, the external auditors and the compliance function also assist the Board in exercising its controlling and supervisory duties. Information on major areas of activities of these functions is set out on pages 65 to 67.

Group Executive Committee

Our Management strives to meet our ambition to become the best global insurer as measured by our shareholders, customers and employees.


1


2


3


4


5


6


7


8


9


10


11

1 Martin Senn
Chief Executive Officer

2 Jeff Dailey
Chief Executive Officer
Farmers Group, Inc.

3 Mike Foley
Chief Executive Officer
North America Commercial,
Regional Chairman of North America

4 Yannick Hausmann
Group General Counsel

5 Michael Kerner
Chief Executive Officer
General Insurance

6 Axel P. Lehmann
Chief Risk Officer,
Regional Chairman of Europe

7 Cecilia Reyes
Chief Investment Officer

8 Geoff Riddell
Regional Chairman of
Asia-Pacific and Middle East

9 Kristof Terryn[1]
Chief Executive Officer
Global Life

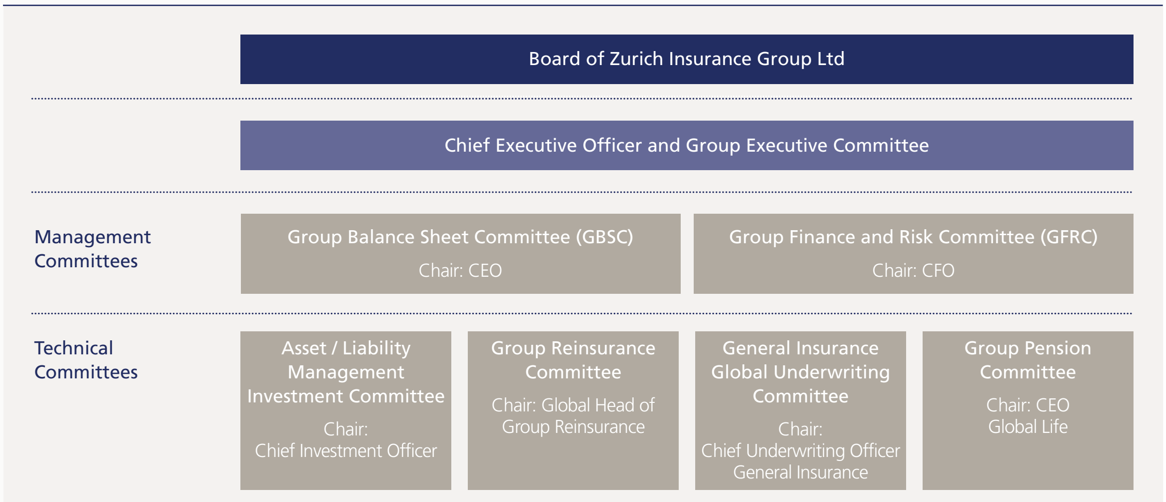
10 Markus Nordlin[2]
Group Head of Operations ad interim,
Chief Information Technology Officer

11 Vibhu Sharma[2]
Chief Financial Officer ad interim,
Group Controller

[1] Assumed role of Chief Executive Officer Global Life on August 14, 2013
[2] Not members of the GEC

Group Management
Group Executive Committee

Group Management
as of December 31, 2013



To the extent not reserved to the Board, management is delegated to the CEO. The CEO, and under his supervision the GEC, are responsible for dealing with strategic, financial and business policy issues of Group-wide relevance, including consolidated performance, capital allocation and mergers and acquisitions.

The GEC is headed by the CEO. As of December 31, 2013, members of the GEC included the Chief Investment Officer, the Chief Risk Officer, and the Group General Counsel; in order to reflect both, lines of business and geography, the CEOs of the business segments General Insurance, Global Life and Farmers, as well as the CEO of North America Commercial are also members of the GEC. Further, members of the GEC also act as the Regional Chairmen of Europe, North America and Asia-Pacific and Middle East. Furthermore as of December 31, 2013, there were the ad interim function holders Group CFO and Group Head of Operations, which were both not members of the GEC.

For key areas, the following cross-functional committees have been established to facilitate the coordination and alignment of recommendations to the CEO for approval on specific subject matters.

Management Committees
The Group Balance Sheet Committee (GBSC)

Members: Chief Executive Officer (Chairman), Chief Financial Officer (Deputy Chairman), Chief Investment Officer, Chief Risk Officer, Chief Executive Officer General Insurance, Chief Executive Officer Global Life.

Key tasks and responsibilities:

- acting as a cross-functional advisory body whose main function is to review, and provide recommendations relating to activities that materially affect the balance sheets of the Group or its subsidiaries;
- setting the annual capital and balance sheet plans for the Group based on Group strategy or financial plan, as well as recommending specific transactions or unplanned business changes to the Group's balance sheet;
- overseeing all of the main levers of the balance sheet, including but not limited to, capital management, reinsurance, asset/liability management, dividend and share buyback policy, liquidity, leverage, rating agencies and other balance sheet related matters and topics as measured among others by Zurich Insurance Group's Zurich Economic Capital Model (Z-ECM).

Corporate governance report *continued*

The Group Finance and Risk Committee (GFRC) Members: Chief Financial Officer (Chair), Chief Risk Officer (Deputy Chair), Chief Investment Officer, Group General Counsel, and the Group Head of Operations.

Key tasks and responsibilities:

- acts as a cross-functional body for financial and risk management matters in the context of the strategy and the overall business activity of the Group;
- oversees financial implications of business decisions and the effective management of the Group's overall risk profile, including risks related to insurance, financial markets, asset/liability management, credit and operational risks and the interaction among these risks; and
- reviews and formulates recommendations for future courses of action with respect to potential M&A transactions and topics relating to finance and risk management.

Technical Committees

In addition to the Management Committees the Group governance structure provides for committees of a more technical nature to support Zurich's business activities in various aspects.

The Asset/Liability Management Investment Committee, chaired by the Chief Investment Officer, acts as a cross-divisional body and has primary responsibility for monitoring and reviewing the Group's asset/liability management and the strategic asset allocation of Zurich's invested assets.

The Group Reinsurance Committee, chaired by the Global Head of Group Reinsurance, leads the reinsurance business process of the Group and is responsible for defining and executing the Group's reinsurance strategy in alignment with the Group's risk framework. It also governs the reinsurance activities among the segments and ensures that they have access to needed re-insurance capacity at economic terms.

The General Insurance Global Underwriting Committee, chaired by the Chief Underwriting Officer, General Insurance, is the focal point for the underwriting function within General Insurance. In particular, it approves underwriting and related control policy, develops and agrees the Group's underwriting strategy, monitors the accumulation control and approves mitigation plans, when necessary. The Committee is also responsible for approving new captive transactions (or renewals) and new products. Finally, it also oversees and monitors technical underwriting reviews.

The Group Pension Committee, chaired by the Chief Executive Officer, Global Life, is responsible for developing and executing a governance framework including the relevant policies and processes for pension related matters. It provides oversight and guidance over the Group's principal pension and post retirement benefit plans for accounting, benefit design, funding and investment purposes and provides recommendations to the GBSC in terms of material pension related matters.

Panels

To enhance its understanding and assessment of the challenges and risks Zurich may face, the Group continues to seek external expertise and perspective. As of December 31, 2013, the Group had three panels of leading academics, business and industry experts to provide feedback and insight. They are not corporate bodies of the Group and have no decision-making powers. These panels provide expertise and advice to senior management or certain functions of the Group. In particular, the International Advisory Council is mandated to provide an external perspective and expertise to the CEO and to members of the GEC on the Group's growth and public policy strategies. The Investment Management Advisory Council offers feedback on Zurich's investment results and strategy and on achieving superior risk-adjusted returns relative to the liabilities for the Group's invested assets. The Natural Catastrophe Advisory Council provides insight into the patterns of occurrence, predictability and destructiveness of catastrophes and feedback about Zurich's approach to such catastrophes in order to help improve the effectiveness of its underwriting and reinsurance purchasing.

Members of the GEC, as of December 31, 2013

Name	Nationality	Year of Birth	Position held
Martin Senn	Swiss	1957	Chief Executive Officer
Jeff Dailey	American	1957	Chief Executive Officer Farmers Group, Inc.
Mike Foley	American	1962	Chief Executive Officer North America Commercial and Regional Chairman of North America
Yannick Hausmann	Swiss	1967	Group General Counsel
Michael Kerner	American	1965	Chief Executive Officer General Insurance
Axel Lehmann	Swiss	1959	Chief Risk Officer and Regional Chairman of Europe
Cecilia Reyes	Swiss/Philippines	1959	Chief Investment Officer
Geoff Riddell	British	1956	Regional Chairman of Asia-Pacific and Middle East
Kristof Terryn	Belgian	1967	Chief Executive Officer Global Life

All current members of the GEC served on the GEC throughout 2013.

Kristof Terryn, the former Group Head of Operations and incumbent GEC member was appointed Chief Executive Officer Global Life succeeding Kevin Hogan who resigned from his position as the Chief Executive Officer Global Life and from the GEC effective August 14, 2013.

Markus Nordlin, currently Chief Information Officer assumed the responsibility for Group Operations on an ad interim basis succeeding Kristof Terryn effective August 14, 2013.

Effective August 26, 2013, Vibhu Sharma, currently Group Controller assumed the responsibility for Group Finance on an ad interim basis succeeding Pierre Wauthier, the former Chief Financial Officer.

Both, Mr. Markus Nordlin and Mr. Vibhu Sharma are not members of the GEC.

For information on contractual termination benefits, see pages 63 and 64.

Corporate governance report *continued*

Biographies

Martin Senn (1957), Swiss Citizen
Chief Executive Officer
Skills and experience: Mr. Senn is a trained banker and worked for the former Swiss Bank Corporation from 1976 to 1994 including as treasurer in Hong Kong and regional treasurer for Asia and the Pacific region in Singapore before eventually managing the company's Tokyo office. In 1994, he joined Credit Suisse where his executive roles included those of treasurer for the Head Office and Europe and chairman of Credit Suisse Group, Japan with a mandate to restructure and reposition all legal entities of the Group in Japan. In 2001, he became a member of the Credit Suisse Banking executive board and was appointed head of its Trading and Investment Services Division. From 2003 until 2006, he served as a member of the corporate executive board and as chief investment officer of the Swiss Life Group. Mr. Senn joined Zurich Insurance Group in 2006 as Chief Investment Officer, serving on the Group Executive Committee and became Chief Executive Officer, effective January 1, 2010.
External appointments: Mr. Senn serves in a senior capacity with numerous business and industry organizations, including Avenir Suisse, the Zurich Association of Economics, the Swiss-American Chamber of Commerce, the Geneva Association and the Institute of International Finance (IIF). Besides that, he is a representative of the Property and Casualty CEO Roundtable, a member of the Pan European Insurance Forum (PEIF), the European Financial Services Roundtable (EFR), the advisory board of Tsinghua School of Economics and Management and of the international advisory board of the Atlantic Council. Mr. Senn is also a member of the board of trustees for the Lucerne Festival and serves as an Honorary Consul for the Republic of Korea in Zurich.
Educational background: Mr. Senn received a Commercial and Banking diploma from the Business School in Basel, Switzerland and completed an International Executive Program at INSEAD in Fontainebleau as well as an Advanced Management Program at Harvard Business School.

Jeff Dailey (1957), U.S. Citizen
CEO of Farmers Group, Inc.
Skills and experience: Mr. Dailey began his career with Mutual Service Insurance Company in 1980. He also worked for Progressive Insurance Company. He went on to form Reliant Insurance Company, an auto insurance start-up owned by Reliance Group Holdings, which was sold to Bristol West Holdings Inc. in 2001. From 2001 until 2004, Mr. Dailey was COO of Bristol West and, in 2004, he was named President of Bristol West, following the firm's IPO on the New York Stock Exchange. In 2006, he became CEO of Bristol West. Mr. Dailey joined Farmers in 2007 as President of Personal Lines for Farmers when Farmers acquired Bristol West, where he served as Bristol West CEO. In January 2011, he was promoted to the position of President and Chief Operating Officer (COO) of Farmers Group, Inc. He became a member of the Board of Farmers Group, Inc. in February 2011. Mr Dailey was appointed to his current role of CEO of Farmers Group, Inc. and became a member of the GEC in January 2012.
External appointments: None
Educational background: Mr. Dailey graduated from the University of Wisconsin-Madison with a bachelor's degree in Economics and has an MBA from the University of Wisconsin-Milwaukee.

Mike Foley (1962), U.S. Citizen
CEO North America Commercial and Regional Chairman of North America
Skills and experience: Mr. Foley joined the financial management training program of Armtek Corporation in New Haven, Connecticut, in 1984. After graduating from Kellogg in 1989, Mr. Foley joined the Deerpath Group in Lake Forest, Illinois, as an associate. He later became vice-president responsible for managing a portfolio of equity investments in various acquired businesses. In 1993 he joined Electrocal, Inc. in Connecticut as president. In 1996, Mr. Foley joined McKinsey & Company in Chicago, Illinois, where he later became a principal and led its North American property/casualty insurance practice. He joined Zurich in 2006 as Chief Operating Officer of its North America Commercial business division and in January 2008 was appointed CEO of that division and a member of the GEC. Mr. Foley is also the Regional Chairman of North America and Chairman of the Board of Zurich Holding Company of America, Inc. (ZHCA).
External appointments: Mr. Foley is a member of the Board of the American Insurance Association
Educational background: Mr. Foley graduated with a Bachelor of Science from Fairfield University, in Fairfield, Connecticut in 1984 and a Masters degree from the JL Kellogg Graduate School of Management at Northwestern University in Evanston, Illinois in 1989.

Yannick Hausmann (1967), Swiss Citizen
Group General Counsel
Skills and experience: Mr. Hausmann started his career in 1995 at a law firm in Basel. From 1998 to 2000, he was Associate in the tax and legal department of Arthur Andersen AG and Andersen Legal in Zurich. He was a member of the Legal and Compliance Group of the Swiss Insurance Association for several years. Mr. Hausmann joined the Zurich Corporate Center Litigation and Investigation Team in 2000. He has held his current position since December 2009 and was promoted to be a member of the GEC in July 2012. He oversees the Legal, Compliance and GAIA (Government and Industry Affairs) functions worldwide across the Zurich Group as well as the Board Secretariat. Mr. Hausmann has served on the Board of Directors of Farmers Group, Inc. since February 2011. In July 2013, he became a member of the Board of Directors of Zurich Insurance plc (Ireland).
External appointments: Since 2009, Mr. Hausmann has been a member of the Legal Committees of the Swiss-American Chamber of Commerce and of economiesuisse. In 2011, he joined the Board of Trustees of the Museum Haus Konstruktiv in Zurich. In May 2013, Mr. Hausmann became a member of the Board of the Europa Institute at the University of Zurich.
Educational background: Mr. Hausmann received a doctorate in Law from the University of Basel in 1995 and was admitted to the bar in Switzerland (Canton of Basel) in 1997. He earned a Master of Laws (LL.M.) from the New York University School of Law in 2003 and attended the Advanced Management Program at Harvard Business School in 2012.

Michael Kerner (1965), U.S. Citizen
CEO General Insurance
Skills and experience: Mr. Kerner joined Zurich in 1992 from the Continental Insurance Company and since then he has held a number of senior executive positions. These include Chief Operations Officer for Zurich North America Specialties and Head of Ceded Reinsurance for Zurich North America from 2002 to 2005. From January 2006 to June 2007, he served as the Global Head of Group Reinsurance and between 2007 and 2009, Mr. Kerner was Global Chief Underwriting Officer for General Insurance and Head of Group Strategy in Zurich. Prior to his current role, he was Chief Executive Officer for Zurich Global Corporate in North America.
External appointments: None
Educational background: Mr. Kerner holds a Bachelor of Science in Mathematics and Economics from the State University of New York at Binghamton. Mr. Kerner is a Fellow of the Casualty Actuarial Society and a member of the American Academy of Actuaries.

Axel P. Lehmann (1959), Swiss Citizen
Chief Risk Officer and Regional Chairman of Europe
Skills and experience: Mr. Lehmann worked as a project manager and research associate at the Institute for Insurance Economics at the University of St. Gallen. In 1989, he was appointed as a lecturer in business administration at the University of St. Gallen and in 1990 as vice-president and head of Consulting and Management Development at the Institute for Insurance Economics and the European Center. In 1994, he served as a visiting professor at the Bocconi University in Milan, Italy before assuming the position of head of Corporate Planning and Corporate Controlling at Swiss Life in Zurich. Mr. Lehmann joined Zurich in 1996 as a member of the Executive Management team of Zurich Switzerland and subsequently acted as head of corporate development and head of commercial lines. Mr. Lehmann became a member of the Group Management Board responsible for business development functions in November 2000. In September 2001, he took over responsibility as CEO for Northern, Central and Eastern Europe and subsequently was appointed CEO of the Zurich Group Germany. Mr. Lehmann became a member of the Group Executive Committee and CEO of the Continental Europe Business Division in March 2002. In 2004, he was in charge of the consolidation of the United Kingdom, Ireland and South Africa with the Continental Europe division. In September 2004, he became CEO of Zurich American Insurance Company and Zurich North America Commercial business division in Schaumburg, Illinois. In January 2008, he assumed his current role as Chief Risk Officer and assumed additional responsibility for Group IT until 2010. He became Chairman of the Board of Directors of Farmers Group, Inc. from July 2011 and Regional Chairman of Europe from October 2011.
External appointments: Mr. Lehmann is a member of the board of directors of UBS AG and is a member and former Chairman of the CRO Forum. He is an Honorary Professor for Business Administration and Service Management and Chairman of the Board of the Institute of Insurance Economics (I.VW-HSG) at the University of St. Gallen in Switzerland. Mr. Lehmann is also a member of the board of directors of economiesuisse.
Educational background: Mr. Lehmann holds a PhD and Masters in Economics and Business Administration from the University of St. Gallen, Switzerland where he also received his habilitation. He is a graduate of the Wharton School Advanced Management Program. His doctorate was awarded the Peter Werhahn Prize for the best PhD thesis in the area of management science and academic theory. He did his research study at Harvard Business School and Arizona State University.

Corporate governance report *continued*

Cecilia Reyes (1959), Swiss and Philippines Citizen
Chief Investment Officer
Skills and experience: Ms. Reyes has over 20 years' experience in the international financial markets. She worked from 1990 until 1995 for Credit Suisse in Zurich in various roles in Credit Suisse Asset Management, Global Treasury and Securities Trading. In 1995, she joined ING Barings in London and in 1997, she became a Director and Head of Trading Risk Analytics. She moved to Amsterdam in 2000 as Head of Risk Analytics for ING Asset Management to develop risk management methods for the asset management operation. Ms. Reyes joined Zurich in 2001 as Regional Manager for Group Investments with responsibility for North America and became Regional Manager for Europe and International Businesses in 2004. From April 2006 until March 2010, she was Head of Investment Strategy Implementation. In April 2010, she assumed her current role as Chief Investment Officer.
External appointments: Ms. Reyes has been a member of the Advisory Board of the Department of Banking and Finance at the University of Zurich since 2011.
Educational background: Ms. Reyes holds a PhD in Finance from London Business School and an MBA from the University of Hawaii, U.S.

Geoffrey Riddell (1956), British Citizen
Regional Chairman of Asia-Pacific and Middle East
Skills and experience: Mr. Riddell started his career with Price Waterhouse in 1978 and four years later moved to AIG, where he held various roles, including country manager for Hong Kong, Belgium and France. While in Hong Kong, he set up the first foreign general insurance company in China. He joined Zurich in 2000 as managing director of Zurich Commercial in the UK, becoming managing director of the UK Corporate and Government businesses. In 2002, he was appointed Chief Executive Officer of General Insurance in the UK, Ireland and Southern Africa. Mr. Riddell assumed the position of CEO of Global Corporate in April 2004, becoming a member of the Group Executive Committee in October 2004. In 2009, he took on the roles of CEO of Asia-Pacific & Middle East (APME) – responsible for both Life and General Insurance in the APME region – and Chairman of Global Corporate. In 2010, he assumed the newly created role of Regional Chairman of Asia-Pacific & Middle East. Mr. Riddell is a former member of the General Insurance Council of the Association of British Insurers and for three years chaired its liability committee. From 1990 to 1995, he was a member of the Hong Kong Federation of Insurers Council. He was a director of Pool Re from February 2005 until August 2010 and of the Forum for Global Health Protection from 2007 until the end of 2010. He was a member of the Confederation of British Industry's Chairmen's Committee and chaired the CBI Financial Services Council until September 2010. Until late 2009, he was a member of the Foundation Board of IMD in Lausanne, the City of London EU Advisory Committee and the Lord Mayor of London's Advisory Committee.
External appointments: Mr. Riddell has been a director of the General Committee of the British Chamber of Commerce in Hong Kong since April 1, 2011.
Educational background: Mr. Riddell holds a MA degree in natural sciences (chemistry) from Oxford University (The Queen's College) and later qualified as a chartered accountant.

Kristof Terryn (1967), Belgian Citizen
CEO Global Life
Skills and experience: Mr. Terryn began his career in 1993 in the banking industry, where he worked in capital markets. In 1997, he joined McKinsey & Company where he held various positions within the financial services practice in Brussels and Chicago. He joined Zurich in 2004 as Head of Planning and Performance Management. In 2007, he became Chief Operating Officer for the Global Corporate business division and in 2009 was named Chief Operating Officer for General Insurance. Mr. Terryn became a member of the Group Executive Committee in 2010 on his appointment as Group Head of Operations. He assumed his current role as CEO Global Life in August 2013.
External appointments: None
Educational background: Mr. Terryn holds a law degree and a degree in economics from the University of Leuven, Belgium, as well as an MBA from the University of Michigan.

Markus Nordlin (1963), Finnish and US citizen
Group Head of Operations ad interim,
Chief Information Technology Officer

Skills and experience: Mr. Nordlin began his career in 1988 with Andersen Consulting (later to become Accenture) where he worked in the financial services area. He later joined Andersen Consulting's Global Investment Management Excellence Team as a founding member, serving the needs of leading retail and institutional investment managers. Mr. Nordlin joined Zurich at Farmers Insurance Group in 1999, where he held various senior positions in information technology (IT). In August 2004, he assumed the role of Chief Information Officer of Zurich's wholly owned subsidiary Farmers Group, Inc. and was promoted to Senior Vice President in 2005. In addition to his lead role at Farmers, Mr. Nordlin has also led several global IT efforts including the global outsourcing of Zurich's IT infrastructure. He was appointed to his current role as Zurich's Group Chief Information Technology Officer in 2010. In August 2013, Mr. Nordlin assumed temporary responsibility for Group Operations, which includes Global Business Services, Sourcing & Procurement, Internal Consulting and the Group Project Management Office in addition to Group IT.

External appointments: None

Educational background: Mr. Nordlin holds a Bachelor of Science in Civil Engineering from the Brigham Young University and a Master of Business Administration from the University of California, Los Angeles.

Vibhu Sharma (1966), U.S. citizen
Chief Financial Officer ad interim, Group Controller

Skills and experience: Mr. Sharma began his career in 1987 at KPMG LLP, where he was named a partner in 1998. In 2004 he joined independent reinsurance broker John B. Collins Associates, Inc. in Minneapolis, serving initially as Chief Financial Officer and then Chief Operating Officer. He joined Zurich North America in 2008 as Chief Financial Officer with leadership responsibilities for the actuarial, controller's, corporate tax, treasury and planning and performance areas. He was appointed as Group Controller in October 2012, moving to Switzerland to take up this role at Corporate Center. His responsibilities included Group Financial Accounting and Reporting, Planning and Performance Management along with related functions such as certain finance shared services, and global finance transformation. He was named Chief Financial Officer ad interim in August 2013.

External appointments: Mr. Sharma is a member of the European Insurance CFO Forum.

Educational background: Vibhu Sharma earned a bachelor's degree in accounting from Southern Methodist University and received a Distinguished Service Award from the Edwin L. Cox School of Business. He is a member of the American Institute of Certified Public Accountants and the Minnesota Society of Certified Public Accountants.

Corporate governance report *continued*

Changes to the GEC after January 1, 2014

On 16 December, 2013, George Quinn was appointed as Chief Financial Officer and member of the GEC, effective 1 May, 2014. On January 8, 2014 , Robert Dickie was appointed as Chief Operations and Technology Officer and member of the GEC, effective March 17, 2014.

Management contracts

Zurich Insurance Group Ltd has not transferred key parts of management by contract to other companies (or individuals) not belonging to (or employed by) the Group.

Shareholders' participation rights

Voting rights restrictions and representation

Each share entered into the share register entitles the holder to one vote. There are no voting right restrictions.

A shareholder with voting rights can attend shareholders' meetings of Zurich Insurance Group Ltd in person. He or she may also authorize, in writing, another shareholder with voting rights or any person permitted under the articles of incorporation and a more detailed directive of the Board to represent him or her at the shareholders' meeting. Based on the articles of incorporation, minors or wards may be represented by their legal representatives, married persons by their spouses and a legal entity may be represented by a person authorized to bind it by his or her signature, even if such persons are not shareholders.

As of the enactment of the Ordinance AEC authority of representation may be given to an independent voting rights representative only. The AGM elects an independent voting rights representative. The term of office ends after completion of the next ordinary shareholders' meeting. The independent voting rights representative can be re-elected. In addition the shareholders may give voting instructions to the independent voting rights representative for the AGM via the online platform Sherpany.

Zurich Insurance Group Ltd may under certain circumstances authorize the beneficial owners of the shares that are held by professional persons as nominees (such as a trust company, bank, professional asset manager, clearing organization, investment fund or another entity recognized by Zurich Insurance Group Ltd) to attend the shareholders' meetings and exercise votes as proxy of the relevant nominee. For further details, see page 34.

Zurich Insurance Group Ltd provided electronic voting devices to its shareholders for all the resolutions taken at the AGM on April 4, 2013. In accordance with Swiss law and practice, Zurich Insurance Group Ltd informs all shareholders at the beginning of the shareholders' meeting of the aggregate number of proxy votes received.

Statutory quora

Pursuant to the articles of incorporation, the AGM constitutes a quorum irrespective of the number of shareholders present and shares represented. Resolutions and elections generally require the approval of a simple majority of the votes cast, excluding abstentions, blank and invalid votes, unless respective provisions in the articles of incorporation (of which there are currently none) or mandatory legal provisions stipulate otherwise. Article 704 of the Swiss Code of Obligations provides for a two-thirds majority of votes represented and an absolute majority of the nominal value of shares represented for certain important matters, such as a change of the company purpose and domicile, a dissolution of the company and certain matters relating to capital increases. In the event of the votes being equally divided, the decision rests with the Chairman of the Board.

Convocation of shareholders' meetings

Shareholders' meetings are convened by the Board or, if necessary, by the auditors and other bodies in accordance with the provisions set out in articles 699 and 700 of the Swiss Code of Obligations. Shareholders with voting rights representing at least 10 percent of the share capital may call a shareholders' meeting, indicating the matters to be discussed and the corresponding proposals. The invitation to shareholders is mailed at least 20 calendar days before the meeting is held and, in addition, is published in the Swiss Official Gazette of Commerce and in several newspapers.

Agenda

The Board is responsible for setting the agenda and sending it to shareholders. Shareholders with voting rights who together represent shares with a nominal value of at least CHF 10,000 may request in writing, no later than 45 days before the day of the meeting, that specific proposals be included in the agenda.

Registrations in the share register
With a view to ensure an orderly process, shortly before the AGM the Board determines the date on which a shareholder needs to be registered in the share register in order to exercise his or her participation rights by attending the shareholders' meeting. That date is published, together with the invitation to the shareholders' meeting, in the Swiss Official Gazette of Commerce and in several newspapers.

Information Policy
As of December 31, 2013, Zurich Insurance Group Ltd had approximately 128,000 shareholders registered in its share register, ranging from private individuals to large institutional investors (see page 363). Each registered shareholder receives an invitation to a shareholders' meeting. A Letter to Shareholders provides an overview of the Group's activities as the year progresses and outlines its financial performance. A more comprehensive Annual Review, the Annual Report and half-year reports are available on Zurich's website www.zurich.com (http://www.zurich.com/investors/shareholderinformation/) and are also available in printed form on request. Information on the quarterly results reporting is also available for all shareholders on Zurich's website.

Zurich Insurance Group Ltd maintains a regular dialogue with investors through its Investor Relations department and responds to questions and issues raised by institutional and private individual shareholders. In addition, Zurich Insurance Group Ltd organizes investor days for institutional investors and analysts to provide comprehensive information on its businesses and strategic direction. Such presentations can be followed via webcast or conference call. In 2013, the Investors Day was held in Zurich on December 5, focused on the strategy and targets for 2014 to 2016 and reported on the delivery of the 2010 to 2013 targets. Another investors Day is planned for 2014. A wide range of Information on the Group and its businesses, including results reporting documents and the full documentation for the Investors Day are available on the Investor Relations section of Zurich's website www.zurich.com (http://www.zurich.com/investors).

Zurich Insurance Group Ltd will hold its Annual General Meeting on April 2, 2014. The meeting will be conducted in the Hallenstadion in Zurich-Oerlikon. An invitation setting out the agenda for this meeting and an explanation of the proposed resolutions will be issued to shareholders at least 20 days before the meeting.

For addresses and further upcoming important dates, see Shareholder Information starting on page 362 (Financial Calendar on page 364).

Employees
The Group is committed to provide equal opportunities when recruiting and promoting people, whereby ability, experience, skills, knowledge, integrity and diversity are guiding principles. The Group actively encourages employee involvement in its activities through printed and online publications, team briefings and regular meetings with employees' representatives. Further, the Group is party to a voluntary agreement with employee representatives of the Group's companies in Europe. For further information on the Group's people management activities, see the Annual Report starting on page 20.

In some countries, the Group has established broad-based employee share compensation and incentive plans to encourage employees to become shareholders of the Group.

Changes of control and defense measures
Duty to make an offer
The articles of incorporation of Zurich Insurance Group Ltd do not provide for opting out or opting up in the meaning of articles 22 and 32 of the Federal Act on Stock Exchanges and Securities Trading. Therefore, mandatory offers have to be submitted when a shareholder or a group of shareholders acting in concert exceed 33⅓ percent of the issued and outstanding share capital of Zurich Insurance Group Ltd.

Clauses on changes of control
Employment agreements have been entered into with members of the GEC, setting out the terms and conditions on which they are employed. The longest notice period for members of the GEC is 12 months. No other benefits are provided in the case of a change of control.

The Group's share-based compensation programs include regulations regarding the impact of a change of control. These regulations provide that in the case of a change of control, the Plan Administrator (the Remuneration Committee or the CEO, as applicable) has the right to roll over the existing share obligations into new share rights or to provide consideration for such obligations that are not rolled over. Participants who lose their employment as a result of

Corporate governance report *continued*

a change of control have the right to the vesting of share obligations. No other benefits are provided to members of the Group's senior management in case of a change of control.

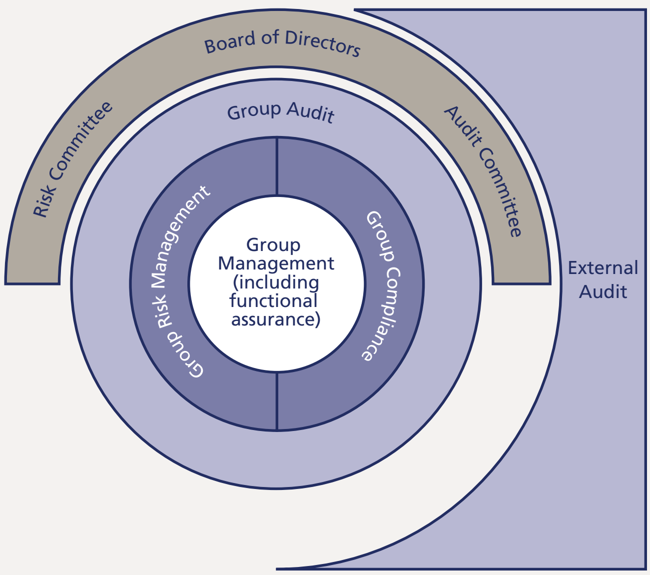
No benefits are provided for the members of the Board in case of a change of control.

Assurance at Zurich Insurance Group

At Zurich, various governance and control functions coordinate to help ensure that risks are identified and appropriately managed and internal controls are in place and operating effectively. This coordination is referred to as 'integrated assessment and assurance'. The Board is ultimately responsible for the supervision of these assurance activities. Although each assurance provider maintains its distinct mandate and responsibilities, the assurance providers are closely aligned and co-operate with each other through a regular exchange of information, planning and other activities. This approach supports management in its responsibilities and provides confidence that risks are appropriately addressed and that adequate mitigation actions are implemented.

Assurance at Zurich Insurance Group

as of December 31, 2013



Group Management:
Group Management owns processes, controls and technical reviews related to assurance activities. This includes and is supported by assurance work provided by the management's review functions (e.g., underwriting, actuarial, claims) and the legal and finance functions.

Oversight:
Group Risk Management is responsible for Zurich's Enterprise Risk Management framework. The Chief Risk Officer regularly reports risk matters to the CEO, senior management committees and the Risk Committee of the Board.

Group Compliance is responsible for providing assurance to management that compliance risks within its mandate are appropriately identified and managed. The Group Compliance Officer regularly reports to the Audit Committee and has also an additional reporting line to the Chairman of the Audit Committee and appropriate access to the Chairman of the Board.

Independent Assurance:
Group Audit is responsible for auditing risk management, control and governance processes. The Head of Group Audit regularly meets with the Chairman of the Board and the Chairperson of the Audit Committee and attends each meeting of the Audit Committee.

External Audit is responsible for auditing the Group's financial statements and for auditing Zurich's compliance with specific regulatory requirements. The Audit Committee regularly meets with the External Auditors.

Board – Audit Committee and Risk Committee:
The Board is ultimately responsible for the supervision of the assurance activities. Its Audit and Risk Committees receive regular updates from Group Risk Management, Group Audit, External Audit and Group Compliance throughout the year.

External Auditors

Duration of the mandate and term of office of the auditor-in-charge

PricewaterhouseCoopers AG (PwC), Birchstrasse 160, in 8050 Zurich, is Zurich Insurance Group Ltd's external auditor.

PwC assumes all auditing functions which are required by law and by the Articles of Incorporation of Zurich Insurance Group Ltd. The external auditors are appointed by the shareholders of Zurich Insurance Group Ltd annually. At the Annual General Meeting on April 4, 2013, PwC was re-elected by the shareholders of Zurich Insurance Group Ltd. The Board proposes that PwC be re-elected at the Annual General Meeting on April 2, 2014 as external auditors for the business year 2014. PwC fulfills all necessary requirements under the Swiss Federal Act on the Admission and Oversight of Auditors and has been admitted as a registered auditing company by the Federal Audit Oversight Authority.

PwC and its predecessor organizations, Coopers & Lybrand and Schweizerische Treuhandgesellschaft AG, have served as external auditors of Zurich Insurance Group Ltd and its predecessor organizations since May 11, 1983. In 2000 and 2007, the Group conducted tender processes, inviting all major auditing firms to submit their work program and tender offers. After a thorough review, on both occasions the Board came to the conclusion that PwC's work program and offer prevailed and therefore proposed PwC for re-election.

Mr. Richard Burger of PwC has been the lead auditor, responsible since the beginning of 2011 and to the end of the business year 2013. He has been the auditor-in-charge for regulatory and statutory audit work since 2008. The Group requires rotation of the lead auditors after they have served Zurich for five years followed by a two years minimum time out period. Mr. Stephen O'Hearn the Global Relationship Partner co-signs the auditors' report for 2013.

Audit fees

Total audit fees (including expenses and value added taxes) charged by PwC in the year 2013 amounted to USD 46.6 million (USD 43.9 million in 2012).

Non-audit fees

Total fees (including expenses and value added taxes) in the year 2013 for additional services (e.g., tax advice and services, internal control advice, transaction consulting services or special audits required by local law or regulatory bodies) performed by PwC and parties associated with them for Zurich Insurance Group Ltd or a Group company amounted to USD 14.9 million (USD 6.4 million in 2012). Non-audit fees were as follows:

Audit and non-audit fee amounts

in USD millions, as of December 31	2013	2012
Total audit fees	**46.6**	**43.9**
Total non-audit fees	**14.9**	**6.4**
– Tax advice	0.3	0.8
– Legal advice	0.1	0.0
– Transaction consulting incl. due diligence	0.1	0.1
– Audit-related advice	4.7	4.0
– Other	9.7	1.5

Supervision and control over the external audit process

The Audit Committee regularly meets with the external auditors, at least four times a year. During 2013, the Audit Committee met with the external auditors ten times. The external auditors regularly have private sessions with the Audit Committee without management present. Based on written reports, the Audit Committee discusses with the external auditors the quality of the Group's financial and accounting function and any recommendations that the external auditors may have. Topics considered during such discussions include strengthening of internal financial controls, applicable accounting principles and management reporting systems. In connection with the audit, the Audit Committee obtains from the external auditors a timely report relating to the audited financial statements of Zurich Insurance Group Ltd and the Group.

The Audit Committee oversees the work of the external auditors. It reviews, at least annually, the qualification, performance and independence of the external auditors and reviews any matters that may impair their objectivity and independence based on a written report by the external auditors describing the firm's internal quality control procedures, any material issues raised and all relationships between the external auditors and the Group and/or its

Corporate governance report *continued*

employees that could be considered to bear on the external auditors' independence. The Audit Committee evaluates the cooperation of the external auditors during their audit examination. It elicits the comments of management regarding the auditors' performance (based on criteria such as their understanding of Zurich's business, technical knowledge and expertise, etc.) and the quality of the working relationship (responsiveness of the external auditors to the needs of Zurich Insurance Group Ltd and the Group and the clarity of communication). The Audit Committee reviews, prior to the commencement of the annual audit, the scope and general extent of the external audit and suggests areas requiring special emphasis.

The Audit Committee proposes to the Board the external auditors for appointment by the shareholders and is responsible for approving the audit fees. A proposal for fees for audit services is submitted by the external auditors to and validated by management, before it is submitted to the Audit Committee for approval. The proposal is mainly based on an analysis of existing reporting units and expected changes to the legal and operational structure during the year.

The Audit Committee has approved a written policy on the use of external auditors for non-audit services, which sets out the rules for providing such services and related matters (including a list of prohibited services). Allowable non-audit services may include tax advice, comfort and consent letters, certifications and attestations, due diligence and audit support in proposed transactions, to the extent that such work complies with applicable legal and regulatory requirements and does not compromise the independence or objectivity of the external auditors. In order to avoid conflicts of interest, all allowable non-audit services need pre-approval from the Audit Committee (Chairman), the Chief Financial Officer, the Group Controller or the local CFO, depending on the level of the expected fee. This policy further requires, among other things, an engagement letter specifying the services to be provided.

Group Audit

The internal audit function of the Group (Group Audit) is tasked with providing independent and objective assurance to the Board, the Audit Committee, the CEO and management and to the boards and audit Committees of subsidiary companies. This is accomplished by developing a risk-based plan which is updated continuously as the risks faced by the business change. The plan is based on the full spectrum of business risks including concerns and issues raised by the Audit Committee, management and other stakeholders. Group Audit executes the plan in accordance with defined operating standards, which incorporate and comply with the International Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors (IIA). Key issues raised by Group Audit are communicated to the responsible management function, the CEO and the Audit Committee using a suite of reporting tools.

The Audit Committee, boards and audit committees of subsidiary companies and CEO are regularly informed of important audit findings, including ineffective opinions, mitigation actions and attention provided by management. Group Audit is responsible for ensuring that issues that could impact the Group's operations are brought to the attention of the Audit Committee and appropriate levels of management and that timely follow up action occurs. This is supported by the attendance of the Head of Group Audit at each meeting of the Audit Committee.

Group Audit is authorized to review all areas of the Group and has unrestricted access to all Group activities, accounts, records, property and personnel necessary to fulfill its duties. In the course of its work, Group Audit takes into consideration the work of other assurance functions. In particular, Group Audit co-ordinates its activities with the external auditors, sharing risk assessments, work plans, audit reports and updates on audit actions. Group Audit and the external auditors meet regularly at all levels of the organization to optimize assurance provision and efficiency.

The Audit Committee assesses the independence of Group Audit and reviews its activities, plans, organization, quality and its mutual cooperation with the external auditors. As required by professional and regulatory quality assurance regulations the Internal Audit function has to be quality-reviewed periodically, but at least every five years by an independent qualified body. This review was most recently conducted in 2011. The results confirmed that Group Audit's practices conform with all Institute of Internal Audit standards and FINMA requirements and Group Audit was assessed as a very mature internal audit function.

The Audit Committee approves the Group Audit Plan annually, reviews reports from the function on its activities and significant risk, control and governance issues, at least every quarter. The Head of Group Audit reports functionally to the Audit Committee and administratively to the CEO and regularly meets with the Chairman of the Board and the Chairperson of the Audit Committee. Group Audit has no operational responsibilities over the areas it reviews and, to ensure independence, all Group Audit staff globally report (via audit managers) to the Head of Group Audit.

Group Compliance

The Group's core values are founded on the principle that it acts lawfully and seeks to do what is right. Sound compliance in everything the Group does helps to protect Zurich's reputation and supports the achievement of the Group's ambitious goals.

The compliance function provides policies and guidance, business advice, training and assurance of appropriate compliance controls within the mandate of the Group Compliance function. These compliance controls include ongoing reviews of laws, regulations and other requirements at all levels of the organization. The compliance function also supports Zurich's management in maintaining and promoting a culture of compliance and ethics consistent with Zurich Basics, the Group's code of conduct. This robust compliance framework relies on an ongoing global compliance risk assessment to support a solid monitoring regime. The results of this assessment underpin the compliance function's strategic planning which is conducted in consultation with business partners. The compliance plan is annually presented to the Audit Committee.

Through a comprehensive program, the compliance function implements, embeds and monitors internal policies and guidance. As part of that program, compliance officers introduce new employees to applicable rules and are involved in the integration of newly acquired companies. To help employees understand their responsibilities under Zurich Basics and internal policies, all employees receive regular ethical and compliance training. In addition, the Group's Compliance function spearheads internal awareness campaigns on ethical and regulatory conduct. Each year Zurich managers confirm their understanding of and compliance with Zurich Basics and internal policies. Zurich encourages its employees to speak up and report improper conduct through for example the Zurich Ethics Line, a phone and web-based service. Zurich does not tolerate retaliation against any employee who reports such concerns in good faith.

The Group's compliance function consisting of compliance professionals around the world is overseen by the Group Compliance Officer who reports to the Group General Counsel and regularly reports to the Audit Committee. The Group Compliance Officer has an additional reporting line to the Chairman of the Audit Committee and appropriate access to the Chairman of the Board.

Risk Management and Internal Control Statement

The Board is responsible for overseeing the Group's risk management and internal control systems, for which management is responsible. The systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material financial misstatement or loss. There are two committees at the Board level that have primary risk management and internal control oversight responsibilities

- the Risk Committee – with oversight over risk management and

- the Audit Committee – with oversight over internal control matters.

The Group has adopted a coordinated and formalized approach to risk management and internal control. The Group's core risk management and internal control systems and policies are established at the Group level with Group-wide implementation. This approach focuses on major risks that might impact the achievement of the Group's business objectives and on the activities to control and monitor these risks, which contributes to control effectiveness. A risk-aware and control-conscious environment is fostered in the Group and reinforced by communication and training.

Effectively managing risks is core to managing the business. Management is responsible for the identification, evaluation and management of significant risks. The Group manages risks throughout the organization, under direction of the senior management. Zurich has Group-wide risk management policies, as well as common methods and tools for assessing and modeling risks. The Group risk assessment processes are aligned with the Group planning process and are reviewed by the Group Executive Committee and the Risk Committee of the Board. Significant risks, the results of the assessment and modeling processes and the relevant actions arising are reported regularly to the Risk Committee of the Board. Periodic group and local risk assessments are conducted using among others Zurich's Total Risk Profiling™ tool and business units are required, at least quarterly, to review key risks and implement action plans to mitigate them. Additional details are provided in the Risk Review in the Annual Report.

Local management, led by the legal entity CEO, is responsible to maintain appropriate controls in place and to appropriately identify and address risks. They meet regularly with risk management and other assurance functions to ensure an effective system of risk identification and mitigation and maintenance of sound internal controls. In addition, regular review of reporting by risk and other assurance functions is carried out by (1) subsidiary boards or subsidiary

Corporate governance report *continued*

board audit committees and, additionally, (2) regional oversight committees that oversee subsidiaries in Latin America, Asia Pacific, Middle East and parts of Europe. The subsidiary board audit committees comprise directors of the legal entities concerned, including in some instances, independent non-executive directors. In addition, assurance providers participate as attendees. The results of such reviews are reported to the Group CEO, the Risk and the Audit Committees of the Board as well as the Board, as appropriate.

The internal control system focuses on key financial reporting, operational and compliance controls. The system encompasses the policies, processes and activities that contribute to the reliability of financial reporting, the effectiveness and efficiency of operations and compliance with laws and regulations. The Group's annual business plan includes risk management considerations, as well as strategic and business direction, financial information and key indicators. During the year, the Board, the Audit and Risk Committees of the Board and Group Management receive regular reports summarizing financial condition, financial and operating performance, as compared to plan, and key risk exposures.

Processes and controls in the organization are subject to risk-based reviews by management, Group Audit, Group Compliance and Group Risk Management. Management reviews include the effective implementation of policies and procedures including claims, investment, underwriting, actuarial, treasury, accounting and reporting, as well as the effectiveness of control for significant operations and information technology systems. The Board, the Audit and the Risk Committees of the Board receive regular and, as needed, special reports from the Chief Risk Officer, Group General Counsel, Head of Group Compliance, Group Chief Financial Officer and Group Controller, Head of Group Audit and financial and business senior management. In addition, the external auditors regularly report their conclusions, observations and recommendations arising from their independent audit process.

The reports relate to matters such as (a) significant changes in risks, the business and the external environment; (b) management's monitoring of risks and the effectiveness of the Group's control systems; (c) risk and control monitoring communications; (d) significant control issues, if any; and (e) the effectiveness of the Group's external reporting process.

The Risk Committee has reviewed the effectiveness of the Group's risk management system, including the Group's risk tolerance and the enterprise-wide risk governance framework, and the Audit Committee has reviewed the effectiveness of the system of internal control operated by the Group related to the calendar year 2013 up to the copy deadline of the Annual Report and have reported to the Board accordingly. The Board is satisfied that the reviews by the Audit and Risk Committees of the Board were conducted in accordance with the Internal Control: Guidance to Directors (formerly known as the Turnbull Guidance) (as revised in October 2005). The assessment included the consideration of the effectiveness of the Group's on-going process for identifying, evaluating, controlling and managing the risks of the business, including the scope and frequency of reports on both risk management and internal control that were received and reviewed during the year by the Risk and Audit Committees and the Board, as well as important risk and control matters discussed and associated actions taken by management. Issues identified, have been communicated to the Board and either have been or are being addressed by the Group.

The operations relating to the long term alliance with Banco Santander, entered into in 2011, continue to adopt relevant aspects of the Zurich Risk Management framework. In addition, these operations continue to leverage their existing internal control system while putting into effect Zurich's internal control system.

Going concern

The Directors are satisfied that, having reviewed the performance of the Group and forecasts for the forthcoming year, the Group has adequate resources to enable it to continue in business for the foreseeable future. For this reason, the Directors have adopted the going concern basis for the preparation of the Consolidated financial statements.

THIS PAGE HAS INTENTIONALLY BEEN LEFT BLANK

Remuneration report

The Remuneration report describes the principles and governance framework relating to the remuneration of the members of the Board of Directors, the Group Executive Committee and all employees. It also provides details of each remuneration element, and reports on the work of the Remuneration Committee.

In 2013, the Board of Directors continued to oversee and take decisions on the design and implementation of the remuneration principles, rules and architecture, which reflect international best practices in terms of governance, plan design and disclosure. The Group's remuneration architecture is simple, transparent and market competitive, promotes a high performance culture, is aligned with our risk management principles and has an orientation towards the long-term for Key Risk Takers. With regard to the final rules in the Ordinance Against Excessive Compensation, a new set of Articles of Incorporation is presented for approval by shareholders at the Annual General Meeting (AGM) 2014 and the first binding vote on remuneration for the members of the Board of Directors and the Group Executive Committee will take place at the AGM in 2015. During the year, the Board reviewed the design and operation of the long-term incentive plan (LTIP) component of the executive remuneration package to ensure alignment with the strategy and targets for the three year period 2014–2016 that were outlined at the Investor Day in December 2013. As a result, the LTIP is being amended in 2014.

Contents

2013 Remuneration summary

The following summary provides an overview of the most important aspects of Zurich's remuneration in 2013.

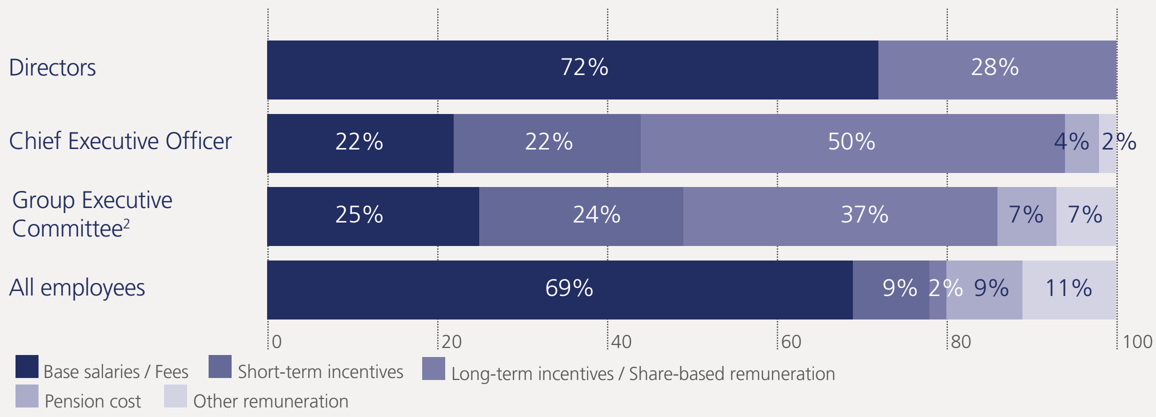
Remuneration governance and philosophy
The Board of Directors ("Board") is responsible for the design, implementation and monitoring of the Group's remuneration architecture, and it has established a Remuneration Committee. Amongst other duties, the Remuneration Committee is responsible for proposing to the Board on an annual basis the remuneration for the Directors, the Chief Executive Officer (CEO) and the other members of the Group Executive Committee (GEC). It also assesses individual and business performance as it relates to incentive compensation and proposes the overall expenditure on variable pay.

Zurich operates a balanced and effectively managed remuneration system which is aligned with risk-considerations and provides for competitive total remuneration opportunities that attract, retain, motivate and reward employees to deliver outstanding performance. Total remuneration for an individual employee is influenced by factors including the scope and complexity of the role, business performance and affordability, individual performance, internal relativities, external competitiveness, geographic location and legal requirements. Target opportunities are benchmarked to median levels in clearly defined markets and take into account the internal structures. Depending on the role, the relevant market can be global, regional or local and will reflect practices in either the insurance, the financial services or the general industry.

Remuneration overview
Total remuneration includes base salaries, short-term and long-term incentives and employee benefits. The short- and long-term incentive plans used for variable remuneration are linked to appropriate performance measures and the overall expenditure on variable pay is considered in connection with the Group's long-term economic performance.

Variable remuneration is structured such that on average there is a higher weighting towards longer term sustainable performance for the most senior employees of the Group, including those positions considered as key risk taker positions ("Key Risk Takers", "KRT"). This ensures that for KRTs a significant portion of the variable pay is deferred.

2013 Remuneration structure and weighting of elements[1]



[1] At target, as a percentage of total remuneration.
[2] Including the Chief Executive Officer.

2013 Remuneration
In determining remuneration for 2013 an appropriate balance was made between all relevant factors including business performance, market considerations, regulatory requirements, the long-term overall focus as well as risk considerations. For the Board, no changes were made to the fee structure in 2013. The Remuneration changes for members of the GEC in 2013, where applicable, were focused on increasing the long-term part of variable remuneration and this helped achieve at least 60 percent of the variable remuneration being deferred and subject to long-term performance conditions. Balancing the overall structure of remuneration with company performance, market, risk and regulatory considerations was also important for employee remuneration decisions.

Remuneration report *continued*

For 2013, the remuneration amounts were as follows:

Remuneration amounts

in USD million, for the years ended December 31	Base salary/ Fees[1]	Short-term incentives[2]	Long-term incentives[3]	Other[4]	Total remuneration 2013[5]	Total remuneration 2012[5]
Directors	4.5	–	–	–	4.5	4.6
Group Executive Committee	11.6	12.1	16.2	6.1	46.0	46.4
All employees[6]	4,092	522.4	134.2	1,166.9	5,916	5,748

[1] Includes the portion paid in shares to Directors.
[2] For all employees equals the cash incentives earned for the year.
[3] For members of the GEC and all other employees, it represents the value of LTIP target grants allocated in 2013, which assume vesting levels in 2014, 2015 and 2016 at 100 percent of target. As set out below, the actual LTIP vesting for the performance period 2011–2013 was set at 50 percent of target.
[4] Includes other employee benefits, pension benefits and other remuneration costs.
[5] Actual, gross and for cash amounts based on the accrual principle.
[6] The number of employees (full time equivalents) was broadly the same year on year.

Remuneration expenditure should be considered in the context of Zurich's overall revenues, capital base and profitability. The key figures are set out in the table below and reflect data for 2013 and 2012:

Key financial figures

in USD million, for the years ended December 31	2013	2012[1]
Gross written premiums and fees[2]	57,659	56,822
Business operating profit	4,680	4,084
Net income attributable to shareholders	4,028	3,887
Shareholders' equity	32,503	31,718
Return on common shareholders' equity (ROE)	12.0%	11.8%
Dividends paid to shareholders[3]	2,651	2,763
Total variable remuneration pool for all employees gross before tax	668	608
– as a percentage of gross written premiums and fees	1%	1%
– as a percentage of shareholders' equity	2%	2%

[1] December 31, 2012 has been restated as set out in note 1 of the Consolidated financial statements.
[2] Consists of USD 54,849 gross written premiums and policy fees as well as USD 2,810 Farmers management fees and other related revenues.
[3] Dividend at transaction day exchange rate in 2013 and 2012, respectively .

As can be seen from these metrics, relative to Zurich's overall revenues and shareholders' equity, expenditure on variable remuneration is relatively small. Among other factors, in determining the amount of the total variable remuneration pool (please refer to pages 76 and 93) for all employees, the Board also considers the long-term economic performance of the Group. In this respect, the Group has generated economic profit over the long-term which significantly exceeds the actual expenditure on variable pay.

With regard to the Group Short-Term Incentive Plan (Group STIP) in 2013, the overall increase in profitability led to an average payment of 101 percent of target (relative to 91 percent of target awarded for 2012) for the more than 38,000 employees participating in the plan. With regard to the Group Long-Term Incentive Plan (Group LTIP) the Board reviewed the outcomes under the performance conditions and the overall performance of the company over the three years 2011 to 2013. In line with the move to assess LTIP performance measures on an independent basis with effect from January 1, 2014 and recognizing that this is the more common market practice, the Board adopted this methodology for all LTIP vesting decisions in 2014. Vesting at the on-target level was achieved in respect of the ROE results, where an average of 11.9 percent per annum was achieved over the three years. However, there was no vesting in respect of the relative Total Shareholder Return (TSR) result, where despite a positive cumulative return of 28 percent calculated in Swiss francs over the three years, the result was positioned in the third quartile of the peer group. The overall vesting level was therefore set at 50 percent of the target awards compared to the vesting level of 97 percent of target awards set last year for the performance period 2010 to 2012.

The total variable remuneration pool of USD 668 million for 2013 includes the value of the target performance share grants made under the Group Long-Term Incentive Plan (Group LTIP) of USD 134.2 million that were given out in 2013 assuming that vesting at 100 percent of target takes place in 2014, 2015 and 2016. As mentioned above, the vesting level for the three year performance period ending December 31, 2013 was 50 percent of target and this results in an actual realizable value of USD 62.1 million based on the number of shares vesting and the closing share price of CHF 258.50 as at December 31, 2013. As a result, the actual earned total variable remuneration for the period ending December 31, 2013 was USD 72.1 million lower than shown in the table above.

To further align their interests with those of shareholders, the Board and the GEC build their ownership position in the company. As of December 31, 2013, Directors held 42,531 shares and members of the GEC held 148,567 shares and 429,019 options. Share ownership guidelines are in place and these are discussed further on page 77. To meet the share obligations under the share-based compensation plans, Zurich issued 603,099 new shares in 2013, and 914,301 new shares in 2012, thereby creating minimal dilution for shareholders. Further details on the dilution impact of the share-based compensation plans are set out on page 75.

Summary of further key remuneration aspects in 2013

In addition to the remuneration context and outcomes described above, further key aspects for 2013 are outlined below:

- The remuneration system as set out in the Remuneration report for 2012 was subject to a non-binding advisory shareholder vote at the Annual General Meeting on April 4, 2013 with 85.5 percent votes in favor.

- Following the resignation of Mr. Josef Ackermann from the Board and the Remuneration Committee on August 29, 2013, Mr. Tom de Swaan joined the Remuneration Committee.

- During the year, the Board reviewed the competitiveness of the overall fee structure for Board members and has decided that no changes will be made to the structure for 2014.

- During the year, the Board reviewed the design and operation of the Long-Term Incentive Plan (LTIP) component of the executive remuneration package. The aims of the review were to ensure that the LTIP, i) takes account of the latest best practice principles, and views from proxy-advisors and shareholders; ii) is closely aligned to the achievement of the longer-term strategic goals and the delivery of value for shareholders; and, iii) helps drive sustained performance and assists in the attraction, retention and motivation of executive talent. The review concluded that a number of changes were required to the LTIP to meet these objectives and further details of the changes being made for 2014 are set out on pages 97 to 99.

- The Board has reviewed and analyzed the final rules in the Ordinance Against Excessive Compensation (AEC), in force since January 1, 2014, implementing the new Art. 95 III of the Swiss Constitution. As a result, the Board is presenting a new set of Articles of Incorporation for approval at the Annual General Meeting in 2014. The first binding vote on remuneration for the members of the Board and Group Executive Committee will take place at the Annual General Meeting in April 2015. As in previous years, a consultative vote on the remuneration system will take place in 2014 and the practice of consultative votes will also continue in future years.

Remuneration report *continued*

2013 Remuneration report

Report structure

This Remuneration report provides all the information that is outlined in chapter five of the Directive on Information Relating to Corporate Governance of the SIX Swiss Exchange (SIX Directive) and the Swiss Code of Best Practice for Corporate Governance ("Swiss Code of Best Practice"), as amended with effect from July 1, 2009 and October 15, 2007, respectively. Also included is all the information as required by articles 663b^{bis} and 663c paragraph 3 of the Swiss Code of Obligations and the Circular 2010/1 on minimum standards for remuneration schemes of financial institutions, issued on October 21, 2009 and further guidance issued on January 19, 2011 by the Swiss Financial Market Supervisory Authority FINMA (FINMA Circular on Remuneration Schemes).

The structure of the Remuneration report is in alignment with the requirements of the Swiss Code of Obligations, the SIX Directive, the Swiss Code of Best Practice and the FINMA Circular on Remuneration Schemes.

The first part of the report describes the general principles and the governance framework, and the second part provides details of each of the remuneration elements. The members of the Board of Zurich Insurance Group Ltd are all independent non-executives, therefore the information has been presented with the complete remuneration details of the Board contained in one section, those of the GEC shown in the next section, and then a further section including the information required by the FINMA Circular on Remuneration Schemes for all employees.

All information required by articles 663b^{bis} and 663c paragraph 3 of the Swiss Code of Obligations is also included in the notes to the financial statements of Zurich Insurance Group Ltd holding company.

All other information which is to be disclosed according to the SIX Directive is included in the Corporate governance report preceding this Remuneration report.

Remuneration governance

Remuneration architecture

The Board is responsible for the design and implementation of Zurich's remuneration principles and remuneration rules (together the "Remuneration Rules"). To support the Board in performing these duties it has established a Remuneration Committee. The Remuneration Committee comprises four members of the Board, all of whom are experienced in the area of remuneration. On an annual basis the Remuneration Committee evaluates the remuneration architecture and the Remuneration Rules and proposes any amendments to the Board, if appropriate.

During 2013, a joint meeting between the Remuneration Committee and the Risk Committee took place to discuss a risk review of the remuneration architecture and the remuneration governance framework. For this joint meeting, the Group Risk Management function evaluated the remuneration architecture and reported its findings on whether and how the remuneration architecture is consistent with effective risk management and does not encourage inappropriate risk taking that exceeds the Group's level of tolerated risk. Based on the results of the risk review, the Board continues to be firmly of the opinion – taking into account the changes to the long-term incentive plan in 2014 as set out on pages 97 to 99 – that the remuneration architecture is aligned with the delivery of the Group's strategy and reflects current international best practices in terms of governance, plan design and disclosure.

In 2013, a number of actions were implemented:

- Further meetings took place between the Remuneration Committee and the Governance and Nominations Committee to discuss the implementation of the Ordinance against Excessive Compensation.

- The remuneration of the control functions continues to be structured so as to avoid conflicts of interest, by ensuring that the incentives for all employees in control functions are determined by reference to Group profitability rather than by the profitability of the business controlled by such functions.

- During the annual process to help align remuneration with the Group's risk-taking capacity, Group Risk Management consulted with other control, governance and assurance functions and provided the CEO with a review of risk factors to consider when overall performance for the funding of incentives was being assessed. The Chief Risk Officer is available to discuss these findings with the Remuneration Committee and the Board. Among other factors, the CEO takes into account the assessment by Group Risk Management when presenting his proposals for the funding of the short-term and long-term incentive pools to the Remuneration Committee, which in turn makes its recommendation to the Board for final approval.

- As part of a remuneration review in 2013, all KRT (Key Risk Taker) positions for the Group were reviewed. As a result, the Group has increased the number of KRT positions. These positions cover the three business segments of General Insurance, Global Life and Farmers as well as Group Operations and all other principle functions. In 2013, the processes and criteria for identifying KRT positions were further clarified and documented, in order to facilitate the annual reassessment. The criteria are based on factors that materially affect risk-taking within the Group, such as overall governance, capital consumption for each risk type as determined by the internal model, strategy and reputation. The criteria are then applied to those who take as well as to those who control the specific risks at the level of the Group where the risks are most material. In particular, Group Risk Management, together with other control and assurance functions, provides risk and compliance information about each KRT as part of the annual individual performance assessment. The remuneration arrangements for KRTs include both short-term and long-term incentive plans with a greater emphasis towards long-term and therefore deferred remuneration.

- With regard to the operational implementation of the remuneration architecture across the Group, Group Audit carries out assessments on a regular basis regarding the operational implementation of Zurich's Remuneration Rules. No material issues were identified in their review for 2013.

- In the review of performance measures for 2013, no changes were made to the STIP and LTIP architecture.

- Further, information is also provided below on the share dilution impact arising from the issuance of shares to meet the obligations under the Group's share-based compensations plans. Zurich meets the share obligations arising from compensation plans by either issuing new shares from the contingent capital that has been authorized by the shareholders or by using Zurich shares purchased in the market.

In 2013, the company issued 603,099 shares (0.41 percent of capital based on 148,300,123 registered shares eligible for dividends as of December 31, 2012) to meet the share obligations arising from the vesting of shares and the exercise of share options during the year (in 2012, 914,301 shares or 0.62 percent of capital based on 147,385,822 registered shares eligible for dividends as of December 31, 2011).

As of December 31, 2013, the total number of unvested target shares was 878,129 which are made up from the grants made in 2011, 2012 and 2013. Given the vesting level of 50 percent in 2014 and assuming 100 percent vesting in 2015 and 2016 this would require the issuance of 664,071 shares or 0.45 percent of the share capital based on 148,903,222 registered shares eligible for dividends as of December 31, 2013.

As of December 31, 2013, the total number of vested but unexercised share options was 1,763,618. The exercise prices for these options range from CHF 198.10 to CHF 355.75. If all mentioned vested options were to be exercised in the future, the number of shares required represents 1.18 percent of the share capital which is based on 148,903,222 registered shares eligible for dividends as of December 31, 2013. If only those options in the money at December 31, 2013 (share price CHF 258.50) were exercised the number of shares required would be 174,732 or 0.12 percent of the share capital based on 148,903,222 registered shares eligible for dividends as of December 31, 2013.

Remuneration report *continued*

Approval process for remuneration

In accordance with the Remuneration Rules, the Remuneration Committee is responsible for proposing to the Board on an annual basis the remuneration payable to the Directors, to the CEO and to the other members of the GEC. For the other members of the GEC, these recommendations are based on proposals made by the CEO. The remuneration proposals have to be approved by the Board.

In the meetings of the Remuneration Committee and the Board where decisions are made on the remuneration of the Chairman, the Chairman is not present. In making decisions on the remuneration of the CEO, the CEO is not present. Where decisions are made on the remuneration of other members of the GEC, those members are also not present at the meetings. See pages 49 and 50 in the Corporate governance report for further details of the Remuneration Committee's responsibilities.

The approval framework is set out below:

Approval framework

Subject	Recommendation from	Final approval from
Overall Remuneration Architecture	Remuneration Committee and Risk Committee based on proposals by the CEO	Board of Directors
Remuneration Rules	For Directors: Remuneration Committee For all employees: Remuneration Committee based on proposals by the CEO	Board of Directors
Remuneration payable to Directors (including Chairman and Vice Chairman)	Remuneration Committee	Board of Directors
Remuneration of the CEO	Remuneration Committee	Board of Directors
Remuneration of Members of the Group Executive Committee (excluding CEO)	Remuneration Committee based on proposals by the CEO	Board of Directors
Short-Term Incentive Plan (STIP) funding pools	Remuneration Committee based on proposals by the CEO taking into account a risk assessment by Group Risk Management	Board of Directors
Vesting levels under the Long-Term Incentive Plan (LTIP)	Remuneration Committee based on proposals by the CEO taking into account a risk assessment by Group Risk Management	Board of Directors

In addition to the above, and in line with the requirements of the FINMA Circular on Remuneration Schemes, the Board also approves the aggregate amount of variable remuneration for the performance year for the entire Group ("Total Variable Remuneration Pool") taking into account the long-term economic performance of the Group. For further details on the calculation of the Total Variable Remuneration Pool see pages 93 and 94.

Benchmark studies and external advisors to the Board

To assist decision-making on both Board and GEC remuneration, benchmarking studies are carried out regularly. To assess market practices and market remuneration levels, the remuneration structures and practices of the largest insurance companies are analyzed, using the companies in the Dow Jones Insurance Titans 30 Index as a basis. This Index comprises the largest insurance companies throughout the world, predominantly in Europe and in the United States. This analysis is supplemented by additional benchmarking studies as appropriate, e.g. by reviewing practices within the large Swiss Market Index (SMI) companies in Switzerland or similar sized companies in other countries. The resulting industry peer group includes such companies as Ace, AIG, Allianz, AXA, Aviva, Chubb, Generali, Manulife Financial Corp., Met Life, Munich Re, Prudential Plc, Swiss Re and Travelers Cos. Inc. The Remuneration Committee reviews this peer group regularly.

The results of the benchmarking studies are taken into account in setting fee levels for Directors and the remuneration structures and levels for the CEO and the other members of the GEC. In analyzing the results of the benchmarking studies, market practices in the various countries and the internal relativities between positions are taken into account. Overall positioning of the remuneration packages is towards the median levels.

In reviewing remuneration structures and practices on a regular basis, the Remuneration Committee and the Board receive independent advice from the executive compensation practice at Meridian Compensation Partners LLC (Meridian) as well as at Aon Hewitt, part of Aon Corporation (Aon Hewitt). The Remuneration Committee reviews the mandates and fees, and evaluates ongoing performance. Both, Meridian and Aon Hewitt provide advice to the Board, with the lead consultant employed by Meridian. Meridian does not provide any other services to the Group. Although certain practices within Aon Hewitt – a large, international brokerage and human resources firm – undertake work for the Group from time to time, the Remuneration Committee does not consider the independence and integrity of the advice it receives from Aon Hewitt to be compromised by these separate assignments.

For their activities, management is supported by a variety of firms operating in the field of international executive compensation.

Guidelines on share ownership requirements for Directors and members of the Group Executive Committee
To align the interests of the Board and the GEC with those of shareholders, Directors and members of the GEC build their ownership position in the company and have to meet a certain ownership requirement. Share ownership guidelines for members of the Board have been established at the level of 1 times the basic annual fee. For members of the GEC, share ownership guidelines with regard to vested awards have been established at the level of 5 times base salary for the CEO and of 2.5 times base salary for other members of the GEC. Directors achieve this requirement through part of their fee payment being made in three-year sales-restricted shares and market purchases. Members of the GEC achieve this through their participation in long-term incentive plans and market purchases. Directors, the CEO and other members of the GEC have a period of five years to meet their ownership requirement and the Remuneration Committee monitors compliance with these guidelines on an annual basis.

Involvement of shareholders
As last year, Zurich will provide shareholders with the opportunity to express their views on the remuneration architecture through an advisory vote at the Annual General Meeting to be held on April 2, 2014. As the ultimate decision on remuneration is currently within the powers of the Board, such a vote is non-binding in nature.

As a consequence of the final rules in the Ordinance Against Excessive Compensation and its implementation, a new set of Articles of Incorporation will be presented for approval by the shareholders at the Annual General Meeting 2014 and the first binding vote by the shareholders on remuneration for the members of the Board and Group Executive Committee will take place in 2015.

Remuneration report *continued*

Remuneration philosophy

Directors

Recognizing that Zurich is a global insurance company, the level of Directors' fees has been established to ensure the Group's ability to attract and retain high caliber individuals.

Based on their role on the Board and the fee structure described on page 84, fee levels are established for each member of the Board of Zurich Insurance Group Ltd. Fees are paid in cash and in shares with approximately one-third of the basic fee being provided in three-year sales-restricted shares of Zurich Insurance Group Ltd.

The fees paid to Directors (including the portion provided in sales-restricted shares) are not subject to the achievement of any specific performance conditions.

Group Executive Committee and all other employees

For the members of the GEC including the CEO, and all other employees throughout the Group, a number of key elements have been implemented to provide a well-balanced and effectively-managed remuneration program. These elements include a group-wide remuneration philosophy, robust short-term and long-term incentive plans, effective governance, and strong links to the business planning and risk policies of the Group.

Zurich is committed to providing competitive total remuneration opportunities that attract, retain, motivate and reward employees to deliver outstanding performance. The remuneration philosophy is an integral part of the overall offering to employees. Zurich has a clearly defined global performance management process which supports the achievement of the overall business strategy and operating plans, and links individual pay with business and personal performance. This is delivered through the remuneration framework overseen by the GEC, the Remuneration Committee and the Board itself.

Guiding principles of the remuneration philosophy

The guiding principles for the remuneration philosophy as set out in the Remuneration Rules are as follows:

- The Group's remuneration architecture is simple, transparent and implementable. For those individuals considered to be KRTs for the Group, it is oriented towards the long-term.

- The structure and level of total remuneration are aligned with the Group's risk policies and risk-taking capacity.

- The Group promotes a high-performance culture by differentiating total remuneration based on the relative performance of businesses and individuals.

- The Group clearly defines the expected performance through a structured system of performance management and uses this as the basis for remuneration decisions.

- The Group links variable remuneration awards to key performance factors which can include the performance of the Group, the business segments, business divisions, business units, functions as well as individual achievements.

- The Group's short-term and long-term incentive plans used for variable remuneration are linked to appropriate absolute and relative performance measures and the overall expenditure on variable pay is considered in connection with the Group's long-term economic performance.

- The structure of the long-term incentive plans links remuneration with the future development of performance and risk by including features for deferred remuneration.

- The Group provides its employees with a range of benefits based on local market practices, taking into account the Group's risk capacity on pension funding and investments.

Total remuneration

Total remuneration for an individual employee is influenced by a number of factors such as the scope and complexity of the role, business performance and affordability, individual performance, internal relativities, external competitiveness, geographic location and legal requirements. As described on pages 71 and 76, target opportunities are benchmarked to median levels in clearly defined markets. The remuneration mix between base salary and variable pay is also aligned with local market practices and internal structures. Zurich is transparent in the communication of how the reward structure and the processes used for decision making are defined. Total remuneration includes the following elements:

Elements of total remuneration

Element		Type	Description
Base salary		Fixed cash	Fixed remuneration, determined by scope and complexity of the role Generally paid within an 80 percent–120 percent range of relevant market median
Variable pay	Short-term incentives (STIP – 1 year)	Performance cash	For executives, senior managers and a broader group of employees, paid annually Performance measured against business results and accomplishment of strategic objectives Awards driven by both business and individual performance
	Long-term incentives (LTIP – 3 years) For 2013 and prior years	Performance shares	For a defined group of executives and senior managers Target grants are made annually and each annual grant is divided into 3 equal tranches The 1st tranche is assessed for vesting in the year following the year of grant, the 2nd tranche in the following year and 3rd tranche in the year after that Vesting is determined based on the Group's relative total shareholder return (TSR[1]) and return on common shareholders' equity (ROE) achievements over the three calendar years prior to the vesting date Half of vested share awards are sales-restricted for three years
Employee benefits		Fixed benefits	Employee benefits are provided in line with local market practices Pension plans are being de-risked in line with Group guidelines Benefits are positioned towards median

[1] Total Shareholder Return (TSR) is the growth in value of a shareholding assuming that dividends and any capital distributions are reinvested to purchase additional shares at the closing price applicable on the ex-dividend/capital distribution date.

Base salary

Base salary is the fixed pay for the role performed determined by the scope and complexity of the role and is reviewed annually. Overall base salary structures are positioned to manage salaries around the relevant market medians. At an individual level, base salary is generally paid within an 80 percent – 120 percent range of the appropriate market median. Key factors in setting the salary are the individual's overall experience and performance.

Remuneration report *continued*

Variable pay

Incentive plans are designed to provide a range of award opportunities linked to levels of performance. Business and individual performance may result in superior remuneration levels above target for superior performance, and reduced levels below target for performance below expectations. Variable pay opportunities are provided, in markets where this is the norm, to motivate employees to achieve key short-term and long-term business goals to increase shareholder value. Variable pay opportunities may include both short-term and long-term incentives.

Short-term (one year) incentives are performance-driven based on the following design:

- Short-term incentive awards are paid in cash.

- Each participant has a target award established for the performance year.

- A number of distinct short-term incentive pools are established to cover each area of the Group's business: the Leadership Team; each business segment; operations; and the functional areas and Corporate Center. The pool structure is reviewed each year. Each participant is allocated to one of the STIP funding pools.

- For each STIP pool, the target funding pool is equal to the sum of the individual target award levels for the participants in the pool.

- The actual funding for the STIP pool, as a percentage of the target pool, is assessed at the end of the performance year. The Board has approved a STIP performance grid, which links business performance to the potential size of the actual funding pool. Taking into account the relevant business performance and risk considerations, the CEO makes recommendations on the size of the various STIP funding pools to the Remuneration Committee, which then discusses and seeks approval from the Board.

- The relevant business performance is assessed against the business plan that is approved by the Board in December of the year prior to the performance year. The financial measures to fund the pools typically include the Group's Net Income for the Leadership Team, and the relevant Business Operating Profit (BOP) for the business segments; for Farmers the business performance of the Farmers Exchanges is also taken into account. Depending on actual achievements, the Group STIP funding pools can vary between 0 percent and 175 percent of the target pools. If the business performance is on target, the potential available Group STIP funding as percent of target awards is around 100 percent. However, if business performance is below target, the potential available Group STIP funding as a percent of target awards is normally below 100 percent and can be zero. In assessing the business results, the financial performance of the area and a review of risk considerations by the Chief Risk Officer are taken into account.

- The allocation of the STIP funding pool to individual participants is then based on the size of the funding pool available, the results of the unit that the individual is working in and the performance achievements of the individual participant during the year. Any violations of internal or external rules or requirements by an individual are taken into account in the individual performance rating. The individual performance achievements are assessed through the Group's performance management process. This process utilizes an individual rating scale between 1 and 5, with 5 being the highest rating, and a target distribution guideline for each of the ratings. This ensures that there is clear differentiation both in ratings and in STIP payments, based on personal performance.

- Depending on the size of the Group STIP funding pool and the individual performance rating, short-term incentive awards can vary between 0 percent and 200 percent of the individual target award level.

- In this way, short-term incentive awards are differentiated based on the performance achievements of the business and the individual. The funding is fully based on the business performance and given that the funding is available the payout is then based on the individual performance.

Short-term incentives are delivered primarily through Group STIP. In addition there are some local country plans. The Group plan is utilized across the organization and, in many countries covers all employees in the respective country who are selected to participate. In other countries only the most senior individuals participate in the Group plan. Local country plans, following broadly the same principles as Group STIP, may be utilized for other employees.

In recent years, more than 10,000 employees have been transferred from local incentive plans to Group STIP. For 2014 and 2015, the Group will continue to analyze the possibility to transfer employees from local incentive plans to Group STIP taking into account the legal and market environment.

Long-term (three year) incentives support the achievement of the Group's longer-term financial goals and are utilized for a defined group of executives and senior managers, whose specific roles focus on the performance drivers of long-term shareholder value. This group contains the individuals with the highest levels of total remuneration, as well as those individuals considered to be KRTs. In alignment with the Group's risk profile and business strategy, long-term incentives are provided with a deferral element taking into account material risks and the time horizon thereof. Such deferred remuneration is structured in a way to promote the risk awareness of the participants and to encourage the participants to operate the business in a sustainable manner.

Deferral of long-term incentives is achieved by:

- pro-rata vesting of the long-term incentive grants in one third installments over the three years following the year of grant, and
- moreover, for those share awards that vest, one half are sales-restricted for a period of three years from the date of vesting.

Long-term incentive plans applied by the Group may include i) performance shares, ii) performance based options, or iii) restricted shares, or a combination thereof. The key design features for the Group's long-term incentive plans are as follows:

- Each participant has a target award established for the year of grant.
- Vesting is based on an annual, ratable model where the target grants are divided into three equal tranches and each tranche is assessed for vesting in the three years following the date of grant. This is illustrated in the following table:

Development of a grant made in 2013

	Year of vesting and year when the sales restrictions on 50% of any vested share award lapses					
	2014	**2015**	**2016**	**2017**	**2018**	**2019**
Tranche 1 from 2013 grant	Vesting assessment			Sales restrictions lapse		
Tranche 2 from 2013 grant		Vesting assessment			Sales restrictions lapse	
Tranche 3 from 2013 grant			Vesting assessment			Sales restrictions lapse

The following table shows how the tranches under the various annual grants vest throughout consecutive calendar years. As a result, there are always three tranches of different years' grants that are assessed for vesting in each calendar year.

Remuneration report *continued*

Year of vesting for each tranche[1]		
2014	2015	2016
Tranche 1 from 2013 grant	Tranche 1 from 2014 grant	Tranche 1 from 2015 grant
Tranche 2 from 2012 grant	Tranche 2 from 2013 grant	Tranche 2 from 2014 grant
Tranche 3 from 2011 grant	Tranche 3 from 2012 grant	Tranche 3 from 2013 grant

[1] This chart reflects the vesting schedule in 2013 and prior years and will be impacted by the implementation of changes to the LTIP system as per 2014 as set out on pages 97–99.

For performance based grants, these grants only vest if certain Group performance conditions are met in terms of the absolute return on common shareholders' equity (ROE) and the position of the Group's Total Shareholder Return (TSR) compared with an international peer group of insurance companies based on the Dow Jones Titan Insurance Index. Performance is measured over a three year calendar period prior to the vesting date and the vesting percentage, based on the actual ROE and TSR achievements, can vary between 0 percent and 175 percent of the target grants. If the minimum performance thresholds are met, then the Group performance conditions are taken equally into account. If the minimum performance thresholds are not met, the target grants will not vest. If the Group's ROE goals are met and the TSR is below median, the Remuneration Committee in discussion with the Board of Directors will determine whether, due to exceptional circumstances, a partial vesting of the specific tranche of the target grant is appropriate. The vesting percentage is proposed by the CEO to the Remuneration Committee and the Committee makes a recommendation to the Board for final approval. In principle, the applicable vesting matrix for the grants made in 2013 and in prior years is as follows:

Long-Term Incentive Plan Vesting Matrix (2013 and prior years)

in %		Level of vesting for share and share option target grants			
Zurich's three year relative TSR, based on 28 companies making up primarily the Dow Jones Global Insurance Sector Titan Index	Top quartile (Position: 1 to 7)	100%	125%	150%	175%
	Second quartile (Position: 8 to 14)	75%	100%	125%	150%
		9%	12%	15%	18%
		Three year annual average of the Group's return on common shareholders' equity (ROE)			

Where the actual ROE lies in between the values in the table, the vesting percentage is determined by interpolating the figures in the above matrix. As an example, with the relative TSR in the second quartile and an average ROE of 12.5 percent over the three year period, the vesting percentage would be 104 percent of the target grant.

The underlying performance matrix was reviewed by the Board and it was decided not to make any changes for 2013. The Board may exercise discretion in order to take the current environment into account when assessing the overall levels of vesting. Adjustments of +/–25 percent to the calculated level may be applied and can be positive or negative depending on extraordinary market circumstances for example with regard to interest rates, exchange rates etc. The right to modify individual awards to reflect specific circumstances is reserved for the CEO except for modifications regarding members of the GEC where such right is reserved for the Remuneration Committee and the Board. An adjustment of +/–25 percent to the regular vesting level may be applied before distribution. However, if performance under exceptional or unusual circumstances so warrants it, exceptions to the +/–25 percent adjustment may be made. In this respect the company reserves the right to adjust and even set the vesting percentage to zero for an individual to reflect specific circumstances (e.g. in connection with a breach of internal or external rules) during the period prior to vesting, but any such adjustment is reserved exclusively for the Remuneration Committee and the Board.

The Group's variable pay plans are reviewed annually both as to their content and participants. The plans can be terminated, modified, changed or revised.

Employee benefits

The Group provides a range of employee benefits which are designed by reference to local market practices. Employees are normally required to contribute to the cost of these benefits, and the overall benefits offering is based on the relevant market median.

Remuneration and shareholdings of the members of the Board and the Group Executive Committee

As of December 31, 2013, all of the Directors of Zurich Insurance Group Ltd are non-executives, independent of management. The remuneration for Directors and for members of the GEC, as well as their shareholdings, is disclosed separately.

Directors

Directors' fees

All Directors receive a fee, which is paid partly in cash and partly by allocation of three-year sales-restricted Zurich Insurance Group Ltd shares, for their memberships of the Boards of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd. The shares are provided as part of the overall fee which is not subject to the achievement of any defined performance targets.

In 2013, no changes were made to the fee structure established in 2012. The Board has also decided not to make any changes in the fee structure for 2014.

Except for the Chairman and Vice-Chairman, Directors are remunerated with an annual basic fee of CHF 240,000 in 2013 (CHF 240,000 in 2012). One-third of this annual basic fee, i.e. CHF 80,000 in 2013 (CHF 80,000 in 2012), is allocated to sales-restricted Zurich Insurance Group Ltd shares. The fee is pro-rated for members leaving or joining during the year. Committee members receive an additional cash fee of CHF 50,000 in 2013 (CHF 50,000 in 2012) for all committees on which they serve, irrespective of the number of committees. In addition, the chair of each committee receives an annual fee of CHF 30,000 for 2013 (CHF 30,000 for 2012) and the chair of the Audit Committee receives an additional CHF 10,000 in 2013 (CHF 10,000 in 2012). The committees on which the Directors serve are set out in the Corporate governance report on page 38.

Where a Director is also a member of one or more subsidiary boards of Zurich Insurance Group Ltd, the Director is entitled to an additional fee of CHF 50,000 in 2013 (CHF 50,000 in 2012) per annum plus CHF 10,000 in 2013 (CHF 10,000 in 2012) per annum if he or she also chairs an audit committee of such a board. The fee structure for subsidiary boards can be modified if certain circumstances – such as additional time commitment to discharge the duties of a board member – warrant it. Accordingly, with regard to his membership with Zurich Insurance plc, Mr. de Swaan received a basic fee of CHF 75,000 and a supplement of CHF 5,000 for being the Chair of the Audit Committee to address his additional time commitment with regard to his capacity as a member of this board.

The annual basic fee for the Vice-Chairman during 2013 was CHF 375,000 (CHF 375,000 in 2012), of which an amount of CHF 125,000 in 2013 (CHF 125,000 in 2012) is allocated to sales-restricted Zurich Insurance Group Ltd shares. The annual basic fee for the Chairman of the Board of Zurich Insurance Group Ltd during 2013 was CHF 1,000,000 (CHF 1,000,000 in 2012) and one-third of the total amount, i.e. CHF 333,500 in 2013 (CHF 333,500 in 2012) is allocated to sales-restricted Zurich Insurance Group Ltd shares. Neither the Chairman nor the Vice-Chairman receives any additional fees for their committee work.

Based on this structure, the total aggregate fees allocated to the Directors of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd for the year ended December 31, 2013, amounted to CHF 4,151,009. This included CHF 2,992,893 in cash and a value at the allocation date of CHF 1,158,116 in three-year sales-restricted shares. The share price at the allocation date was CHF 240.90. The corresponding amount for 2012 was CHF 4,244,246, which comprised CHF 3,166,298 in cash and a value at the allocation date of CHF 1,077,948 in three-year sales-restricted shares. The share price at the grant date in 2012 was CHF 207.10. The Directors' fees are not pensionable.

Remuneration report *continued*

The following tables set out the fees paid to the Directors for 2013 and 2012 in CHF.

Directors' fees 2013

in CHF	2013[1]						
	Basic fee	Committee fee[2]	Chair fee[3]	Other fees[7]	Total fees[8]	of which paid in cash	of which allocated in shares[4, 5]
T. de Swaan, Chairman[6,10]	589,041			80,000	669,041	544,041	125,000
J. Ackermann, Former Chairman[6,10]	666,750				666,750	333,250	333,500
F. Kindle, Vice-Chairman[6,10]	281,424	34,658			316,082	236,082	80,000
S. Bies, Member	240,000	50,000	9,206	50,000	349,206	269,206	80,000
A. Carnwath, Member	240,000	50,000			290,000	210,000	80,000
V.L.L. Chu, Member	240,000	50,000			290,000	210,000	80,000
R. del Pino, Member	240,000	50,000			290,000	210,000	80,000
Th. Escher, Member	240,000	50,000	30,000		320,000	240,000	80,000
M. Mächler, Member[10]	177,986	37,260			215,246	155,630	59,616
A. Meyer, Member[10]	61,808	12,877			74,685	74,685	–
D. Nicolaisen, Member	240,000	50,000	40,000	50,000	380,000	300,000	80,000
R. Watter, Member	240,000	50,000			290,000	210,000	80,000
Total in CHF[9]	**3,457,009**	**434,795**	**79,206**	**180,000**	**4,151,009**	**2,992,893**	**1,158,116**

Directors' fees 2012

in CHF	2012[1]						
	Basic fee	Committee fee[2]	Chair fee[3]	Other fees[7]	Total fees[8]	of which paid in cash	of which allocated in shares[4, 12]
J. Ackermann, Chairman[6,11]	846,198	–	–	–	846,198	563,399	282,799
M. Gentz, Former Chairman[6,11]	243,170	–	–	–	243,170	243,170	n/a
T. de Swaan, Vice-Chairman[6,11]	342,172	12,159	7,295	85,000	446,626	332,569	114,057
S. Bies, Member	240,000	50,000		50,000	340,000	260,000	80,000
A. Carnwath, Member[11]	181,202	37,705	–	–	218,907	158,361	60,546
V.L.L. Chu, Member	240,000	50,000	–	–	290,000	210,000	80,000
R. del Pino, Member[11]	181,202	37,705	–	–	218,907	158,361	60,546
Th. Escher, Member	240,000	50,000	22,623	–	312,623	232,623	80,000
F. Kindle, Member	240,000	50,000	–	–	290,000	210,000	80,000
A. Meyer, Member	240,000	50,000	–	–	290,000	210,000	80,000
D. Nicolaisen, Member	240,000	50,000	40,000	50,000	380,000	300,000	80,000
V.L. Sankey, Member[11]	58,361	12,159	7,295	–	77,815	77,815	n/a
R. Watter, Member	240,000	50,000	–	–	290,000	210,000	80,000
Total in CHF[9]	**3,532,305**	**449,728**	**77,213**	**185,000**	**4,244,246**	**3,166,298**	**1,077,948**

[1] The remuneration shown in the tables is gross, based on the accrual principle and does not include any business-related expenses incurred in the performance of the Directors' services.
[2] Committee members receive a cash fee of CHF 50,000 (CHF 50,000 in 2012) for all committees on which they serve, irrespective of the number. The committees on which the Directors serve are set out in the Corporate Governance Report on page 38.
[3] Committee chairs receive an annual fee of CHF 30,000 (CHF 30,000 in 2012) and the chair of the Audit Committee receives an additional CHF 10,000 (CHF 10,000 in 2012). Ms. Bies took on the role of the Risk Committee chair as of September 11, 2013. The committees on which the Directors serve and the chairs are set out in the Corporate Governance Report on page 38.
[4] The shares allocated to the Directors are sales-restricted for three years.
[5] As of June 16, 2013, Mr. Ackermann was allocated 1,384 shares, Mr. de Swaan was allocated 518 shares, and the other Board members were allocated 332 shares. The share price (CHF 240.90) as of June 15, 2013 was adopted to calculate the number of shares based on the fixed portion of the fee allocated in shares for the respective members. Where the value of the allocated shares did not equal the value of the portion of the fee to be allocated in shares, the difference was paid in cash.
[6] Neither the Chairman nor the Vice-Chairman receive any additional fees for their committee work.
[7] In addition to the fees received as Directors of Zurich Insurance Group Ltd, Ms. Bies, Mr. Nicolaisen and Mr. de Swaan earned fees for their board memberships of the following of Zurich Insurance Group companies:
– In both 2013 and 2012, Ms. Bies and Mr. Nicolaisen earned CHF 50,000 for their membership of the board of Zurich Holding Company of America (ZHCA).
– In 2013, Mr. de Swaan earned CHF 75,000 for his membership of the board of Zurich Insurance plc. He also earned an annual fee of CHF 5,000 for being chair of the Audit Committee of this company. In 2012, Mr. de Swaan earned CHF 75,000 in respect for his work on the board of Zurich Insurance plc and Zurich Life Assurance plc. He also earned an annual fee of CHF 10,000 for being chair of the Audit Committees of these two companies.
[8] Swiss-based Directors are eligible for selected employee benefits.
[9] In line with applicable laws, Zurich paid the company-related portion of contributions to social security systems, which amounted to CHF 136,246 in 2013. The corresponding contributions amounted to CHF 160,340 in 2012. Any personal contributions of the Directors to social security systems are included in the amounts shown in the table above.

[10] At the Annual General Meeting on April 4, 2013, Mr. Meyer retired from the Board and Ms. Mächler was elected to the Board. In August 2013, Mr. Ackermann resigned from the Board. Mr. de Swaan was appointed Chairman and Mr. Kindle Vice-Chairman of the Board of Directors as of September 11, 2013.
[11] At the Annual General Meeting on March 29, 2012, Mr. Gentz and Mr. Sankey retired from the Board and Ms. Carnwath and Mr. del Pino were elected to the Board. Mr. Ackermann was appointed Chairman and Mr. de Swaan Vice-Chairman of the Board of Directors.
[12] As of June 16, 2012, Mr. Ackermann was allocated 1,365 shares, Mr. de Swaan was allocated 550 shares, and the other Board members were allocated 386 shares. The share price (CHF 207.10) as of June 16, 2012 was adopted to calculate the number of shares based on the fixed portion of the fee allocated in shares for the respective members. Where the value of the allocated shares did not equal the value of the portion of the fee to be allocated in shares, the difference was paid in cash.

Termination arrangements for members of the Board who gave up their functions

At the Annual General Meeting on April 4, 2013, the term of office of Mr. Meyer expired and he did not stand for re-election as he had served the maximum tenure. No termination payments (i.e. "golden parachutes") were made and no other benefits such as waiver of lock-up periods for equities, shorter vesting periods or additional contributions to occupational pension schemes were provided.

Special payments for new members of the Board

At the Annual General Meeting on April 4, 2013, Ms. Mächler was elected new member of the Board. No special payments (i.e. "golden handshakes") or other benefits were provided.

Remuneration for former Directors

No benefits (or waiver of claims) have been provided to former Directors during the year 2013, nor were any provided during the year 2012.

Share plans for Directors

The members of the Board of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd do not participate in any of the share-based incentive plans established for executive management. However, part of the fees of the Directors of Zurich Insurance Group Ltd is allocated as three-year sales-restricted shares. As mentioned above, the shares provided to Directors are part of the overall fee and are not subject to the achievement of any defined performance targets.

Shareholdings of Directors

The shareholdings of the Directors, who held office at the end of the year, in shares of Zurich Insurance Group Ltd are shown in the following table. All interests shown are beneficial and include sales-restricted shares allocated to the Directors as part of their fee and shares held by parties related to the Directors.

Directors' shareholdings

Number of Zurich Insurance Group Ltd shares[1], as of December 31	Ownership of shares	
	2013	2012
T. de Swaan, Chairman	2,597	2,079
J. Ackermann, Former Chairman	n/a	23,271
F. Kindle, Vice-Chairman	17,247	16,915
S. Bies, Member	1,964	1,632
A. Carnwath, Member	624	292
V.L.L. Chu, Member	1,964	1,632
R. del Pino, Member	624	292
Th. Escher, Member	9,802	9,470
A. Meyer, Member	n/a	3,239
M. Mächler, Member	247	n/a
D. Nicolaisen, Member	2,247	1,915
R. Watter, Member	5,215	4,883
Total	**42,531**	**65,620**

[1] None of the Directors together with parties related to them held more than 0.5 percent of the voting rights of Zurich Insurance Group Ltd shares as of December 31, 2013 or 2012, respectively.

Share options held by Directors

The members of the Boards of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd do not participate in any share option plan for executive management. Hence, no share options have been allotted in the year under review or in earlier years. None of the Directors, nor any related parties to them, held any share options or conversion rights over Zurich Insurance Group Ltd shares as of December 31, 2013 or 2012.

Remuneration report *continued*

Additional honoraria and remuneration for Directors
None of the Directors received any remuneration or benefits-in-kind from the Group or from any of the Group's companies other than as set out above.

Personal loans for Directors
Unrelated to his Board membership and on terms and conditions available to other customers, Mr. Watter had a collateralized policy loan in the amount of CHF 2.5 million outstanding as of December 31, 2013 and 2012. The annual interest rate charged on the loan is 4 percent. Other than the loan for Mr. Watter, none of the Directors had outstanding loans, advances or credits as of December 31, 2013 or 2012.

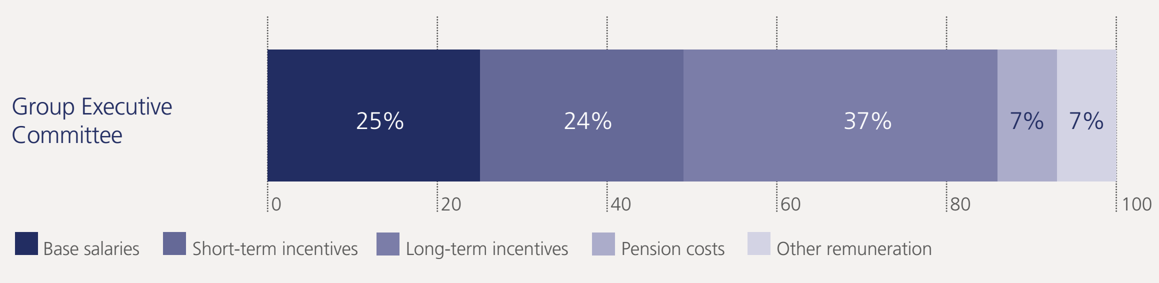
Personal loans for former Directors
As of December 31, 2013, and 2012, respectively, no former Director had outstanding loans, advances or credits.

Related parties to the Directors or to former members of the Board
No benefits (or waiver of claims) have been provided to related parties of the Directors or related parties of former members of the Board during the years 2013 and 2012 nor had any related party of the Directors or of former members of the Board any outstanding loans, advances or credits as of December 31, 2013 and 2012.

Group Executive Committee
Remuneration of the Group Executive Committee
The total remuneration of the members of the GEC for 2013 comprised the value of cash remuneration (including short-term cash incentives), the target equity grants made under the Group's LTIP in 2013, pensions and other remuneration.

The remuneration structure and the mix of the individual remuneration elements for members of the GEC are determined by taking into account relevant market practices and internal relativities.

The distribution of the total remuneration in 2013 between the individual remuneration elements is set out in the following chart and is based on the target values for the performance related remuneration.



As can be seen from the above chart, there is an appropriate balance of the remuneration elements with a significant emphasis on performance related remuneration through both the Short-Term Incentive Plan and Long-Term Incentive Plan. The distribution of the target values between short-term (one year) and long-term incentives (three years) shows an emphasis towards long-term incentives.

The individual remuneration elements are described in more detail below (the amounts for the highest paid executive are also included):

Value of total remuneration
The total value of the various remuneration elements earned by the members of the GEC in 2013 was USD 46.0 million, very much in line with USD 46.4 million earned in 2012 calculated on the same basis. In Swiss francs the total value was CHF 42.5 million, slightly below the CHF 42.6 million in 2012. Included in the figures for 2013 are the relevant remuneration amounts for the two individuals who were acting "ad interim" in the positions Chief Financial Officer and Group Head of Operations during the year.

The total value for 2013 comprises the following elements (the comparative figures for 2012 are shown in the table on total remuneration for all members of the GEC):

Base salaries and annual cash incentives paid for 2013
The total amount of base salaries and annual cash incentive awards earned under the Group STIP for 2013 was USD 23.7 million. This comprised USD 11.6 million in base salaries and USD 12.1 million in annual cash incentive awards to be paid in 2014 for 2013 performance. As set out on page 80 the annual cash incentive awards are determined individually and are performance-based.

For members of the GEC, including the CEO, the target levels under the Group STIP for 2013 vary between 75 percent and 100 percent of the base salary. The maximum award for all members of the GEC, including the CEO is 200 percent of the target amount. The overall funding for cash incentives is based on the underlying Group profit performance during the year and, in this respect, the NIAS result improved year on year. In discussion with the Chief Executive Officer, the Remuneration Committee reviewed the individual performance accomplishments of each of the GEC members considering a number of factors including the performance of the business segment or function being managed, the accomplishment of strategic objectives across a broad range of areas including business portfolio enhancements, customers and intermediaries, products and services and people management. The proposals were then reviewed and approved by the Board of Directors. The Remuneration Committee and the Board of Directors also reviewed the performance of the CEO during the year and determined his cash incentive award for 2013.

Equity grants made to members of the Group Executive Committee under the Group LTIP in 2013
As described above, in 2013 members of the GEC received an annual grant of performance shares under the Group LTIP. In extraordinary circumstances, restricted share grants may also be made. For members of the GEC, including the CEO, the value of the target grants in 2013 was set between 100 percent and 225 percent of each member's base salary.

As in previous years, the target grants for 2013 were made on the third working day in April, i.e. on April 3, 2013. The target number of performance shares was calculated by dividing the monetary value of the grant by the share price on the day prior to the grant respectively.

The vesting of the grants and the performance criteria are set out on pages 81 and 82. The following equity grants under Group LTIP were made in 2013:

Performance share grants
The total number of target performance share grants made to members of the GEC during 2013 was 57,374. This compares with 67,296 made for 2012. The value of the target performance share grants made on April 3, 2013 to members of the GEC was USD 16.2 million at the date of grant. This is based on the assumption of 100 percent vesting in 2014, 2015 and 2016, a share price of CHF 267.30 on the day prior to the grant and an exchange rate of 1 CHF = 1.0576 USD.

For the three year performance period ended on December 31, 2013, the number of share awards that will vest in 2014 for the members of the GEC serving in 2013 from the performance share grants made in 2011, 2012 and 2013 was 25,234. As discussed in the summary on page 72, this represents a vesting level of 50 percent of target. One-half of the shares that vest under the plan are sales-restricted for three years from the date of vesting. The value of the share awards vesting based on the closing share price of CHF 258.50 was USD 7.2 million.

Restricted share grants
Restricted share grants supplement the regular long-term incentive grants and are used only in extraordinary circumstances mainly for new hires to compensate for the loss of their equity rights with their previous employer. These restricted share grants typically vest over three to five years following the date of grant and are forfeited if the holder of such share grants voluntarily leaves the company before the vesting date and the employment relationship terminates. No restricted share grants were made to members of the GEC during 2013 and 2012.

Share option grants
For the three year performance period ended on December 31, 2013, there are no share option awards that will vest in 2014, as the last option grant was made in 2010.

Remuneration report *continued*

Value of pension benefits accruing during 2013

Members of the GEC participate in the pension plan arrangements of the entities where they are employed. The Group's philosophy is to provide pension benefits through cash balance and/or defined contribution plans where funds are accumulated throughout a career to provide retirement benefits. The majority of GEC members participate in such plans and, over time, all future GEC members will participate in such plans. The remaining members of the GEC participate in defined benefit plans that provide retirement benefits based on final pensionable earnings and the number of years of service. Normal retirement ages vary from 60 to 65. The total value of pension benefits accruing to members of the GEC during 2013, calculated on the basis of the service costs for the company as assessed under IAS 19 accounting principles, was USD 3.2 million. Service costs value the amount of the pension benefits accruing during the year and for defined contribution plans take the amount of the company contribution paid during the year.

Value of other remuneration paid in 2013

Members of the GEC received other remuneration in 2013 in relation to employee benefits, expatriate allowances, perquisites, benefits-in-kind and any other payments due under each member's employment contract. The total value of other remuneration in 2013 was USD 2.9 million. Benefits-in-kind have been valued using market rates.

Summary of total remuneration for the Group Executive Committee

By reference to the above figures, the total remuneration of the members of the GEC, comprising cash compensation, the value of target equity grants for 2013, pensions and the value of other remuneration was USD 46.0 million, for 2012 it was USD 46.4 million.

Included in the amount for 2013 is the value of target equity grants of USD 16.2 million given out in 2013 which assumes the grant will vest at 100 percent of target in 2014, 2015 and 2016. As mentioned above, the vesting level under the LTIP for the three year performance period ending December 31, 2013 was 50 percent of target and this results in an actual realizable value of USD 7.2 million based on the number of shares vesting and the closing share price of CHF 258.50 as of December 31, 2013. As a result, the actual earned total remuneration for the period ending December 31, 2013 was USD 9.0 million lower than shown in the table below.

All GEC members (incl. the highest paid)

in USD million, for the years ended December 31	**2013[1, 2]**	2012[1, 3]
Base salaries	11.6	12.0
Cash incentive awards earned for the year	12.1	12.3
Value of target performance share grants[4]	16.2	16.8
Service costs for pension benefits[5]	3.2	3.3
Value of other remuneration[6]	2.9	2.0
Total in USD[7]	**46.0**	**46.4**
Total in CHF[8]	**42.5**	**42.6**

[1] The remuneration shown in the table is gross, based on the accrual principle and does not include any business related expenses incurred in the performance of the members' services.
[2] On the basis of 11 GEC members, of whom 9 served during the full year 2013. Included in the figures are the relevant compensation amounts for the 2 individuals who were acting "ad interim" in the positions Chief Financial Officer and Group Head of Operations during the year.
[3] On the basis of 13 GEC members, of whom 9 served during the full year 2012.
[4] The share grants will vest in the future according to achievement of defined performance conditions. The value of the shares assumes that the grant will vest in the future at 100 percent of the target level with the valuation of the target performance share grants based on the share price on the day prior to the grants (CHF 267.30 for 2013 and CHF 225.90 for 2012).
[5] The amounts reflect the total value of pension benefits accruing to members of the GEC during 2013 and 2012, respectively, calculated on the basis of the service costs for the company as assessed under IAS 19 accounting principles. Service costs value the amount of the pension benefits accruing during the year and for defined contribution plans takes the amount of the company contribution paid during the year. Service costs do not include the interest costs on accrued benefits, adjustments for actuarial gains and losses, nor the expected return on any assets held.
[6] Includes employee benefits, expatriate allowances, perquisites, benefits-in-kind and any other payments due under employment contracts. Benefits-in-kind have been valued using market rates.
[7] In line with applicable laws where the executives are employed, Zurich paid the company-related portion of contributions to social security systems, which amounted to USD 1.6 million in 2013 and USD 1.7 million in 2012. Since the contributions are based on full earnings, whereas benefits are capped, there is not a direct correlation between the costs paid to the social security system and the benefits received by the executives.
[8] The amounts have been translated to Swiss francs at the relevant exchange rates throughout the year and the cash incentive to be paid in 2014 has been translated at the year-end rate in 2013.

Based on these figures, the value of the total remuneration for all members of the GEC comprises 38 percent (37 percent in 2012) in fixed remuneration elements (comprising base salaries, service costs for pension benefits and other remuneration) and 62 percent (63 percent in 2012) in performance related components (comprising the cash incentive awards under the Group STIP together with the value of the target performance share grants).

Member of the Group Executive Committee with the highest total remuneration

The highest paid remuneration for the GEC members was CHF 7.60 million for Mr. Senn, the Group's CEO. This amount reflects his 2013 base salary, the cash incentive earned for 2013, the value of the target performance shares granted in 2013, the value of pension benefits and other remuneration. This is the same amount as in 2012. All Mr. Senn's remuneration is paid in Swiss francs.

Included in the amount for 2013 is the value of target equity grants of CHF 3.6 million given out in 2013 which assumes the grant will vest at 100 percent of target in 2014, 2015 and 2016. As mentioned above, the vesting level under the LTIP for the three year performance period ending December 31, 2013 was 50 percent of target and this results in an actual realizable value of CHF 1.9 million based on the number of shares vesting and the closing share price of CHF 258.50 as at December 31, 2013. As a result, the actual earned total remuneration for the period ending December 31, 2013 was CHF 1.7 million lower than shown in the table below.

Highest paid executive, Chief Executive Officer, Martin Senn in 2013 and 2012

in CHF millions, for the years ended December 31	2013[1]	2012[1]
Base salary	1.60	1.60
Cash incentive awards earned for the year	2.00	2.00
Value of target performance share grants[2]	3.60	3.60
Service costs for pension benefits[3]	0.30	0.30
Value of other remuneration[4]	0.10	0.10
Total in CHF	**7.60**	**7.60**
Total in USD[5]	**8.10**	**8.30**

[1] The remuneration shown in the table is gross, based on the accrual principle and does not include any business related expenses incurred in the performance of the CEO's services.
[2] The share grants will vest in the future according to the achievement of defined performance conditions. The value of the shares assumes that the grant will vest in the future at 100 percent of the target level with the valuation of the target performance share grants based on the share price on the day prior to the grants (CHF 267.30 for 2013 and CHF 225.90 for 2012).
[3] The amounts reflect the total value of pension benefits, calculated on the basis of the service costs for the company as assessed under IAS 19 accounting principles. Service costs value the amount of the pension benefits accruing during the year and for defined contribution plans takes the amount of the company contribution paid during the year. Service costs do not include the interest costs on accrued benefits, adjustments for actuarial gains and losses, nor the expected return on any assets held.
[4] Includes employee benefits, perquisites, benefits-in-kind and any other payments due under the employment contract. Benefits-in-kind have been valued using market rates.
[5] Mr. Senn's remuneration is paid in Swiss francs. The amounts have been translated from Swiss francs to US dollars at the relevant exchange rates throughout the year and the cash incentive to be paid in 2014 has been translated at the year-end rate in 2013.

Special payments for new GEC members appointed during the year

During 2013, no members were appointed to the GEC.

Termination arrangements for members of the Group Executive Committee who gave up their functions during the year

During 2013, one member of the GEC left the Group and one other member died. In these circumstances, the remuneration provided was in line with terms of their employment contracts. No termination payments (i.e. "golden parachutes") were made and no other benefits such as agreements concerning special notice periods or longer term contracts (exceeding 12 months in duration), waiver of lock-up periods for equities, shorter vesting periods or additional contributions to occupational pension schemes were provided.

Remuneration for former members of the Group Executive Committee

No former member of the GEC received remuneration in 2013.

Remuneration report *continued*

Summary of total outstanding share commitments for members of the Group Executive Committee under the Group LTIP

Share grants

Performance share grants

As of December 31, 2013, the total number of target performance share grants outstanding for members of the GEC under the Group LTIP was 102,708 (98,257 as of December 31, 2012). A summary of the outstanding grants as of December 31, 2013 is set out in the table below:

Summary of outstanding performance share grants

Performance period	Target performance share grants	Allocated price in CHF	Future years of vesting
2013–2015	51,755	267.30	2014–2016
2012–2014	35,411	225.90	2014–2015
2011–2013	15,542	243.60	2014

Within the context of the Group LTIP, these performance share grants are considered for vesting in one-third installments during the three years after the grant and one-half of the vested shares are further sales-restricted for a three year period. The actual level of vesting is determined in accordance with the remuneration principles and vesting criteria set out in this report.

Restricted share grants

There were no restricted shares outstanding as of December 31, 2013 for members of the GEC (no restricted shares were outstanding at the end of 2012).

Share option grants

Under the share option program for senior management, the Group issued share options in the past to individuals within defined rules. From 2011, share option grants were no longer made.

In connection with the re-design of the Group LTIP in 2003, option grants were made in each year on the third working day in April. Further, the exercise price for the options granted in the past was set at the market price on the day prior to the date of grant. The performance based option grants were considered for vesting in one-third installments during the three years after the grant.

In order to prevent executives from losing the value of their options, in 2011, the Board approved an automatic exersale for all options being in the money at the end of the exercise period. A loss would otherwise occur if the executive was prohibited from dealing due to being in possession of price-sensitive information.

Under the share option program, the total number of shares under option for the members of the GEC as of December 31, 2013, and 2012, respectively, is set out in the tables below.

Summary of outstanding options, 2013

as of December 31, 2013

Year of grant	Number of options vested	Number of options unvested	Total number of shares under option	Exercise price per share CHF	Year of expiry
2010	197,544	–	197,544	259.90	2017
2009	75,937	–	75,937	198.10	2016
2008	77,348	–	77,348	336.50	2015
2007	78,190	–	78,190	355.75	2014
Total	**429,019**	**–**	**429,019**		

Summary of outstanding options, 2012

as of December 31, 2012 Year of grant	Number of options vested	Number of options unvested	Total number of shares under option	Exercise price per share CHF	Year of expiry
2010	145,649	59,453	205,102	259.90	2017
2009	82,728	–	82,728	198.10	2016
2008	79,893	–	79,893	336.50	2015
2007	80,506	–	80,506	355.75	2014
2006	50,744	–	50,744	308.00	2013
Total	**439,520**	**59,453**	**498,973**		

All options mentioned above entitle the holder to purchase one share of Zurich Insurance Group Ltd at the exercise price stated with normal voting and dividend rights.

Share and share option holdings of members of the Group Executive Committee

The following table sets out the actual share and share option holdings of the members of the GEC as of December 31, 2013 and 2012. In addition to any shares acquired in the market, the numbers include vested shares, whether sales-restricted or not, and vested share options received under the Group's LTIP. However, the table does not include the share interests of the members of the GEC through their participation in the currently unvested performance shares or unvested restricted shares.

All interests are beneficial and include shares or share options held by related parties to members of the GEC.

Governance

Share and vested share option holdings of the GEC members[1]

Number of vested shares and vested share options, as of December 31	2013		2012	
	Shares	Vested options[2]	Shares	Vested options[2]
M. Senn, Chief Executive Officer	41,392	107,212	29,719	103,447
J. Dailey, CEO of Farmers Group, Inc.	3,564	17,605	2,373	14,987
M. Foley, Chief Executive Officer North America Commercial and Regional Chairman of the Americas	8,679	59,404	9,306	52,710
Y. Hausmann, Group General Counsel	5,644	10,193	3,728	7,301
K. Hogan, Former CEO Global Life[3]	n/a	n/a	3,080	13,032
M. Kerner, CEO General Insurance	9,090	21,588	8,469	24,432
A. Lehmann, Chief Risk Officer and Regional Chairman of Europe	27,955	79,559	23,128	84,640
M. Nordlin, ad interim Group Head of Operations[4]	5,288	11,322	n/a	n/a
C. Reyes, Chief Investment Officer	8,041	25,922	4,823	22,012
G. Riddell, Regional Chairman of Asia-Pacific & Middle East	27,840	67,171	25,002	73,136
V. Sharma, ad interim Chief Financial Officer[5]	3,988	8,741	n/a	n/a
K. Terryn, CEO Global Life	7,086	20,302	4,324	20,540
P. Wauthier, Former Chief Financial Officer[6]	n/a	n/a	4,947	23,283
Total	**148,567**	**429,019**	**118,899**	**439,520**

[1] None of the GEC members together with parties related to them held more than 0.5 percent of the voting rights as at December 31, 2013 or 2012, either directly or through share options.
[2] The distribution of the vested options according to the grants identified in the tables "Summary of outstanding options" is shown in the table below.
[3] Mr. Hogan left the function on August 1, 2013 and his employment contract terminated on October 12, 2013.
[4] Mr. Nordlin, currently Chief Information Officer assumed responsibility for Group Operations on an ad interim basis succeeding Mr. Terryn effective August 14, 2013. He is formally not a member of the GEC.
[5] Mr. Sharma, currently Group Controller assumed responsibility for Group Finance on an ad interim basis succeeding Mr. Wauthier effective August 26, 2013. He is formally not a member of the GEC.
[6] Mr. Wauthier died on August 26, 2013.

Remuneration report *continued*

The following tables show how the totals of the vested share options owned by members of the GEC are distributed according to the grants identified in the tables "Summary of outstanding options" as of December 31, 2013 and 2012, respectively.

Distribution of vested share options 2013

Number of vested share options as of December 31, 2013	Year of grant				Total
	2010	2009	2008	2007	
M. Senn	54,883	16,035	17,094	19,200	107,212
J. Dailey	9,231	3,284	5,090	n/a	17,605
M. Foley	23,601	13,640	11,568	10,595	59,404
Y. Hausmann	10,193	n/a	n/a	n/a	10,193
M. Kerner	7,637	4,414	4,210	5,327	21,588
A. Lehmann	29,402	16,035	17,094	17,028	79,559
M. Nordlin[1]	4,699	2,182	2,082	2,359	11,322
C. Reyes	19,601	2,115	2,256	1,950	25,922
G. Riddell	21,963	12,255	14,330	18,623	67,171
V. Sharma[2]	7,553	1,188	n/a	n/a	8,741
K. Terryn[3]	8,781	4,789	3,624	3,108	20,302
P. Wauthier[4]	n/a	n/a	n/a	n/a	n/a
Total	**197,544**	**75,937**	**77,348**	**78,190**	**429,019**

[1] Mr. Nordlin, currently Chief Information Officer assumed responsibility for Group Operations on an ad interim basis succeeding Mr. Terryn effective August 14, 2013. He is formally not a member of the GEC.
[2] Mr. Sharma, currently Group Controller assumed responsibility for Group Finance on an ad interim basis succeeding Mr. Wauthier effective August 26, 2013. He is formally not a member of the GEC.
[3] Mr. Terryn, former Group Head of Operations, was appointed to CEO Global Life effective August 14, 2013.
[4] Mr. Wauthier died on August 26, 2013.

Distribution of vested share options 2012

Number of vested share options as of December 31, 2012	Year of grant					Total
	2010	2009	2008	2007	2006	
M. Senn	39,316	16,035	17,094	19,200	11,802	103,447
J. Dailey[1]	6,613	3,284	5,090	n/a	n/a	14,987
M. Foley	16,907	13,640	11,568	10,595	n/a	52,710
Y. Hausmann[2]	7,301	n/a	n/a	n/a	n/a	7,301
K. Hogan	7,212	5,820	n/a	n/a	n/a	13,032
M. Kerner[3]	5,471	4,414	4,210	5,327	5,010	24,432
A. Lehmann	21,063	16,035	17,094	17,028	13,420	84,640
C. Reyes	14,041	2,115	2,256	1,950	1,650	22,012
G. Riddell	15,734	12,255	14,330	18,623	12,194	73,136
K. Terryn	6,290	4,789	3,624	3,108	2,729	20,540
P. Wauthier	5,701	4,341	4,627	4,675	3,939	23,283
Total	**145,649**	**82,728**	**79,893**	**80,506**	**50,744**	**439,520**

[1] Mr. Dailey was appointed to the GEC as of January 1, 2012.
[2] Mr. Hausmann was appointed to the GEC as of July 1, 2012.
[3] Mr. Kerner was appointed to the GEC as of September 1, 2012.

Trading plans

To facilitate the sale of shares and the exercise of options for the members of the GEC, the Board approved the implementation of trading plans effective as of 2008. These plans allow members to sell shares and/or exercise share options under a pre-defined transaction program. Trading plans can only be established at a time when the individual does not possess unpublished price-sensitive information with regard to the Group. Further, the first transaction under a trading plan can only occur three months following the date it is established. The terms and conditions of the transactions have to be defined and they cannot be changed. All trading plans of members require the approval of the Chairman of the Board. Once established, transactions take place on a monthly basis including during close periods. The establishment of a trading plan by a GEC member is reported to the SIX Swiss Exchange according to the rules on disclosure of management transactions. In 2011, the Board approved the extension of the trading plan concept to selected executives who are often prohibited from being able to deal in Zurich securities because of the nature of their function. As of December 31, 2013, there were no trading plans in place. Further, no trading plans were entered into in 2013 or 2012.

Additional honoraria and remuneration for members of the Group Executive Committee

None of the members of the GEC received any remuneration from the Group or from any of the Group's companies in 2013 and 2012 other than as set out above.

Personal loans for members of the Group Executive Committee

As of December 31, 2013 and 2012, there were no loans, advances or credits outstanding for members of the GEC.

Personal loans for former members of the Group Executive Committee

Former members of the GEC are eligible to continue their mortgage loans following retirement on similar terms to those when they were employed, in line with the terms available to employees in Switzerland as stated above.

As of December 31, 2013 and 2012, no former member of the GEC had any outstanding loans, advances or credits.

Related parties to members or former members of the Group Executive Committee

No benefits (or waiver of claims) have been provided to related parties of GEC members or related parties of former members of the GEC during the years 2013 and 2012. Neither had any related party of GEC members or of former members of the GEC outstanding loans, advances or credits as of December 31, 2013 and 2012.

All employees

The following section includes information regarding the total remuneration earned by employees for the financial year 2013 across the Group, including remuneration for members of the GEC. The information provided is set out in accordance with the additional disclosure requirements defined in the FINMA Circular on Remuneration Schemes, applicable for the first time in 2010. The Group had 55,102 and 55,312 employees (full-time equivalents) as of December 31, 2013 and 2012, respectively.

Fixed remuneration

Fixed remuneration comprises base salaries, other remuneration and service costs for pension benefits.

Fixed remuneration

in USD million, for the years ended December 31	2013	2012
Base salaries	4,092	4,036
Value of other remuneration[1]	643	628
Service costs for pension benefits[2]	513	476
Total fixed remuneration	**5,248**	5,140

[1] Includes employee benefits like health and dental insurance and other fringe benefits etc.
[2] This represents the present value of the defined benefits from pension and post-retirement benefits plans, plus employers' contributions to defined contribution plans, arising from employee service over the accounting period. The amount included in this figure for defined benefit plans is calculated using actuarial factors and can vary year on year as economic conditions change. These numbers are explained in greater detail in note 22 of the Consolidated Financial Statements.

Variable remuneration:

Based on recommendations of the Remuneration Committee, the Board approves the aggregate amount of the Total Variable Remuneration Pool for the performance year. This comprises:

- The total expenditure on cash incentives to be paid for the performance year comprising the amount of the aggregated funding pools under the Group STIP and the amounts to be paid under the local short-term incentive plans.
- The value of the target long-term incentive grants made during the year on the assumption that the grants will vest in the future at the 100 percent level.
- The total amount of sign-on incentive payments committed in 2013 for people taking up their employment in 2013.

Remuneration report *continued*

- The total amount of severance payments committed in 2013 where the termination date was in 2013.

As a principle, the Group does not grant sign-on or severance payments. However, if circumstances in the Group's interest warrant such payments, clear approval processes are followed.

The figures do not include any charges or credits that originate from remuneration paid out during the financial year 2013 that derive from previous financial years.

Commission payments made to employed sales agents are not included in the calculation of the Total Variable Remuneration Pool. The sales commission plans of employed agents are not considered part of the profitability based incentive plans. Sales commissions, like the commissions paid to a broker or other external distributors, represent a distribution cost. The employed sales agents do not generate financial risks as they are not involved in establishing the price levels for the products they sell. With regard to operational and reputation risks, in particular due to potential mis-selling, the control of these risks is addressed by the mandatory and Group-wide adherence to the Zurich Risk Policy and Zurich Basics, the Group's code of conduct.

In determining the amount of the Total Variable Remuneration Pool, the Board considers the long-term economic performance of the Group as well as other relevant factors. The average economic profit is calculated by subtracting the required return on economic capital, based on the weighted average cost of capital, from the adjusted Business Operating Profit after Tax. In this respect, the Group has generated economic profit over the long-term which exceeds the actual expenditure on variable pay.

Variable remuneration

in USD million, for the years ended December 31	**2013**	2012
Cash incentive awards earned for the year[1]	530	474
Value of target performance share grants made in the year[2,3]	138	134
Total Variable Remuneration Pool	**668**	608

[1] Includes sign-on and severance payments in cash.
[2] Includes sign-on payments in shares.
[3] The share grants will vest in the future according to achievement of defined performance conditions. The value of the shares assumes that the grant will vest in the future at 100 percent of the target level with the valuation of the target performance share grants based on the share price on the day prior to the grants (CHF 267.30 for 2013 and CHF 225.90 for 2012). The charges in the financial statements may be calculated on different vesting basis.

The total number of employees receiving variable remuneration is approximately 50,000 in 2013 (46,000 in 2012). With regard to the Group Short-Term Incentive Plan (Group STIP) in 2013, the overall increase in profitability led to an average payment of 101 percent of target (relative to 91 percent of target awarded for 2012) for the more than 38,000 employees participating in the plan.

Included in the total variable remuneration pool 2013 is the value of the target equity grants made under the Group Long-Term Incentive Plan (Group LTIP) of USD 134.2 million that were given out in 2013 assuming that vesting at 100 percent of target takes place in 2014, 2015 and 2016. With regard to the actual vesting for the period 2011–2013, the Board reviewed the outcomes under the performance conditions and the overall performance of the company. In line with the move to assess LTIP performance measures on an independent basis with effect from January 1, 2014 and recognizing that this is the more common market practice, the Board adopted this methodology for all LTIP vesting decisions in 2014. Vesting at the on-target level was achieved in respect of the ROE results, where an average of 11.9 percent per annum was achieved over the three years. However, there was no vesting in respect of the relative TSR result, where despite a positive cumulative return of 28 percent over the three years, the result was positioned in the third quartile of the peer group. The overall vesting level was therefore set at 50 percent of the target awards compared to the vesting level of 97 percent of target awards set last year for the performance period 2010 to 2012. This results in an actual realizable value of USD 62.1 million based on the number of shares vesting and the closing share price of CHF 258.50 as at December 31, 2013. As a result, the actual earned total variable remuneration for the period ending December 31, 2013 was USD 72.1 million lower than the USD 668 million shown in the table above.

Total remuneration

Combining the fixed and variable remuneration, the total remuneration for all employees is as follows:

Total remuneration

in USD million, for the years ended December 31	2013	2012
Cash – fixed	4,092	4,036
Cash – variable[1]	530	474
Shares[2]	138	134
Other[3]	1,156	1,104
Total remuneration	**5,916**	5,748

[1] Includes cash incentive awards, sign-on and severance payments in cash.
[2] Includes performance share grants and sign-on payment in shares.
[3] Includes other remuneration and pension benefits.

Value of outstanding deferred remuneration

The Group's remuneration system includes instruments for the deferral of remuneration, and the following table provides an overview of the overall value of the outstanding deferred remuneration at December 31, 2013 and 2012:

Value of outstanding deferred remuneration

in USD million, for the years ended December 31	2013	2012
Unvested performance share grants	236	225
Unvested performance option grants	–	7
Unvested restricted share grants	9	7
Vested but sales restricted shares	137	140
Value of overall outstanding deferred remuneration	**382**	379

The value of the deferred remuneration has been determined by multiplying the number of outstanding shares and options by the relevant share price and option price at the original date of grant and reflects the assumption of a 100 percent vesting level.

Impact on net income in 2013 and 2012 from remuneration granted in prior years

Under the Group LTIP, a calculation is made at the date of vesting to determine the actual number of shares and options to be awarded to plan participants relative to the number that was originally expected to be awarded at the grant date. Any difference in value is reflected in the consolidated income statement in the year of vesting. For shares and options vesting in 2013 and 2014 a USD 108 million reduction in expense was recognized in the 2013 income statement to reflect actual performance compared to original estimates. In 2012, there was no material difference in the actual and estimated amounts.

Remuneration report *continued*

Sign-on and severance payments for Key Risk Takers

As mentioned above, the Group as a principle does not grant sign-on or severance payments. However, if circumstances in the Group's interest warrant such payments, these can be approved through a clear governance process. With regard to the disclosure of sign-on and severance payments for the individuals considered to be KRTs for the Group, the following sign-on and severance payments were committed to this group of individuals in 2013 and in 2012:

Sign-on and severance payments for Key Risk Takers

in USD million, for the years ended December 31	2013		2012	
	Amount[3] (USD m)	Number of beneficiaries	Amount[3] (USD m)	Number of beneficiaries
Sign-on payments/number of beneficiaries[1]	2	4	3	6
Severance payments/number of beneficiaries[2]	0.6	1	2	5

[1] "Sign-on payments" are payments (whether paid immediately or over time) that are agreed on the execution of an employment contract.
[2] "Severance payments" are payments that are provided in connection with the termination of an employment relationship. Zurich does not include under the term "severance payments" garden leave or similar payments for employees in jurisdictions where such payments are required by applicable law, or where they are based on contractual notice periods which conform with recognized market practice, or where they are non-contractual but in line with recognized market practice. However, Zurich does include garden leave or similar payments that go beyond recognized market practice, irrespective of whether these are provided pursuant to an agreement or are ex gratia.
[3] "Payments" in this respect include cash, shares, benefits, and incentives foregone with a previous employer or anything else of monetary value.

Amendments to Long Term Incentive Plan (LTIP) in 2014

During 2013, the Remuneration Committee reviewed the design and operation of the LTIP. The aims of the review were to ensure that the LTIP

- takes into account the latest best practice principles among insurance companies in the United Kingdom, the United States, Europe and Switzerland, and views from proxy-advisors and shareholders;
- is closely aligned to the achievement of the long-term strategic goals and the delivery of value for shareholders; and
- helps drive sustained performance, providing a key element in the motivation, retention and attraction of executive talent.

Main features of the new LTIP as of 2014

Based on the recommendations of the Remuneration Committee, the Board approved on February 12, 2014 a number of changes to the LTIP. The main features of the new LTIP as of January 1, 2014 are described below.

Performance measures

The LTIP continues to be granted as performance-based target shares (Target Shares) with the vesting of these Target Shares subject to specific performance achievements over a three-year period. The performance measures will be aligned to the Group's new strategic goals for 2014–2016. A balanced scorecard of relative TSR, NIAS return on common shareholders' equity (NIAS ROE) and cash remittance will be used to assess the Group's performance for vesting decisions. Each of the measures will be assessed separately over the three-year period with a one-third equal weighting. The measures will be calibrated as follows:

Long-Term Incentive Plan Vesting Grid effective January 1, 2014

	0% vesting	50% vesting	100% vesting	150% vesting	200% vesting
Relative TSR position	13^{th}–18^{th}	10^{th}–12^{th}	7^{th}–9^{th}	4^{th}–6^{th}	1^{st}–3^{rd}
	0% vesting	50% vesting	100% vesting	150% vesting	200% vesting
NIAS ROE[1]	<9.75% pa	9.75% pa	12% pa	13.125% pa	≥14.25% pa
	0% vesting	50% vesting	100% vesting	150% vesting	200% vesting
Cash Remittance	<USD 8.0 billion	USD 8.0 billion	USD 9 billion	USD 9.5 billion	≥USD 10.0 billion

[1] In line with the methodology used to calculate the ROE with effect from January 1, 2014, the calculation of equity will exclude unrealized investment gains or losses.

The Remuneration Committee reviewed the peer companies to be included in the relative TSR assessment to ensure that the peer group exhibits a strong TSR correlation and reflects the Group's business profile and geographic spread. As a result, the following 18 companies taken from the Dow Jones Insurance Titans 30 Index have been selected for assessing TSR performance effective from January 1, 2014: Ace, AIG, Allianz, Allstate, Aviva, AXA, Chubb, Generali, Legal & General, Manulife Financial Corp., Met Life, Munich Re, Progressive Ohio, Prudential Plc, QBE, Swiss Re, Travelers Cos. Inc. and Zurich. TSR is calculated for all companies in Swiss francs.

Vesting, performance and holding period

The LTIP in 2013 and prior years included phased annual vesting of grants, in three equal tranches at the end of the 1^{st}, 2^{nd} and 3^{rd} year after grant. Performance was measured over the three financial years ending in the relevant financial year immediately before each vesting date. Half of the vested shares were sales-restricted for three years from each of the respective vesting dates. The 2013 LTIP approach is described in more detail on pages 81 and 82.

With effect from January 1, 2014, the Board has decided to make the transition to "three-year cliff-vesting". This approach is better aligned with market practice, with vesting of the whole LTIP grant being deferred until the third anniversary of the grant date. Performance will be measured over the three financial years starting with the year of grant. This will connect the LTIP more strongly to the new Group strategy and the long-term goals.

In addition to the longer vesting period with cliff-vesting, there will continue to be a requirement for LTIP participants to hold one half of all vested shares for an additional period of three years following the vesting date. This takes the overall vesting and holding period to six years for this part of the award.

Remuneration report *continued*

Dividend equivalent shares

In reviewing latest market practice principles for LTIP the Remuneration Committee and the Board also considered the practice of crediting dividend equivalents during the vesting period. Based on this review and given the significant value of the dividend, to further align the executives with the interests of the shareholders, it was decided that from the 2014 LTIP grant onwards, there will be the possibility that additional shares accrue to participants at the vesting date to compensate for the dividend paid during the vesting period:

- The number of additional shares to be credited takes into account the dividends paid to shareholders between the date of grant and the date of vesting.
- The cash dividend is calculated on the number of Target Shares provided at the grant date and is converted into additional shares based on the market share price prior to the dividend payment.
- At the vesting date, the original number of Target Shares plus the "dividend equivalent" Target Shares will in aggregate be assessed for vesting based on the performance achievements against the vesting grid. In this way only the number of shares vesting will be eligible for accrual of dividend equivalent shares. Further, no dividends will accrue on the dividend equivalent shares.

Transition Arrangements

The transition to three-year cliff-vesting results in a reduction in the total target earning opportunity during the transition period compared to the previous LTIP vesting system. This impacts LTIP participants who joined the plan prior to year 2014. The Board has decided to make various transitional arrangements to allow these LTIP participants the possibility to maintain their cumulative target earning opportunity during the transition period.

2014 LTIP grant and vesting schedule

To transition to a three-year cliff vesting, the 2014 LTIP grant will vest one third after two years (i.e. 2016), and two-thirds after three years (i.e. 2017). From the 2015 LTIP grants onwards, three-year cliff-vesting for 100 percent of the grant will apply.

Application of the new performance framework for vesting decisions in 2015 and 2016

The new performance framework set out in this section will also be applied to assess vesting decisions in 2015 and 2016 for the tranches of the 2012, 2013 and 2014 grants that will be assessed for vesting in these years. This ensures that with effect from January 1, 2014 all LTIP participants are focused on the new set of performance measures and vesting grid.

Due to the potential volatility in any one year, the assessment of cash remittance performance can only meaningfully be assessed over a three-year period. Therefore, the cash remittance measure will be replaced by the Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE) for the vesting decisions in 2015 and 2016. The BOPAT ROE measure increases the focus on profitability in line with the Group strategy and it will be assessed using the same vesting grid that applies to the NIAS ROE as set out in the table above on page 97.

Transition grant

With the move to a three-year cliff-vesting and the vesting schedule described above for 2014 LTIP grant, the Remuneration Committee observed that there was still a shortfall in target earning opportunities, compared to the annual tranches, during the transition period for those LTIP participants who joined the plan prior to year 2014. Having reviewed a number of alternatives the Board decided to close the gap through a grant of supplementary performance shares in 2014 (Transition Grant) equal in value to the 2014 year's LTIP grant value and to be assessed for vesting in equal amounts in 2015, 2016 and 2017. The Transition Grant ensures that the LTIP participants maintain their cumulative target earning opportunity during the transition period.

In assessing transition solutions for the GEC members, the Board wanted to ensure the GEC members further increase their long-term alignment with shareholders. The Board therefore decided to make the Transition Grant in two installments and in the case of the CEO, in three installments, instead of in one grant. For GEC members, the vesting of these two grants will occur over 2015 to 2018. For the CEO, the vesting of the three grants will occur over 2015 to 2019. The table on page 99 illustrates the Transition Grant and the vesting schedule.

Transition Grant in Performance Shares for Existing LTIP Participants

	Year of vesting[1]					
	2014	2015	2016	2017	2018	2019
Transition Grant LTIP participants (excl GEC)						
Grant in 2014		1/3rd vest	1/3rd vest	1/3rd vest		
Transition Grant GEC (excl CEO)						
1/2 Grant in 2014		1/6th vest	1/6th vest	1/6th vest		
1/2 Grant in 2015			1/6th vest	1/6th vest	1/6th vest	
Transition Grant CEO						
1/3 Grant in 2014		1/9th vest	1/9th vest	1/9th vest		
1/3 Grant in 2015			1/9th vest	1/9th vest	1/9th vest	
1/3 Grant in 2016				1/9th vest	1/9th vest	1/9th vest

[1] One half of all vested shares is subject to a three-year sales-restriction. For GEC members, this means that the last restriction on the Transition Grant will lapse in 2021 and for the CEO in 2022.

The vesting level for the Transition Grants will be assessed based on the actual achievements against the Group performance measures set out above in the vesting grid. With this transition solution the Board ensured that all grants vesting in 2015, 2016 and 2017 will be based on the Group's performance. The three-year sales-restrictions that apply to vested shares under the regular LTIP will also apply to the Transition Grants and no dividend equivalents will accrue on the Transition Grants. Overall, the changes to the LTIP including the transition arrangements are expected to be funded out of the regular LTIP expense.

Group performance review

In this section

Operating and financial review

The Operating and financial review is the management analysis of the business performance of Zurich Insurance Group Ltd and its subsidiaries, collectively the Group, for the year ended December 31, 2013, compared with 2012. It also explains key aspects of the Group's financial position as of the end of 2013.

Contents

The information contained within the Operating and financial review is unaudited and is based on the consolidated results of the Group for the years ended December 31, 2013 and 2012 and the financial position as of December 31, 2013 and December 31, 2012. All amounts are shown in U.S. dollars and 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. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts. This document should be read in conjunction with the Annual Report 2013 of the Group and, in particular, with its Consolidated financial statements as of December 31, 2013. Certain comparative figures have been restated, as set out in note 1 of the Consolidated financial statements.

In addition to the figures stated in accordance with the International Financial Reporting Standards (IFRS), the Group uses business operating profit (BOP), new business measures and other performance indicators to enhance the understanding of its results. Details of these additional measures are set out in the separately published Glossary and the Embedded value report. These should be viewed as complementary to, and not as substitutes for the IFRS figures. For a reconciliation of BOP to net income attributable to shareholders, see note 28 of the Consolidated financial statements.

Financial highlights

in USD millions, for the years ended December 31, unless otherwise stated	2013	2012[1]	Change[2]
Business operating profit	**4,680**	4,084	15%
Net income attributable to shareholders	**4,028**	3,887	4%
General Insurance gross written premiums and policy fees	**36,438**	35,610	2%
Global Life gross written premiums, policy fees and insurance deposits	**27,095**	30,259	(10%)
Farmers Management Services management fees and other related revenues	**2,810**	2,846	(1%)
Farmers Re gross written premiums and policy fees	**4,045**	4,361	(7%)
General Insurance business operating profit	**2,859**	2,112	35%
General Insurance combined ratio	**95.5%**	98.4%	2.9 pts
Global Life business operating profit	**1,272**	1,351	(6%)
Global Life new business annual premium equivalent (APE)[3]	**4,418**	4,030	10%
Global Life new business margin, after tax (as % of APE)[3]	**28.3%**	22.1%	6.2 pts
Global Life new business value, after tax[3]	**1,251**	890	41%
Farmers business operating profit	**1,516**	1,402	8%
Farmers Management Services gross management result	**1,353**	1,366	(1%)
Farmers Management Services managed gross earned premium margin	**7.2%**	7.3%	(0.1 pts)
Average Group investments	**208,431**	204,066	2%
Net investment result on Group investments	**7,398**	8,983	(18%)
Net investment return on Group investments[4]	**3.5%**	4.4%	(0.9 pts)
Total return on Group investments[4]	**1.3%**	7.0%	(5.7 pts)
Shareholders' equity	**32,503**	34,505	(6%)
Swiss Solvency Test capitalization ratio[5]	**206%**	185%	21 pts
Diluted earnings per share (in CHF)	**25.23**	24.72	2%
Book value per share (in CHF)	**196.14**	214.86	(9%)
Return on shareholders' equity (ROE)	**12.0%**	11.8%	0.2 pts
Business operating profit (after tax) return on shareholders' equity (BOPAT ROE)	**10.5%**	9.3%	1.2 pts

1 December 31, 2012 has been restated as set out in note 1 of the Consolidated financial statements.
2 Parentheses around numbers represent an adverse variance.
3 New business amounts are calculated on embedded value principles before the effect of non-controlling interests. See Embedded value report for details of these principles. New business amounts for the year ended December 31, 2012 do not include Zurich Santander or new operations in Asia (including Zurich Insurance Malaysia Berhad – ZIMB).
4 Calculated on average Group investments.
5 Ratios as of July 1, 2013 and January 1, 2013, respectively, are calculated based on the Group's internal model, which is subject to the review and approval of the Group's regulator, the Swiss Financial Market Supervisory Authority (FINMA).

Operating and financial review *continued*

Performance overview for the year ended December 31, 2013

The Group delivered solid results in all core businesses with overall business operating profit of USD 4.7 billion, an increase of USD 596 million or 15 percent compared with 2012. These results together with the Group's continued strong capital position have again enabled the Board of Directors to propose an attractive dividend of CHF 17.00 per share.

The performance in the core businesses was achieved through continued focus on profitability, underpinned by the sustained execution of the Group's product, underwriting and pricing strategies. The result also benefited from lower major catastrophe events in 2013, though this benefit was partly offset by a higher level of large and weather-related losses. Overall the performance has more than absorbed the impact of the decrease in investment income resulting from persistent low investment yields.

Improvement in profitability continued while the Group's focus on growth was maintained in its priority markets in both General Insurance and Global Life.

The Group's solvency measured on an economic basis as determined under the Swiss Solvency Test improved by 21 percentage points, rising to 206 percent as of July 1, 2013. Shareholders' equity decreased by USD 2.0 billion to USD 32.5 billion during 2013 including net income attributable to shareholders of USD 4.0 billion, and after a decrease in net unrealized gains on investments of USD 2.8 billion, and the dividend of USD 2.7 billion paid in April 2013.

Business operating profit increased by USD 596 million to USD 4.7 billion, or by 15 percent in both U.S. dollar terms and on a local currency basis.

- **General Insurance** business operating profit increased by USD 747 million to USD 2.9 billion, or by 35 percent both in U.S. dollar terms and on a local currency basis. The underlying loss experience and expenses improved in 2013 compared with 2012, with savings initiatives to reduce expenses reflected in a lower expense ratio. The business also benefited from lower major catastrophe events. These improvements were partly offset by an increase in large and weather-related losses. Investment income declined compared with 2012.

- **Global Life** business operating profit decreased by USD 80 million to USD 1.3 billion, or by 6 percent in U.S. dollar terms and 4 percent on a local currency basis. Increases in Latin America were more than offset by reductions in North America, Europe and Asia-Pacific and Middle East (APME). Improvements from the increased contribution from Zurich Santander, after non-controlling interests, and improvements in the expense and risk margins, were largely offset by a significant reduction in the investment margin and a lower level of positive special operating items, which included a charge of USD 30 million resulting from the closure of the agency distribution channel in Hong Kong.

- **Farmers** business operating profit increased by USD 114 million to USD 1.5 billion, or by 8 percent. This was due to an improved underwriting result in Farmers Re, benefiting from rate increases and the re-underwriting of business in the Farmers Exchanges, which are owned by their policyholders and managed by Farmers Group, Inc., a wholly owned subsidiary of the Group. **Farmers Management Services** business operating profit decreased by USD 38 million to USD 1.4 billion, mainly due to a decrease in management fees and other related revenues as well as lower investment income. This decrease was more than offset by the improved underwriting result in **Farmers Re** where business operating profit improved by USD 152 million to USD 125 million.

- **Other Operating Businesses** reported a business operating loss of USD 1.0 billion. This 14 percent deterioration compared with 2012 resulted mainly from decreased investment income in Holding and financing and several non-recurring items in the Headquarters result.

- **Non-Core Businesses** reported a business operating profit of USD 73 million compared with USD 129 million in 2012. This reduction resulted from a one-off gain in 2012 included in Other run-off.

Business volumes for the core business segments, comprising gross written premiums, policy fees, insurance deposits and management fees, decreased by USD 2.7 billion to USD 70.4 billion, or by 4 percent in U.S. dollar terms and 3 percent on a local currency basis.

- **General Insurance** gross written premiums and policy fees increased by USD 828 million to USD 36.4 billion, or by 2 percent in U.S. dollar terms and 3 percent on a local currency basis, led by markets where the Group has targeted growth.

- **Global Life** gross written premiums, policy fees and insurance deposits decreased by USD 3.2 billion to USD 27.1 billion, or by 10 percent both in U.S. dollar terms and on a local currency basis. Growth in gross written premiums in the higher-margin protection business was more than offset by an expected reduction in insurance deposits in the UK, due to discontinuation of low-margin single premium products in Private Banking Client Solutions.

- **Farmers Management Services** management fees and other related revenues of USD 2.8 billion decreased by USD 36 million, or by 1 percent, among other factors due to lower levels of fees on new business policies. **Farmers Re** gross written premiums decreased by 7 percent to USD 4.0 billion, reflecting a reduced participation in the quota share reinsurance agreements with the Farmers Exchanges, as well as a 2 percent reduction in gross written premiums in the Farmers Exchanges.

Net income attributable to shareholders increased to USD 4.0 billion, an increase of USD 141 million or 4 percent compared with 2012. The increase in business operating profit was partly offset by lower net capital gains on investments and by several non-recurring costs relating to the restructuring of business operations. **The shareholders' effective tax rate** was 24.9 percent for the year ended December 31, 2013, compared with 24.7 percent for the year ended December 31, 2012.

ROE of 12.0 percent and **BOPAT ROE** of 10.5 percent improved by 0.2 percentage points and 1.2 percentage points respectively compared with 2012 driven by the increased earnings. **Diluted earnings per share** increased by 2 percent to CHF 25.23 for the year ended December 31, 2013, compared with CHF 24.72 in 2012.

Operating and financial review *continued*

General Insurance

in USD millions, for the years ended December 31	2013	2012	Change
Gross written premiums and policy fees	36,438	35,610	2%
Net earned premiums and policy fees	29,769	29,195	2%
Insurance benefits and losses, net of reinsurance	(20,321)	(20,527)	1%
Net underwriting result	1,347	479	nm
Net investment income	2,217	2,516	(12%)
Net non-technical result (excl. items not included in BOP)	(799)	(901)	11%
Business operating profit	**2,859**	**2,112**	**35%**
Loss ratio	68.3%	70.3%	2.0 pts
Expense ratio	27.2%	28.0%	0.8 pts
Combined ratio	**95.5%**	**98.4%**	**2.9 pts**

in USD millions, for the years ended December 31	Business operating profit (BOP)		Combined ratio	
	2013	2012	2013	2012
Global Corporate	879	498	92.3%	99.1%
North America Commercial	972	699	95.3%	99.7%
Europe	1,009	702	94.5%	97.2%
International Markets	115	165	100.7%	98.7%
GI Global Functions including Group Reinsurance	(116)	49	nm	nm
Total	**2,859**	**2,112**	**95.5%**	**98.4%**

Business operating profit increased by USD 747 million to USD 2.9 billion, or by 35 percent in both U.S. dollar terms and on a local currency basis. The underwriting result improved by USD 868 million to USD 1.3 billion. Persistent low investment yields resulted in a decrease in net investment income, which was partly offset by increased investment capital gains recognized in business operating profit. Non-technical expenses were also lower as a result of several non-recurring items.

Gross written premiums and policy fees increased by USD 828 million to USD 36.4 billion, or by 2 percent in U.S. dollar terms and 3 percent on a local currency basis. Growth was achieved in Global Corporate, North America Commercial and in all International Markets. Premium growth was particularly strong in Global Corporate, both in North America and in Europe, as well as in North America Commercial, with the North American businesses benefiting from improving economic conditions and from the market environment, which continued to support rate increases. Premiums in International Markets, particularly on a local currency basis, increased as these businesses executed growth strategies.

The **net underwriting result** increased by USD 868 million to USD 1.3 billion, reflected in the 2.9 percentage points improvement in the combined ratio to 95.5 percent. The net underwriting result benefited from improvements in the underlying loss experience as well as from lower major catastrophe events. The improvement also reflected a higher level of favorable development of reserves established in prior years. These positive developments were partly offset by an increase in both large and weather-related losses. The expense ratio improved as the business continued to focus successfully on achieving savings in other underwriting expenses in mature markets while investing in priority markets.

Global Corporate

in USD millions, for the years ended December 31	2013	2012	Change
Gross written premiums and policy fees	9,264[1]	8,609	8%
Net underwriting result	466	50	nm
Business operating profit	**879**	**498**	**77%**
Loss ratio	73.6%	78.0%	4.5 pts
Expense ratio	18.8%	21.1%	2.3 pts
Combined ratio	**92.3%**	**99.1%**	**6.8 pts**

[1] including internal business transfers from North America Commercial

Business operating profit increased by USD 381 million to USD 879 million due to the increase in the underwriting result. Persistent low investment yields resulted in a decrease in net investment income, which was partly offset by increased investment capital gains recognized in business operating profit, primarily in the U.S.

Gross written premiums and policy fees increased by USD 655 million to USD 9.3 billion, or by 8 percent in both U.S. dollar terms and on a local currency basis. Internal business transfers from North America Commercial begun in 2012 accounted for approximately 1 percent of this growth. Strong renewals and new business production levels were achieved in both Europe and North America despite a continued focus on achieving rate increases and profitable underwriting. Rates increased by 4 percent in 2013, driven by motor, by workers' compensation in both North America and Europe and by liability in North America.

The **net underwriting result increased** by USD 416 million to USD 466 million, reflected in the improvement of 6.8 percentage points in the combined ratio to 92.3 percent. This improvement arose principally from the loss ratio, which benefited from lower major catastrophe events, in contrast to 2012 which was impacted by storm Sandy. This was partly offset by adverse individual large losses and prior year premiums. The expense ratio also improved by 2.3 percentage points as a result of disciplined expense management and non-recurring one-off items.

Operating and financial review *continued*

North America Commercial

in USD millions, for the years ended December 31	2013	2012	Change
Gross written premiums and policy fees	10,215[1]	10,003	2%
Net underwriting result	362	26	nm
Business operating profit	**972**	**699**	**39%**
Loss ratio	68.0%	71.4%	3.4 pts
Expense ratio	27.2%	28.2%	1.0 pts
Combined ratio	**95.3%**	**99.7%**	**4.4 pts**

[1] after internal business transfers to Global Corporate

Business operating profit increased by USD 273 million to USD 972 million, or by 39 percent, driven by an increase in the underwriting result. Persistent low investment yields resulted in a decrease in net investment income, which was partly offset by increased investment capital gains recognized in business operating profit and lower non-technical expenses.

Gross written premiums and policy fees increased by USD 212 million to USD 10.2 billion, or by 2 percent. Underlying growth was 6 percent after adjusting for internal business transfers to Global Corporate and a fronted portfolio that was not renewed. This underlying premium growth arose from the continued improvement in economic and market conditions in North America and the successful execution of growth initiatives targeting the construction, real estate, healthcare and technology industries. These initiatives also targeted special lines products and the captive and auto warranty businesses. Volume in property lines was particularly strong, fuelled by growth initiatives and rate increases. The rate environment also remained favorable in other major lines, including workers' compensation and liability, where focus remained on profitable underwriting. Overall, rate increases of 5 percent were achieved during 2013.

The **net underwriting result** increased by USD 336 million to USD 362 million, which was reflected in the improvement of 4.4 percentage points in the combined ratio to 95.3 percent. The underlying loss ratio continued to show improvement compared with 2012 reflecting the favorable impact of sustained rate increases, as well as the impact of claims and underwriting initiatives. The underwriting result also benefited from lower major catastrophe events compared with 2012 which was impacted by storm Sandy. In 2013, changes in loss reserves established in prior years were negligible compared with favorable development in 2012. The expense ratio improved by 1.0 percentage points, reflecting the benefits of efficiency and savings initiatives which reduced other underwriting expenses. This was partly offset by an increase in the commission ratio following a shift toward business with higher commission rates.

Europe

in USD millions, for the years ended December 31	2013	2012	Change
Gross written premiums and policy fees	11,799	11,882	(1%)
Net underwriting result	640	324	97%
Business operating profit	**1,009**	**702**	**44%**
Loss ratio	67.4%	69.9%	2.5 pts
Expense ratio	27.1%	27.4%	0.3 pts
Combined ratio	**94.5%**	**97.2%**	**2.8 pts**

Business operating profit increased by USD 307 million to USD 1.0 billion, or by 44 percent in U.S. dollar terms and 42 percent on a local currency basis. This improvement reflected a significant increase in the underwriting result, which was partly offset by lower investment income as a result of persistent low investment yields. Non-technical expenses were also lower and benefited from several non-recurring items.

Gross written premiums and policy fees decreased by USD 83 million to USD 11.8 billion, or by 1 percent in U.S. dollar terms and 2 percent on a local currency basis. The lower volume resulted from continued focus on profitability and the impact of the challenging economic environment. Average rate increases of 3 percent were achieved in 2013.

The **net underwriting result** increased by USD 316 million to USD 640 million, which was reflected in the improvement in the combined ratio of 2.8 percentage points to 94.5 percent. The improvement in the loss ratio of 2.5 percentage points stemmed from continued improvements in the underlying loss ratio, particularly in Germany, Italy, the UK and Ireland. This was a result of sustained pricing and underwriting actions and a higher level of favorable development of reserves established in prior years, which in 2012 included the significant reserve strengthening in Germany. These improvements were partly offset by an increase in weather-related losses, including floods in Europe and individual large losses. The expense ratio improved by 0.3 percentage points, reflecting lower commissions and a focus on expense management.

Operating and financial review *continued*

International Markets

in USD millions, for the years ended December 31	2013	2012	Change
Gross written premiums and policy fees	5,700	5,603	2%
Net underwriting result	(29)	54	nm
Business operating profit	**115**	**165**	**(30%)**
Loss ratio	61.7%	60.3%	(1.4 pts)
Expense ratio	38.9%	38.4%	(0.5 pts)
Combined ratio	**100.7%**	**98.7%**	**(1.9 pts)**

Business operating profit decreased by USD 50 million to USD 115 million, or by 30 percent in U.S. dollar terms and 31 percent on a local currency basis. The decrease in the underwriting result was partly offset by a one-off gain included in the non-technical result from the sale of own-use real estate in Taiwan.

Gross written premiums and policy fees increased by USD 97 million to USD 5.7 billion, or by 2 percent in U.S. dollar terms and 12 percent on a local currency basis. Growth in Latin America of 18 percent on a local currency basis was generated mainly in Mexico and Brazil. Asia-Pacific achieved an increase of 8 percent on a local currency basis, with particularly strong growth in Australia, Japan and Hong Kong. Premiums in the Middle East and Africa increased by 2 percent on a local currency basis.

The **net underwriting result** deteriorated by USD 83 million, which was reflected in the 1.9 percentage points deterioration in the combined ratio to 100.7 percent. Losses from floods in Queensland, Australia, higher large losses in Latin America and slightly lower favorable development in loss reserves established in prior years were reflected in the deterioration of 1.4 percentage points in the loss ratio. The expense ratio deteriorated by 0.5 percentage points compared with 2012, a result of higher and partly non-recurring other underwriting expenses in Latin America and higher commissions in Asia-Pacific.

Global Life

in USD millions, for the years ended December 31	2013	2012	Change
Insurance deposits	13,180	16,670	(21%)
Gross written premiums and policy fees	13,916	13,590	2%
Net investment income on Group investments	3,895	3,991	(2%)
Insurance benefits and losses, net of reinsurance	(9,167)	(9,592)	4%
Business operating profit	**1,272**	**1,351**	**(6%)**
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts (net reserves)[1]	226,166	213,982	6%
Assets under management[1, 2]	267,202	253,509	5%
Net policyholder flows[3]	(2,694)	1,431	nm

[1] As of December 31, 2013 and December 31, 2012, respectively. Restated as set out in note 1 of the Consolidated financial statements.
[2] Assets under management comprise Group and unit-linked investments that are included in the Global Life balance sheet plus assets that are managed by third parties, on which fees are earned.
[3] Net policyholder flows are defined as the sum of gross written premiums and policy fees and insurance deposits, less policyholder benefits.

	2013	2012	Change
New business – highlights[1, 2]			
New business annual premium equivalent (APE)	**4,418**	**4,030**	**10%**
Present value of new business premiums (PVNBP)	40,586	35,296	15%
New business margin, after tax (as % of APE)	**28.3%**	**22.1%**	**6.2 pts**
New business margin, after tax (as % of PVNBP)	3.1%	2.5%	0.6 pts
New business value, after tax	**1,251**	**890**	**41%**

[1] New business amounts are calculated on embedded value principles before the effect of non-controlling interests, details of which are included in the Embedded value report.
[2] New business amounts for 2012 did not include Zurich Santander or the new operations in Asia (including Zurich Insurance Malaysia Berhad – ZIMB).

Profit by source[1]

in USD millions, for the year ended December 31	New business		Business in-force		Total	
	2013	2012	2013	2012	2013	2012
Net expense margin	(1,340)	(1,434)	1,523	1,410	183	(23)
Net risk margin			821	769	821	769
Net investment margin[2]			579	716	579	716
Other profit margins[2]			19	27	19	27
BOP before deferrals	(1,340)	(1,434)	2,942	2,923	1,602	1,489
Impact of acquisition deferrals	1,074	1,167	(886)	(903)	188	264
BOP before interest, depreciation and amortization	(266)	(266)	2,056	2,019	1,790	1,753
Interest, depreciation and amortization			(291)	(273)	(291)	(273)
Non-controlling interests[3]			(232)	(146)	(232)	(146)
BOP before special operating items	(266)	(266)	1,532	1,600	1,267	1,333
Special operating items			5	18	5	18
Business operating profit	**(266)**	**(266)**	**1,537**	**1,617**	**1,272**	**1,351**

[1] See Glossary for an explanation of profit by source.
[2] Following a change in the relative weight of margins in Germany, policyholder impacts which relate to more than one margin have been reclassified from investment margin into other profit margins. Figures for 2012 have been restated.
[3] Non-controlling interests pertaining to special operating items are excluded from this line and are offset against special operating items.

Operating and financial review *continued*

Business operating profit decreased by USD 80 million to USD 1.3 billion, or by 6 percent in U.S. dollar terms and 4 percent on a local currency basis, with increases in Latin America more than offset by reductions in North America, Europe and APME.

The net expense margin improved overall by USD 206 million. Business in-force reflected significant expense reductions in mature markets, while improvements in fund-based fees were offset by a reduction in premium-based fees as a result of lower levels of business in Germany. New business benefited from lower acquisition expenses, albeit this effect was entirely offset by the lower positive impact of acquisition deferrals. The net risk margin improved by USD 52 million, resulting from the underlying growth in protection business and positive experience in Latin America, which also included a full-year contribution from the social security (SIS) contract in Chile acquired in 2012. Persistently low investment yields continued to affect the investment margin, which decreased by USD 138 million, principally in Germany and North America.

Other profit margins decreased by USD 8 million to USD 19 million. An increase of USD 162 million compared with 2012 related to Zurich Santander, before the effect of non-controlling interests, was more than offset by the cost of business expansion in North America, Latin America and APME, and in Germany the indirect impact of lower investment yields and local statutory requirements, including the 'Zinszusatzreserve' (a reserve for supplementary interest).

Non-controlling interests increased by USD 86 million, primarily due to the higher contribution from Zurich Santander. After deducting non-controlling interests, the net contribution to business operating profit from Zurich Santander was USD 182 million, compared with USD 105 million in 2012. The impact of acquisition deferrals declined by USD 76 million, as a result of lower deferrals of new business expenses, partly offset by lower net amortization of deferred expenses on business in-force, driven by movements in equity markets. Special operating items decreased by USD 13 million to USD 5 million. This decrease resulted mainly from a charge for the reassessment of deferred acquisition costs of USD 30 million following the closure of the agency distribution channel in Hong Kong. Special operating items also included a benefit from the reduction of a liability largely offset by the impact of accelerated amortization of deferred acquisition costs, both in the UK.

Insurance deposits decreased by USD 3.5 billion to USD 13.2 billion, or by 21 percent both in U.S. dollar terms and on a local currency basis. This reduction was predominantly in the UK, driven by a reduction of single premium products in Private Banking Client Solutions following the implementation of new regulations on intermediary commission payments from the beginning of 2013.

Gross written premiums and policy fees increased by USD 326 million to USD 13.9 billion, or by 2 percent in U.S. dollar terms and 3 percent on a local currency basis compared with 2012, benefiting from increased volumes of protection business, particularly in Latin America.

Net reserves increased by USD 12.2 billion, or by 6 percent in U.S. dollar terms and 4 percent on a local currency basis, compared with December 31, 2012, primarily reflecting increased values of unit-linked assets. **Assets under management** increased by 5 percent in U.S. dollar terms and 4 percent on a local currency basis compared with December 31, 2012, driven by unit-linked asset growth and favorable exchange rate movements. Total assets under management for unit-linked portfolios increased by 8 percent on a local currency basis, primarily as a result of increases in equity markets in Europe. Net policyholder flows were a net outflow of USD 2.7 billion compared with a net inflow of USD 1.4 billion in 2012, as a result of a combination of lower inflows from insurance deposits in the UK and higher net outflows from traditional portfolios in Germany.

NBV, APE, NBM and BOP by region

in USD millions, for the years ended December 31	New business value, after tax (NBV)		New business annual premium equivalent (APE)		New business margin, after tax (as % of APE) (NBM)		Business operating profit (BOP)	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
North America	117	109	162	125	72.4%	87.1%	173	243
Latin America[1, 2]	368	99	1,178	755	31.2%	13.2%	245	155
of which:								
Zurich Santander	*268*	–	*821*	–	*32.6%*	–	*182*	*105*
Europe	490	453	2,376	2,538	20.6%	17.9%	778	819
United Kingdom	*167*	*195*	*1,019*	*1,194*	*16.4%*	*16.4%*	*169*	*306*
Germany	*43*	*37*	*363*	*453*	*11.8%*	*8.2%*	*185*	*140*
Switzerland	*60*	*25*	*225*	*220*	*26.7%*	*11.5%*	*241*	*259*
Ireland	*68*	*66*	*420*	*355*	*16.1%*	*18.5%*	*51*	*26*
Spain	*117*	*94*	*155*	*149*	*75.4%*	*62.9%*	*42*	*14*
Rest of Europe	*35*	*36*	*195*	*167*	*17.9%*	*21.5%*	*88*	*74*
APME[1, 2]	177	125	530	464	33.5%	26.9%	83	134
Other	99	103	173	147	57.4%	70.1%	(7)	–
Total	**1,251**	**890**	**4,418**	**4,030**	**28.3%**	**22.1%**	**1,272**	**1,351**

NBV and APE by pillar[1, 2]

in USD millions, for the years ended December 31	New business value (NBV), after tax		New business annual premium equivalent (APE)		New business margin, after tax (as % of APE)	
	2013	2012	**2013**	2012	**2013**	2012
Bank Distribution	435	134	1,348	485	32.3%	27.6%
IFA/Brokers	274	233	1,003	972	27.3%	24.0%
Agents	203	152	473	428	42.9%	35.6%
Total Retail pillars	**912**	**519**	**2,824**	**1,885**	**32.3%**	**27.5%**
Corporate Life & Pensions	293	285	1,409	1,703	20.8%	16.7%
Private Banking Client Solutions	4	24	118	319	3.6%	7.4%
Direct and Central Initiatives	41	61	68	122	60.4%	50.2%
Total	**1,251**	**890**	**4,418**	**4,030**	**28.3%**	**22.1%**

[1] New business amounts are calculated before the effect of non-controlling interests and, for 2012, did not include Zurich Santander and the new operations in Asia (including ZIMB).
[2] Zurich Santander and ZIMB new business amounts for the full year 2012 were not included in the Embedded value report nor subjected to audit. Estimates of those figures are as follows: Zurich Santander NBV: USD 182 million, APE: USD 701 million, NBM: 26.0 percent; ZIMB NBV: USD 13 million, APE: USD 35 million, NBM: 36.6 percent.

Global Life continued to benefit from its acquisitions and investment in organic growth in priority markets, while maintaining focus on shifting its product mix from traditional savings business toward protection and unit-linked products and on leveraging its global bank distribution and corporate life relationships. Zurich Santander and ZIMB new business has been included in 2013, but was not reported in 2012.

New business value increased by USD 361 million to USD 1.3 billion, or by 41 percent in U.S. dollar terms and 43 percent on a local currency basis. This increase was driven by the first-time inclusion of Zurich Santander, which contributed USD 268 million, as well as by strong performance in all regions led by volume growth in protection products.

In North America, the IFA/Brokers pillar continued to gain momentum. This led to an overall APE growth of 29 percent and an increase in new business value of 7 percent. Changes in business mix resulted in a lower but still high new business margin of 72.4 percent.

Operating and financial review *continued*

In Europe, the overall increase of USD 36 million in new business value was primarily driven by Switzerland and Spain. Changes in product mix and management actions in Switzerland continued to reduce exposure to interest rate guarantees and this, together with strong volume growth in corporate business, led to higher margins and an increase in new business value. New business value grew in Spain following volume and margin increases from higher-margin protection products. These positive impacts were partly offset by a decrease in the UK following the implementation of the new regulations.

In APME, new business value grew in all countries, with the most significant increase coming from protection business in the Middle East. The first-time inclusion in 2013 of new operations in Asia also had a positive impact.

APE increased by USD 388 million to USD 4.4 billion, or by 10 percent in U.S. dollar terms and 11 percent on a local currency basis, benefiting from the first time inclusion of USD 821 million from Zurich Santander. This was partly offset by lower levels of single premium products in Private Banking Client Solutions, following the implementation of new regulations in the UK, and a reduction of APE in Chile, where 2012 included the impact from the successful participation in the biennial Social Security (SIS) bid process. No additional APE was recorded on this contract in 2013. On a comparable basis, excluding these large impacts as well as the contribution from Zurich Santander, APE increased by 6 percent in U.S. dollar terms with increases in protection and corporate savings business offset by reductions in unit-linked savings business in the UK and Germany.

New business margin increased by 6.2 percentage points to 28.3 percent, primarily due to the effects of changes in product mix, reflecting strong volume growth of higher-margin protection business in all regions, including Zurich Santander, the impact of the SIS contract which reduced margin in 2012 and lower volumes of lower-margin savings and unit-linked business in Europe. In Switzerland and Spain, new business margin increased significantly following changes in product mix and management actions.

In **Retail pillars**, new business value overall increased by USD 393 million to USD 912 million, or by 76 percent in U.S. dollar terms and 79 percent on a local currency basis. Growth was reported across all regions, with the largest increase occurring in Bank Distribution as a result of the first time inclusion of Zurich Santander, which generated exceptionally strong protection business volumes in Brazil during 2013.

In **Corporate Life & Pensions**, new business value increased by USD 8 million to USD 293 million benefiting particularly from higher-margin corporate protection business and volumes in Europe. This more than offset decreases in Latin America related to the SIS transaction in Chile and from the transitional impact arising from a change in methodology for corporate protection business.

Farmers

Farmers business operating profit increased by USD 114 million to USD 1.5 billion, or by 8 percent. This was due to an improved underwriting result in Farmers Re, which benefited from the actions taken on rate increases and re-underwriting of business in the Farmers Exchanges, which are owned by their policyholders and managed by Farmers Group, Inc., a wholly owned subsidiary of the Group. This increase was partly offset by lower business operating profit in Farmers Management Services, also partly reflecting the actions taken in the Farmers Exchanges.

Farmers Management Services

in USD millions, for the years ended December 31	**2013**	2012	Change
Management fees and other related revenues	2,810	2,846	(1%)
Management and other related expenses	(1,457)	(1,480)	2%
Gross management result	1,353	1,366	(1%)
Other net income	38	62	(39%)
Business operating profit	**1,390**	**1,428**	**(3%)**
Managed gross earned premium margin	7.2%	7.3%	–

Business operating profit of USD 1.4 billion decreased by USD 38 million, or by 3 percent, primarily due to a decrease in management fees and other related revenues, as well as lower investment income.

Management fees and other related revenues of USD 2.8 billion decreased by USD 36 million, or by 1 percent, among other factors due to lower levels of fees on new business policies. **Management and other related expenses** of USD 1.5 billion decreased by USD 23 million, as a result of the impact of disciplined expense management, a one-off benefit to employee costs and reduced facilities expenses. **Other net income and expenses** of USD 38 million decreased by USD 24 million due to a reduction in investment income resulting from lower interest rates, as well as reduced real estate investment income compared with 2012. In addition, 2012 benefited from a one-time gain related to the settlement of a portion of the pension liability for vested plan participants who are no longer employed by the company.

The **gross management result** of USD 1.4 billion decreased by USD 13 million, or by 1 percent, and the **managed gross earned premium margin** was 7.2 percent compared with 7.3 percent in 2012.

Operating and financial review *continued*

Farmers Re

in USD millions, for the years ended December 31	2013	2012	Change
Gross written premiums and policy fees	4,045	4,361	(7%)
Net underwriting result	(9)	(163)	94%
Business operating profit	**125**	**(26)**	**nm**
Loss ratio	68.9%	72.4%	3.5 pts
Expense ratio	31.3%	31.3%	–
Combined ratio	**100.2%**	**103.7%**	**3.5 pts**

Business operating profit of USD 125 million improved by USD 152 million, mainly due to a lower underlying loss ratio.

Gross written premiums and policy fees decreased by USD 316 million, or by 7 percent, to USD 4.0 billion. This was a result of changes in the quota share reinsurance agreements, as well as the 2 percent decrease in gross written premiums in the Farmers Exchanges due to actions taken to improve profitability. The changes in the reinsurance agreements comprised a reduction in the All Lines quota share reinsurance agreement with the Farmers Exchanges from 20.0 percent to 18.5 percent effective December 31, 2012 and a reduction from 18.5 percent to 18.0 percent effective December 31, 2013. The Auto Physical Damage quota share reinsurance agreement with the Farmers Exchanges was reduced from USD 1.0 billion of ceded premium in 2012 to USD 925 million, effective January 1, 2013.

The **net underwriting result** improved by USD 154 million to a loss of USD 9 million. This improvement was mainly a result of lower non-weather-related losses assumed from the Farmers Exchanges in 2013, demonstrating the impact of rate and underwriting actions taken in 2012 and 2013.

The **loss ratio** improved by 3.5 percentage points compared with 2012. This improvement was largely due to a reduced underlying loss ratio reflecting better underwriting results in the Farmers Exchanges. Weather-related losses remained above historical levels, but were slightly lower compared with 2012. The **expense ratio**, based on ceded reinsurance commission rates payable to Farmers Exchanges, remained flat.

Farmers Exchanges

Farmers Exchanges

in USD millions, for the years ended December 31	2013	2012[1]	Change
Gross written premiums	18,643	18,935	(2%)
Gross earned premiums	18,757	18,703	–

[1] Including the return of USD 74 million of premiums as a result of the anticipated settlement of a lawsuit with the State of Texas.

Gross written premiums in the Farmers Exchanges, which are owned by their policyholders and managed by Farmers Group, Inc., a wholly owned subsidiary of the Group, declined by USD 292 million to USD 18.6 billion, or by 2 percent. This decline occurred in most lines of business except home and specialty lines. It resulted from the rate and underwriting actions begun in 2012 to improve profitability, which have impacted both levels of new business and renewals subsequent to the rate increases.

Gross earned premiums in the Farmers Exchanges were broadly flat. The effect of rate and underwriting actions begun in 2012 to improve profitability is flowing through to gross earned premiums. Decreases in non-standard auto and business insurance lines of business were offset by increases in the specialty, home, and standard auto lines of business.

Other Operating Businesses

in USD millions, for the years ended December 31	**2013**	2012	Change
Business operating profit:			
Holding and financing	(843)	(735)	(15%)
Headquarters	(196)	(175)	(12%)
Total business operating profit	**(1,039)**	**(910)**	**(14%)**

Holding and financing business operating loss deteriorated by USD 108 million to USD 843 million. This was mainly due to lower investment income, a result of special dividends received in 2012, and also the persistent low yield environment.

Headquarters business operating loss increased to USD 196 million, USD 22 million higher than in 2012. This deterioration was driven by several non-recurring items.

Non-Core Businesses

in USD millions, for the years ended December 31	**2013**	2012	Change
Business operating profit:			
Centrally managed businesses	27	29	(8%)
Other run-off	46	100	(54%)
Total business operating profit	**73**	**129**	**(44%)**

Centrally managed businesses, which comprise run-off portfolios that are managed with the intention to proactively reduce risk and release capital, reported a business operating profit of USD 27 million.

Other run-off, which largely comprises U.S. life insurance and annuity portfolios, reported a business operating profit of USD 46 million. The decline of USD 54 million resulted from a one-off gain in 2012 from the reassessment of liabilities on certain life run-off policies.

Operating and financial review *continued*

Investment position and performance

Details of total investments by category

in USD millions, as of	Group investments		Unit-linked investments	
	12/31/13	12/31/12[1]	**12/31/13**	12/31/12[1]
Cash and cash equivalents	7,181	9,098	982	1,110
Equity securities:	13,183	12,341	111,954	99,478
Common stocks, including equity unit trusts	10,706	9,388	91,203	77,996
Unit trusts (debt securities, real estate and short-term investments)	1,919	2,418	20,750	21,482
Common stock portfolios backing participating with-profit policyholder contracts	558	534	–	–
Debt securities	156,456	155,594	11,605	11,646
Real estate held for investment	8,745	8,561	3,661	3,401
Mortgage loans	9,798	10,519	–	–
Other loans	11,789	13,385	6,066	8,279
Investments in associates and joint ventures	129	85	–	–
Total	**207,280**	**209,582**	**134,267**	**123,913**

[1] Restated as set out in note 1 of the Consolidated financial statements.

Group investments decreased by USD 2.3 billion to USD 207.3 billion, or by 1 percent in U.S. dollar terms during the year. On a local currency basis, total Group investments decreased by USD 5.1 billion, or by 2 percent. The decline in total Group investments was primarily driven by the impact of rising yields on the value of debt securities partly offset by new cash flows invested in debt and equity securities.

Unit-linked investments increased by USD 10.4 billion to USD 134.3 billion, or by 8 percent in both U.S. dollar terms and on a local currency basis during the year, driven by increases in equity markets mainly in Europe.

The Group maintains a disciplined strategy focused on asset and liability management. The Group continues to limit risks that it believes are not rewarded, such as foreign currency, interest rate and concentration risks. The quality of the Group's investment portfolio remains high, with investment-grade securities comprising 98 percent of the Group's debt securities.

Performance of Group investments

in USD millions, for the years ended December 31	**2013**	2012	Change
Net investment income[1]	6,240	6,782	(8%)
Net capital gains/(losses) on investments and impairments	1,157	2,201	(47%)
of which: net capital gains/(losses) on investments and impairments attributable to shareholders	588	1,687	(65%)
Net investment result on Group investments[1]	7,398	8,983	(18%)
Net investment return on Group investments[2]	**3.5%**	**4.4%**	**(0.9 pts)**
Movements in net unrealized gains/(losses) on investments included in total equity	(4,670)	5,349	nm
Total investment result on Group investments[1]	**2,727**	**14,332**	**(81%)**
Average Group investments	208,431	204,066	2%
Total return on Group investments[2]	**1.3%**	**7.0%**	**(5.7 pts)**

[1] After deducting investment expenses of USD 256 million and USD 252 million for the years ended December 31, 2013 and 2012, respectively.
[2] Calculated on average Group investments.

Total **net investment income** decreased by 8 percent in both U.S. dollar terms and on a local currency basis to USD 6.2 billion, compared with USD 6.8 billion in 2012, reflecting persistent low investment yields on debt securities.

Total **net capital gains on investments and impairments** were USD 1.2 billion compared with USD 2.2 billion in 2012. The decrease of USD 1.0 billion was primarily due to negative asset revaluations.

Asset revaluations resulted in losses of USD 636 million, compared with gains of USD 286 million in 2012. The deterioration was due to negative revaluations of debt securities booked at fair value through profit or loss and to increased losses on derivative financial instruments used for hedging underlying business or investment risks.

Net capital gains from active management were USD 2.0 billion, a decrease of USD 128 million compared with 2012. The decrease was mainly due to lower gains from sales of debt securities, partly offset by gains of USD 692 million from the disposal of all of the Group's remaining shares in New China Life Insurance Company Ltd.

Impairments of USD 201 million were USD 7 million lower compared with 2012.

Net investment return on Group investments was 3.5 percent, 0.9 percentage points lower than in 2012, a result of both the decrease in the net investment result and an increase in average Group investments.

Net unrealized gains on investments included in total equity decreased by USD 4.7 billion from December 31, 2012, mainly due to a reduction of USD 4.2 billion in net unrealized gains on debt securities. This was a result of a significant rise in yields on debt securities. Net unrealized gains on equity securities declined by USD 252 million compared with December 31, 2012, as the positive effects of rising equity markets were offset by the recognition of realized capital gains from active management, including the sale of all of the Group's remaining shares in New China Life Insurance Company Ltd.

Total return on Group investments was 1.3 percent compared with 7.0 percent in 2012, primarily reflecting the reduction in net unrealized gains in 2013 from rising yields on debt securities.

Debt securities, which are invested to match the Group's insurance liability profiles, returned 0.5 percent. Equity securities and other investments returned 11.7 percent and 1.9 percent, respectively.

Performance of unit-linked investments

in USD millions, for the years ended December 31	**2013**	2012	Change
Net investment income	1,717	1,820	(6%)
Net capital (losses)/gains on investments and impairments	11,088	8,373	32%
Net investment result, net of investment expenses[1]	12,805	10,193	26%
Average investments	129,090	117,912	9%
Total return on unit-linked investments[2]	**9.9%**	**8.6%**	**1.3 pts**

[1] After deducting investment expenses of USD 575 million and USD 508 million for the years ended December 31, 2013 and 2012, respectively.
[2] Calculated on average Group investments.

Total return on unit-linked investments delivered 9.9 percent, an increase of 1.3 percentage points compared with 2012. Capital gains, particularly from the rise in equity markets in Europe, were partly offset by a reduction of USD 102 million in net investment income, as yields have continued to decline.

Operating and financial review *continued*

Insurance and investment contract liabilities

Reserves for losses and loss adjustment expenses

The majority of the Group's reserves for losses and loss adjustment expenses are attributable to General Insurance. The remaining reserves mostly relate to Farmers Re and to Non-Core Businesses.

in USD millions	Total Group		of which General Insurance	
	2013	2012	**2013**	2012
As of January 1				
Gross reserves for losses and loss adjustment expenses	69,986	67,762	66,542	64,311
Reinsurers' share	(12,601)	(12,421)	(11,308)	(11,195)
Net reserves for losses and loss adjustment expenses	**57,385**	**55,341**	**55,234**	**53,116**
Net losses and loss adjustment expenses incurred	23,128	23,769	20,323	20,547
Current year	23,885	24,340	21,042	21,131
Prior years	(757)	(571)	(720)	(584)
Net losses and loss adjustment expenses paid	(23,404)	(23,378)	(20,635)	(20,412)
Current year	(9,605)	(9,853)	(7,603)	(7,621)
Prior years	(13,799)	(13,525)	(13,032)	(12,791)
Acquisitions/(divestments) and transfers	(49)	960	(65)	1,300
Foreign currency translation effects	258	693	244	682
As of December 31				
Net reserves for losses and loss adjustment expenses	**57,319**	**57,385**	**55,102**	**55,234**
Reinsurers' share	(10,993)	(12,601)	(10,528)	(11,308)
Gross reserves for losses and loss adjustment expenses	68,312	69,986	65,629	66,542

As of December 31, 2013, the **net reserves for losses and loss adjustment expenses** for the total Group decreased by USD 66 million to USD 57.3 billion compared with December 31, 2012. Foreign currency translation increased the reserves by USD 258 million. Favorable net reserve development arose from reserves established in prior years and amounted to USD 757 million for the full year 2013, reflecting favorable developments in Switzerland and in the Global Corporate business.

During 2012, the increase of USD 2.0 billion for the total Group in net reserves for losses and loss adjustment expenses included USD 693 million related to the positive effect of foreign currency translation and a transfer of USD 1.2 billion from policyholders' contract deposits and other funds to reserves for losses and loss adjustment expenses, shown in acquisitions/(divestments) and transfers. Favorable reserve developments of USD 571 million on reserves established in prior years included the strengthening of reserves for long-tail liability business in Germany.

Details of reserve developments emerging from reserves established in prior years are set out in note 8 of the Consolidated financial statements.

Development of cumulative net loss ratio

	2004	2005	2006	2007	2008	2009	2010	2011	2012	**2013**
In the year	68.3%	73.3%	69.6%	72.7%	74.6%	72.3%	73.5%	74.2%	71.3%	69.4%
One year later	64.2%	68.1%	66.2%	71.7%	74.1%	72.0%	73.2%	74.0%	70.0%	
Two years later	63.5%	66.6%	64.8%	70.6%	72.4%	70.7%	72.1%	73.7%		
Three years later	63.7%	65.0%	63.3%	69.4%	72.3%	70.6%	71.6%			
Four years later	62.9%	63.8%	62.6%	68.6%	72.1%	70.6%				
Five years later	62.2%	63.2%	61.6%	68.0%	71.6%					
Six years later	62.1%	62.6%	61.0%	67.9%						
Seven years later	61.9%	62.3%	60.9%							
Eight years later	61.9%	62.4%								
Nine years later	61.9%									

This table represents the loss ratio development for individual accident years for the Group, with General Insurance the primary driver. Individual accident years are affected by the level of large catastrophe losses which had the following impact on the loss ratios in the year that the event occurred:

- 2004: Hurricanes Charley, Frances, Jeanne and Ivan in the U.S. increased the loss ratio by 2.8 percentage points;
- 2005: Hurricanes Katrina, Rita and Wilma in the U.S. and floods in Europe increased the loss ratio by 4.6 percentage points;
- 2007: Winter storm Kyrill in Europe and floods in the UK increased the loss ratio by 2.5 percentage points;
- 2008: Hurricanes Gustav and Ike in the U.S. increased the loss ratio by 1.8 percentage points;
- 2010: The earthquake in Chile and floods in Australia increased the loss ratio by 0.8 percentage points;
- 2011: Floods in Australia, earthquakes in New Zealand, the earthquake and subsequent tsunami in Japan, Hurricane Irene in the U.S. and floods in Thailand increased the loss ratio by 2.6 percentage points, after the Group's aggregate catastrophe reinsurance recovery;
- 2012: Storm Sandy in the U.S. increased the loss ratio by 2.5 percentage points.

The development of 2004 and each subsequent year demonstrates the Group's philosophy of taking a prudent view on reserving.

Operating and financial review *continued*

Reserves for life insurance contracts and liabilities for investment contracts

The majority of the Group's reserves for life insurance contracts and liabilities for investment contracts are attributable to Global Life. Life insurance reserves in other segments relate predominantly to businesses that are in run-off or are centrally managed, and are included only in this first table.

Group reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts

in USD millions	Global Life		Other segments		Total Group	
	2013	2012[1]	2013	2012	2013	2012[1]
Net reserves as of January 1	213,982[1]	195,302	16,789	18,027	230,771[1]	213,329
Movements in net reserves	12,184	18,680	(868)	(1,238)	11,316	17,442
Net reserves as of December 31	**226,166**	**213,982**	**15,921**	**16,789**	**242,087**	**230,771**

[1] Restated as set out in note 1 of the Consolidated financial statements.

The following provides further detail on the development and composition of reserves and liabilities in the **Global Life** business.

Global Life – Development of reserves and liabilities

in USD millions	Unit-linked insurance and investment contracts[2]		Other life insurance liabilities[3]		Total reserves and liabilities	
	2013	2012[1]	2013	2012	2013	2012[1]
As of January 1						
Gross reserves	119,680[1]	107,646	96,290	89,731	215,970[1]	197,378
Reinsurers' share	–	–	(1,988)	(2,076)	(1,988)[1]	(2,076)
Net reserves	**119,680[1]**	**107,646**	**94,302**	**87,656**	**213,982[1]**	**195,302**
Premiums	14,633	18,234	9,425	9,138	24,058	27,372
Claims	(16,433)	(17,423)	(10,691)	(9,360)	(27,124)	(26,782)
Fee income and other expenses	(2,137)	(1,898)	(1,992)	(1,780)	(4,130)	(3,678)
Interest and bonuses credited to policyholders	12,829	10,318	3,542	3,496	16,371	13,814
Change in assumptions	–	–	101	(100)	101	(100)
Acquisitions/(divestments) and transfers	–	4	–	998	–	1,002
Increases/(decreases) recorded in other comprehensive income	94	4	(1,113)	2,425	(1,019)	2,429
Foreign currency translation effects	1,475	2,795	2,451	1,829	3,926	4,623
As of December 31						
Net reserves	**130,141**	**119,680**	**96,025**	**94,302**	**226,166**	**213,982**
Reinsurers' share	–	–	(2,078)	(1,988)	(2,078)	(1,988)
Gross reserves	130,141	119,680	98,103	96,290	228,244	215,970

[1] Restated as set out in note 1 of the Consolidated financial statements.
[2] Includes reserves for unit-linked contracts, the net amounts of which were USD 63 billion and USD 62.2 billion, and liabilities for investment contracts, the net amounts of which were USD 67.1 billion and USD 57.4 billion as of December 31, 2013 and 2012, respectively.
[3] Includes reserves for future life policyholders' benefits, the net amounts of which were USD 78.2 billion and USD 76.7 billion and policyholders' contract deposits and other funds, the net amounts of which were USD 17.8 billion and USD 17.6 billion as of December 31, 2013 and 2012, respectively.

Global Life – Reserves and liabilities, net of reinsurance, by region

in USD millions, as of	Unit-linked insurance and investment contracts		Other life insurance liabilities		Total reserves and liabilities	
	12/31/13	12/31/12[1]	**12/31/13**	12/31/12[1]	**12/31/13**	12/31/12[1]
North America	1,125	1,021	5,473	5,307	6,598	6,329
Latin America	9,977	10,709	5,336	5,204	15,313	15,913
Europe	103,745	94,124	82,007	80,468	185,752	174,592
of which:						
United Kingdom	*61,943*	*58,468*	*5,001*	*5,200*	*66,944*	*63,667*
Germany	*13,439*	*11,130*	*43,728*	*43,084*	*57,166*	*54,214*
Switzerland	*868*	*786*	*20,074*	*19,741*	*20,942*	*20,528*
Ireland	*16,369*	*13,215*	*1,971*	*1,727*	*18,340*	*14,942*
Spain	*4,799*	*4,874*	*6,189*	*5,981*	*10,989*	*10,855*
Rest of Europe	*6,328*	*5,651*	*5,044*	*4,734*	*11,371*	*10,385*
Asia-Pacific and Middle East	11,830	11,315	2,860	3,035	14,689	14,350
Other	3,464	2,511	350	284	3,814	2,795
Eliminations	–	–	–	4	–	4
Total	**130,141**	**119,680**	**96,025**	**94,302**	**226,166**	**213,982**

[1] Restated as set out in note 1 of the Consolidated financial statements.

Total reserves and liabilities for insurance and investment contracts, net of reinsurance, increased by USD 12.2 billion, or by 6 percent in U.S. dollar terms and 4 percent on a local currency basis compared with December 31, 2012.

Unit-linked insurance and investment contracts, net of reinsurance, increased by USD 10.5 billion, or by 9 percent in U.S. dollar terms and 8 percent on a local currency basis, compared with December 31, 2012, driven by growth in unit-linked assets under management reflecting the rise in equity markets in Europe.

Other life insurance liabilities, net of reinsurance, increased by USD 1.7 billion, or by 2 percent in U.S. dollar terms and decreased by 1 percent on a local currency basis, compared with December 31, 2012.

Operating and financial review *continued*

Capitalization

in USD millions	Shareholders' equity	Non-controlling interests	Total equity
As of December 31, 2012, as previously reported	34,494	2,368	36,862
Total adjustments due to restatement[1]	11	1	12
As of December 31, 2012, as restated	**34,505**	**2,369**	**36,874**
Proceeds from issuance of share capital	152	–	152
Proceeds from treasury share transactions	15	–	15
Dividends	(1,933)	(238)	(2,171)
Share-based payment transactions	(4)	–	(4)
Reclassification from revaluation reserves	6	–	6
Total comprehensive income	(237)	122	(115)
Net income after taxes	4,028	231	4,259
Net other recognized income and expenses	(4,265)	(109)	(4,374)
Net changes in capitalization and non-controlling interests	–	(22)	(22)
As of December 31, 2013	**32,503**	**2,231**	**34,734**

Total equity decreased by USD 2.1 billion to USD 34.7 billion, or by 6 percent compared with December 31, 2012. Non controlling interests overall decreased by USD 138 million with the remainder of the decrease ocurring in shareholders' equity. Shareholders' equity decreased as net income after taxes of USD 4.0 billion for the year ended December 31, 2013 was more than offset by net other recognized income and expenses in total comprehensive income and by the dividend paid to shareholders in April 2013.

Net other recognized income and expenses decreased primarily as a result of a decrease in net unrealized gains on available-for-sale investments of USD 2.8 billion following the slight upturn in interest rates, negative cumulative foreign currency translation adjustments of USD 986 million including USD 718 million relating to the dividend, and net actuarial losses on pension plans of USD 367 million. The total payment of USD 2.7 billion for the dividend of CHF 17.00 per share, approved by shareholders at the Annual General Meeting on April 4, 2013 was paid out of the capital contribution reserve, with USD 1.9 billion shown as dividends and USD 718 million included in other comprehensive income as a negative cumulative foreign currency translation adjustment.

Under the Swiss Solvency Test (SST) the Group is required to use a company-specific internal economic capital model to calculate risk-bearing and target capital, and to file SST reports biannually. As of July 1, 2013 the Group filed, on a consolidated basis, an SST capitalization ratio of 206 percent. The SST capitalization ratio as of January 1, 2013 was 185 percent, which has been approved by FINMA. The filing as of July 1, 2013 is subject to review by FINMA and the final approval of the Group's internal model continues to be outstanding.

The Group also continues to be subject to Solvency I requirements based on the Swiss Insurance Supervision Law. The Solvency I ratio as of December 31, 2013 decreased to 258 percent from 278 percent as of December 31, 2012.

Cash flows

Summary of cash flows

in USD millions, for the years ended December 31	2013	Restated 2012
Net cash provided by/(used in) operating activities	1,443	2,868
Net cash provided by/(used in) investing activities	(239)	(233)
Net cash provided by/(used in) financing activities	(3,233)	(2,318)
Foreign currency translation effects on cash and cash equivalents	(17)	187
Change in cash and cash equivalents	(2,046)	503
Cash and cash equivalents as of January 1	10,208	9,705
Cash and cash equivalents as of December 31	**8,162**	**10,208**

Net **cash and cash equivalents** decreased by USD 2.0 billion for the year ended December 31, 2013, compared with an increase of USD 503 million in 2012.

Net cash provided by operating activities, which included cash movements in and out of, as well as within total investments, was USD 1.4 billion compared with USD 2.9 billion in 2012. Net cash used in investing activities of USD 239 million, compared with USD 233 million in 2012, related mainly to net sales and purchases of property and equipment. Net cash used in financing activities for the year ended December 31, 2013 of USD 3.2 billion was primarily related to the payment of dividends of USD 2.9 billion and a net repayment of debt of USD 403 million. In 2012, the net movement of cash used in financing activities of USD 2.3 billion included dividends of USD 2.7 billion offset by a net issuance of debt of USD 260 million.

Cash flow details are set out in the consolidated statements of cash flows in the Consolidated financial statements.

Operating and financial review *continued*

Currency translation impact

The Group operates worldwide in multiple currencies and seeks to match foreign exchange exposures on an economic basis.

As the Group has chosen the U.S. dollar as its presentation currency, differences arise when functional currencies are translated into the Group's presentation currency. The table below shows the effect of foreign currency rates on the translation of selected line items.

Selected Group income statement line items

variance over the prior period, for the year ended December 31, 2013	in USD millions	in %
Gross written premiums and policy fees	(502)	(1%)
Insurance benefits and losses, gross of reinsurance	55	–
Net income attributable to shareholders	6	–
Business operating profit	(22)	–

The consolidated income statements are translated at average exchange rates. Throughout 2013, the U.S. dollar was on average weaker against the euro and Swiss franc, but stronger against the British pound compared with 2012. The net impact on the result from these major currencies was offset by the weakening of the Brazilian real and Japanese yen against the U.S. dollar. The overall net impact on the result was minimal.

Selected Group balance sheet line items

variance over December 31, 2012, as of December 31, 2013	in USD millions	in %
Total investments	3,899	1%
Reserves for insurance contracts, gross	2,399	1%
Cumulative foreign currency translation adjustment in shareholders' equity	(986)	(3%)

The consolidated balance sheets are translated at end-of-period rates. The U.S. dollar weakened against the euro, Swiss franc and British pound but strengthened against the Japanese yen, the Australian dollar and Latin American currencies, in particular the Brazilian real, as of December 31, 2013 compared with December 31, 2012, resulting in a small net increase in U.S. dollar terms for most balance sheet items.

The cumulative foreign currency translation adjustment (CTA) included an adjustment of USD 718 million relating to the payment of the dividend and the net effect of currency movements on capital held in foreign currencies.

Risk review

Zurich's approach to risk management aims to protect the Group's capital, enhance value creation, optimize its risk-return profile, support decision making and protect Zurich's reputation and brand. The Risk review describes the Group's risk management framework and risk governance, presents an analysis of its main risks, and reports on capital management and capital adequacy.

Contents

The Risk review is an integral part of the Consolidated financial statements (except for the "Swiss Solvency Test Requirement," "Internal Model Capital Adequacy" and "Conclusion" sections presented on pages 169–177). Certain comparative figures have been restated, as set out in note 1 of the Consolidated financial statements.

Risk review *continued*

Risk management

Mission and objectives of risk management

The mission of risk management at Zurich Insurance Group (Zurich, or the Group) is to promptly identify, measure, manage, report and monitor risks that affect the achievement of strategic, operational and financial objectives. This includes adjusting the risk profile in line with the Group's stated risk tolerance to respond to new threats and opportunities in order to optimize returns.

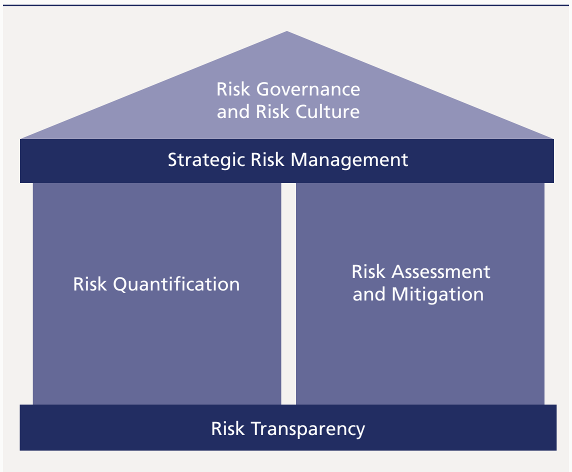
The Group's major risk management objectives are to:

- Protect the capital base by monitoring that risks are not taken beyond the Group's risk tolerance
- Enhance value creation and contribute to an optimal risk-return profile by providing the basis for an efficient capital deployment
- Support the Group's decision-making processes by providing consistent, reliable and timely risk information
- Protect Zurich's reputation and brand by promoting a sound culture of risk awareness and disciplined and informed risk taking

Risk management framework

In order to achieve its mission and objectives, the Group relies on its risk management framework.

Risk management framework



At the heart of the risk management framework is a governance process with clear responsibilities for taking, managing, monitoring and reporting risks. The Group articulates the roles and responsibilities for risk management throughout the organization, from the Board of Directors and the Chief Executive Officer (CEO) to its businesses and functional areas, thus embedding risk management in the business. See the "Risk governance and risk management organization" section.

To support the governance process, the Group relies on documented policies and guidelines. The Zurich Risk Policy is the Group's main risk governance document; it specifies the Group's risk tolerance, risk limits and authorities, reporting requirements, procedures to approve any exceptions and procedures for referring risk issues to senior management and the Board of Directors. Limits are specified per risk type, reflecting the Group's willingness and ability to take risk, considering earnings stability, economic capital adequacy, financial flexibility and liquidity, franchise value and reputation, the Group's strategic direction and operational plan, and a reasonable balance between risk and return, aligned with economic and financial objectives. The Group regularly enhances the Zurich Risk Policy to reflect new insights and changes in the Group's environment and to reflect changes to the Group's risk tolerance. In 2013, the Zurich Risk Policy was updated and strengthened for various areas, including market risk, project risk, as well as the management of asset/liability risk. Related procedures and risk controls were strengthened or clarified for these areas. As an ongoing process, adherence to requirements stated in the Zurich Risk Policy is assessed.

One of the key elements of the Group's risk management framework is to foster risk transparency by establishing risk reporting standards throughout the Group. The Group regularly reports on its risk profile, current risk issues, adherence to its risk policies and improvement actions both at a local and on a Group level. The Group has procedures in place for the timely referral of risk issues to senior management and the Board of Directors.

Various governance and control functions coordinate to help ensure that objectives are being achieved, risks are identified and appropriately managed and internal controls are in place and operating effectively. This coordination is referred to as "integrated assessment and assurance."

Risk management is not only embedded in Zurich's business but is also aligned with the Group's strategic and operational planning process. The Group assesses risks systematically and from a strategic perspective through its proprietary Total Risk Profiling™ (TRP) process, which allows Zurich to identify and then evaluate the probability of a risk scenario occurring, as well as the severity of the consequences should it occur. The Group then develops, implements and monitors appropriate improvement actions. The TRP process is integral to how Zurich deals with change, and is particularly suited for evaluating strategic risks as well as risks to Zurich's reputation. At Group level this process is performed annually, reviewed regularly and tied to the planning process.

In addition to this qualitative approach, the Group regularly measures and quantifies material risks to which it is exposed. The Zurich Economic Capital Model (Z-ECM) provides a key input into the Group's strategic planning process as it allows an assessment as to whether the Group's risk profile is in line with the Group's risk tolerance. Z-ECM forms the basis for optimizing the Group's risk-return profile by providing consistent risk measurement across the Group. See "Internal model capital adequacy (unaudited)" for more information about the Group's risk tolerance.

The operations relating to Zurich Santander (the long-term alliance with Banco Santander S.A., entered into in 2011) continue to be integrated into the Zurich risk management framework. In addition, these operations continue to leverage their existing internal control system while introducing Zurich's internal control system. In 2013, Zurich Santander began to conduct Total Risk Profiling™ assessments as well as to monitor adherence to the Zurich Risk Policy.

An important element of the Group's risk management framework is a well-balanced and effectively managed remuneration program. This includes a Group-wide remuneration philosophy, robust short- and long-term incentive plans, strong governance and links to the business planning, performance management and risk policies of the Group. Based on the Group's Remuneration Rules, the Board of Directors establishes the structure and design of the remuneration arrangements so that they do not encourage inappropriate risk taking. The Group Chief Risk Officer (Group CRO) consults with the other assurance, control and governance functions to provide the CEO with a review of risk factors to consider in the annual process to determine variable compensation. Also in consultation with these functions, the Group CRO provides an individual assessment of Group Key Risk Takers as part of their annual individual performance assessment. For more information on Zurich's remuneration system, see the "Remuneration report (unaudited)."

Through these processes, responsibilities and policies, Zurich embeds a culture of disciplined risk taking across the Group. The Group continues to consciously take risks for which it expects an adequate return. This approach requires sound judgment and an acceptance that certain risks can and will materialize in the future.

External environment

Various external stakeholders, among them regulators, rating agencies, investors and accounting bodies, place emphasis on the importance of sound risk management in the insurance industry. Zurich monitors developments in the external environment and assesses the impact on the Group's business, the insurance industry, and the communities in which the Group operates.

Regulatory perspective

Regulatory regimes, such as the Swiss Solvency Test in Switzerland and the regulatory principles of Solvency II in the European Union, emphasize a risk-based and economic approach, based on comprehensive quantitative and qualitative assessments and reports.

In 2013, the timeline for the roll-out of Solvency II in the European Union was further specified. The introduction of the complete framework is expected for January 1, 2016. In the context of systemic risk, the Financial Stability Board announced a list of Global Systemically Important Insurers, Zurich not being among them.

See "Analysis of capital adequacy" for more information about regulatory requirements.

Risk review *continued*

Rating-agency perspective

Rating agencies’ assessment of an insurance company’s risk management is an integral part of their financial strength credit analysis. Standard & Poor’s (S&P) has a separate rating for Enterprise Risk Management. S&P’s rating for Zurich’s overall enterprise risk management is “strong.” This reflects its positive view of the Group’s risk management culture, risk controls, and strategic and emerging risk management. S&P regards these capabilities as enabling the Group to further optimize capital allocation and earnings.

Economic and geopolitical perspective

In the first half of 2013, after the U.S. fiscal crisis was averted, economic conditions improved in advanced markets. The new leadership in China maintained support for the economy, and there has been a welcome shift in policy towards strengthening domestic demand. Overall, risk assets started the year 2013 on a strong footing, supported by better economic data, reduced political risks and a notable shift in investor sentiment toward these asset classes.

In the second half of 2013, the global recovery appeared to have entered a more robust stage, both in advanced and emerging markets. The economic expansion was supported by continued loose monetary policy, while headwinds from elevated debt levels and fiscal austerity weakened. Geopolitically, the second half of 2013 was dominated by conflicts in the Middle East and North Africa and the situation in the region has remained very volatile.

During 2013, politics in the U.S. and in the Eurozone remained the key risk to the economic outlook. While the risk of a Eurozone breakdown receded, following decisive action from the European Central Bank and the marked improvements in peripheral funding conditions, longer-term uncertainty has remained. A further adjustment of debt and increased competitiveness is required in a number of countries. Also, U.S. fiscal policy remained a concern throughout the year.

External interactions

The Group maintains close working relationship with such stakeholders as external organizations and expert groups.

Zurich is a major contributor to the Global Risk Report that is produced by the World Economic Forum in cooperation with other WEF partners. The report’s assessment of the most pressing global risks and the interconnections among them provides valuable information for risk mitigation across the globe. Supporting the report by sharing Zurich’s expertise is also part of Zurich’s commitment to corporate responsibility.

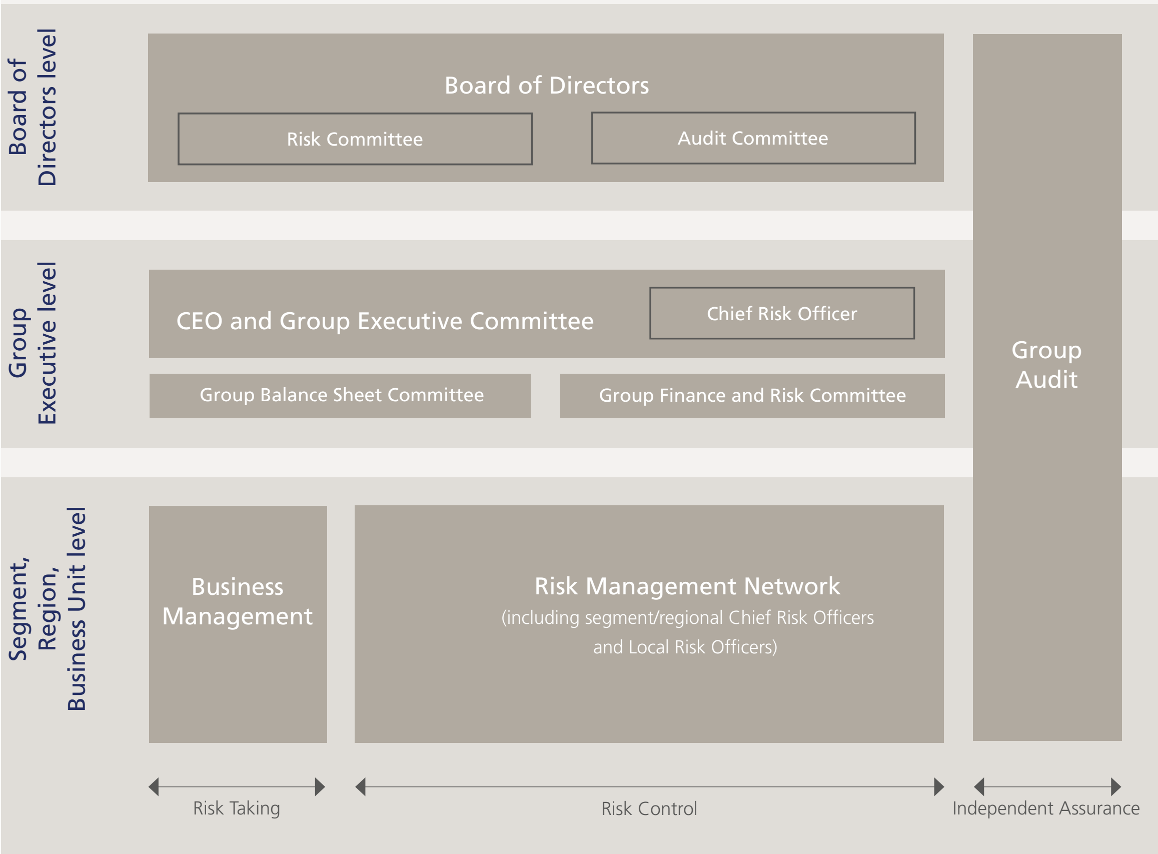
The Group is also involved in a number of international industry organizations engaged in advancing the regulatory dialogue and sound risk management practices. Zurich is a standing member of and actively contributes to the Emerging Risk Initiative of the CRO Forum (an organization composed of the chief risk officers of major insurance companies and financial conglomerates that focuses on developing and promoting insurance industry best practices in risk management).

The Group seeks external expertise from its International Advisory Council and Natural Catastrophe Advisory Council to better understand and assess risks, particularly regarding areas of complex change. For more information on these councils, see the “Corporate governance report (unaudited).” In addition, the Investment Management Advisory Council provides feedback to Investment Management on achieving superior risk-adjusted returns versus liabilities for the Group’s invested assets.

Risk governance and risk management organization

The section below gives an overview of the Group's risk governance and risk management organization.

Risk governance overview



The overview above highlights only key elements of the governance framework that specifically relate to risk management.

Board of Directors level

The Board of Directors of Zurich Insurance Group Ltd has ultimate oversight responsibility for the Group's risk management. It establishes the guidelines for the Group's risk management framework and key principles, particularly as articulated in the Zurich Risk Policy, and approves changes to such guidelines and key principles, as well as transactions reaching specified thresholds.

The Risk Committee of the Board serves as a focal point for oversight regarding the Group's risk management, in particular the Group's risk tolerance, including agreed limits that the Board regards as acceptable for Zurich to bear, the aggregation of these limits across the Group, the measurement of adherence to risk limits, and the Group's risk tolerance in relation to anticipated capital levels. The Risk Committee further oversees the Group-wide risk governance framework, including risk management and control, risk policies and their implementation, as well as risk strategy and the monitoring of operational risks. The Risk Committee also reviews the methodologies for risk measurement and the Group's adherence to risk limits. The Risk Committee further reviews, with business management and the Group Risk Management function, the Group's general policies and procedures and satisfies itself that effective systems of risk management are established and maintained. It receives regular reports from Group Risk Management and assesses whether significant issues of a risk management and control nature are being appropriately addressed by management in a timely manner. The Risk Committee assesses the independence and objectivity of the Group Risk Management function, approves its terms of reference, reviews the activities, plans, organization and quality of the function, and reviews key risk management principles and procedures.

Risk review *continued*

To facilitate information exchange between the Audit Committee of the Board and the Risk Committee of the Board, at least one board member is a member of both committees. The Risk Committee met seven times in 2013 (once jointly with the Remuneration Committee).

To foster transparency about risk, the Board receives quarterly risk reports and additional updates. In 2013, reporting was further enhanced. Reports included in-depth risk insights into topics such as the development of new global capital standards and political risks in Latin America as well as emerging risks.

Group Executive level

The CEO, together with the Group Executive Committee (GEC), oversees the Group's performance with regard to risk management and control, strategic, financial and business policy issues of Group-wide relevance. This includes monitoring adherence to and further development of the Group's risk management policies and procedures. The Group Balance Sheet Committee and the Group Finance and Risk Committee regularly review and make recommendations on the Group's risk profile and significant risk-related issues.

The Chief Risk Officer is a member of the GEC and reports directly to the CEO and the Risk Committee of the Board. He is a member of each of the management committees listed below, in order to provide a common and integrated approach to risk management, to allow for appropriate assessment and, where necessary, mitigation of risks identified in these committees.

At a Group level the management committees dealing with risks are:

- Group Balance Sheet Committee (GBSC) – acts as a cross-functional body whose main function is to review and make recommendations regarding the activities that materially affect the balance sheets of the Group and its subsidiaries. The GBSC is charged with setting the annual capital and balance sheet plans for the Group based on the Group's strategy and financial plans, as well as recommending specific transactions or unplanned business changes to the Group's balance sheet. The GBSC has oversight of all main levers of the balance sheet, including capital management, reinsurance, asset/liability management, and liquidity. The GBSC reviews and recommends the Group's overall risk tolerance. It is chaired by the CEO.
- Group Finance and Risk Committee (GFRC) – acts as a cross-functional body for financial and risk management matters in the context of the strategy and the overall business activity of the Group. The GFRC oversees financial implications of business decisions and the effective management of the Group's overall risk profile, including risks related to insurance, financial markets and asset/liability, credit and operational risks as well as their interactions. The GFRC proposes remedial actions based on regular briefings from Group Risk Management on the risk profile of the Group. It reviews and formulates recommendations for future courses of action with respect to potential merger and acquisition (M&A) transactions, changes to the Zurich Risk Policy, internal insurance programs for the Group, material changes to the Group's risk-based capital methodology and the overall risk tolerance. The GFRC is chaired by the Chief Financial Officer, while the Chief Risk Officer acts as deputy.

The management committees rely on output provided by technical committees, including:

- Asset/Liability Management Investment Committee – deals with the Group's asset/liability exposure and investment strategies and is chaired by the Chief Investment Officer.
- General Insurance Global Underwriting Committee – acts as a focal point for underwriting policy and related risk controls for General Insurance and is chaired by the Global Chief Underwriting Officer for General Insurance.
- Group Reinsurance Committee – defines the Group's reinsurance strategy in alignment with the Group's risk framework and is chaired by the Global Head of Group Reinsurance.

Representatives of Group Risk Management are members of all these technical committees.

Group Risk Management organization

The Chief Risk Officer leads the Group Risk Management function, which develops methods and processes for identifying, measuring, managing, monitoring and reporting risks throughout the Group. Group Risk Management proposes changes to the risk management framework and the Group's risk policies; it makes recommendations on the Group's risk tolerance and assesses the risk profile. The Chief Risk Officer is responsible for the oversight of risks across the Group; he regularly reports risk matters to the Chief Executive Officer, senior management committees and the Risk Committee of the Board.

The Group Risk Management organization consists of central functions at Group level and a decentralized risk management network at segment, regional, business unit and functional levels.

At Group level there are two centers of expertise: risk analytics and risk and control. The risk analytics department quantitatively assesses insurance, financial market and asset/liability, credit and operational risks and is the Group's center of excellence for risk quantification and modeling. The risk and control department includes operational risk management, risk reporting, risk governance, and risk operations. The risk management network consists of the Chief Risk Officers (CROs) of the Group's segments and regions, and the Local Risk Officers (LROs) of the business units and functions and their staff. While their primary focus is on operational and business-related risks, they are responsible for providing a holistic view of risk for their area. The risk officers are part of the management teams in their respective businesses and therefore are embedded in the business. The LROs also report to the segment or regional CROs, who in turn report to the Group's Chief Risk Officer. The CROs of the Group's segments and regions are members of the leadership team of the Group's Chief Risk Officer.

In addition to the risk management network, the Group has audit and oversight committees at the major business and regional levels. The committees are responsible for providing oversight of the risk management and control functions. This includes monitoring adherence to policies and periodic risk reporting. At the local level, these oversight activities are conducted through risk and control committees or quarterly meetings between senior executives and the local heads of governance functions.

Risk review *continued*

Analysis by risk type

Risk type description

In order to enable a consistent, systematic and disciplined approach to risk management, Zurich categorizes its main risks as follows:

- Strategic – unintended risk that can result as a by-product of planning or executing the strategy
- Insurance – risk associated with the inherent uncertainty regarding the occurrence, amount or timing of insurance liabilities
- Market – risk associated with the Group's balance sheet positions where the value or cash flow depends on financial markets
- Credit – risk associated with a loss or potential loss from counterparties failing to fulfill their financial obligations
- Liquidity – risk that the Group does not have sufficient liquidity to meet its obligations when they fall due, or would have to incur excessive costs to do so
- Operational – risk associated with the people, processes and systems of the Group, and external events such as outsourcing, catastrophes, legislation, or external fraud
- Reputation – risk that an act or omission by the Group or any of its employees could result in damage to the Group's reputation or loss of trust among its stakeholders

The Zurich Economic Capital Model quantifies the internal capital for insurance, market, credit and operational risks. See "Internal model capital adequacy (unaudited)" for more information.

Strategic risk

Strategic risk corresponds to the unintended risk that can result as a by-product of planning or executing the strategy. A strategy is a long term plan of action designed to allow the Group to achieve its goals and aspirations. Strategic risks can arise from:

- Inadequate assessment of strategic plans
- Improper implementation of strategic plans
- Unexpected changes to assumptions underlying strategic plans

Risk considerations are a key element in the strategic decision-making process. The Group assesses the implications of strategic decisions on risk-based return measures and risk-based capital in order to optimize the risk-return profile and to take advantage of economically profitable growth opportunities as they arise.

The Group works on reducing the unintended risks of strategic business decisions through its risk assessment processes and tools, including the Total Risk Profiling™ process. The Group Executive Committee regularly assesses key strategic risk scenarios for the Group as a whole, including scenarios for emerging risks and their strategic implications.

The Group specifically evaluates the risks of M&A transactions both from a quantitative and a qualitative perspective. The Group conducts risk assessments of M&A transactions to evaluate risks specifically related to the integration of acquired businesses.

Insurance risk

Section highlights

- In 2013, the Group restructured its reinsurance covers for natural catastrophe events. While the retention for the regional catastrophe treaties was increased, the co-participation was reduced to 10 percent.
- The cession rate for both General Insurance and Global Life remained stable. Due to its strong balance sheet, Zurich is able to structure and align its reinsurance programs to achieve an optimum risk/reward ratio.

Insurance risk is the inherent uncertainty regarding the occurrence, amount or timing of insurance liabilities. The exposure is transferred to Zurich through the underwriting process. Zurich actively seeks to write those risks it understands and that provide a reasonable opportunity to earn an acceptable profit. As Zurich assumes certain customer risks, it aims to manage that transfer of risk, and minimize unintended underwriting risks, through such means as:

- Establishing limits for underwriting authority
- Requiring specific approvals for transactions involving new products or, where established, limits of size and complexity may be exceeded
- Using a variety of reserving and modeling methods to address the various insurance risks inherent in the Group's insurance business
- Ceding insurance risk through proportional, non-proportional and facultative reinsurance treaties. The Group centrally manages reinsurance treaties.

General insurance risk

General insurance risk includes the reasonable possibility of significant loss due to uncertainty in the frequency of the occurrence of the insured events as well as in the severity of the resulting claims. The following provides an overview of the Group's main lines of business:

- Motor includes automobile physical damage, loss of the insured vehicle and automobile third party liability insurance.
- Property includes fire risks (for example fire, explosion and business interruption), natural perils (for example earthquake, windstorm and flood), engineering lines (for example boiler explosion, machinery breakdown and construction) and marine (cargo and hull).
- Liability includes general/public and product liability, excess and umbrella liability, professional liability including medical malpractice, and errors and omissions liability.
- Special lines include directors and officers, credit and surety, crime and fidelity, accident and health, and crop.
- Worker injury includes workers compensation and employers liability.

The Group's underwriting strategy is to take advantage of the diversification of general insurance risks across lines of business and geographic regions. The Group seeks to optimize shareholder value by achieving its mid-term return on equity goals. Doing so necessitates a prudent, stable underwriting philosophy that aims to take advantage of its competitive strengths while avoiding risks with disruptive volatility. At the core of the Group's underwriting is a robust governance process. The Group's four major processes for underwriting governance – underwriting strategy, authorities, referrals and reviews – are implemented at Group and local levels.

A fundamental component of managing insurance risk is underwriting discipline. The Group sets limits on underwriting capacity, and cascades authority to individuals based on their specific expertise. The Group sets appropriate pricing guidelines with a focus on consistent technical pricing across the organization. As part of these guidelines, the Group requires the setting of a technical price according to common standards. The technical price is set in a way that allows a return on risk-based capital in line with the Group's target. The ratio of actual premium to technical price is a key performance metric, which is monitored regularly. Technical reviews confirm whether underwriters perform within authorities and adhere to underwriting philosophies and policies. The Group's global line of business networks share best practices across the globe, providing additional guidance and governance. The Group has governance procedures to review and approve potential new products to evaluate whether the risks are well understood and justified by the potential rewards.

The Group faces the risk that actual losses emerging on claims provisions may be higher than anticipated. Because of this uncertainty, general insurance reserves are regularly measured, reviewed and monitored. The total loss and loss

Risk review *continued*

adjustment expense reserves are based on work performed by qualified and experienced actuaries at the local, regional and Group level.

To arrive at their reserve estimates, the actuaries take into consideration, among other things, the latest available facts, historical trends and patterns of loss payments, exposure growth, court decisions, economic conditions, in particular inflation, and public attitudes that may affect the ultimate cost of settlement. Inflation is monitored on a country basis; the monitoring process relies on both Zurich's economic view on inflation and specific claims activity, and feeds into actuarial models and Zurich's underwriting processes such as technical price reviews.

In most instances, these actuarial analyses are conducted at least twice a year for on-going business according to agreed timetables. Analyses are performed by product line, type and extent of coverage and year of occurrence. The Group has reserve committees to facilitate communications and reporting regarding reserve opinions. A series of reserve committees feed from the local level to regions and segments and into a Group reserve committee, where the Group's total loss and loss adjustment expense reserves are consolidated and recommended for approval by Group management. As with any projection, there is an inherent uncertainty in the estimation of claim reserves due to the fact that the ultimate liability for claims will be impacted by trends as yet unknown, including future changes in the likelihood of claimants bringing suit, the size of court awards, and the attitudes of claimants toward settlement of their claims.

The Group closely monitors potential new emerging risk exposures. Zurich has an Emerging Risk Group, with cross-functional expertise from core insurance functions such as underwriting, claims and risk in order to identify, assess and recommend actions for such risks.

In addition to the specific risks insured, each line of business could expose the Group to losses that could arise from natural and man-made catastrophes. The main concentrations of risks arising from such potential catastrophes are regularly reported to senior management. The most important peril regions and risks are United States and Caribbean tropical cyclone, Europe windstorm and California earthquake, as well as potential terrorism exposures.

Tables 1.a and 1.b show the Group's concentration of risk within the General Insurance business by region and line of business based on direct written premiums before reinsurance. The Group's exposure to general insurance risks varies significantly by geographic region and may change over time. General insurance premiums ceded to reinsurers (including retrocessions) amounted to USD 6.0 billion and USD 5.9 billion for the years ended December 31, 2013 and 2012, respectively. Reinsurance programs such as catastrophe covers are managed on a global basis, and therefore, net premium after reinsurance is monitored on an aggregated basis.

General Insurance – Direct written premiums and policy fees by line of business and by region – current period

Table 1.a

in USD millions, for the year ended December 31, 2013	Motor	Property	Liability	Special lines	Worker injury	Total
North America	1,414	3,501	3,454	1,695	2,558	12,621
Europe	5,827	4,657	2,441	2,067	467	15,458
Other regions[1]	2,505	1,938	480	1,045	193	6,161
Total	**9,746**	**10,095**	**6,376**	**4,806**	**3,217**	**34,240**

[1] Including intercompany eliminations

General Insurance – Direct written premiums and policy fees by line of business and by region – prior period

Table 1.b

in USD millions, for the year ended December 31, 2012	Motor	Property	Liability	Special lines	Worker injury	Total
North America	1,372	3,225	3,313	1,628	2,463	12,000
Europe	5,854	4,613	2,400	2,029	437	15,333
Other regions[1]	2,364	1,943	462	1,114	176	6,060
Total	**9,590**	**9,782**	**6,175**	**4,771**	**3,075**	**33,393**

[1] Including intercompany eliminations

Sensitivities analysis for general insurance risk

Tables 2.a and 2.b show the sensitivity of net income before tax and the sensitivity of net assets, using the Group effective income tax rate, as a result of adverse development in the net loss ratio by one percentage point. Such an increase could arise from either higher frequency of the occurrence of the insured events or from an increase in the severity of resulting claims or from a combination of frequency and severity. The sensitivities do not indicate a probability of such an event and do not consider any non-linear effects of reinsurance. Based on the assumptions applied in the presentation of the sensitivity analysis in tables 2.a and 2.b, each additional percentage point increase in the loss ratio would lead to a linear impact on net income before tax and net assets. In addition, the Group monitors insurance risk by evaluating extreme scenarios, taking into account non-linear effects of reinsurance contracts.

Table 2.a

Insurance risk sensitivity for the General Insurance business – current period

in USD millions, for the year ended December 31, 2013	Global Corporate	North America Commercial	Europe	International Markets
+1% in net loss ratio				
Net income before tax	(61)	(76)	(116)	(45)
Net assets	(46)	(57)	(87)	(34)

Table 2.b

Insurance risk sensitivity for the General Insurance business – prior period

in USD millions, for the year ended December 31, 2012	Global Corporate	North America Commercial	Europe	International Markets
+1% in net loss ratio				
Net income before tax	(55)	(76)	(118)	(43)
Net assets	(41)	(57)	(88)	(32)

Modeling natural catastrophes

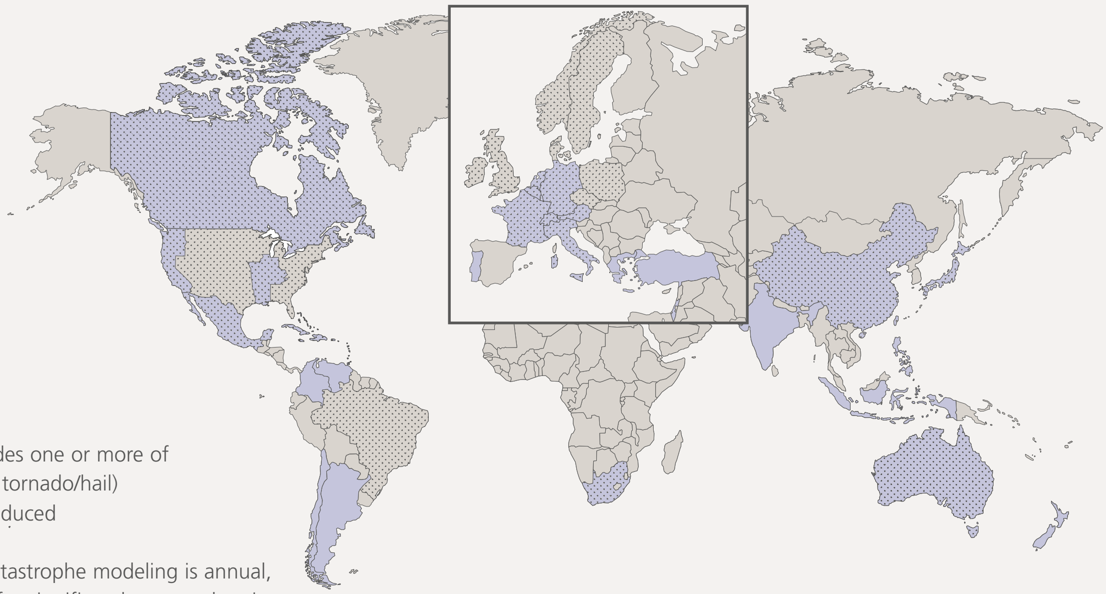
Understanding the potential effects of natural catastrophes is a critical component of risk management for general insurance. While specific catastrophes are unpredictable, modeling helps to determine potential losses should catastrophes occur. The Group uses a combination of third-party and in-house models to manage its underwriting and accumulations in modeled areas to stay within intended exposure limits and to guide the levels of reinsurance Zurich buys.

The Group models exposures in a center of excellence for consistency in approach and to form a global perspective on accumulations. The center of excellence works with the local businesses to help improve the overall quality of data, by analyzing and comparing data quality levels, providing priorities for data quality improvements and supporting implementation with advice and external data, where required. The Group models potential losses from property policies located in hazard-prone areas with material exposure and from workers' compensation policies covering earthquakes in California. Other non-property related losses are quantified based on adjustments. The risk modelling principally addresses climate-induced perils such as windstorms, river floods, tornadoes and hail, and geologically induced perils such as earthquakes. The Group constantly seeks to improve its modeling, fill in gaps in models with additional assessments and increase the granularity of data collection in order to enhance the accuracy and utility of the information.

With an expanded catastrophe research and development team, the Group continues to improve the "Zurich view" of catastrophe risk by using output from multiple catastrophe models, by using internal and external expertise, for instance through the Natural Catastrophe Advisory Council, a group of scientists associated with research organizations such as the U.S. National Center for Atmospheric Research, the United States Geological Survey and the Intergovernmental Panel on Climate Change. Zurich further validates modeling results through comparisons with claims experience. In addition, Zurich continues its effort to extend assessments by evaluating potential non-modeled catastrophe hotspots and including appropriate modeling or loadings for non-modeled lines.

Risk review *continued*

Peril regions assessed for 2013



Georisks (earthquake)
Climate-induced (includes one or more of windstorm, river flood, tornado/hail)
Georisks and climate-induced

Zurich's Group-wide catastrophe modeling is annual, with quarterly reviews for significantly exposed regions.

Risks from man-made catastrophes

Man-made catastrophes include such risks as industrial accidents and terrorism attacks. Zurich's experience in monitoring potential exposures from natural catastrophes is also applicable to threats posed by man-made catastrophes, particularly terrorism.

The Group reviews and aggregates worker injury and property exposures to identify areas of significant concentration. The Group also assesses other lines of business, such as liability and auto, although the potential exposure is not as significant. The resulting data allows underwriters to evaluate how insuring a particular customer's risk might affect Zurich's overall exposure. In North America, Zurich uses a vendor-provided catastrophe model to evaluate potential exposures in every major U.S. city. The Group undertakes more detailed and frequent analytics for cities in which Zurich has greater exposure, and continues to refine its reporting about such risks.

Although the Group's analysis has shown its exposures outside North America are lower, in large part due to government-provided pools; the Group has extended its approach to improve its view of the risk for countries with the next greatest potential net exposure. The Group periodically monitors accumulation limits for these and other areas, and continues to refine its analytics.

Life insurance risk

The risks associated with life insurance include:

- Mortality – risk that actual policyholder death experience on life insurance policies is higher than expected.
- Longevity – risk that annuitants live longer than expected.
- Morbidity – risk that policyholder health-related claims are higher than expected.
- Policyholder behavior – risk that policyholders' behavior in discontinuing and reducing contributions or withdrawing benefits prior to the maturity of contracts is worse than expected. Poor persistency rates may lead to fewer policies remaining on the books to defray future fixed expenses and therefore reduce the future positive cash flows from the business written, potentially impacting its ability to recover deferred acquisition expenses.
- Expense – risk that expenses incurred in acquiring and administering policies are higher than expected.
- Market – risk associated with the Group's balance sheet positions where the value or cash flow depends on financial markets, which is analyzed in the "Market risk" section.
- Credit – risk associated with a loss or potential loss from counterparties failing to fulfill their financial obligations, which is analyzed in the "Credit risk" section.

A more diversified portfolio of risks is less likely to be affected across the board by a change in any subset of the risks. As a result, the offsetting effects between unit-linked and traditional business reduce some of the risk associated with the Global Life business.

The Group has local product development committees and a Group-level product approval committee, under the leadership of the Global Life Chief Risk Officer, for potential new life products that could significantly increase or change the nature of its risks. Such reviews allow Zurich to manage new risks inherent in its new business propositions. The Group regularly reviews the continued suitability and the potential risks of existing life products.

The Group's use of market-consistent embedded value reporting principles allows Zurich to further understand and report on the risk profile of its life products and how risks would change in differing market conditions. Embedded value is the measure that markets use to value life businesses. For more information, see the "Embedded value report."

From a risk-management perspective, unit-linked products have been designed in order to reduce much of the market and credit risk associated with traditional business for the Group. Those risks inherent in these products are largely passed on to the policyholder, although a portion of the Group's management fees are linked to the value of funds under management and hence are at risk if the fund values decrease. Unit-linked products carry mortality/morbidity risk and market risk to the extent that there are guarantees built into the product design. Contracts may have minimum guaranteed death benefits where the sum at risk depends on the fair value of the underlying investments. For certain contracts these risks are mitigated by explicit mortality and morbidity charges.

Other life insurance liabilities include traditional life insurance products, which include protection products and life annuity products. Protection products carry mortality, longevity and morbidity risk as well as market and credit risk. The most significant factors that could increase the frequency of mortality claims are epidemics, such as strains of influenza, or lifestyle changes such as eating, drinking and exercise habits, resulting in earlier or more claims than expected. Morbidity claims experience would not only be affected by the factors mentioned above, but because disability is defined in terms of the ability to perform an occupation, it could also be affected by economic conditions. In order to reduce cross-subsidies in the pricing basis, premiums are differentiated, where permitted, for example by product, age, gender and smoker status. The policy terms and conditions and the disclosure requirements contained in insurance applications are designed to mitigate the risk arising from non-standard and unpredictable risks that may result in severe financial loss.

In the life annuity business, the most significant insurance risk is continued medical advances and improvement in social conditions that lead to increases in longevity. Annuitant mortality assumptions include allowance for future mortality improvements.

In addition to the specific risks listed above, the Group is exposed to policyholder behavior and expense risks. Policyholder behavior risk is mitigated by product designs that match revenue and expenses associated with the contract as closely as possible. Expense risk is mitigated by careful control of expenses and by regular expense analyses and allocation exercises.

Risk review *continued*

Certain life insurance contracts contain guarantees for which liabilities have been recorded for additional benefits and minimum guarantees. These arise primarily in the subsidiary Zurich American Life Insurance Company (ZALICO) which in the past wrote variable annuity contracts that provide policyholders with certain guarantees related to minimum death and income benefits. After 2001, ZALICO no longer issued new policies with such features. The Group has a dynamic hedging strategy to manage its economic exposure and reduce the volatility associated with its closed book of variable annuities products within its U.S. life business. New Life products developed with financial guarantees are subject to review and approval by the Group-level product approval committee. The Group is also exposed to risks arising out of Bank Owned Life Insurance contracts sold in the U.S. See heading "other contracts" in note 7 of the Consolidated financial statements for additional information.

The Group defines concentration risk in the Global Life business as the risk of exposure to increased losses associated with inadequately diversified portfolios of assets or obligations. Concentration risk for a life insurer may arise with respect to investments in a geographical area, economic sector, or individual issuers, or due to a concentration of business written within a geographical area, of a policy type, or of underlying risks covered.

Zurich is exposed to two main types of concentration risk in its Global Life business:

- From a market risk perspective, interest rate guarantees in Germany and Switzerland expose Zurich to financial losses that may arise as a result of adverse movements in interest rates. The Group also wrote a small book of variable annuity business in the U.S. with minimum guaranteed death benefits, but ceased writing new business in 2012. The management of these guarantees is a combination of asset-liability matching and hedging; see the "Market risk" section.
- From an insurance risk perspective, the main factors that would affect concentration risk include mortality risk, morbidity risk, longevity risk, policyholder behavior risk (lapse, anti-selection) and expense risk. There is diversification across geographical regions, lines of business and even across the different insurance risk factors such that Zurich is not exposed to significant concentrations of insurance risk.

Table 3 shows the Group's concentration of risk within the life business by region and line of business based on reserves for life insurance on a net basis. The Group's exposure to life insurance risks varies significantly by geographic region and line of business and may change over time. See note 8 of the Consolidated financial statements for additional information on reserves for insurance contracts.

Table 3

Reserves, net of reinsurance, by region

in USD millions, as of December 31	Unit-linked insurance contracts		Other life insurance liabilities		Total reserves	
	2013	2012	**2013**	2012	**2013**	2012
Global Life						
North America	730	627	5,473	5,307	6,204	5,934
Latin America	9,416	10,256	5,336	5,204	14,751	15,460
Europe	48,939	47,979	82,007	80,468	130,945	128,447
United Kingdom	26,452	28,719	5,001	5,200	31,453	33,919
Germany	13,437	11,095	43,728	43,084	57,165	54,179
Switzerland	767	708	20,074	19,741	20,841	20,450
Ireland	2,660	1,731	1,971	1,727	4,631	3,458
Spain	4,737	4,808	6,189	5,981	10,926	10,789
Rest of Europe	885	918	5,044	4,734	5,929	5,652
Asia-Pacific and Middle East	3,927	3,371	2,860	3,035	6,787	6,406
Other	16	10	350	284	366	294
Eliminations	–	–	–	4	–	4
Subtotal	**63,028**	**62,243**	**96,025**	**94,302**	**159,053**	**156,545**
Other segments[1]	11,844	11,874	4,076	4,915	15,921	16,789
Total	**74,873**	**74,117**	**100,101**	**99,217**	**174,974**	**173,334**

[1] See note 28 of the Consolidated financial statements for additional information on the Group's segments.

Sensitivities analysis for life insurance risk

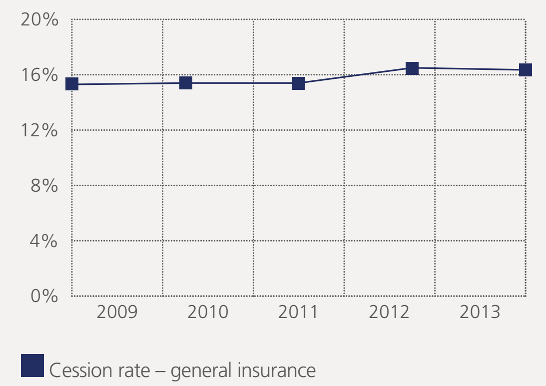
The Group reports sensitivities for the Global Life business on Embedded Value and New Business Value to changes in economic and operating risk factors. The operating factors include discontinuance rates, expenses, mortality and morbidity. The embedded value methodology adopted by the Group is based on a market-consistent approach to allow explicitly for market risks. See the "Embedded value report" for more information on the sensitivities for the Global Life business to economic and operating risk factors.

Reinsurance for general insurance and life insurance

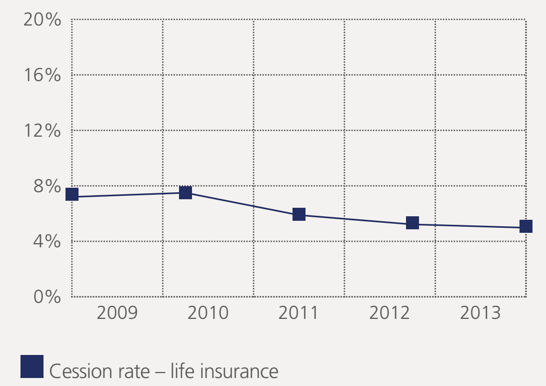
The Group's objectives for purchasing reinsurance are to provide market-leading capacity for customers while protecting the balance sheet and optimizing the Group's capital efficiency. The Group follows a centralized purchasing strategy for both segments, General Insurance and Global Life, and bundles programs, where appropriate, to benefit from diversification and economies of scale. These efforts for General Insurance have led to a decreasing expenditure for treaty reinsurance while growth in the General Insurance Global Corporate business has increased premium cessions to captives and co-reinsurers, resulting in an overall stable cession rate.

Due to its strong balance sheet, Zurich is able to structure and align its reinsurance programs to achieve an optimum risk/reward ratio. Zurich manages its central reinsurance purchasing according to these principles. The Group is therefore able to manage its risks to retain a significant and stable portion of its gross written premiums, as shown in the charts below.

Ceded premium – trend
(% of general insurance gross written premiums ceded to reinsurers)



Ceded premium – trend
(% of life insurance gross written premiums ceded to reinsurers)



The Group continues to use traditional reinsurance markets and other alternatives, such as catastrophe bonds, to protect against extreme single events and increased frequency of events. The Group is able to use its global reach in particular for catastrophe protection. It has in place a combination of per event and annual aggregate covers, which protects the Group's business both per event and by region, and also for multiple events across regions. This helps to reduce the risks posed by the frequency of catastrophes, as well as their severity.

The Group uses reinsurance to manage risk to unusually severe or unusually frequent events, as illustrated on the following page, through the main in-force reinsurance covers as of December 31, 2013 for natural catastrophe events.

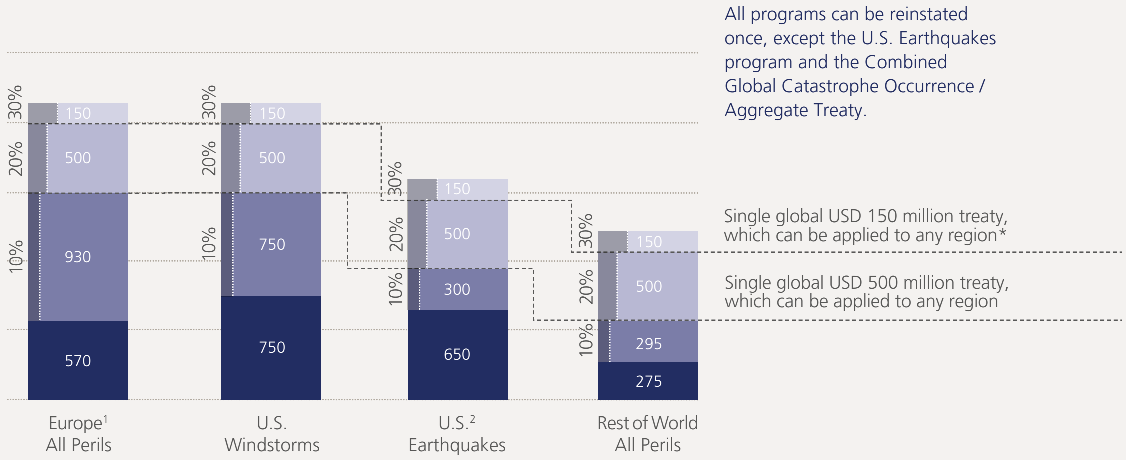
The Group participates in the underlying risks through its retention and through its co-participation in the excess layers. The contracts are on a loss-occurrence basis except the aggregate catastrophe cover Lakeside Re III Cat bond which operate on an annual aggregate basis. In addition to these covers, the Group has per risk programs, local catastrophe covers, a bilateral risk swap and a catastrophe bond in place. These covers are reviewed continuously and are subject to change going forward. The current covers are placed annually: January 1 for the U.S. Program and the Global Aggregate Catastrophe Cover; April 1 for the European Program and July 1 for the Rest of the World Program.

In 2013, the Group restructured its reinsurance covers for natural catastrophe events. While the retention for the regional catastrophe treaties was increased, the co-participation was reduced to 10 percent. A new Global Catastrophe Treaty covering extreme single events and a Combined Global Catastrophe Occurrence/Aggregate Treaty covering either aggregate losses or individual large events have been put in place.

Risk review *continued*

Reinsurance for natural catastrophes by region – unusually severe catastrophe events

(in USD millions, as of December 31, 2013)



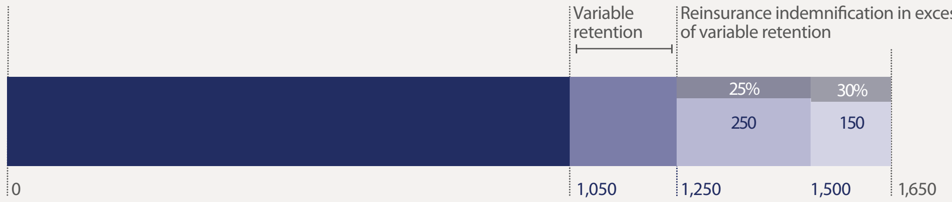
- Losses retained for individual events
- Reinsurance secured under regional catastrophe treaties
- Reinsurance secured under Global Catastrophe Treaty
- Reinsurance secured under Combined Global Catastrophe Occurrence / Aggregate Treaty*
- % of co-participation

* This USD 150 million cover is the same Combined Global Catastrophe Occurrence / Aggregate Treaty presiding over the Global Catastrophe Treaty. This cover can be used only once, either for aggregated losses or for an individual event.

[1] Original cover is in EUR. Conversion rate EUR/USD 1.345 has been applied to calculate the corresponding USD amount.
[2] Lakeside Re III - Cat Bond

Reinsurance for natural catastrophes, aggregated – unusually frequent catastrophe events

(in USD millions, as of December 31, 2013)



- All natural catastrophe losses exceeding USD 35 million are aggregated.
- Variable retention up to a maximum of USD 1,250 million, depending on the peril regions hit and the frequency
- Reinsurance secured under Global Aggregate Catastrophe Treaty
- Reinsurance secured under Combined Global Catastrophe Occurrence / Aggregate Treaty*
- % of co-participation

* This USD 150 million cover is the same Combined Global Catastrophe Occurrence / Aggregate Treaty presiding over the Global Catastrophe Treaty. This cover can be used only once, either for aggregated losses or for an individual event.

Market risk

Section highlights

- The Group has slightly increased its investments in equity markets, in particular in the second part of the year, as the financial markets continued to recover. Risks from interest rates and credit spreads have remained stable.

Market risk is the risk associated with the Group's balance sheet positions where the value or cash flow depends on financial markets. Fluctuating risk drivers resulting in market risk include:

- Equity market prices
- Real estate market prices
- Interest rates and credit spreads
- Currency exchange rates

The Group manages the market risk of assets relative to liabilities on an economic total balance sheet basis. It strives to maximize the economic risk-adjusted excess return of assets relative to the liability benchmark taking into account the Group's risk tolerance as well as local regulatory constraints.

The Group has policies and limits to manage market risk. It aligns its strategic asset allocation to its risk-taking capacity. Zurich centralizes management of certain asset classes to control aggregation of risk, and provides a consistent approach to constructing portfolios and selecting external asset managers. It also diversifies portfolios, investments and asset managers. Zurich regularly measures and manages market risk exposure. The Group has established limits on concentration in investments by single issuers and certain asset classes as well as deviations of asset interest rate sensitivities from liability interest rate sensitivities, and the Group limits investments that are illiquid.

The Group Balance Sheet Committee reviews and recommends the Group's capital allocation to market risk, while the Asset/Liability Management Investment Committee reviews and monitors the Group's strategic asset allocation and tactical boundaries and monitors the Group's asset/liability exposure. The Group oversees the activities of local Asset/Liability Management Investment Committees and regularly assesses market risks both at a Group and at a local business level. Risk assessment includes quantification of the contributions to financial market risk from major risk drivers. The economic effect of potential extreme market moves is regularly examined and considered when setting the asset allocation.

Risk assessment reviews include the analysis of the management of interest rate risk for each major maturity bucket and adherence to the aggregate positions with risk limits. The Group applies processes to manage market risks and to analyze market risk hotspots. Risk mitigation actions are taken if necessary to manage fluctuations affecting asset/liability mismatch and risk-based capital.

The Group uses derivative financial instruments to limit market risks arising from changes in currency exchange rates, interest rates and equity prices, from credit quality of assets and liabilities and commitments to third parties. The Group enters into derivative financial instruments mostly for economic hedging purposes and, in limited circumstances, the instruments may also meet the definition of an effective hedge for accounting purposes. The latter include cross-currency interest rate swaps in fair value hedges and cross-currency swaps in cash flow hedges of Zurich's borrowings, in order to mitigate exposure to foreign currency and interest rate risk. In compliance with Swiss insurance regulation, the Group's policy prohibits speculative trading in derivatives, meaning a pattern of "in and out" activity without reference to an underlying position. Derivatives are complex financial transactions; therefore, the Group addresses the risks arising from derivatives through a stringent policy that requires approval of a derivative program before transactions are initiated, and by subsequent regular monitoring by Group Risk Management of open positions and annual reviews of derivative programs.

For more information on the Group's investment result, including impairments and the treatment of selected financial instruments, see note 6 of the Consolidated financial statements. For more information on derivative financial instruments and hedge accounting, see note 7 of the Consolidated financial statements.

Risk review *continued*

Risk from equity securities and real estate

The Group is exposed to various risks resulting from price fluctuations on equity securities and real estate. Risks arising from equity securities and real estate could affect the Group's liquidity, reported income, surplus and regulatory capital position. The exposure to equity risk includes common stocks, including equity unit trusts, common stock portfolios backing participating-with-profit policyholder contracts, and equities held for employee benefit plans. The exposure to real estate risk includes direct holdings in real estate, listed real estate company shares and funds, as well as real estate debt securities such as commercial and residential mortgages, commercial and residential mortgage-backed securities and mezzanine debt. Returns on unit-linked contracts, whether classified as insurance or investment contracts, may be exposed to risks from equity and real estate, but these risks are borne by policyholders. However, the Group is indirectly exposed to market movements from unit-linked contracts both with respect to earnings and with respect to economic capital. Market movements impact the amount of fee income earned when the fee income level is dependent on the valuation of the asset base. Therefore, the value of in-force business for unit-linked business can be negatively impacted by adverse movements in equity and real estate markets.

The Group manages its risks from equity securities and real estate as part of the overall investment risk management process, and applies limits as expressed in policies and guidelines. Specifically, Zurich has limits for holdings in equities, real estate and alternative investments.

For additional information on equity securities and real estate held for investment, see note 6 of the Consolidated financial statements.

Risk from interest rate and credit spread

Interest rate risk is the risk of loss resulting from changes in interest rates, including changes in the shape of yield curves. The Group is exposed to interest rate risk including from debt securities, reserves for insurance contracts, liabilities for investment contracts, employee benefit plans and loans and receivables. Changes in interest rates affect the Group's held-to-maturity floating-rate debt securities and unhedged floating-rate borrowings through fluctuations in interest income and interest expense. Changes in interest rates affect the Group's held-for-trading debt securities and fair value hedged borrowings through periodic recognition of changes in their fair values through the income statement. Changes in interest rates affect the Group's available-for-sale debt securities through periodic recognition of changes in their fair values through shareholders' equity. Zurich has limits on holdings in real assets and limits on deviations of asset interest rate sensitivities from liability interest rate sensitivities. The Group also manages credit spread risk, which describes the sensitivity of the values of assets and liabilities due to changes in the level or the volatility of credit spreads over the risk-free interest rate yield curves.

Returns on unit-linked contracts, whether classified as insurance or investment contracts, are at the risk of the policyholder; however, the Group is exposed to fluctuations in interest rates in so far as they impact the amount of fee income earned if the fee income level is dependent on the valuation of the asset base.

Risk management initiatives during 2013

The Group unwound part of its euro receiver swaptions program in the first half of 2013 following the decrease in interest rate exposure in its German life business. The Group has slightly increased its investments in equity markets, in particular in the second part of the year, as the financial markets continued to recover. Risks from interest rates and credit spread have remained stable.

Analysis of market risk sensitivities

Basis of presentation – General Insurance and rest of the businesses

The basis of the presentation below is an economic valuation represented by the fair value for Group investments, IFRS insurance liabilities discounted at risk-free market rates (the Group describes risk-free market rates as swap rates) to reflect the present value of insurance liability cash flows and other liabilities, for example own debt. In the sensitivities, own debt does not include subordinated debt, which Zurich considers available to protect policyholders in a worst-case scenario.

Tables 4.a, 4.b, 6.a and 6.b show the estimated economic market risk sensitivities of Group investments, including real estate for own use, liabilities, including insurance and financial liabilities, and the net impact for General Insurance and the rest of the businesses. Positive values represent an increase of the balance, whereas values in parentheses represent a decrease of the balance. Mismatches in changes in value of assets relative to liabilities represent an economic risk to the Group. The net impact is the difference between the impact on Group investments and liabilities. It represents the economic risk the Group faces related to changes in market risk factors.

In determining the sensitivities, investments and liabilities are fully re-valued in the given scenarios. Each instrument is re-valued separately taking the relevant product features into account. Non-linear effects, where they exist, are reflected in the model. The sensitivities are shown after tax. They do not include the impact of Group-internal transactions.

Tables 6.a and 6.b show sensitivities for the rest of the businesses include Farmers, Other Operating Businesses and Non-Core Businesses. Where Non-Core Businesses includes business with life insurance characteristics, the analysis is based on market-consistent embedded value market risk sensitivities. See the "Embedded value report" for more details on the market risk sensitivities specifications.

Limitations of the analysis:

- The sensitivity analysis does not take into account actions that might be taken to mitigate losses. This strategy may involve changing the asset allocation, for example through selling and buying assets.
- The sensitivities show the effects of a change of certain risk factors, while other assumptions remain unchanged.
- The interest rate scenarios assume a parallel shift of all interest rates in the respective currencies. They do not take into account the possibility that interest rate changes might differ by rating class; these are disclosed separately as credit spreads risk sensitivities.
- The equity market scenarios assume a concurrent movement of all stock markets.
- The sensitivities do not indicate a probability of such events occurring in the future. They do not necessarily represent the Group's view of expected future market changes. In addition to the sensitivities, management uses stress scenarios to assess the impact of more severe market movements on the Group's financial condition. For more information on stress scenarios, see table "Sensivities for the Z-ECM ratio (unaudited)".
- The sensitivity analysis is based on economic net assets, and not on shareholders' equity or net income as set out in the Consolidated financial statements.
- The sensitivity analysis is calculated after tax; the Group effective tax rate is 24.9 percent for 2013 and 24.7 percent for 2012.

Basis of presentation – Global Life

Tables 5.a and 5.b show the estimated economic sensitivity of the Embedded Value of the Global Life business to financial market movements. In modeling these exposures, where appropriate, allowance has been made for dynamic actions that would be taken by management or by policyholders. For contracts with financial options and guarantees, such as some participating business, movements in financial markets can change the nature and value of these benefits. The dynamics of these liabilities are captured so that this exposure is quantified, monitored, managed and where appropriate, mitigated.

Limitations of the analysis:

- The sensitivities show the effects of a change in certain risk factors, while other assumptions remain unchanged, except where they are directly affected by the revised conditions.
- The market risk scenarios assume a concurrent movement of all stock markets and an unrelated parallel shift of all interest rates in different currencies.
- The assumptions on policyholder behavior, such as lapsing of policies, included in the sensitivity analysis for Global Life may be different from actual behavior. Therefore, the actual impact may deviate from the analysis.

For more information, see the "Embedded value report."

Risk review *continued*

Analysis of economic sensitivities for interest rate risk

Tables 4.a to 6.b show the estimated impacts of a 100 basis point increase/decrease in yield curves of the major currencies U.S. dollar (USD), euro (EUR), British pound (GBP), Swiss franc (CHF) and "other currencies" after consideration of hedges in place, as of December 31, 2013 and 2012, respectively.

Economic interest rate sensitivities for the General Insurance business – current period

Table 4.a

in USD millions, as of December 31, 2013	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in the interest rate yield curves						
Group investments	(1,346)	(636)	(316)	(328)	(187)	**(2,813)**
Liabilities	(915)	(469)	(309)	(294)	(148)	**(2,136)**
Net impact before tax	(430)	(168)	(7)	(34)	(39)	**(677)**
Tax impact	107	42	2	8	10	**169**
Net impact after tax	(323)	(126)	(5)	(25)	(29)	**(509)**
100 basis points decrease in the interest rate yield curves						
Group investments	1,324	625	342	288	186	**2,766**
Liabilities	922	456	341	317	152	**2,188**
Net impact before tax	402	169	–	(29)	34	**577**
Tax impact	(100)	(42)	–	7	(9)	**(144)**
Net impact after tax	302	127	–	(21)	26	**434**

Economic interest rate sensitivities for the General Insurance business – prior period

Table 4.b

in USD millions, as of December 31, 2012	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in the interest rate yield curves						
Group investments	(1,314)	(578)	(352)	(341)	(186)	**(2,772)**
Liabilities	(1,146)	(411)	(368)	(364)	(109)	**(2,397)**
Net impact before tax	(168)	(167)	16	22	(78)	**(375)**
Tax impact	42	41	(4)	(6)	19	**93**
Net impact after tax	(127)	(126)	12	17	(59)	**(282)**
100 basis points decrease in the interest rate yield curves						
Group investments	1,005	490	351	237	184	**2,266**
Liabilities	1,049	342	391	334	111	**2,228**
Net impact before tax	(44)	147	(41)	(97)	73	**38**
Tax impact	11	(36)	10	24	(18)	**(9)**
Net impact after tax	(33)	111	(31)	(73)	55	**29**

Economic interest rate sensitivities for the Global Life business – current period

Table 5.a

in USD millions, as of December 31, 2013	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in the interest rate yield curves						
Total impact on Embedded Value	(211)	(195)	(72)	(4)	57	**(425)**
100 basis points decrease in the interest rate yield curves						
Total impact on Embedded Value	162	213	55	(37)	44	**437**

Table 5.b

Economic interest rate sensitivities for the Global Life business – prior period

in USD millions, as of December 31, 2012	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in the interest rate yield curves						
Total impact on Embedded Value	(130)	(165)	(98)	142	(100)	**(350)**
100 basis points decrease in the interest rate yield curves						
Total impact on Embedded Value	61	365	111	(140)	68	**465**

Table 6.a

Economic interest rate sensitivities for the rest of the businesses – current period

in USD millions, as of December 31, 2013	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in the interest rate yield curves						
Group investments	(798)	(112)	1	(56)	–	**(966)**
Liabilities	(390)	(194)	(21)	(131)	–	**(736)**
Net impact before tax	(409)	82	22	75	–	**(230)**
Tax impact	102	(21)	(5)	(19)	–	**57**
Net impact after tax	(307)	62	16	57	–	**(172)**
100 basis points decrease in the interest rate yield curves						
Group investments	896	94	(3)	62	1	**1,050**
Liabilities	475	163	21	80	–	**738**
Net impact before tax	421	(69)	(24)	(18)	1	**311**
Tax impact	(105)	17	6	5	–	**(78)**
Net impact after tax	316	(52)	(18)	(14)	–	**234**

Table 6.b

Economic interest rate sensitivities for the rest of the businesses – prior period

in USD millions, as of December 31, 2012	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in the interest rate yield curves						
Group investments	(831)	(148)	(22)	(36)	(1)	**(1,037)**
Liabilities	(585)	(166)	(28)	(117)	–	**(898)**
Net impact before tax	(246)	19	7	82	(1)	**(139)**
Tax impact	66	(5)	(2)	(20)	–	**39**
Net impact after tax	(180)	14	5	61	–	**(100)**
100 basis points decrease in the interest rate yield curves						
Group investments	895	111	22	26	1	**1,055**
Liabilities	643	140	28	34	–	**845**
Net impact before tax	252	(29)	(6)	(8)	1	**210**
Tax impact	(64)	7	2	2	–	**(53)**
Net impact after tax	189	(22)	(5)	(6)	–	**157**

Risk review *continued*

Analysis of economic sensitivities for equity risk

Tables 7 to 9 show the estimated impacts from a 10 percent decline in stock markets, after consideration of hedges in place, as of December 31, 2013 and 2012, respectively.

Table 7

Economic equity price sensitivities for the General Insurance business

in USD millions, as of December 31	**2013**	2012
10% decline in stock markets		
Group investments	(525)	(456)
Liabilities	–	–
Net impact before tax	(525)	(456)
Tax impact	131	113
Net impact after tax	(394)	(343)

Table 8

Economic equity price sensitivities for the Global Life business

in USD millions, as of December 31	**2013**	2012
10% decline in stock markets		
Total impact on Embedded Value	(279)	(246)

Table 9

Economic equity price sensitivities for the rest of the businesses

in USD millions, as of December 31	**2013**	2012
10% decline in stock markets		
Group investments	(83)	(171)
Liabilities	31	34
Net impact before tax	(113)	(205)
Tax impact	28	49
Net impact after tax	(85)	(156)

Analysis of economic sensitivities for credit spread risk

Tables 10.a to 12.b show the estimated impacts from a 100 basis points increase in corporate credit spreads, as of December 31, 2013 and 2012, respectively.

Table 10.a

Economic credit spread sensitivities for the General Insurance business – current period

in USD millions, as of December 31, 2013	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in credit spreads						
Net impact before tax	(1,001)	(332)	(178)	(144)	(89)	**(1,744)**
Tax impact	249	83	44	36	22	**434**
Net impact after tax	(752)	(249)	(134)	(108)	(67)	**(1,310)**

Table 10.b

Economic credit spread sensitivities for the General Insurance business – prior period

in USD millions, as of December 31, 2012	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in credit spreads						
Net impact before tax	(939)	(278)	(198)	(160)	(102)	**(1,677)**
Tax impact	232	69	49	39	25	**414**
Net impact after tax	(707)	(209)	(149)	(120)	(77)	**(1,262)**

Economic credit spread sensitivities for the Global Life business – current period

Table 11.a

in USD millions, as of December 31, 2013	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in credit spreads						
Total impact on Embedded Value	(174)	(262)	(86)	(234)	(145)	**(901)**

Economic credit spread sensitivities for the Global Life business – prior period

Table 11.b

in USD millions, as of December 31, 2012	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in credit spreads						
Total impact on Embedded Value	(189)	(282)	(100)	(250)	(130)	**(951)**

Economic credit spread sensitivities for the rest of the businesses – current period

Table 12.a

in USD millions, as of December 31, 2013	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in credit spreads						
Net impact before tax	(339)	(49)	5	4	–	**(380)**
Tax impact	84	12	(1)	(1)	–	**95**
Net impact after tax	(254)	(37)	4	3	–	**(285)**

Economic credit spread sensitivities for the rest of the businesses – prior period

Table 12.b

in USD millions, as of December 31, 2012	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in credit spreads						
Net impact before tax	(320)	(74)	2	(3)	–	**(396)**
Tax impact	89	18	–	1	–	**108**
Net impact after tax	(231)	(56)	1	(3)	–	**(288)**

Risk review *continued*

Currency risk

Currency risk is the risk of loss resulting from changes in exchange rates. The Group operates internationally and therefore is exposed to the financial impact arising from changes in the exchange rates of various currencies. The Group's presentation currency is the U.S. dollar, but its assets, liabilities, income and expenses are denominated in many currencies, with significant amounts in the euro, Swiss franc, British pound, as well as the U.S. dollar.

On local balance sheets there is the risk that a currency mismatch may lead to fluctuations in a balance sheet's net asset value, either through income or directly through equity. The Group manages this risk by matching foreign currency positions on local balance sheets within prescribed limits. Residual local mismatches are reported centrally in order to make use of the netting effect across the Group. Zurich then hedges residual mismatches from local balance sheets through a central balance sheet within an established limit. The monetary currency risk exposure on local balance sheets is considered immaterial.

Because the Group has chosen the U.S. dollar as its presentation currency, differences arise when functional currencies are translated into the presentation currency. The Group applies net investment hedge accounting in order to protect against the effects of changes in certain exchange rates on selected net investments. The Group does not take speculative positions on foreign currency market movements. Using constant exchange rates from one year to the next, the Group's 2013 net income attributable to shareholders would have been lower by USD 6 million (applying 2012 exchange rates to the 2013 result). In 2012, the result would have been higher by USD 45 million (applying 2011 exchange rates to the 2012 results).

Table 13 shows the sensitivity of the total IFRS equity to changes in exchange rates for the main functional currencies to which the Group is exposed. Positive values represent an increase in the value of the Group's total equity. The sensitivity analysis does not take into account management actions that might be taken to mitigate such changes. The sensitivities show the effects of a change of the exchange rates only, while other assumptions remain unchanged. The sensitivities do not indicate a probability of such events occurring in the future. They do not necessarily represent Zurich's view of expected future market changes. While table 13 shows the effect of a 10 percent increase in currency exchange rates, a decrease of 10 percent would have the converse effect.

See notes 1, 3 and 7 of the Consolidated financial statements for additional information on foreign currency translation and transactions.

Table 13

Sensitivity of the Group's total IFRS equity to exchange rate fluctuations

in USD millions, as of December 31	**2013**	2012
10% increase in		
EUR/USD rate	915	904
GPB/USD rate	311	362
CHF/USD rate	(382)	(253)
Other currencies/USD rates	760	787

Credit risk

Section highlights
- During 2013, the intensity of the euro crisis eased despite areas of negative growth and high unemployment. The U.S. remains vulnerable to both domestic and global risks.
- The risk-weighted average issuer credit rating of the Group's debt securities portfolio is "BBB+". The largest concentration in the Group's debt securities portfolio is in government, supranationals and similar debt securities at 48.4 percent.

Credit risk is the risk associated with a loss or potential loss from counterparties failing to fulfill their financial obligations. The Group's exposure to credit risk is derived from the following main categories of assets:

- Cash and cash equivalents
- Debt securities
- Reinsurance assets
- Mortgage loans
- Other loans
- Receivables
- Derivatives

The Group manages individual exposures as well as credit risk concentrations. The Group's objective in managing credit risk exposures is to maintain them within parameters that reflect the Group's strategic objectives and risk tolerance. Sources of credit risk are assessed and monitored, and the Group has policies to manage the specific risks within the various subcategories of credit risk. To assess counterparty credit risk, the Group uses the ratings assigned by external rating agencies, qualified third parties, such as asset managers, and internal rating assessments. When there is a difference among external rating agencies, the Group assesses the reasons for the inconsistencies and applies the lowest of the respective ratings unless other indicators of credit quality justify the assignment of alternative internal credit ratings. The Group maintains counterparty credit risk databases, which record external and internal sources of credit intelligence.

The Group regularly tests and analyzes credit risk scenarios and prepares possible contingency measures, which may be implemented should the credit risk environment worsen. Zurich adjusts the scenarios if market conditions warrant.

Although the Group actively uses collateral to mitigate credit risks, the principle is nevertheless to manage the underlying credit risks independently from the collateral. The Group has limits and quality criteria to identify acceptable letter-of-credit providers. Letters of credit enable Zurich to limit the risks embedded in reinsurance captives, deductibles, trade credit and surety.

Macro review of the credit risk environment

During 2013, the intensity of the euro crisis eased despite areas of negative growth and high unemployment. Unresolved high government and private debt levels in Europe continued to drive negative rating actions on governments – even beyond the peripheral countries. Even though credit conditions are more favorable in the U.S., it remains vulnerable to both domestic and global risks such as fiscal policy challenges, developments in the Eurozone and the tapering of the U.S. Federal Reserve System's expansive policy.

Financial institutions have been slowly re-establishing levels of profitability and asset quality seen prior to the crisis. They have overall built up capital and liquidity and improved their operating flexibility. Therefore, on the one hand, the credit outlook for banks slightly improved and the potential for rating downgrades decreased. On the other hand, Zurich expects government support for financial institutions to decrease over time. For example, the European Union has developed a new directive for the recovery and resolution of troubled banks that would allow losses to be imposed on a broad range of liabilities, including senior unsecured debt. Such aspects of new regulations negatively impact the credit outlook of financial institutions.

Risk review *continued*

Credit risk concentration

The Group limits and regularly monitors credit exposures by individual counterparty and related counterparties by the aggregated exposure across various types of credit risk for that counterparty. The Group's exposure to counterparties' parent companies and subsidiaries across sources of credit risk is aggregated to include reinsurance assets, investments, certain insurance products and derivatives. Best estimates, based on statistical data and own assessments, are used to assign loss-given-default percentages and loss dependency factors reflecting, for example, double default events. The aggregated exposure information is compared with the Group's credit limits. The limits vary based on the underlying rating category of the counterparty. There was no material exposure in excess of the Group's limits for counterparty aggregation as of December 31, 2013 or December 31, 2012. In line with the Group's overall risk appetite, additional investments in Italy were exceptionally approved in order to benefit from slight credit improvements in the European "periphery."

The maximum exposure to credit risk consists mainly of on-balance sheet exposures. Off-balance sheet exposures are primarily related to collateral, such as letters of credit, used to protect the underlying credit exposures on the balance sheet. The Group also has off-balance sheet exposures related to undrawn loan commitments of USD 8 million and USD 20 million as of December 31, 2013 and 2012, respectively. See note 24 of the Consolidated financial statements for undrawn loan commitments.

Credit risk related to cash and cash equivalents

The Group has significant exposure to cash and cash equivalents across the globe. In order to mitigate concentration, settlement and operational risks related to cash and cash equivalents, the Group limits the maximum cash amount that can be deposited with a single counterparty. In addition, the Group maintains an authorized list of acceptable cash counterparties based on current ratings and outlook, taking the analysis of fundamentals and market indicators into account.

Cash and cash equivalents amounted to USD 7.2 billion as of December 31, 2013 and USD 9.1 billion as of December 31, 2012. The risk-weighted average rating of the overall cash portfolio has decreased from "A" to "BBB+" in 2013 due to a change in the rating methodology. Applying the changed methodology retrospectively, the risk-weighted average rating for 2012 would have been "BBB+". 61 percent of the total was with the ten largest global banks, whose average rating was "A–" as of December 31, 2013, down from "A" as of December 31, 2012.

Credit risk related to debt securities

The Group is exposed to credit risk from third party counterparties where the Group holds securities issued by those entities. Table 14 shows the credit risk exposure on debt securities, by issuer credit rating.

Table 14

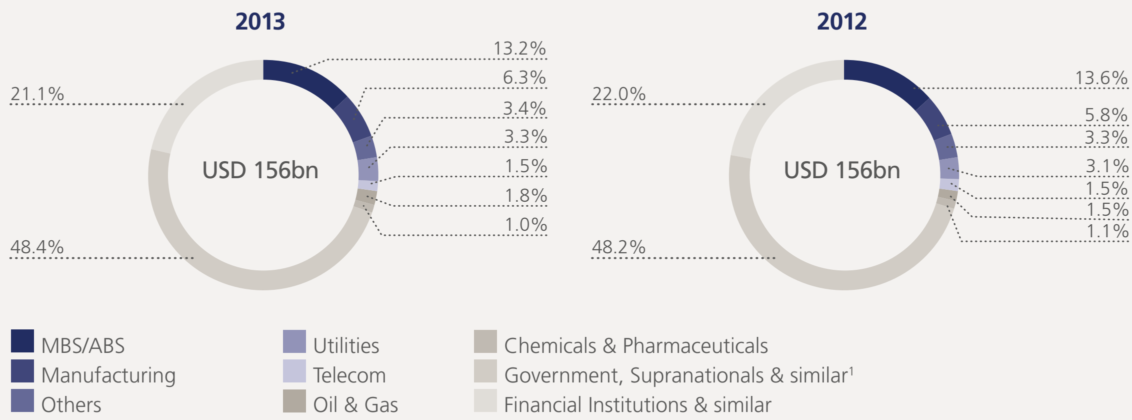
Debt securities by rating of issuer

as of December 31	2013		2012	
	USD millions	**% of total**	USD millions	% of total
Rating				
AAA	37,010	23.7%	48,526	31.2%
AA	57,985	37.1%	48,032	30.9%
A	26,992	17.2%	27,135	17.4%
BBB	31,170	19.9%	29,021	18.6%
BB and below	2,360	1.5%	2,448	1.6%
Unrated	939	0.6%	432	0.3%
Total	**156,456**	**100.0%**	**155,594**	**100.0%**

As of December 31, 2013, investment grade securities comprise 97.9 percent of the Group's debt securities, and 23.7 percent were rated "AAA." The downgrades of several Eurozone governments and related entities caused breaches of internal rating category limits, which were managed as circumstances allowed. The migration from AAA to AA is mostly due to the downgrade of UK governments. As of December 31, 2012, investment grade securities comprised 98.1 percent of debt securities, and 31.2 percent were rated "AAA." The Group's investment policy prohibits speculative grade investments, unless specifically authorized and under exceptional circumstances. Where the Group identifies investments expected to be downgraded to below investment grade, it implements appropriate corrective actions.

The Group measures the average issuer credit rating both with a linear and a risk-weighted scale. Despite the ongoing de-risking of the fixed income portfolio, the risk-weighted average issuer credit rating of the Group's debt securities portfolio was "BBB+" (2012: "A–/BBB+"). This is mainly due to both downgrades of governments and government-related financial institutions in 2013 and higher exposures due to the tightening of credit spreads. Based on the linear scale, the average rating was"AA–"(2012: "AA–") and therefore in line with the "AA–" target rating as set out in the Group's risk policy.

Debt securities – credit risk concentration by industry
(%, as of December 31)



[1] 2012 figures exclude government agency debt.

As of December 31, 2013, the largest concentration in the Group's debt securities portfolio is in governments, supranationals and similar debt securities at 48.4 percent. In all other categories, a total of USD 37.9 billion or 47 percent is secured. As of December 31, 2012, 48.2 percent of the Group's debt portfolio was invested in governments, supranationals and similar. In all other categories, a total of USD 40.3 billion or 49.5 percent was secured.

Table 15

The Group's debt exposure to Eurozone governments and supranationals & similar

in USD millions, as of December 31	2013	2012
Germany	7,873	9,282
France	5,191	4,638
Austria	3,108	2,892
Belgium	2,305	1,959
Netherlands	2,093	2,122
Peripheral countries	14,351	11,301
Greece	–	–
Ireland	491	243
Italy	8,885	6,646
Portugal	530	531
Spain	4,445	3,881
Rest of Eurozone	1,147	974
Eurozone supranationals and similar	679	1,058
Total	**36,747**	**34,226**

As shown in table 15, the Group had debt exposure to Eurozone governments of USD 36.8 billion and USD 34.2 billion as of December 31, 2013 and 2012, respectively. Exposure to Greece, Ireland, Italy, Portugal and Spain amounted to USD 14.4 billion and USD 11.3 billion as of December 31, 2013 and 2012, respectively. This increase was primarily driven by switches in investments from Germany into Italy to benefit from improvements in credit quality and from the spread differential.

In addition to the debt exposure, the Group had sovereign loan exposure of USD 4.2 billion and USD 4.7 billion to Germany as of December 31, 2013 and 2012, respectively.

Risk review *continued*

The second largest concentration in the Group's debt securities portfolio is to financial institutions (including banks), at 21.1 percent, of which 44.5 percent is secured. In response to the European government-debt crisis, the Group identified and selectively reduced unsecured and subordinated credit exposure issued by banks with weak credit profiles, and credit exposure to banks supported by weaker governments.

The third largest concentration in the Group's debt securities portfolio is to structured finance securities (mortgage-backed securities (MBS)/asset-backed securities (ABS) and similar). Although credit risks of the underlying securities are diverse in nature, the Group also considers macro impacts that may affect structured finance sub-categories (e.g. auto or credit card ABS's) in its credit assessments. Structured finance exposures are assessed on a look-through basis prior to acquisition and not merely on the strength of prevailing credit ratings or credit profiles.

Credit risk related to reinsurance assets

As part of its overall risk management strategy, the Group cedes insurance risk through proportional, non-proportional and facultative reinsurance treaties. While these cessions mitigate insurance risk, the recoverables from reinsurers and receivables arising from ceded reinsurance expose the Group to credit risk.

The Group's Corporate Reinsurance Security Committee manages the credit quality of cessions and reinsurance assets. The Group typically cedes new business to authorized reinsurers with a minimum rating of "A–." 59 percent and 58 percent of the business ceded to reinsurers that fall below "A–" or are not rated is collateralized, as of December 31, 2013 and 2012, respectively. Of these percentages, 55 percent and 50 percent are ceded to captive insurance companies, in 2013 and 2012, respectively.

Reinsurance assets include reinsurance recoverables of USD 18.1 billion and USD 19.9 billion as of December 31, 2013 and 2012, respectively, which are the reinsurers' share of reserves for insurance contracts, and receivables arising from ceded reinsurance, gross of allowances for impairment, of USD 1.1 billion and USD 1.1 billion as of December 31, 2013 and 2012, respectively. Reserves for potentially uncollectible amounts of reinsurance assets amount to USD 174 million as of December 31, 2013 and USD 206 million as of December 31, 2012. The Group's policy on impairment charges takes into account both specific charges for known situations (e.g. financial distress or litigation) and a general, prudent provision for unanticipated impairments.

Reinsurance assets in table 16 are shown before taking into account collateral such as cash or letters of credit from banks rated at least "A," which can be converted into cash, and deposits received under ceded reinsurance contracts.

Compared to December 31, 2012, collateral decreased by USD 414 million to USD 7.6 billion.

The risk-weighted average credit quality of reinsurance assets (including receivables, but after deduction of collateral) was "A" as of December 31, 2013 and 2012. Credit factors to determine the risk-weighted average credit quality of reinsurance assets are based on historical insurance impairment statistics, consistent with the prior year. For credit risk assessment purposes, collateral has been taken into account at nominal value as an approximation for fair value. For collateral, the Group applies minimum requirements, such as a minimum rating for the issuers of letters of credit and guarantees, and for pledged assets a minimum coverage ratio of 100 percent.

Table 16 shows reinsurance premiums ceded and reinsurance assets split by rating.

Table 16

Reinsurance premiums ceded and reinsurance assets by rating of reinsurer and captive

as of December 31	2013				2012			
	Premiums ceded		Reinsurance assets		Premiums ceded		Reinsurance assets	
	USD millions	% of total	USD millions	% of total	USD millions	% of total	USD millions	% of total
Rating								
AAA	88	1.3%	38	0.2%	77	1.2%	42	0.2%
AA	1,484	22.6%	7,672	40.3%	1,434	22.1%	8,852	42.6%
A	2,152	32.8%	6,681	35.1%	2,279	35.2%	6,959	33.5%
BBB	1,071	16.3%	2,058	10.8%	800	12.4%	2,080	10.0%
BB	387	5.9%	656	3.4%	213	3.3%	425	2.0%
B	51	0.8%	33	0.2%	34	0.5%	42	0.2%
Unrated	1,313	20.2%	1,890	9.9%	1,644	25.4%	2,390	11.5%
Total	**6,546**	**100.0%**	**19,027**[1]	**100.0%**	**6,481**	**100.0%**	**20,791**[1]	**100.0%**

[1] The value of the collateral received amounts to USD 7.6 billion and USD 8.0 billion as of December 31, 2013 and 2012, respectively.

Credit risk related to mortgage loans

Mortgage loans expose the Group to credit risk. The mortgage business is dependent on local property market conditions and local legislation. Investment portfolio allocations made to mortgages consider these factors and are within the framework of the strategic asset allocation defined by the Group and adapted and approved by local investment committees. Conservative lending criteria (i.e. maximum mortgage loan to property value ratios) and the diversification of loans across many single borrowers, particularly in Germany and in Switzerland, help reduce potential loss. Dunbar Assets Ireland (formerly Zurich Bank) has, however, suffered from concentrations to a smaller number and type of borrowers, such as property developers and investors. Furthermore, business units are required to clearly state criteria for determining borrower and collateral quality in their local mortgage policies. The Group specifies requirements for the local policies and sets monitoring and reporting standards. The Group closely monitors the performance of the portfolios in terms of impairments and losses.

The Group's largest mortgage loan portfolios are in Germany (USD 4.5 billion) and in Switzerland (USD 3.9 billion); these are predominantly secured against residential property. In Switzerland, the underlying properties backing individual loans are revalued every 10 years. In Germany, the property valuation is not generally reassessed after the granting of the mortgage loan. A less frequent or no revaluation of the underlying property means that reported loan-to-value (LTV) ratios will be higher (lower) than they would be if property prices have risen (fallen) since their valuation.

In Switzerland, the residential property market has seen steady price growth since 2000 and fast growth in the past six years, raising concerns about the development of a price bubble. Residential property price increases have been strongest in the main economic centers and more moderate in the rest of the country; residential prices in the Lake Geneva region and in the Canton of Zug have more than doubled since 2000, and in the Canton of Zurich have increased by 76% in the same period. In 2013, outstanding mortgages in the Lake Geneva region represent approximately 33% of the Swiss portfolio. Mortgages in the Canton of Zurich and in the Canton of Zug represent 35% and 1.3% of the Swiss portfolio respectively. The bulk of those mortgages was granted before 2008 and is therefore not affected by price developments in the last six years. In Germany, residential prices are increasing in the major cities, however in line with the Group's investment policy, mortgage exposure has been reduced. To mitigate the impact of potential bubbles in the portfolio, the Group has a process to regularly review regional property markets, and to tighten underwriting standards in areas with strong price appreciation. Zurich's German and Swiss mortgage portfolios remain strong and well managed; LTV lending buffers are generally strong, and loss impairments and losses remain low.

Risk review *continued*

The next largest portfolio comprises loans granted by Dunbar Assets Ireland (including the UK property loans of Dunbar Assets plc) of USD 864 million (after provisions) in the UK and Ireland. They consist of residential and commercial property development financing or investment loans, secured as either property under development or completed developments. In 2010, these entities ceased originating new business in these markets following the significant deterioration in economic conditions and the drop in property values in the UK and Ireland. Provisions at Dunbar Assets Ireland now stand at a significant USD 761 million (USD 713 million in 2012) or 47 percent and 39 percent of the portfolio as of December 31, 2013 and December 31, 2012 respectively; this accordingly reduces the carrying balance of net loans outstanding. Dunbar Assets Ireland regularly reviews its property valuations as part of the continual assessment of the appropriateness of provisioning on a portfolio that is largely impaired. For more details, see table 18.a and 18.b.

Credit risk related to other loans

The credit risk arising from other loans is assessed and monitored together with the fixed income securities portfolio. 63.1 percent of the reported loans are to Government, Supranationals and similar or government or supranational institutions, of which 99.4 percent are to the German Central Government or the German Federal States. Table 17 shows the composition of the loan portfolio by rating class. As of December 31, 2013, a total of USD 7.9 billion or 66.7 percent of loans are secured. As of December 31, 2012, a total of USD 8.0 billion or 68.3 percent of loans were secured.

Table 17

Other loans by rating of issuer

as of December 31	2013		2012	
	USD millions	**% of total**	USD millions	% of total
Rating				
AAA	6,185	52.5%	6,851	51.2%
AA	1,293	11.0%	2,315	17.3%
A	2,257	19.1%	2,113	15.8%
BBB and below	1,167	9.9%	1,524	11.4%
Unrated	887	7.5%	582	4.3%
Total	**11,789**	**100.0%**	**13,385**	**100.0%**

Credit risk related to receivables

The Group's largest credit risk exposure to receivables is from third party agents, brokers and other intermediaries; the risk arises where they collect premiums from customers to be paid to the Group or pay claims to customers on behalf of the Group. The Group has policies and standards to manage and monitor credit risk from intermediaries with a focus on day-to-day monitoring of the largest positions. As part of these standards, the Group requires that intermediaries maintain segregated cash accounts for policyholder money. Additionally, the Group requires intermediaries to satisfy minimum requirements in terms of their capitalization, reputation and experience as well as providing short-dated business credit terms.

Past due but not impaired receivables should be regarded as unsecured, but some of these receivable positions may be offset by collateral. The Group reports internally on Group past due receivable balances and strives to keep the balance of past due positions as low as possible, while taking into account customer satisfaction. In 2013, the Group continued efforts to reduce past due receivables through both short- and long-term initiatives to improve processes and systems.

Receivables from ceded reinsurance form part of the reinsurance assets and are managed accordingly.

See note 17 of the Consolidated financial statements for additional information on receivables.

Credit risk related to derivatives

The positive replacement value of outstanding derivatives, such as interest rate, currency, total return and equity swaps, forward contracts and purchased options represents a credit risk to the Group. In addition there is a potential exposure arising from possible changes in replacement value. The Group regularly monitors credit risk exposures arising from derivative transactions. Outstanding positions with external counterparties are managed through an approval process embedded in derivative programs.

To limit credit risk, derivative financial instruments are typically executed with counterparties rated "A–" or better by an external rating agency. In addition, it is the Group standard to only transact derivatives with counterparties where the Group has an ISDA Master Agreement with a Credit Support Annex in place. This mitigates credit exposures from over-the-counter transactions due to close-out netting and requires the counterparty to post collateral when the derivative position is beyond an agreed threshold. The Group mitigates credit exposures from derivative transactions further by using exchange-traded instruments whenever possible.

Analysis of financial assets

Tables 18.a to 19.b provide an analysis, for non unit-linked businesses, of the age of financial assets that are past due but not impaired and of financial assets that are individually determined to be impaired.

Table 18.a

Analysis of financial assets – current period

in USD millions, as of December 31, 2013	Debt securities	Mortgage loans	Other loans	Receivables and other financial assets	Total
Neither past due nor impaired financial assets	**156,181**	**8,825**	**11,787**	**15,016**	**191,809**
Past due but not impaired financial assets.					
Past due by:					
1 to 90 days	–	131	–	1,477	1,608
91 to 180 days	–	38	–	304	343
181 to 365 days	–	22	–	182	203
> 365 days	–	114	–	285	399
Past due but not impaired financial assets	**–**	**304**	**1**	**2,248**	**2,553**
Financial assets impaired	**275**	**1,456**	**20**	**162**	**1,914**
Gross carrying value	**156,456**	**10,585**	**11,808**	**17,426**	**196,276**
Less: impairment allowance					
Impairment allowances on individually assessed financial assets	–	726	19	89	835
Impairment allowances on collectively assessed financial assets	–	61	–	208	269
Net carrying value	**156,456**[1]	**9,798**[2]	**11,789**	**17,130**	**195,172**

[1] Available-for-sale debt securities are included net of USD 2 million of impairment charges recognized during the year.
[2] USD 158 million past due but not impaired and USD 1.4 billion impaired mortage loans relate to the run-off property loans at Dunbar Assets Ireland.

Risk review *continued*

Analysis of financial assets – prior period

Table 18.b

in USD millions, as of December 31, 2012	Debt securities	Mortgage loans	Other loans	Receivables and other financial assets	Total
Neither past due nor impaired financial assets	**155,182**	**9,318**	**13,385**	**14,492**	**192,376**
Past due but not impaired financial assets. Past due by:					
1 to 90 days	–	185	–	1,207	1,392
91 to 180 days	–	80	–	290	370
181 to 365 days	–	107	–	223	330
> 365 days	–	165	–	305	469
Past due but not impaired financial assets	**–**	**537**	**–**	**2,024**	**2,561**
Financial assets impaired	**412**	**1,397**	**1**	**248**	**2,057**
Gross carrying value	**155,594**	**11,252**	**13,386**	**16,764**	**196,995**
Less: impairment allowance					
Impairment allowances on individually assessed financial assets	–	696	–	117	814
Impairment allowances on collectively assessed financial assets	–	37	–	210	247
Net carrying value	**155,594**[1]	**10,519**[2]	**13,385**	**16,437**	**195,934**

[1] Available-for-sale debt securities are included net of USD 12 million of impairment charges recognized during the year.
[2] USD 385 million past due but not impaired and USD 1.4 billion impaired mortage loans relate to the run-off property loans at Dunbar Assets Ireland.

Tables 19.a and 19.b show how the allowances for impairments of financial assets in tables 18.a and 18.b have developed during the periods ended December 31, 2013 and 2012, respectively.

Development of allowance for impairments – current period

Table 19.a

in USD millions	Mortgage loans	Other loans	Receivables
As of January 1, 2013	733	–	327
Increase/(Decrease) in allowance for impairments	92	20	12
Amounts written-off	(62)	(1)	(38)
Foreign currency translation effects	24	–	(5)
As of December 31, 2013	**787**	**20**	**297**

Development of allowance for impairments – prior period

Table 19.b

in USD millions	Mortgage loans	Other loans	Receivables
As of January 1, 2012	645	–	320
Increase/(Decrease) in allowance for impairments	69	13	39
Amounts written-off	(4)	(13)	(37)
Foreign currency translation effects	23	–	5
As of December 31, 2012	**733**	**–**	**327**

Liquidity risk

Section highlights

- The Group maintains internal liquidity sources that cover the Group's potential liquidity needs, including those that might arise under stressed conditions.

Liquidity risk is the risk that the Group may not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. Zurich's policy is to maintain adequate liquidity and contingent liquidity to meet its liquidity needs under both normal and stressed conditions. To achieve this, the Group assesses, monitors and manages its liquidity needs on an ongoing basis.

The Group has Group-wide liquidity management policies and specific guidelines as to how local businesses have to plan, manage and report their local liquidity. These include regularly conducting stress tests for all major carriers within the Group. The stress tests use a standardized set of internally defined stress events, and are designed to provide an overview of the potential liquidity drain the Group would face if it had to recapitalize local balance sheets.

At the Group level, similar guidelines apply and detailed liquidity forecasts based on the local businesses' input and the Group's own forecasts are regularly performed. As part of its liquidity management, the Group maintains sufficient cash and cash equivalents and high quality, liquid investment portfolios to meet expected outflows including those for maturing debt obligations. In addition, the Group maintains internal liquidity sources that cover the Group's potential liquidity needs, including those that might arise under stressed conditions. The Group takes into account the amount, permanence of availability and speed of accessibility of the sources. The Group centrally maintains committed borrowing facilities, as well as access to diverse funding sources to cover contingencies. Funding sources include asset sales, external debt issuances and use of letters of credit. The Group maintains a broad range of maturities for external debt securities. A possible liquidity risk could arise from a downgrade of the Group's credit rating. This could impact the Group's commitments and guarantees, thus potentially increasing the Group's liquidity needs. This risk and potential mitigating actions are assessed on an ongoing basis within the Group's liquidity framework.

The Group limits the percentage of the investment portfolio that is not readily realizable, and regularly monitors exposures to take action if necessary to maintain an appropriate level of asset liquidity. During 2013, the Group was within its limits for asset liquidity. The fair value hierarchy tables in note 25 of the Consolidated financial statements segregate financial assets into three levels to reflect the basis of the determination of fair value. These tables indicate the high liquidity of the Group's investments.

See note 20 of the Consolidated financial statements for additional information on debt obligation maturities and on credit facilities and note 24 of the Consolidated financial statements for information on commitments and guarantees. The Group's regular liquidity monitoring includes monthly reporting to the executive management and quarterly reporting to the Risk Committee of the Board, covering aspects such as the Group's actual and forecasted liquidity, possible adverse scenarios that could affect the Group's liquidity and possible liquidity needs from the Group's main subsidiaries, including under stressed conditions.

Tables 20.a and 20.b provide an analysis of the expected maturity profile of reserves for insurance contracts, net of reinsurance, based on expected cash flows without considering the surrender values as of December 31, 2013 and 2012. Reserves for unit-linked insurance contracts amounting to USD 74.9 billion and USD 74.1 billion as of December 31, 2013 and 2012, respectively, are not included, as policyholders can generally surrender their contracts at any time, at which point the underlying unit-linked assets would be liquidated. Risks from the liquidation of unit-linked assets are largely borne by the policyholders of unit-linked contracts.

Risk review *continued*

Table 20.a

Expected maturity profile for reserves for insurance contracts, net of reinsurance – current period

in USD millions, as of December 31, 2013	Reserves for losses and loss adjustment expenses	Future life policyholders' benefits	Policyholders' contract deposits and other funds	Total
< 1 year	17,338	9,017	1,386	27,742
1 to 5 years	23,511	21,918	2,432	47,861
5 to 10 years	8,279	14,966	1,931	25,176
10 to 20 years	5,509	17,083	2,542	25,134
> 20 years	2,681	18,990	9,834	31,506
Total	**57,319**	**81,975**	**18,126**	**157,420**

Table 20.b

Expected maturity profile for reserves for insurance contracts, net of reinsurance – prior period

in USD millions, as of December 31, 2012	Reserves for losses and loss adjustment expenses	Future life policyholders' benefits	Policyholders' contract deposits and other funds	Total
< 1 year	17,288	8,188	1,370	26,846
1 to 5 years	23,688	20,807	2,208	46,704
5 to 10 years	8,465	14,448	1,859	24,772
10 to 20 years	5,612	18,896	2,361	26,869
> 20 years	2,332	18,960	10,119	31,411
Total	**57,385**	**81,300**	**17,917**	**156,602**

For additional information on reserves for insurance contracts, see note 8 of the Consolidated financial statements.

Tables 21.a and 21.b provide an analysis of the maturity of liabilities for investment contracts based on expected cash flows as of December 31, 2013 and 2012. The undiscounted contractual cash flows for liabilities for investment contracts are USD 67.4 billion and USD 57.6 billion as of December 31, 2013 and December 31, 2012, respectively. Liabilities for unit-linked investment contracts amount to USD 59.5 billion and USD 50.2 billion as at December 31, 2013 and 2012, respectively. The policyholders of unit-linked investment contracts can generally surrender their contracts at any time, at which point the underlying unit-linked assets would be liquidated. Risks from the liquidation of unit-linked assets are borne by the policyholders of unit-linked investment contracts. Certain non-unit-linked contracts also allow for surrender of the contract by the policyholder at any time. Liabilities for such contracts amounted to USD 922 million and USD 958 million as of December 31, 2013 and 2012 respectively. The Group actively manages the Global Life in-force business to improve persistency and retention.

Table 21.a

Expected maturity profile for liabilities for investment contracts – current period

in USD millions, as of December 31, 2013	Liabilities related to unit-linked investment contracts	Liabilities related to investment contracts (amortized cost)	Liabilities related to investment contracts with discretionary participation features	Total
< 1 year	5,663	182	344	6,189
1 to 5 years	6,853	559	1,330	8,742
5 to 10 years	7,548	151	1,301	8,999
10 to 20 years	10,499	96	1,094	11,690
> 20 years	28,905	43	2,545	31,493
Total	**59,469**	**1,030**	**6,614**	**67,113**

Expected maturity profile for liabilities for investment contracts – prior period

Table 21.b

in USD millions, as of December 31, 2012	Liabilities related to unit-linked investment contracts	Liabilities related to investment contracts (amortized cost)	Liabilities related to investment contracts with discretionary participation features	Total
< 1 year	4,383	172	295	4,850
1 to 5 years	6,253	799	1,333	8,385
5 to 10 years	6,757	173	1,068	7,998
10 to 20 years	9,258	115	940	10,313
> 20 years	23,579	46	2,267	25,892
Total	**50,229**	**1,305**	**5,903**	**57,437**

See note 20 of the Consolidated financial statements for information on the maturities of total debt issued. For more information on the Group's other financial liabilities, see note 18 of the Consolidated financial statements.

See note 6 of the Consolidated financial statements for information on the maturity of debt securities for total investments.

The Group has committed to contribute capital to subsidiaries and third parties that engage in making investments in direct private equity and private equity funds. Commitments may be called by the counterparty over the term of the investment (generally three to five years) and must be funded by the Group on a timely basis. See note 24 of the Consolidated financial statements.

Risk review *continued*

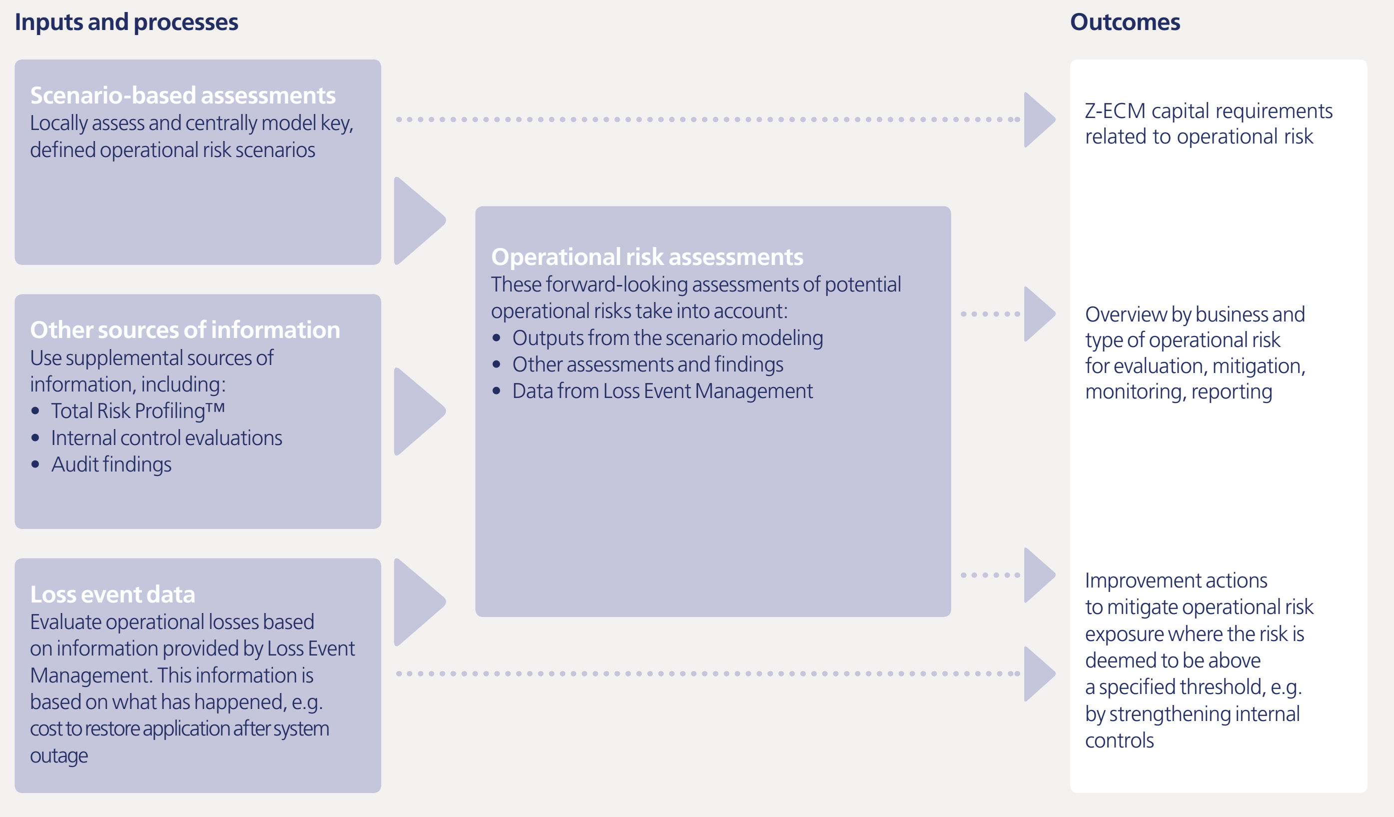
Operational risk

Section highlights
- Zurich regularly reviews projects to identify significant risks that may threaten successful project delivery, and mitigates these risks.
- In 2013, this area was strengthened by adding to the Zurich Risk Policy specific requirements to manage project risks.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or from external events such as outsourcing, catastrophes, legislation, or external fraud.

Zurich has a comprehensive framework with a common approach to identify, assess, quantify, mitigate, monitor and report operational risk within the Group as summarized below.

Operational risk



Within this framework, the Group:

- Uses a scenario-based approach to assess, model and quantify the capital required for operational risk for business units under extreme circumstances (internal model calibrated to a confidence level of 99.95 percent over a one-year time horizon). This approach allows comparison of information across the Group and highlights the main scenarios contributing to the Z-ECM capital required. See chart "Z-ECM capital required for operational risk split by risk scenarios (unaudited)" for more information.

- Documents and evaluates loss events above a threshold determined by the Zurich Risk Policy, in a Group-wide database. Improvement actions are put in place to avoid recurrence of such operational loss events.
- Conducts operational risk assessments through which operational risks are identified for key business areas and are qualitatively assessed. Risks identified and assessed above a certain threshold must be mitigated, and escalated in specific reports at the Group level. Plans for improvement actions are documented and tracked on an ongoing basis. The Group uses a scoping exercise to determine which business units and Group-wide functional areas conduct operational risk assessments. In the assessments, the Group uses such sources of information as Total Risk Profiling™, internal control assessments, and audit findings, as well as scenario modeling and loss event data.

The Group has specific processes and systems in place to focus on high priority operational matters such as managing information security, business continuity and project risks as well as combating fraud.

In the area of information security the Group continued to focus on its global improvement program with special emphasis on protecting customer information, improving security with its suppliers and monitoring that access to information is properly controlled. This helps the Group to better protect information assets and ensure compliance with regulation and policies.

A key task is maintaining and developing the Group's business continuity capability with an emphasis on recovery from events such as natural catastrophes, significant operational interruptions and the possibility of a pandemic. In order to achieve this The Group has continued to further implement a more globally consistent approach to business continuity and crisis management.

Addressing the risk of claims and non-claims fraud continues to be of importance. In 2013, the Group continued its global anti-fraud initiative to further improve the Group's ability to prevent, detect and respond to fraud. While claims fraud is calculated as part of insurance risk and non-claims fraud is calculated as part of operational risk for risk-based capital, both are part of the common framework for assessing and managing operational risks.

Zurich regularly reviews projects to identify significant risks that may threaten successful project delivery, and mitigates these risks. In 2013, this area was strengthened by adding to the Zurich Risk Policy specific requirements to manage project risks. The Group Chief Risk Officer reports regularly on the status and development of significant project risks to the CEO, senior management committees and the Risk Committee of the Board.

The Group considers controls to be key instruments for monitoring and managing operational risk. Although primarily focused on important controls over financial reporting, internal control efforts also include related operational and compliance controls. Therefore, the Group continues to strengthen the robustness, consistency, documentation and assessment of internal controls for significant entities and business processes. Operational effectiveness of key controls is assessed by self assessment and independent testing on controls supporting the financial statements. For more details, see the "Risk management and internal control statement" in the "Corporate governance report (unaudited)."

Risks to the Group's reputation

Risks to the Group's reputation include the risk that an act or omission by the Group or any of its employees could result in damage to the Group's reputation or loss of trust among its stakeholders. Every risk type has potential consequences for Zurich's reputation, and therefore, effectively managing each type of risk helps Zurich reduce threats to its reputation.

Additionally, the Group endeavors to preserve its reputation by adhering to applicable laws and regulations, and by following the core values and principles of Zurich Basics, the Group's code of conduct, which includes integrity and good business practice. The Group centrally manages certain aspects of reputation risk, for example, communications, through functions with the appropriate expertise.

Risk review *continued*

Capital management and analysis of capital adequacy

Capital management

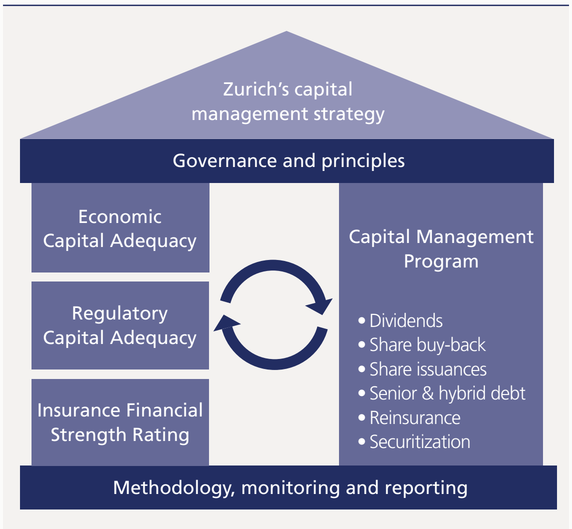
The Group's capital management strategy is to maximize long term shareholder value by optimizing capital allocation while managing the balance sheet at "AA" level and in accordance with regulatory, solvency and rating agency requirements. In particular, the Group endeavors to manage its capital such that the Group and all of its regulated entities are adequately capitalized in compliance with the relevant regulatory capital adequacy requirements.

Further, Zurich strives to simplify the Group's legal entity structure in order to reduce complexity and increase fungibility of capital. The Group also wants to minimize constraints to capital fungibility by pooling risk, capital and liquidity centrally as much as possible.

Capital management framework

The Group's capital management framework forms the basis for actively managing capital within Zurich. Major elements are economic, regulatory, and rating agency capital adequacy.

Capital management framework



Zurich's policy is to manage its capital position by allocating capital to businesses earning the highest risk-adjusted returns and pooling risks and capital as much as possible to operationalize its global risk diversification, subject to local and Group regulatory solvency requirements and rating agency capital adequacy constraints.

The Group manages capital and solvency through an integrated and comprehensive framework. The Group Balance Sheet Committee defines the capital management strategy and sets the principles, standards and policies for the execution of the strategy. Group Treasury and Capital Management is responsible for the execution of the capital management strategy within the mandate set by the Group Balance Sheet Committee.

Within these defined principles, the Group manages its capital using a number of different capital models taking into account economic, regulatory, and rating agency constraints. The Group's capital and solvency position is monitored and reported regularly. Based on the results of the capital models and defined standards and principles, Group Treasury and Capital Management has a set of measures and tools available to manage capital within the defined constraints. This tool set is referred to as the capital management program.

Capital management program

The Group's capital management program comprises various actions to optimize shareholders' total return and to meet capital needs, while enabling Zurich to take advantage of growth opportunities as they arise. Such actions are performed as and when required and include dividends, capital repayments, share buy-backs, issuances of shares, issuance of senior and hybrid debt, securitization and purchase of reinsurance.

The Group seeks to maintain the balance between higher returns for shareholders on equity held, which may be possible with higher levels of borrowing, and the security provided by a sound capital position. The payment of dividends, share buy-backs, and issuances and redemption of debt have an important influence on capital levels. In 2013, the Group paid a dividend out of the capital contribution reserve, and replaced maturing senior debt and callable hybrid debt with new senior and hybrid debt.

Zurich Insurance Group Ltd is not subject to legal restrictions on the amount of dividends it may pay to its shareholders other than under the Swiss Code of Obligations. The Swiss Code of Obligations provides that dividends may only be paid out of freely distributable reserves or retained earnings and that 5 percent of annual retained earnings must be allocated to a general legal reserve until such reserve in the aggregate has reached 20 percent of the paid-in share capital; therefore the earnings allocated to those reserves are restricted. As of December 31, 2013, the amount of the general legal reserve exceeded 20 percent of the paid-in share capital of the Group. Similarly, company laws in many countries in which the Group's subsidiaries operate may restrict the amount of dividends payable by those subsidiaries to their parent companies.

The ability of the Group's subsidiaries to pay dividends may be restricted or – while dividend payments as such may be legally permitted – may be indirectly influenced by minimum capital and solvency requirements imposed by insurance and other regulators in the countries in which the subsidiaries operate. Other limitations, such as foreign exchange control restrictions, exist in some countries.

In the U.S., restrictions on the payment of dividends that apply to insurance companies may be imposed by the insurance laws or regulations of an insurer's state of domicile. For general insurance subsidiaries, dividends are generally limited over a 12 month period to the lesser of 10 percent of the policyholders' surplus or adjusted net investment income. For life, accident and health insurance subsidiaries, dividends are generally limited over a 12 month period to 10 percent of the previous year's policyholders' surplus or the previous year's net gain from operations. Dividends paid in excess of statutory limitations require prior approval from the Insurance Commissioner in the insurer's state of domicile.

For details on dividend payments, and issuances and redemptions of debt, see notes 20 and 21 of the Consolidated financial statements.

Analysis of capital adequacy

Insurance Financial Strength Rating

The Group maintains interactive relationships with three global rating agencies: Standard & Poor's, Moody's and A.M. Best. The Insurance Financial Strength Rating (IFSR) of the Group's main operating entity is an important element of Zurich's competitive position. Moreover, the Group's credit ratings derived from the financial strength ratings affect the cost of capital.

The Group maintained its strong rating level and its stable outlook in 2013. As of December 31, 2013 the IFSR of Zurich Insurance Company Ltd, the main operating entity of the Group, was "AA–/stable" by Standard and Poor's, "Aa3/stable" by Moody's and "A+ (superior)/stable" by A.M. Best.

Regulatory capital adequacy

The Group endeavors to manage its capital such that all of its regulated entities meet local regulatory capital requirements at all times.

In each country in which the Group operates, the local regulator specifies the minimum amount and type of capital that each of the regulated entities must hold in addition to their liabilities. The Group targets to hold, in addition to the minimum capital required to comply with the solvency requirements, an adequate buffer to ensure that each of its regulated subsidiaries meets the local capital requirements. The Group is subject to different capital requirements depending on the country in which it operates.

At a Group level, Zurich endeavors to pool risk and capital as much as possible and thereby create diversification benefits for the Group. This also allows the Group to take into account the benefits that arise from this pooling in those regions where these benefits are recognized under the capital adequacy regime, e.g., in the U.S., Ireland, and Switzerland.

Risk review *continued*

Regulatory requirements in Switzerland

In Switzerland, under the Swiss Solvency Test (SST), groups, conglomerates and reinsurers are required to use company-specific internal models to calculate risk-bearing and target capital. Internal models must be approved by the Swiss Financial Market Supervisory Authority (FINMA). In 2013, Zurich continued to further enhance and refine its internal model to meet evolving regulatory requirements. The model approval process continues with FINMA, which has approved on a provisional basis the use of Zurich's internal model for 2013, without prejudicing the final approval of the internal model. Zurich has filed an SST ratio with FINMA in excess of the regulatory requirements, both as of January 1, 2013 and as of July 1, 2013 (subject to FINMA approval). For more details, see the "Swiss Solvency Test requirement (unaudited)" section.

Regulatory requirements in the European Economic Area

In European countries, insurance entities are required to maintain minimum solvency margins according to the existing Solvency I legislation. Solvency I capital is calculated as a fixed percentage of premiums, claims, reserves and net amounts at risk. The required minimum solvency margin for general insurers is the greater of 16 percent of premiums written for the year or 23 percent of a three-year average of claims incurred, subject to the first tranche (EUR 61 million) of premiums at 18 percent and the first tranche (EUR 43 million) of claims at 26 percent. In these calculations, premiums and claims for certain liability lines are increased by 50 percent. A reduction is given for reinsurance based on reinsurance claims recoveries over three years as a percentage of gross claims in those years, limited to a maximum of 50 percent. Life insurance companies are required to maintain a minimum solvency margin generally of 4 percent of insurance reserves, but reduced to 1 percent of insurance reserves for life insurance where the credit and market risks are carried by policyholders, plus 0.3 percent of the amount at risk under insurance policies. The same minimum capital requirements are applicable for insurance entities operating in Switzerland. In certain European countries, both EU and non-EU, further requirements have been imposed by regulators.

On November 25, 2009 the directive on Solvency II was adopted. Solvency II aims to reflect the latest developments in prudential supervision, actuarial methods and risk management. It includes economic risk-based solvency requirements, which are more risk sensitive and more sophisticated than Solvency I. Solvency II capital requirements also consider all material risks and their interactions. As part of the risk management system, every insurance and reinsurance entities will be required to conduct their own risk and solvency assessment, including the assessment of the overall solvency needs reflecting their specific risk profiles. As part of the disclosure provisions, companies will have to publicly report their solvency and financial condition.

In 2013, the timeline for the roll-out of Solvency II was further specified. The introduction of the complete framework is expected for January 1, 2016. Zurich is fully engaged in an extensive program of work in order to meet Solvency II requirements when they enter into force. The Group intends to use its internal model, which aligns the Solvency II approach with that used for the Z-ECM, for Zurich Insurance plc (Ireland). The Group is in the pre-application process in order to gain regulatory approval for the internal model from the Central Bank of Ireland, the Group's EU lead regulator.

Regulatory requirements in the U.S.

In the U.S., required capital is determined to be the "company action level risk-based capital" calculated with the risk-based capital model of the National Association of Insurance Commissioners. This method, which builds on regulatory accounts, measures the minimum amount of capital for an insurance company to support its overall business operations by taking into account its size and risk profile. The calculation is based on risk-sensitive factors that are applied to various asset, premium, claim, expense and reserve items.

Regulatory requirements in Asia Pacific, Latin America and Middle East and Africa

Every country has a capital standard for insurance companies. Some jurisdictions, including Japan, Mexico and South Africa, have started to review their economical capital requirements, considering similar approaches to Solvency II.

Solvency I requirements at Group level

The Group continues to be subject to Solvency I requirements based on the Swiss Insurance Supervisory Law. Table 22 sets out the Solvency I position as drafted for filing with the Swiss regulator for 2013 and a restated position for 2012. See Note 1 of the Consolidated financial statements for more information.

The Group's Solvency I composition

Table 22

in USD millions, as of December 31	2013	2012[1]
Eligible equity		
Total equity	**34,734**	**36,874**
Net of intangibles and other assets	(7,996)	(8,501)
Free reserves for policyholder dividends	4,954	5,238
Subordinated debt[2]	5,815	5,709
Deferred policyholder acquisition costs non-life insurance	(3,231)	(3,088)
Dividends	(2,817)[3]	(2,730)
Total eligible equity	**31,460**	**33,500**
Total required solvency capital	**12,201**	**12,031**
Excess margin	**19,259**	**21,470**
Solvency I ratio	**258%**	**278%**

[1] December 31, 2012 has been restated as set out in note 1 of the Consolidated financial statements.
[2] Dated subordinated debt issuances are admissible up to 25 percent of the capital requirement, undated issuances up to 50 percent of the capital requirement.
[3] Amount for dividend reflects the proposed dividend for the financial year 2013, not yet approved by the Annual General Meeting.

As of December 31, 2013 and 2012 respectively, the Group and its material, regulated subsidiaries complied with the applicable regulatory minimum capital requirements.

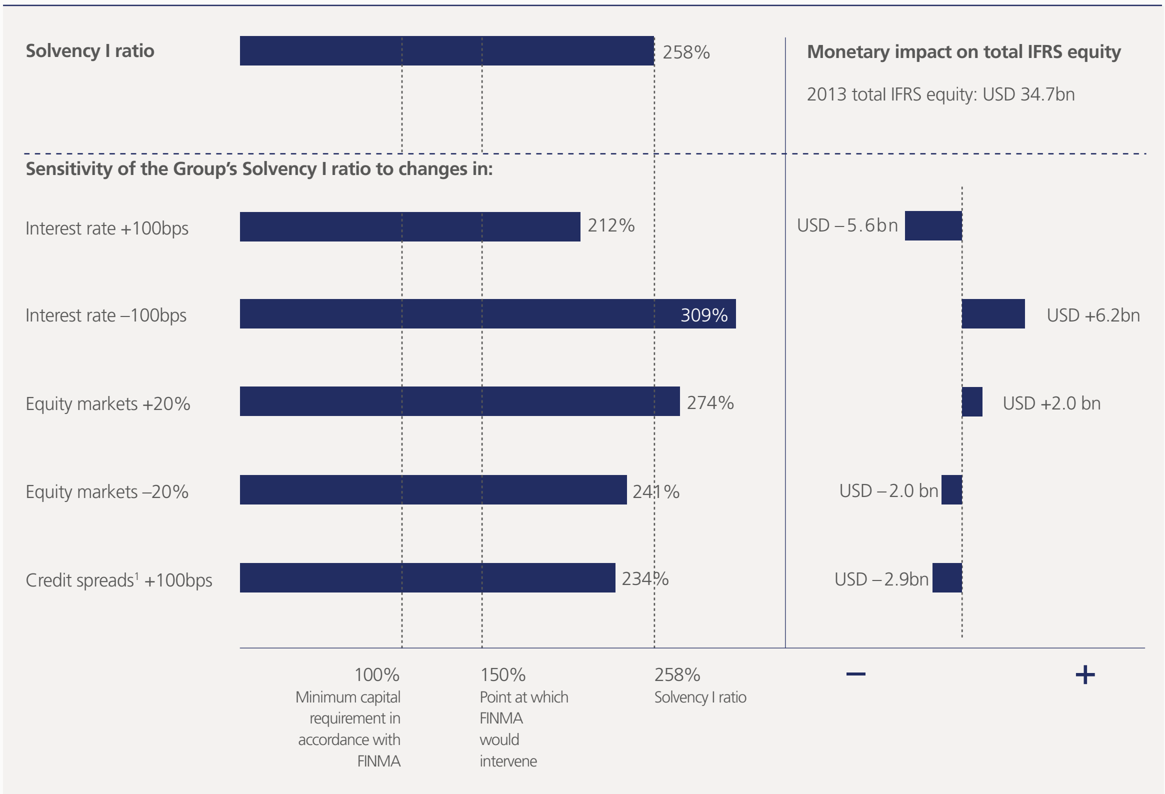
The following chart shows the estimated impact on the Group's solvency position of a one percentage point increase/ decrease in yield curves, a separate 20 percent rise/decline in all stock markets, after consideration of hedges in place and a separate one percentage point change in credit spreads, as of December 31, 2013. The sensitivities are considered separate but instantaneous scenarios.

Limitations of the analysis:

- The sensitivity analysis does not take into account actions that might be taken to mitigate losses. The Group uses an active strategy to manage these risks, which may involve changing the asset allocation, for example, through selling and buying assets.
- The sensitivities show the effects from a change of certain risk factors, while other assumptions, such as policyholder assumptions, remain unchanged.
- The interest rate scenarios assume a parallel shift of all interest rates.
- The equity market scenario assumes a concurrent movement of all stock markets.
- The impact on unit-linked business is not included, as policyholders bear the majority of investment risk.
- The impact on changes to the required capital is not included in the sensitivities for the Solvency I ratio.
- The major markets in which the Group invests are the U.S. and Europe. The major interest rate exposures are to U.S. dollar- and euro- denominated assets and liabilities. The sensitivities do not indicate a probability of such events and do not necessarily represent the Group's view of expected future market changes. Debt securities are primarily exposed to interest rate risk, while equity securities are primarily exposed to equity market risk. Debt securities can be affected also by spread widening due to changes in credit quality.
- The Group effective tax rate is assumed to be 24.9 percent in 2013. For the Non-Core Businesses with life insurance characteristics, specific tax rates have been applied.

Risk review *continued*

Sensitivities for the Group's Solvency I ratio and IFRS equity
(as of December 31, 2013)



[1] The credit spread sensitivity is applied to corporate debt, mortgages and euro currency government debt (excluding Germany).

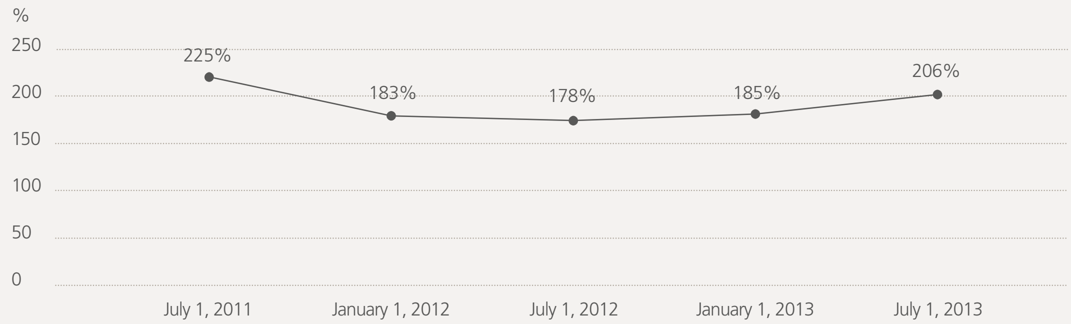
Beginning of unaudited sections.

Swiss Solvency Test requirement

Since January 1, 2011, the Swiss Solvency Test (SST) capital requirements are binding in Switzerland. The Group uses an adaptation of its internal Zurich Economic Capital Model (Z-ECM) to comply with the SST requirements and runs a full SST calculation twice a year. The model is still subject to FINMA approval. For more details about Z-ECM, see the "Internal model capital adequacy (unaudited)" section. For more details about the SST model approval process see the "Regulatory requirements in Switzerland (audited)".

The Group has filed with FINMA an SST ratio of 206 percent as of July 1, 2013.

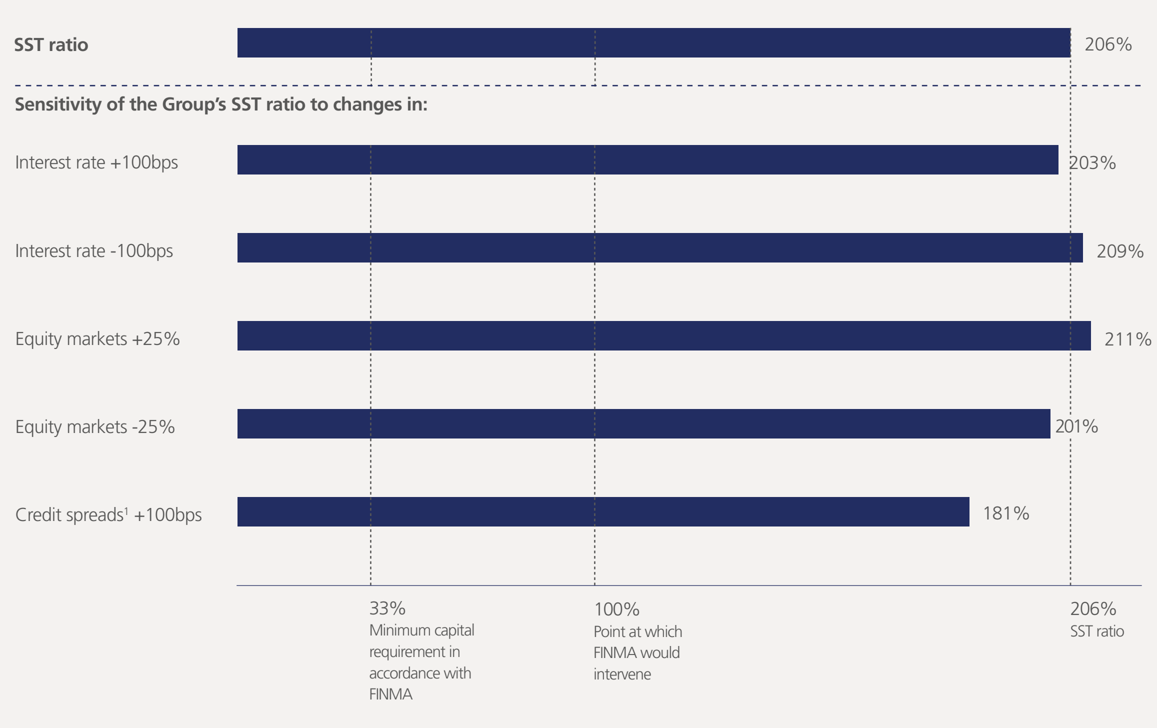
Development of the Group's Swiss Solvency Test ratio
(in %)



Risk review *continued*

The following chart shows the estimated impact on the Group's SST ratio of a one percentage point increase/decrease in yield curves, a separate 25 percent rise/decline in all stock markets, after consideration of hedges in place and a separate one percentage point change in credit spreads, as of July 1, 2013. The sensitivities are considered separate but instantaneous scenarios.

Sensitivities for the Group's Swiss Solvency Test ratio
(as of July 1, 2013)



[1] The credit spread sensitivity is applied to corporate debt, mortgages and Euro currency government debt (excluding Germany). The credit spread sensitivity does not take into account the buffering effect of policyholder participation.

Internal model capital adequacy

Internally, the Group uses its Zurich Economic Capital Model (Z-ECM), which also forms the basis of the SST model. The Z-ECM targets a total capital level that is calibrated to an "AA" financial strength. Zurich defines the Z-ECM capital required as being the capital required to protect the Group's policyholders in order to meet all of their claims with a confidence level of 99.95 percent over a one-year time horizon.

The Group uses Z-ECM to assess the economic capital consumption of its business on a one-balance-sheet approach. The Z-ECM framework is an integral part of how the Group is managed. The Z-ECM framework is embedded in the Group's organization and decision making, and is used in capital allocation, business performance management, pricing, reinsurance purchasing, transaction evaluation, risk optimization, and regulatory, investor, and rating agency communication.

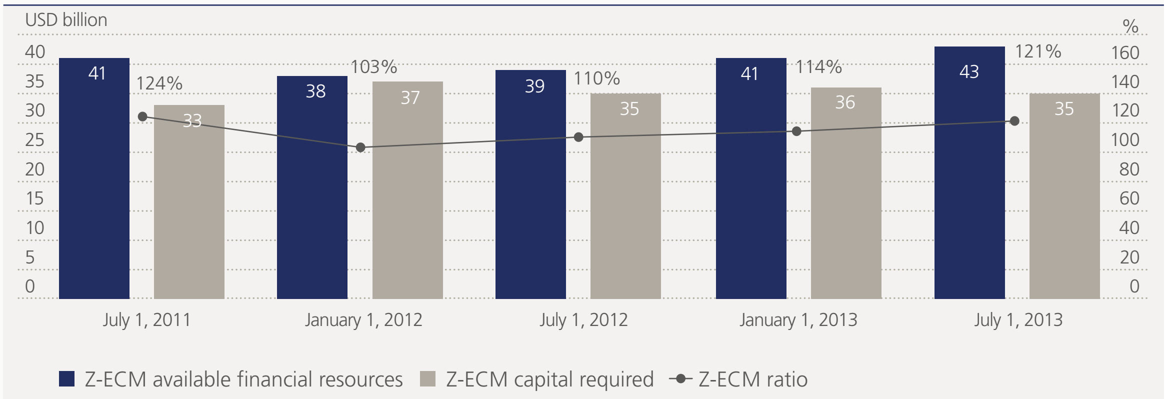
Group's Risk Tolerance		
120%	>120%	Consider increased risk taking or remedial actions
100%	**100-120% "AA" Target Range**	**No action required as within stated objective and equivalent to "AA" rating**
90%	90-100%	Position may be tolerated for a certain time depending on the risk environment
0%	<90%	Z-ECM ratio below Group risk tolerance level, requiring appropriate remedial actions and implementation of de-risking measures
Z-ECM ratio		

Z-ECM quantifies the capital required for insurance-related risk (including premium and reserve, natural catastrophe, business and life insurance), market risk (market/ALM), credit risk (including reinsurance credit and investment credit) and operational risks.

At the Group level, Zurich compares Z-ECM capital required to the Z-ECM available financial resources (Z-ECM AFR) to derive an Economic Solvency Ratio (Z-ECM ratio). Z-ECM AFR reflects financial resources available to cover policyholder liabilities in excess of their expected value. It is derived by adjusting the IFRS shareholders' equity to reflect the full economic capital base available to absorb any unexpected volatility in the Group's business activities.

The chart below shows the development of the Group's Z-ECM available financial resources, Z-ECM capital required and Z-ECM ratio over time. As of October 1, 2013, the Z-ECM ratio was 120 percent.

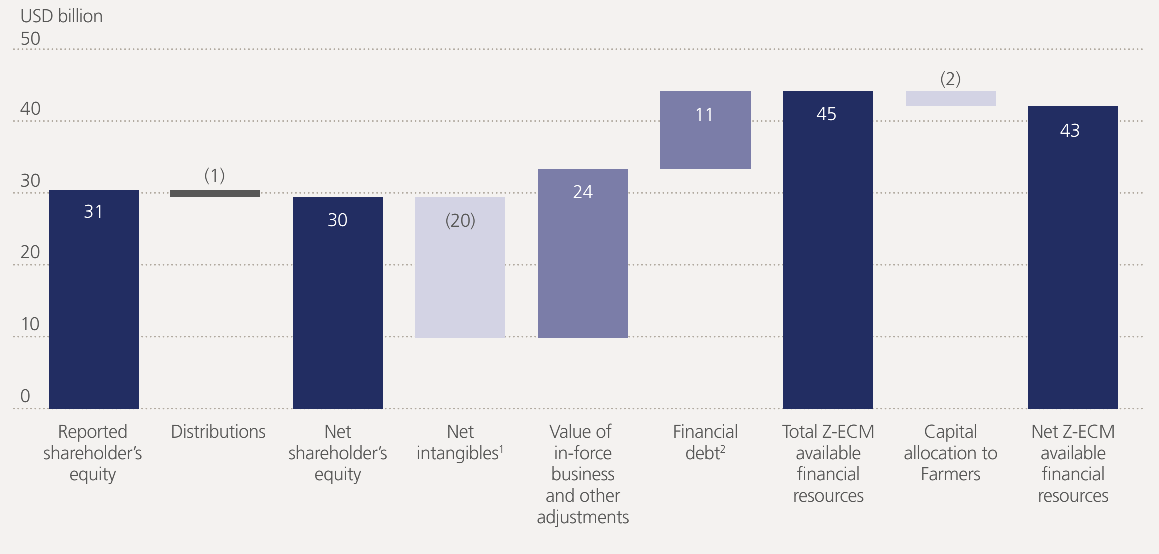
Analysis of the Group's Z-ECM available financial resources and Z-ECM capital required
(in USD billions)



Risk review *continued*

The chart below shows an analysis of the composition of the Group's Z-ECM available financial resources as of July 1, 2013.

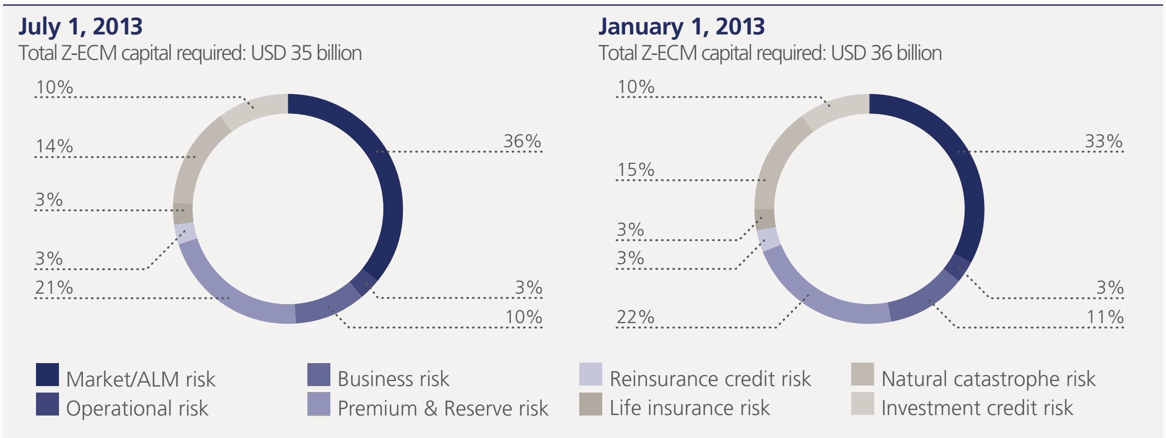
Analysis of the Group's Z-ECM available financial resources
(in USD billions as of July 1, 2013)



[1] Shareholders' intangible assets adjusted for taxes less deferred front-end fees and deferred tax liabilities
[2] All debt issues (senior and subordinated) excluding those classified as operational debt or maturing within one year

The chart below shows a split of the Z-ECM capital required split by risk type as of July 1 and as of January 1, 2013 respectively. As of July 1, 2013, the largest proportion of Z-ECM capital required arises from Market/ALM risk which comprises 36 percent of the total. Premium & Reserve risk is the second largest, comprising 21 percent.

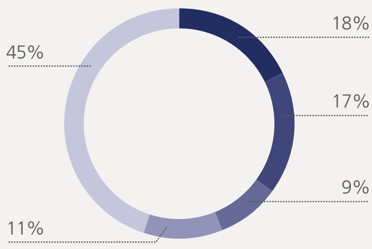
Z-ECM capital required split by risk type
(%, as of July 1 and January 1, 2013)



As part of Z-ECM, the Group uses a scenario-based approach to assess, model and quantify the capital required for operational risk for business units under extreme circumstances and a very slight probability of occurrence (internal model calibrated to a confidence level of 99.95 percent over a one-year time horizon). The chart below shows the operational risk scenarios that have the highest impact on Z-ECM capital required. See "Operational risk (audited)" for more information.

Z-ECM capital required for operational risk, split by risk scenario clusters
(as of July 1, 2013)

Risk scenario clusters contributing to the Z-ECM capital required for operational risk



Regulatory and Tax Compliance: This risk cluster relates to possible non-compliance with applicable laws and regulations, leading to a range of consequences. It includes fines and penalties, litigation, compensation to policyholders, increased regulatory scrutiny, financial losses and increased cost of compliance, as well as consequences from a possible failure to comply with tax requirements.

M&A - Due Diligence and Integration: This risk cluster relates to poor execution ofboth the due diligence and the post-M&A integration processes. It includes the understatement of liabilities and required investments, operational or legal risks in the acquired business, inadequate transaction decisions, loss of key staff, inability to realize synergies or deliver benefits.

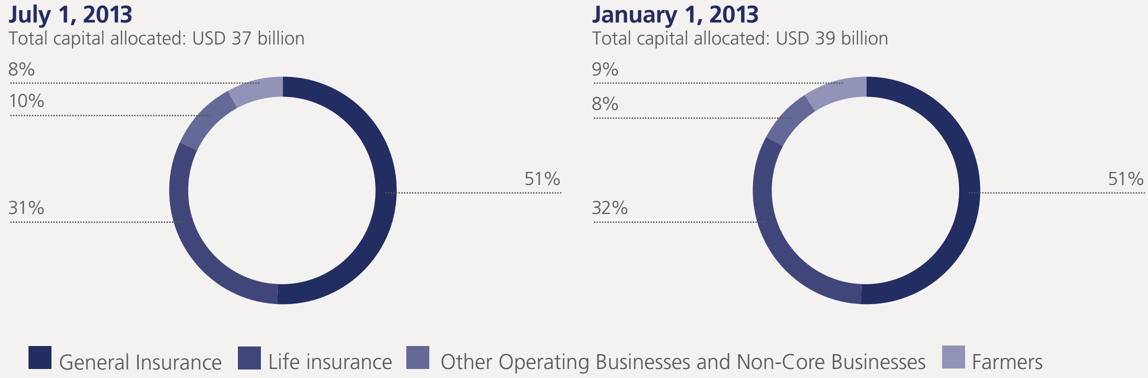
Outsourcing: This risk cluster relates to poor quality or disruption in services provided by third parties as a result of failure to manage global or local outsourcing agreements effectively or financial failure (e.g. insolvency) of a major supplier.

Market Abuse, Mis-selling and Conduct of Business: This risk cluster relates to the possibility that staff, processes or systems may operate in ways that lead to inappropriate conduct of business in relation to the customer. It includes the possibility of investigations, sanctions and fines imposed on Zurich as a company or any member of staff as a result of market abuse, mis-selling practices leading to regulatory breach or increased compensation.

Other scenarios

The following chart shows a split of the Z-ECM capital required allocated to the segments as of July 1 and as of January 1, 2013. As of July 1, 2013, the largest proportion of Z-ECM capital required is allocated to General Insurance, which comprises 51 percent of the total, followed by Global Life with 31 percent of the total. Total allocated capital as of July 1, 2013 equals USD 35 billion Z-ECM capital required plus USD 2 billion direct allocation to Farmers.

Total capital allocated, by segment
(%, as of July 1 and January 1, 2013)

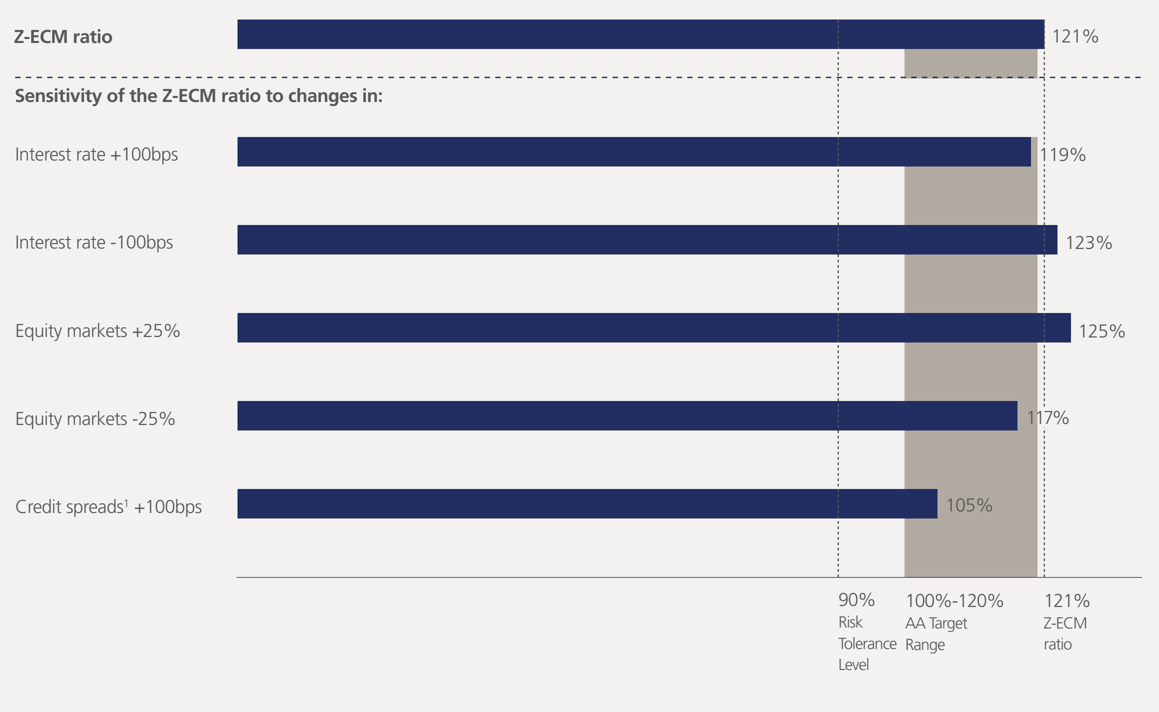


Risk review *continued*

The chart below shows the estimated impact on the Group's Z-ECM ratio of:
- A one percentage point increase/decrease in yield curves
- A 25 percent rise/decline in all stock markets, after consideration of hedges in place
- A one percentage point change in credit spreads

The sensitivities are considered separate but instantaneous scenarios.

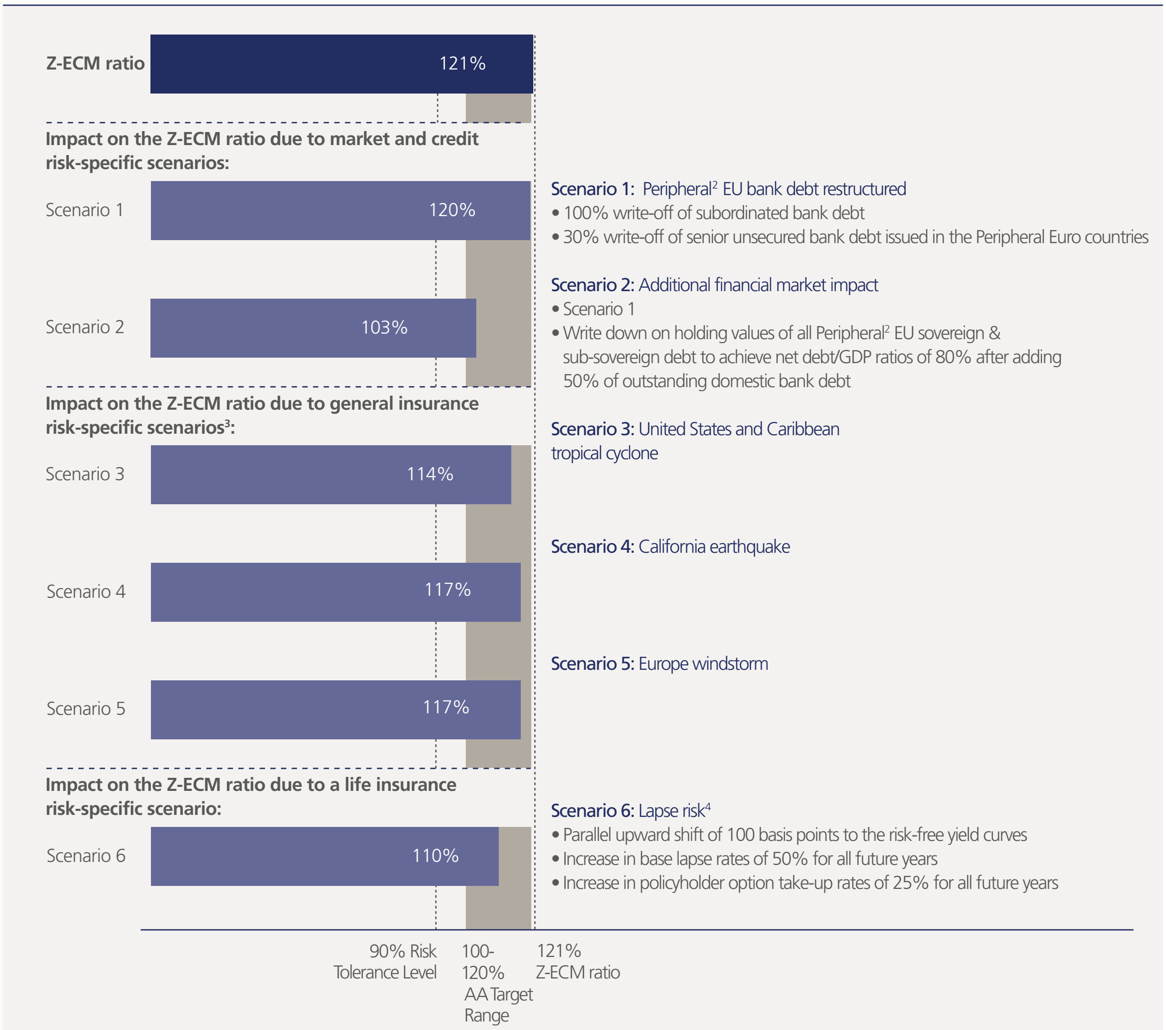
Sensitivites for the Z-ECM ratio
(as of July 1, 2013)



[1] The credit spread sensitivity is applied to corporate debt, mortgages and Euro currency government debt (excluding Germany). The credit spread sensitivity does not take into account the buffering effect of policyholder participation.

In addition to the sensitivities shown above, the Group also evaluates certain stress scenarios on the Z-ECM ratio. Scenarios are defined as events that have a very small probability of occurrence and that could, if realized, negatively affect the Group's Z-ECM available financial resources. The chart on the following page shows three groups of scenarios: market and credit risk-specific, general insurance risk-specific and life insurance risk-specific. In the current market environment, the market and credit risk-specific scenarios particularly focus on peripheral EU debt exposure and adverse financial market impact on equity markets and interest rates in the EU. The general insurance risk-specific scenarios present the three largest natural catastrophe events to which the Group is exposed. Lapse risk represents the Group's largest life insurance risk-specific exposure.

Impact of market, credit, and insurance scenarios on Z-ECM[1]
as of July 1, 2013



[1] The impact of scenarios on changes to the Z-ECM capital required is not included in the sensitivities for the Z-ECM ratio as the impact is expected to be small and positive. Scenario 1 and Scenario 2 do not take into account the buffering effect of policyholder participation.
[2] Greece, Ireland, Italy, Portugal and Spain
[3] The general insurance risk-specific scenarios relate to natural catastrophe events that are estimated on a modeled 250-year net aggregate loss (equivalent to a 99.6% probability of non-exceedance).
[4] The second assumption under the lapse risk scenario, "increase in base lapse rates of 50% for all future years," is applied in a similar manner as the Embedded Value sensitivity, "10% increase in voluntary discontinuance rates"; however the former is pre-tax while the latter is post-tax. (For more details, see the "Embedded value report.") Also, combining the assumptions in the lapse risk scenario introduces potential non-linear effects, which makes it difficult to directly compare the scenario with the Embedded Value sensitivity.

Risk review *continued*

Conclusion

Zurich's risk management framework is well embedded in the business. It sets clear responsibilities for taking, managing, monitoring and reporting risks, and is based on a transparent risk tolerance and risk limit system approved by the Board.

Enterprise risk management

Aligned with the Group's strategic and operational planning process

In 2013 Zurich conducted more than 150 Total Risk Profiling™ exercises, allowing for a systematic assessment of risk from a strategic perspective. The Zurich Risk Policy was strengthened for various areas, including outsourcing.

The Group focused on information security, business continuity management, anti-fraud and internal control initiatives, to manage operational risk.

Processes for a well-balanced and effectively managed remuneration program were strengthened.

More details on pages 128, 129 and 163

Fostering risk culture

Embedding standards and principles Group-wide to promote risk awareness and informed risk-taking

In 2013, Zurich continued to strengthen its risk culture. Risk transparency was enhanced by including in-depth risk insights into topics such as the development of new global capital standards, politcal risks in Latin America, and emerging risks.

The Zurich Risk Policy articulates the Group's approach to risk and its control, and sets standards for effective risk management throughout the Group.

Zurich Remuneration Rules help to root disciplined risk-taking across all levels in the Group

More details on pages 128–130 and 132

Regulatory trends

Monitoring developments in the environment in which Zurich operates

Regulatory regimes, such as the Swiss Solvency Test and the regulatory principles of Solvency II, emphasize a risk-based and economic approach, based on comprehensive quantitative and qualitative assessments and reports. In 2013, the timeline for the roll-out of Solvency II was further specified.

Several countries, among them Japan, Mexico and South Africa, started the legislative process to implement regulatory frameworks similar to Solvency II.

To address the topic of systemic risks, the Financial Stability Board announced a list of Global Systemically Important Insurers, Zurich not being among them.

More details on pages 129 and 166

Economic risk profile

Insurance-related and business risks: main drivers of the Group's required capital

As of July 1, 2013, insurance-related and business risks contributes to 48% of the Z-ECM capital required. 51% of the total capital allocated to the segments goes to General Insurance, 31% to Global Life and 8% to Farmers.

More details on pages 172–173

Financial condition

Well within the Group's target capital level that is calibrated to a 'AA' financial strength

As of July 1, 2013, the Group had a Zurich Economic Capital Model (Z-ECM) ratio of 121%, and was well above the Swiss Solvency Test requirements with a ratio of 206%. As of December 31, 2013, the Group's Solvency I ratio was 258%.

121%

Z-ECM ratio (as of July 1, 2013)

As of January 1, 2014, Zurich Insurance Company Ltd was rated AA– by Standard and Poor's, with a stable outlook.

AA–/stable

Standard & Poor's financial strength rating of Zurich Insurance Company Ltd (as of December 31, 2013)

More details on pages 165, 167, 169 and 171

Financial condition under stressed perspective

Assessing the potential impact of particularly severe and unlikely scenarios

Zurich assesses the impact of severe events that, while occurring at a very small probability, may have a substantial negative affect on the Group's Z-ECM available financial resources when realized. Depending on the results, the Group develops, implements and monitors improvement actions.

In 2013, the sensitivities for the Z-ECM ratio were analyzed with regard to changes in market and credit conditions. Under all scenarios, the Z-ECM ratio stayed well within the "AA" target range.

Large write-offs on the peripheral EU debt exposure, combined with adverse financial market impact, is one of the worst-case scenarios the Group assessed. If the scenario were realized, the Z-ECM ratio would remain well within the "AA" target range.

More details on page 174

End of unaudited sections.

Financial information

In this section

Consolidated financial statements

Contents

Consolidated income statements

in USD millions, for the years ended December 31	Notes	2013	Restated 2012
Revenues			
Gross written premiums		51,965	51,285
Policy fees		2,884	2,692
Gross written premiums and policy fees		54,849	53,977
Less premiums ceded to reinsurers		(6,546)	(6,481)
Net written premiums and policy fees		48,303	47,496
Net change in reserves for unearned premiums	11	(1,025)	(741)
Net earned premiums and policy fees		47,277	46,755
Farmers management fees and other related revenues	14	2,810	2,846
Net investment result on Group investments	6	7,398	8,983
Net investment income on Group investments		6,240	6,782
Net capital gains/(losses) and impairments on Group investments		1,157	2,201
Net investment result on unit-linked investments	6	12,805	10,193
Net gain/(loss) on divestments of businesses		(1)	(34)
Other income		1,757	1,669
Total revenues		72,045	70,411
Benefits, losses and expenses			
Insurance benefits and losses, gross of reinsurance	11	35,256	37,271
Less ceded insurance benefits and losses	11	(3,058)	(3,519)
Insurance benefits and losses, net of reinsurance	11	32,198	33,752
Policyholder dividends and participation in profits, net of reinsurance	11	13,946	11,405
Underwriting and policy acquisition costs, net of reinsurance	11	10,041	10,014
Administrative and other operating expense	13	8,804	8,654
Interest expense on debt	20	586	570
Interest credited to policyholders and other interest		510	545
Total benefits, losses and expenses		66,086	64,939
Net income before income taxes		5,960	5,472
Income tax expense	19	(1,701)	(1,496)
attributable to policyholders	19	(285)	(194)
attributable to shareholders	19	(1,415)	(1,302)
Net income after taxes		**4,259**	**3,975**
attributable to non-controlling interests		231	89
attributable to shareholders		4,028	3,887
in USD			
Basic earnings per share	21	27.33	26.50
Diluted earnings per share	21	27.22	26.37
in CHF			
Basic earnings per share	21	25.33	24.84
Diluted earnings per share	21	25.23	24.72

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

Consolidated financial statements *continued*

Consolidated statements of comprehensive income

in USD millions, for the years ended December 31	Net income attributable to shareholders	Net unrealized gains/(losses) on available-for-sale investments	Cash flow hedges
2012			
Comprehensive income for the period, as restated	3,887	1,724	6
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		3,875	32
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(1,724)	(35)
Deferred income tax (before foreign currency translation effects)		(514)	4
Foreign currency translation effects		87	6
2013			
Comprehensive income for the period	4,028	(2,794)	(133)
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		(1,684)	(87)
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(1,692)	(86)
Reclassification to retained earnings		–	–
Deferred income tax (before foreign currency translation effects)		596	40
Foreign currency translation effects		(13)	1

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

	Cumulative foreign currency translation adjustment	Total other comprehensive income recycled through profit or loss	Revaluation reserve	Net actuarial gains/(losses) on pension plans	Total other comprehensive income not recycled through profit or loss	Total other comprehensive income attributable to shareholders	Total comprehensive income attributable to shareholders	Comprehensive income attributable to non-controlling interests	Total comprehensive income
	(441)	1,289	–	(459)	(459)	830	4,717	138	4,855
	(485)	3,422	–	(485)	(485)	2,937			
	44	(1,715)	–	–	–	(1,715)			
	–	(511)	–	104	104	(407)			
	–	93	–	(77)	(77)	16			
	(986)	(3,912)	15	(367)	(352)	(4,265)	(237)	122	(115)
	(1,065)	(2,836)	24	(205)	(181)	(3,017)			
	79	(1,699)	–	–	–	(1,699)			
	–	–	(6)	–	(6)	(6)			
	–	635	(4)	(76)	(80)	555			
	–	(12)	–	(86)	(86)	(98)			

Consolidated financial statements *continued*

Consolidated balance sheets

Assets

in USD millions, as of	Notes	12/31/13	Restated 12/31/12	Restated 01/01/12
Investments				
Total Group investments	6	207,280	209,582	198,549
Cash and cash equivalents		7,181	9,098	8,835
Equity securities		13,183	12,341	13,037
Debt securities		156,456	155,594	144,139
Real estate held for investment		8,745	8,561	8,472
Mortgage loans		9,798	10,519	11,058
Other loans		11,789	13,385	12,928
Investments in associates and joint ventures		129	85	80
Investments for unit-linked contracts	6	134,267	123,913	111,911
Total investments	6	341,547	333,496	310,461
Reinsurers' share of reserves for insurance contracts	8	17,978	19,753	19,592
Deposits made under assumed reinsurance contracts		2,645	2,588	2,711
Deferred policy acquisition costs	12	18,724	18,346	17,420
Deferred origination costs	12	724	770	824
Accrued investment income		2,321	2,414	2,589
Receivables and other assets	17	18,499	18,425	17,831
Mortgage loans given as collateral		–	–	223
Deferred tax assets	19	2,020	1,853	2,076
Assets held for sale[1]		223	102	54
Property and equipment	15	1,494	1,530	1,580
Goodwill	16	1,852	2,107	2,060
Other intangible assets	16	7,028	7,448	8,062
Total assets		**415,053**	**408,831**	**385,481**

[1] December 31, 2013 included assets relating to a subsidiary of Centre Group Holdings Limited amounting to USD 100 million (see note 5) and land and buildings formerly classified as real estate held for investment amounting to USD 123 million. December 31, 2012 included land and buildings formerly classified as real estate held for investment and held for own use amounting to USD 91 million and USD 10 million, respectively. January 1, 2012 included assets relating to the sale of a company in Bolivia (see note 5 of the Consolidated financial statements 2012).

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

Liabilities and equity

in USD millions, as of	Notes	12/31/13	Restated 12/31/12	Restated 01/01/12
Liabilities				
Reserve for premium refunds		571	706	611
Liabilities for investment contracts	9	67,113	57,437	50,309
Deposits received under ceded reinsurance contracts		1,245	1,558	1,560
Deferred front-end fees		5,791	6,073	5,720
Reserves for insurance contracts	8	265,440	265,233	253,207
Obligations to repurchase securities		1,685	1,539	1,794
Accrued liabilities		3,023	3,279	3,154
Other liabilities	18	17,904	18,368	18,265
Collateralized loans		–	–	223
Deferred tax liabilities	19	5,110	5,244	4,577
Liabilities held for sale[1]		49	–	55
Senior debt	20	6,044	6,660	6,541
Subordinated debt	20	6,342	5,861	5,476
Total liabilities		**380,319**	**371,957**	**351,493**
Equity				
Share capital	21	11	11	10
Additional paid-in capital	21	6,395	8,172	9,907
Net unrealized gains/(losses) on available-for-sale investments		1,730	4,523	2,800
Cash flow hedges		106	238	232
Cumulative foreign currency translation adjustment		(4,008)	(3,022)	(2,581)
Revaluation reserve		195	180	180
Retained earnings		28,075	24,403	20,951
Shareholders' equity		32,503	34,505	31,499
Non-controlling interests		2,231	2,369	2,490
Total equity		**34,734**	**36,874**	**33,989**
Total liabilities and equity		**415,053**	**408,831**	**385,481**

[1] December 31, 2013 included liabilities relating to a subsidiary of Centre Group Holdings Limited amounting to USD 49 million (see note 5). January 1, 2012 included liabilities relating to the sale of a company in Bolivia (see note 5 of the Consolidated financial statements 2012).

Financial information

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

Consolidated financial statements *continued*

Consolidated statements of cash flows

in USD millions, for the years ended December 31	**2013**	Restated 2012
Cash flows from operating activities		
Net income attributable to shareholders	4,028	3,887
Adjustments for:		
Net (gain)/loss on divestments of businesses	1	34
(Income)/expense from equity method accounted investments	(11)	(12)
Depreciation, amortization and impairments of fixed and intangible assets	1,198	1,085
Other non-cash items	255	134
Underwriting activities:	8,144	10,313
Reserves for insurance contracts, gross	*(727)*	5,727
Reinsurers' share of reserves for insurance contracts	*1,787*	80
Liabilities for investment contracts	*7,984*	5,283
Deferred policy acquisition costs	*(578)*	(960)
Deferred origination costs	*62*	89
Deposits made under assumed reinsurance contracts	*(58)*	125
Deposits received under ceded reinsurance contracts	*(327)*	(31)
Investments:	(11,006)	(12,099)
Net capital (gains)/losses on total investments and impairments	*(12,245)*	(10,574)
Net change in trading securities and derivatives	*15*	(169)
Net change in money market investments	*1,578*	341
Sales and maturities		
Debt securities	*109,172*	107,436
Equity securities	*62,758*	64,123
Other	*28,003*	39,077
Purchases		
Debt securities	*(113,259)*	(110,301)
Equity securities	*(62,968)*	(62,800)
Other	*(24,059)*	(39,231)
Proceeds from sale and repurchase agreements	117	(332)
Movements in receivables and payables	(1,260)	(953)
Net changes in other operational assets and liabilities	(252)	351
Deferred income tax, net	228	461
Net cash provided by/(used in) operating activities	1,443	2,868

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	2013	Restated 2012
Cash flows from investing activities		
Sales of property and equipment	66	95
Purchases of property and equipment	(282)	(226)
(Acquisitions)/disposals of equity method accounted investments, net	(24)	3
Acquisitions of companies, net of cash acquired	–	(97)
Divestments of companies, net of cash balances	–	(14)
Dividends from equity method accounted investments	1	6
Net cash provided by/(used in) investing activities	(239)	(233)
Cash flows from financing activities		
Dividends paid	(2,889)	(2,704)
Issuance of share capital	44	96
Net movement in treasury shares	15	30
Issuance of debt	1,545	1,575
Repayment of debt	(1,948)	(1,315)
Net cash provided by/(used in) financing activities	(3,233)	(2,318)
Foreign currency translation effects on cash and cash equivalents	(17)	187
Change in cash and cash equivalents	(2,046)	503
Cash and cash equivalents as of January 1	10,208	9,705
Cash and cash equivalents as of December 31	**8,162**	**10,208**
of which:		
– cash and cash equivalents – Group investments	7,181	9,098
– cash and cash equivalents – unit linked	982	1,110
Other supplementary cash flow disclosures		
Other interest income received	6,437	6,929
Dividend income received	1,724	1,826
Other interest expense paid	(1,180)	(1,216)
Income taxes paid	(1,186)	(1,231)

Cash and cash equivalents

in USD millions, as of December 31	2013	Restated 2012
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	5,746	6,954
Cash equivalents	2,416	3,254
Total	**8,162**	**10,208**

As of December 31, 2013 and 2012, cash and cash equivalents held to meet local regulatory requirements were USD 1,284 million and USD 1,345 million, respectively.

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

Consolidated financial statements *continued*

Consolidated statements of changes in equity

in USD millions	Share capital	Additional paid-in capital
Balance as of December 31, 2011, as previously reported	10	9,907
Total adjustments due to restatement	–	–
Balance as of December 31, 2011, as restated	10	9,907
Issuance of share capital[1]	–	221
Dividends to shareholders[2]	–	(1,923)
Share-based payment transactions	–	(34)
Treasury share transactions[4]	–	2
Change in ownership interests with no loss of control	–	–
Total comprehensive income for the period, net of tax	–	–
Net income	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–
Cash flow hedges	–	–
Cumulative foreign currency translation adjustment	–	–
Revaluation reserve	–	–
Net actuarial gains/(losses) on pension plans	–	–
Net changes in capitalization of non-controlling interests	–	–
Balance as of December 31, 2012, as restated	11	8,172
Balance as of December 31, 2012, as previously reported	11	8,172
Total adjustments due to restatement	–	–
Balance as of December 31, 2012, as restated	11	8,172
Issuance of share capital[1]	–	152
Dividends to shareholders[3]	–	(1,933)
Share-based payment transactions	–	(4)
Treasury share transactions[4]	–	8
Reclassification from revaluation reserves	–	–
Total comprehensive income for the period, net of tax	–	–
Net income	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–
Cash flow hedges	–	–
Cumulative foreign currency translation adjustment	–	–
Revaluation reserve	–	–
Net actuarial gains/(losses) on pension plans	–	–
Net changes in capitalization of non-controlling interests	–	–
Balance as of December 31, 2013	**11**	**6,395**

[1] The number of common shares issued as of December 31, 2013 was 148,903,222 (December 31, 2012: 148,300,123, December 31, 2011: 147,385,822).
[2] As approved by the Annual General Meeting on March 29, 2012, the dividend of CHF 17 per share was paid out of the capital contribution reserve. The difference of USD 840 million between the dividend at transaction day exchange rates amounting to USD 2,763 million and the dividend at historical exchange rates amounting to USD 1,923 million is reflected in the cumulative foreign currency translation adjustment.
[3] As approved by the Annual General Meeting on April 4, 2013, the dividend of CHF 17 per share was paid out of the capital contribution reserve. The difference of USD 718 million between the dividend at transaction day exchange rates amounting to USD 2,651 million and the dividend at historical exchange rates amounting to USD 1,933 million is reflected in the cumulative foreign currency translation adjustment.
[4] The number of treasury shares deducted from equity as of December 31, 2013 amounted to 1,320,652 (December 31, 2012: 1,348,395, December 31, 2011: 1,373,392).

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 foreign currency translation adjustment	Revaluation reserve	Retained earnings	Shareholders' equity	Non-controlling interests	Total equity
2,800	232	(2,581)	180	20,936	31,484	2,489	33,973
–	–	–	–	15	15	1	16
2,800	232	(2,581)	180	20,951	31,499	2,490	33,989
–	–	–	–	–	221	–	221
–	–	–	–	–	(1,923)	(43)	(1,966)
–	–	–	–	–	(34)	–	(34)
–	–	–	–	28	30	–	30
–	–	–	–	(5)	(5)	–	(5)
1,724	6	(441)	–	3,428	4,717	138	4,855
–	–	–	–	*3,887*	*3,887*		
1,724	–	–	–	–	*1,724*		
–	*6*	–	–	–	*6*		
–	–	*(441)*	–	–	*(441)*		
–	–	–	–	–	–		
–	–	–	–	*(459)*	*(459)*		
–	–	–	–	–	–	(216)	(216)
4,523	238	(3,022)	180	24,403	34,505	2,369	36,874
4,523	238	(3,022)	180	24,391	34,494	2,368	36,862
–	–	–	–	11	11	1	12
4,523	238	(3,022)	180	24,403	34,505	2,369	36,874
–	–	–	–	–	152	–	152
–	–	–	–	–	(1,933)	(238)	(2,171)
–	–	–	–	–	(4)	–	(4)
–	–	–	–	7	15	–	15
–	–	–	–	6	6	–	6
(2,794)	(133)	(986)	15	3,661	(237)	122	(115)
–	–	–	–	*4,028*	*4,028*		
(2,794)	–	–	–	–	*(2,794)*		
–	*(133)*	–	–	–	*(133)*		
–	–	*(986)*	–	–	*(986)*		
–	–	–	*15*	–	*15*		
–	–	–	–	*(367)*	*(367)*		
–	–	–	–	–	–	(22)	(22)
1,730	**106**	**(4,008)**	**195**	**28,075**	**32,503**	**2,231**	**34,734**

Consolidated financial statements *continued*

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

Zurich Insurance Group Ltd, a Swiss corporation, is the holding company of the Group and is listed on the SIX Swiss Exchange. Zurich Insurance Group Ltd was incorporated on April 26, 2000, in Zurich, Switzerland. It is recorded in the Commercial Register of the Canton of Zurich under its registered address at Mythenquai 2, 8002 Zurich.

On February 12, 2014 the Board of Directors of Zurich Insurance Group Ltd authorized these Consolidated financial statements for issue. These financial statements will be submitted for approval to the Annual General Meeting of Shareholders to be held on April 2, 2014.

1. Basis of presentation

General information

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

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

Disclosures under IFRS 4 "Insurance Contracts" and IFRS 7 "Financial Instruments: Disclosures" relating to the nature and extent of risks, and capital disclosures under IAS 1 "Presentation of Financial Statements" have been included in the Risk review on pages 128 to 168, and they form an integral part of the Consolidated financial statements.

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

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

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

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

Maturity tables have been provided for the following balances: reserves for insurance contracts (tables 20a and 20b in the Risk review), liabilities for investment contracts (tables 21a and 21b in the Risk review), debt securities (table 6.4), derivative assets and derivative liabilities (tables 7.1 and 7.2), other financial liabilities (table 18.2) and outstanding debt (table 20.4).

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

Table 1.1 summarizes the principal exchange rates used for translation purposes. Net gains/(losses) on foreign currency transactions included in the consolidated income statements were USD 37 million and USD 79 million for the years ended December 31, 2013 and 2012, respectively. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD (58) million and USD 130 million for the years ended December 31, 2013 and 2012, respectively.

Principal exchange rates

Table 1.1

USD per foreign currency unit	Consolidated balance sheets		Consolidated income statements and cash flows	
	12/31/13	12/31/12	**12/31/13**	12/31/12
Euro	1.3778	1.3188	1.3277	1.2857
Swiss franc	1.1228	1.0928	1.0790	1.0668
British pound	1.6568	1.6272	1.5639	1.5847

Restatements and reclassifications

Tables 1.2 and 1.3 show the impacts of the restatement as a result of implementing IAS 19 "Employee Benefits" and IFRS 10 "Consolidated Financial Statements" on the consolidated income statement for the year ended December 31, 2012 and the consolidated balance sheet as of December 31, 2012. Consolidated income statements, consolidated balance sheets, consolidated statements of comprehensive income, consolidated statements of changes in equity, consolidated statements of cash flows and notes 6, 9, 11, 13, 17, 18, 19, 21, 22, 25, 26, 28 and 29 have been restated accordingly.

The presentation of deferred bonuses allocated to policyholders had been aligned across the Group. There was no impact to the Group's consolidated income statement. As a result of this alignment there was a corresponding reduction in both deferred front-end fees and deferred policy acquisition costs. The impact of the reduction in deferred policy acquisition costs is set out in note 12.

The presentation of indemnity commission has been aligned across the Group with no impact on the Group's consolidated income statement. As a result of this alignment there is a transfer from receivables and other assets to deferred policy acquisition costs. The impact of the increase in deferred policy acquisition costs is set out in note 12.

Consolidated financial statements *continued*

Restatement of the consolidated income statement

Table 1.2

in USD millions, for the year ended December 31, 2012	As reported	IAS 19	IFRS 10	As restated
Revenues				
Gross written premiums	51,285	–	–	51,285
Policy fees	2,692	–	–	2,692
Gross written premiums and policy fees	53,977	–	–	53,977
Less premiums ceded to reinsurers	(6,481)	–	–	(6,481)
Net written premiums and policy fees	47,496	–	–	47,496
Net change in reserves for unearned premiums	(741)	–	–	(741)
Net earned premiums and policy fees	46,755	–	–	46,755
Farmers management fees and other related revenues	2,846	–	–	2,846
Net investment result on Group investments	8,911	–	72	8,983
Net investment income on Group investments	6,711	–	72	6,782
Net capital gains/(losses) and impairments on Group investments	2,201	–	–	2,201
Net investment result on unit-linked investments	10,268	–	(74)	10,193
Net gain/(loss) on divestments of businesses	(34)	–	–	(34)
Other income	1,669	–	–	1,669
Total revenues	70,414	–	(3)	70,411
Benefits, losses and expenses				
Insurance benefits and losses, gross of reinsurance	37,271	–	–	37,271
Less ceded insurance benefits and losses	(3,519)	–	–	(3,519)
Insurance benefits and losses, net of reinsurance	33,752	–	–	33,752
Policyholder dividends and participation in profits, net of reinsurance	11,479	–	(74)	11,405
Underwriting and policy acquisition costs, net of reinsurance	10,014	–	–	10,014
Administrative and other operating expense	8,661	(9)	2	8,654
Interest expense on debt	570	–	–	570
Interest credited to policyholders and other interest	475	–	69	545
Total benefits, losses and expenses	64,951	(9)	(3)	64,939
Net income before income taxes	5,462	9	–	5,472
Income tax expense	(1,496)	–	–	(1,496)
attributable to policyholders	(194)	–	–	(194)
attributable to shareholders	(1,301)	–	–	(1,302)
Net income after taxes	**3,967**	**9**	**–**	**3,975**
attributable to non-controlling interests	89	–	–	89
attributable to shareholders	3,878	9	–	3,887
in USD				
Basic earnings per share	26.44	0.06	–	26.50
Diluted earnings per share	26.31	0.06	–	26.37
in CHF				
Basic earnings per share	24.79	0.06	–	24.84
Diluted earnings per share	24.66	0.06	–	24.72

Restatement of the consolidated balance sheet

Table 1.3

in USD millions, as of December 31, 2012	As reported	IAS 19	IFRS 10	As restated
Investments				
Total Group investments	208,707	–	875	209,582
Cash and cash equivalents	9,098	–	–	9,098
Equity securities	12,341	–	–	12,341
Debt securities	155,594	–	–	155,594
Real estate held for investment	8,561	–	–	8,561
Mortgage loans	10,519	–	–	10,519
Other loans	12,423	–	962	13,385
Investments in associates and joint ventures	172	–	(87)	85
Investments for unit-linked contracts	125,226	–	(1,313)	123,913
Total investments	333,934	–	(438)	333,496
Reinsurers' share of reserves for insurance contracts	19,753	–	–	19,753
Deposits made under assumed reinsurance contracts	2,588	–	–	2,588
Deferred policy acquisition costs	18,346	–	–	18,346
Deferred origination costs	770	–	–	770
Accrued investment income	2,414	–	–	2,414
Receivables and other assets	18,423	–	3	18,425
Deferred tax assets	1,854	–	–	1,853
Assets held for sale	102	–	–	102
Property and equipment	1,530	–	–	1,530
Goodwill	2,107	–	–	2,107
Other intangible assets	7,448	–	–	7,448
Total assets	**409,267**	**–**	**(436)**	**408,831**
Liabilities				
Reserve for premium refunds	706	–	–	706
Liabilities for investment contracts	58,131	–	(693)	57,437
Deposits received under ceded reinsurance contracts	1,558	–	–	1,558
Deferred front-end fees	6,073	–	–	6,073
Reserves for insurance contracts	265,233	–	–	265,233
Obligations to repurchase securities	1,539	–	–	1,539
Accrued liabilities	3,272	–	7	3,279
Other liabilities	18,135	(18)	251	18,368
Deferred tax liabilities	5,238	6	–	5,244
Senior debt	6,660	–	–	6,660
Subordinated debt	5,861	–	–	5,861
Total liabilities	**372,405**	**(12)**	**(436)**	**371,957**
Equity				
Share capital	11	–	–	11
Additional paid-in capital	8,172	–	–	8,172
Net unrealized gains/(losses) on available-for-sale investments	4,523	–	–	4,523
Cash flow hedges	238	–	–	238
Cumulative translation adjustment	(3,022)	–	–	(3,022)
Revaluation reserve	180	–	–	180
Retained earnings	24,391	12	–	24,403
Shareholders' equity	34,494	11	–	34,505
Non-controlling interests	2,368	–	1	2,369
Total equity	**36,862**	**11**	**1**	**36,874**
Total liabilities and equity	**409,267**	**–**	**(435)**	**408,831**

Consolidated financial statements *continued*

2. New accounting standards and amendments to published accounting standards

Standards, amendments and interpretations effective or early adopted as of January 1, 2013 and relevant for the Group's operations

The following amendments to accounting standards and interpretations of standards relevant to the Group have been implemented for the financial year beginning January 1, 2013. The impact of adoption on the Group's Consolidated financial statements is disclosed in table 2.1.

Table 2.1

Standard/ interpretation

		Effective date
New standards		
IFRS 10	Consolidated Financial Statements[2]	January 1, 2013
IFRS 11	Joint Arrangements[1]	January 1, 2013
IFRS 12	Disclosure of Interests in Other Entities[1]	January 1, 2013
IFRS 13	Fair Value Measurement[3]	January 1, 2013
Amended standards		
IAS 1	Presentation of items of Other Comprehensive Income (OCI)[1]	July 1, 2012
IAS 19	Employee Benefits[4]	January 1, 2013
IAS 27	Separate Financial Statements[1]	January 1, 2013
IAS 28	Investments in Associates and Joint Ventures[1]	January 1, 2013
IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]	January 1, 2013

[1] Adoption has no significant impact on the Consolidated financial statements.
[2] Resulted in an immaterial net deconsolidation impact following the additional consolidation of certain structured entities that were previously accounted for as associates and the deconsolidation of silo-structures and funds.
[3] Resulted in a change in the fair value hierarchy disclosures.
[4] Applying a high quality corporate bond rate rather than an expected return on assets rate resulted in approximately USD 9 million lower expenses. Additionally, impact from past service cost is immaterial.

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

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

Table 2.2

Standard/ interpretation

		Effective date
New standards		
IFRS 9	Financial Instruments[2]	Pending
IFRIC 21	Levies[1]	January 1, 2014
Amended standards		
IAS 32	Offsetting Financial Assets and Financial Liabilities[1]	January 1, 2014
IAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]	January 1, 2014

[1] Not expected to have a significant impact on the Consolidated financial statements.
[2] The impact on the Consolidated financial statements will be assessed in conjunction with the revised standard IFRS 4 "Insurance Contracts". Changes to the IFRS timetable may impact this approach.

3. Summary of significant accounting policies

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

a) Consolidation principles

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

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

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

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

b) Foreign currency translation and transactions

Foreign currency translation

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

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 that are carried at fair value, are translated at end-of-period exchange rates. Foreign currency non-monetary items that are carried at historical cost are translated at historical exchange rates. The resulting foreign currency differences are recorded in income, except for the following:

- when gains or losses on non-monetary items measured at fair value, such as available-for-sale equity securities, are recognized directly in OCI, any foreign currency component included in the gains or losses is also recognized directly in OCI;
- when changes in the fair value of monetary items denominated in foreign currency, such as debt securities, that are classified as available-for-sale, are analyzed between foreign currency translation differences resulting from changes in the amortized cost of the security and other fair value changes in the security. Foreign currency translation differences related to changes in amortized cost are recognized in income, and those related to other changes in fair value are recognized in OCI; and
- foreign currency translation differences arising on monetary items that form part of net investments in foreign operations are included directly in OCI as cumulative foreign currency translation adjustment.

Consolidated financial statements *continued*

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

Classification

Contracts issued under which the Group accepts significant insurance risk and obligations arising from investment contracts with DPF are accounted for as insurance contracts.

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

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

Premiums

General insurance

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

Life insurance

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

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

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

Reserves for losses and loss adjustment expenses

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

Reserves for life benefits

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

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

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

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

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

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

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

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

Deferred acquisition costs (DAC)

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

General insurance

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

Life insurance

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

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

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

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

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

Liability adequacy tests

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

General insurance

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

Consolidated financial statements *continued*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Available-for-sale financial assets
Available-for-sale financial assets are financial assets that are either designated as such or are not classified in any of the other categories. Available-for-sale financial assets are carried at fair value, with changes in fair value recognized in OCI, until the securities are either sold or impaired.

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

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

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

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

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

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

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

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

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

Consolidated financial statements *continued*

Real estate held for investment is initially recorded at cost (including transaction costs) and subsequently measured at fair value with changes in fair value, as well as any realized gain or loss upon disposal, recognized in income.

Impairment of financial assets

General

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

Available-for-sale financial assets

When there is objective evidence that an available-for-sale debt security is impaired, the cumulative loss that had been recognized in OCI is reclassified to income as an impairment loss. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through income, up to the amortized cost amount calculated as if no impairment had been recognized at the date of reversal. Any further gains are recognized in OCI. Any subsequent losses, to the extent that they do not represent further impairment losses, are also recognized in OCI.

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

Held-to-maturity investments and loans and receivables

Generally, significant financial assets are individually assessed to determine whether objective evidence of impairment exists. If no objective evidence of impairment exists, the asset is included in a group of financial assets with similar credit risk characteristics that are collectively assessed for impairment.

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

f) Derivative financial instruments and hedge accounting

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

Derivative financial instruments that qualify for hedge accounting

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

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

All hedge relationships are formally documented, including the risk management objectives and strategy for undertaking the hedge. At inception of a hedge and on an ongoing basis, the hedge relationship is formally assessed in order to determine whether the hedging instruments are expected (prospective assessment) and have been (retrospective assessment) highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risk. Where the hedge accounting criteria are fulfilled, the accounting treatment is as follows:

Fair value hedges
The hedged item is remeasured for fair value changes attributable to the risk being hedged and such fair value changes are recognized in the same line item of the consolidated income statement as the offsetting gains or losses from re-measuring the hedging derivatives at fair value through profit or loss.

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

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

If the qualifying criteria for the application of hedge accounting are no longer met, the hedge relationship is discontinued prospectively, in which case the hedging instrument and the hedged item are reported independently in accordance with the respective accounting policy.

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

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

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

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

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

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

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

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

Consolidated financial statements *continued*

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

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

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

i) Property and equipment

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

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

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

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

j) Intangible assets

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

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 at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

Goodwill

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

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

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

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

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

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

Attorney-in-fact relationships (AIF)

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

Distribution agreements

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

Software

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

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

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

k) Provisions, contingent liabilities, commitments and financial guarantees

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

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

l) Treasury shares

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

Consolidated financial statements *continued*

m) Other revenue recognition

Farmers management fees

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

Other fees and commission income

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

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

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

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

n) Net investment income

Net investment income includes investment income earned net of investment expenses incurred.

Investment income

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

For Group investments, interest income is recognized using the effective interest method. Dividend income is recognized when the right to receive payment is established, which is usually the ex-dividend date.

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

Investment expenses

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

o) Employee benefits

Share-based compensation and cash incentive plans

The Group operates long-term incentive plans which comprise the allocation of a target number of shares.

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

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

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

Retirement benefits

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

Defined benefit plan obligations and contributions are determined annually by qualified actuaries using the projected unit credit method. The Group's expense relating to these plans is accrued over the employees' service periods based upon the actuarially determined cost for the period. Actuarial gains and losses are recognized, in full in the period in which they occur, directly in other comprehensive income (OCI). Past service costs, which result from plan amendments and curtailments are recognized in income on the earlier of the date on which the plan amendment or curtailment occurs (which is the date from which the plan change is effective) and the date on which a constructive obligation arises. Settlement gains or losses are recognized in income when the settlement occurs.

Other post-employment benefits

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

p) Leases

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

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

q) Income taxes

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

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

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

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

Consolidated financial statements *continued*

4. Critical accounting judgments and estimates

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

a) Reserves for insurance contracts and deferred acquisition costs

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

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

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

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

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

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

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

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

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

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

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

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

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

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

b) Fair value measurement

In determining the fair values of financial debt instruments and equity instruments traded in exchange and OTC markets, the Group makes extensive use of independent, reliable and reputable third party pricing providers and only in rare cases places reliance on prices that are derived from internal models.

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

Valuations can be subject to significant judgment especially when the fair value is determined based on at least one significant unobservable input parameter; such items are classified within Level 3 of the fair value hierarchy. See note 6, 7 and 25 for further information regarding the estimate of fair value.

Consolidated financial statements *continued*

c) Impairment of assets

Financial assets

A financial asset is considered impaired if there is objective evidence of impairment as a result of one or more occurred loss events that have an impact on the estimated future cash flows of the financial asset.

The evaluation of whether an available-for-sale debt security is impaired requires analysis of the credit standing of a particular issuer and involves management judgment. When assessing impairment of available-for-sale debt securities, the Group places emphasis on issuer specific factors, such as significant financial difficulty, default or delinquency on interest or principal payments. A credit rating downgrade, worsened liquidity or decline in fair value is not by itself considered a loss event, but rather incorporated in the impairment analysis along with other available information.

The Group defines that there is objective evidence of impairment of an available-for-sale equity security, if at the reporting date:

- its fair value is below the weighted-average cost by an amount significantly exceeding the volatility threshold determined quarterly for the respective equity market (such as North America, UK, Switzerland, other European countries and Asia Pacific), or

- its fair value has been below the weighted-average cost for a prolonged period of 24 consecutive months or longer.

Goodwill and Attorney-in-fact relationships (AIF)

Goodwill is allocated to the cash generating units (CGUs) as outlined in note 3. For goodwill impairment testing, the recoverable amount is the higher of its fair value less costs to sell and its value-in-use.

Fair value 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 the CGU. Cash flow projections are based on financial budgets, which are approved by management, typically covering a three-year period or, if appropriate and adequately justified, a longer period, which may be necessary to more accurately represent the nature of the cash flows used to test the goodwill. Cash flows beyond this period are extrapolated using, amongst others, estimated perpetual growth rates, which are a reflection of the expected inflation of the geographical areas where the cash flows supporting the goodwill are generated. If cash flows are generated in different geographical areas with different expected inflation rates, weighted averages are used. The discount rates applied reflect the respective risk free interest rate adjusted for the relevant risk factors to the extent they have not already been considered in the underlying cash flows.

For the General Insurance segment, CGUs are aggregated predominantly on the segment level. Within the Global Life and Farmers segments, CGUs are identified at either business unit level or individual reporting entity level.

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

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

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

Table 4.1

Discount and perpetual growth rates for goodwill and AIF for major CGUs

	Segment	in USD millions	Discount rates in % 2013	Discount rates in % 2012	Perpetual nominal growth rate in % 2013	Perpetual nominal growth rate in % 2012
Farmers	Farmers	1,845	11.4	8.5	–	–
General Insurance	General Insurance	588	10.6	8.0	2.2	2.1
Global Life Germany	Global Life	272	8.6	6.7	1.9	2.0
Zurich Assurance Ltd and Openwork Holdings Ltd	Global Life	102	7.8	5.9	–	–

Sensitivity tests have been performed on goodwill and AIF, and typically comprised of an analysis for either a decrease in cash flows of up to 30 percent, a decrease in the perpetual growth rate of up to 1.0 percentage point or an increase in the discount rate of up to 3.5 percentage points in order to capture potential future variations in market conditions. Applying the value-in-use methodology, an increase of approximately 1.4 percentage points in the discount rate or a decrease of approximately 1.7 percentage points in the perpetual growth rate of the Global Life Germany CGU would result in the recoverable amount being close to the carrying value. No such reasonably possible changes of key assumptions were identified for the remaining CGUs.

Distribution agreements

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

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

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

Table 4.2

Discount and perpetual growth rates by major distribution agreements

	in USD millions	Range of discount rates in % 2013	Range of discount rates in % 2012	Perpetual nominal growth rate in % 2013	Perpetual nominal growth rate in % 2012
Banco Sabadell S.A. entities in Spain	1,697	11.0	9.0	2.0	2.5
Banco Santander S.A. entities in Latin America	1,717	12.6–42.0	7.8–20.1	n/a	n/a

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

Sensitivity tests have been performed on distribution agreements and typically comprised of an analysis for either a decrease in cash flows, a decrease in the perpetual growth rate or an increase in the discount rate, applying reasonably possible changes. An increase of approximately 2.6 percentage points in the discount rate or a decrease of approximately 30 percent in the cash flows of the distribution agreement of the Banco Sabadell S.A. entities would result in the recoverable amount being close to the carrying value. No such reasonably possible changes of key assumptions were identified for the remaining distribution agreements.

See notes 3, 6, 15, 16 and 17 for further information on impairment of assets.

Financial information

Consolidated financial statements *continued*

d) Deferred taxes

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

See note 19 for further information on deferred taxes.

e) Employee benefits

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

See note 22 for further information on employee benefits.

5. Acquisitions and divestments

Transactions in 2013

Assets/liabilities held for sale

As of December 31, 2013, a subsidiary of Centre Group Holdings Limited, Centre Insurance Company, which is a general insurance and reinsurance company based in the United States of America, with total assets of USD 100 million and total liabilities of USD 49 million, was classified as held for sale.

Transactions in 2012

Acquisitions

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

Divestments and loss of control

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

Consolidated financial statements *continued*

6. Investments

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

Table 6.1a

Net 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		Net investment result	
	2013	2012	**2013**	2012	**2013**	2012
Cash and cash equivalents	43	60	(11)	(4)	32	57
Equity securities	1,734	1,780	12,561	8,903	14,296	10,683
Debt securities	5,082	5,395	65	2,552	5,147	7,947
Real estate held for investment	757	816	272	(331)	1,030	485
Mortgage loans	379	428	(121)	(100)	258	328
Other loans	782	870	298	17	1,079	887
Investments in associates and joint ventures	11	12	1	1	12	13
Derivative financial instruments[1]	–	–	(820)	(463)	(820)	(463)
Investment result, gross	8,788	9,362	12,245	10,574	21,033	19,936
Investment expenses	(831)	(760)	–	–	(831)	(760)
Investment result, net	**7,958**	**8,602**	**12,245**	**10,574**	**20,202**	**19,176**

[1] Net capital losses on derivative financial instruments attributable to cash flow hedge ineffectiveness amounted to USD 9 million and USD 7 million for the years ended December 31, 2013 and 2012, respectively.

Rental operating expenses for real estate held for investment included in investment expenses for total investments amounted to USD 189 million and USD 194 million for the years ended December 31, 2013 and 2012, respectively.

Net investment result for Group investments

Table 6.1b

in USD millions, for the years ended December 31	Net investment income		Net capital gains/(losses) on investments and impairments		Net investment result	
	2013	2012	**2013**	2012	**2013**	2012
Cash and cash equivalents	34	44	–	1	33	45
Equity securities	244	331	1,499	549	1,743	879
Debt securities	4,790	5,096	188	1,968	4,978	7,064
Real estate held for investment	486	506	186	12	671	517
Mortgage loans	379	428	(121)	(100)	258	328
Other loans	553	617	211	79	764	696
Investments in associates and joint ventures	11	12	1	1	12	13
Derivative financial instruments[1]	–	–	(806)	(307)	(806)	(307)
Investment result, gross, for Group investments	6,496	7,034	1,157	2,201	7,653	9,235
Investment expenses for Group investments	(256)	(252)	–	–	(256)	(252)
Investment result, net, for Group investments	**6,240**	**6,782**	**1,157**	**2,201**	**7,398**	**8,983**

[1] Net capital losses on derivative financial instruments attributable to cash flow hedge ineffectiveness amounted to USD 9 million and USD 7 million for the years ended December 31, 2013 and 2012, respectively.

Impairment charges on Group investments included in net capital gains/(losses) on investments and impairments amounted to USD 201 million and USD 208 million, including impairment charges on mortgage loans and other loans of USD 141 million and USD 114 million, for the years ended December 31, 2013 and 2012, respectively.

Net 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		Net investment result	
	2013	2012	**2013**	2012	**2013**	2012
Cash and cash equivalents	9	16	(10)	(4)	(1)	12
Equity securities	1,491	1,449	11,062	8,354	12,553	9,803
Debt securities	292	299	(124)	584	168	884
Real estate held for investment	272	310	87	(342)	358	(32)
Other loans	229	253	87	(62)	316	191
Derivative financial instruments	–	–	(14)	(157)	(14)	(157)
Investment result, gross, for unit-linked contracts	2,292	2,327	11,088	8,373	13,380	10,701
Investment expenses for unit-linked contracts	(575)	(508)	–	–	(575)	(508)
Investment result, net, for unit-linked contracts	**1,717**	**1,820**	**11,088**	**8,373**	**12,805**	**10,193**

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

Table 6.2

in USD millions, for the years ended December 31	Equity securities		Debt securities		Total	
	2013	2012	**2013**	2012	**2013**	2012
Securities at fair value through profit or loss:	11,431	8,596	(508)	924	10,923	9,520
Net capital gains/(losses) on Group investments	368	242	(384)	339	(16)	581
Net capital gains/(losses) for unit-linked contracts	11,062	8,354	(124)	584	10,939	8,938
Available-for-sale securities:	1,131	307	573	1,628	1,704	1,935
Realized capital gains on Group investments	1,292	552	1,008	2,120	2,299	2,672
Realized capital losses on Group investments	(103)	(163)	(433)	(480)	(536)	(643)
Impairments on Group investments	(58)	(82)	(2)	(12)	(60)	(95)
Total net capital gains/(losses) and impairments	**12,561**	**8,903**	**65**	**2,552**	**12,626**	**11,455**

Consolidated financial statements *continued*

Details of total investments by category

Table 6.3a

as of December 31	2013		2012	
	USD millions	**% of total**	USD millions	% of total
Cash and cash equivalents	8,162	2.4	10,208	3.1
Equity securities:				
Fair value through profit or loss	115,379	33.8	103,023	30.9
Available-for-sale	9,758	2.9	8,796	2.6
Total equity securities	125,137	36.6	111,819	33.5
Debt securities:				
Fair value through profit or loss	18,725	5.5	20,630	6.2
Available-for-sale	144,723	42.4	141,597	42.5
Held-to-maturity	4,613	1.4	5,012	1.5
Total debt securities	168,061	49.2	167,239	50.1
Real estate held for investment	12,406	3.6	11,962	3.6
Mortgage loans	9,798	2.9	10,519	3.2
Other loans	17,854	5.2	21,664	6.5
Investments in associates and joint ventures	129	0.0	85	0.0
Total investments	**341,547**	**100.0**	**333,496**	**100.0**

Details of Group investments by category

Table 6.3b

as of December 31	2013		2012	
	USD millions	**% of total**	USD millions	% of total
Cash and cash equivalents	7,181	3.5	9,098	4.3
Equity securities:				
Fair value through profit or loss	3,425	1.7	3,545	1.7
Available-for-sale	9,758	4.7	8,796	4.2
Total equity securities	13,183	6.4	12,341	5.9
Debt securities:				
Fair value through profit or loss	7,121	3.4	8,985	4.3
Available-for-sale	144,723	69.8	141,597	67.6
Held-to-maturity	4,613	2.2	5,012	2.4
Total debt securities	156,456	75.5	155,594	74.2
Real estate held for investment	8,745	4.2	8,561	4.1
Mortgage loans	9,798	4.7	10,519	5.0
Other loans	11,789	5.7	13,385	6.4
Investments in associates and joint ventures	129	0.1	85	0.0
Total Group investments	**207,280**	**100.0**	**209,582**	**100.0**

Investments (including cash and cash equivalents) with a carrying value of USD 5,853 million and USD 6,340 million were held to meet local regulatory requirements as of December 31, 2013 and 2012, respectively.

Securities lending, repurchase and reverse repurchase agreements

As of December 31, 2013 and 2012, respectively, investments included USD 9,947 million and USD 7,751 million of loaned securities. These loaned securities were mainly debt securities. Liabilities for cash collateral received for securities lending comprised USD 332 million and USD 330 million as of December 31, 2013 and 2012, respectively. Non-cash collateral received for loaned securities comprised mainly equity and debt securities and amounted to USD 10,474 million and USD 8,085 million as of December 31, 2013 and 2012, respectively. The Group can sell or repledge the collateral only in the event of a default by a counterparty.

As of December 31, 2013 and 2012, respectively, debt securities with a carrying value of USD 1,694 million and USD 1,550 million have been sold to financial institutions under repurchase agreements. These securities continue to be recognized as investments in the Group's consolidated balance sheets. Obligations to repurchase these securities amounted to USD 1,685 million and USD 1,539 million as of December 31, 2013 and 2012, respectively.

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

As of December 31, 2013 and December 31, 2012, respectively, securities with a carrying value of USD 681 million and USD 990 million have been purchased from financial institutions under short-term reverse sale and repurchase agreements. Receivables under these agreements have been recognized in the Group's consolidated balance sheets and amounted to USD 678 million and USD 988 million as of December 31, 2013 and December 31, 2012, respectively.

Details of investments held for unit-linked contracts

Table 6.3c

as of December 31	2013		2012	
	USD millions	**% of total**	USD millions	% of total
Cash and cash equivalents	982	0.7	1,110	0.9
Equity securities	111,954	83.4	99,478	80.3
Debt securities	11,605	8.6	11,646	9.4
Real estate	3,661	2.7	3,401	2.7
Other loans	6,066	4.5	8,279	6.7
Total investments for unit-linked contracts	**134,267**	**100.0**	**123,913**	**100.0**

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

Accrued investment income on unit-linked investments disclosed as accrued investment income amounted to USD 230 million and USD 255 million as of December 31, 2013 and December 31, 2012, respectively.

Consolidated financial statements *continued*

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	
	2013	2012	**2013**	2012	**2013**	2012
Debt securities:						
< 1 year	424	493	9,744	10,072	4,750	3,890
1 to 5 years	1,957	2,188	47,123	46,027	4,570	5,336
5 to 10 years	904	527	35,632	33,784	3,542	3,740
> 10 years	1,328	1,805	32,971	32,233	5,008	6,677
Subtotal	4,613	5,012	125,470	122,115	17,869	19,642
Mortgage and asset-backed securities:						
< 1 year	–	–	612	540	24	26
1 to 5 years	–	–	4,781	5,358	429	406
5 to 10 years	–	–	2,054	2,175	54	114
> 10 years	–	–	11,806	11,407	349	443
Subtotal	–	–	19,253	19,481	856	988
Total	**4,613**	**5,012**	**144,723**	**141,597**	**18,725**	**20,630**

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

Available-for-sale securities

Table 6.5

in USD millions, as of December 31	Cost or amortized cost[1]		Gross unrealized gains		Gross unrealized losses		Fair value	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Equity securities								
Common stock	4,711	4,515	1,443	1,841	(282)	(331)	5,872	6,025
Unit trusts	3,422	2,434	390	398	(167)	(247)	3,645	2,584
Non-redeemable preferred stock	197	167	46	21	(3)	(3)	241	186
Total equity securities	**8,331**	**7,117**	**1,878**	**2,259**	**(452)**	**(581)**	**9,758**	**8,796**
Debt securities								
Swiss federal and cantonal governments	4,093	3,925	210	466	(81)	(3)	4,222	4,388
United Kingdom government	7,305	7,566	186	496	(118)	(8)	7,373	8,054
United States government	10,877	10,560	137	340	(334)	(55)	10,680	10,845
Other governments and supra-nationals	39,988	36,226	2,041	2,795	(224)	(350)	41,805	38,672
Corporate securities	58,822	55,792	4,056	5,738	(1,497)	(1,386)	61,380	60,145
Mortgage and asset-backed securities	19,201	18,838	363	730	(311)	(87)	19,253	19,481
Redeemable preferred stocks	7	10	2	2	–	–	9	12
Total debt securities	**140,292**	**132,917**	**6,995**	**10,568**	**(2,564)**	**(1,888)**	**144,723**	**141,597**

[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	
	2013		2012		2013	2012	2013	2012
	USD millions	% of total	USD millions	% of total	USD millions	USD millions	USD millions	USD millions
Equity securities:								
Common stock	2,731	25.9	2,204	17.6	41,290	36,936	44,021	39,140
of which: common stock portfolios backing participating with profit policyholder contracts	*558*	*5.3*	*534*	*4.3*	*–*	*–*	*558*	*534*
Unit trusts	694	6.6	1,341	10.7	70,617	62,495	71,312	63,836
Non-redeemable preferred stock	–	0.0	–	0.0	46	47	46	47
Total equity securities	**3,425**	**32.5**	**3,545**	**28.3**	**111,954**	**99,478**	**115,379**	**103,023**
Debt securities:								
Debt securities	6,442	61.1	8,221	65.6	11,428	11,421	17,869	19,642
Mortgage and asset-backed securities	679	6.4	763	6.1	177	225	856	988
Total debt securities	**7,121**	**67.5**	**8,985**	**71.7**	**11,605**	**11,646**	**18,725**	**20,630**
Total	**10,546**	**100.0**	**12,530**	**100.0**	**123,558**	**111,124**	**134,104**	**123,654**

Held-to-maturity debt securities

Table 6.7

as of December 31	2013		2012	
	USD millions	% of total	USD millions	% of total
Swiss federal and cantonal governments	1,896	41.1	1,847	36.9
United States government	1,303	28.3	1,627	32.5
Other governments and supra-nationals	1,045	22.7	1,168	23.3
Corporate securities	368	8.0	370	7.4
Total held-to-maturity debt securities	**4,613**	**100.0**	**5,012**	**100.0**

Real estate held for investment (total investments)

Table 6.8

in USD millions	Total	
	2013	2012
As of January 1	11,962	12,246
Additions and improvements	794	360
Disposals	(793)	(702)
Market value revaluation	162	(206)
Transfer from assets held for own use	81	–
Transfer to assets held for sale	(87)	(89)
Foreign currency translation effects	287	353
As of December 31	**12,406**	**11,962**

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

Consolidated financial statements *continued*

Net unrealized gains/(losses) on Group investments included in equity

Table 6.9

in USD millions, as of December 31	Total	
	2013	2012
Equity securities: available-for-sale	1,427	1,679
Debt securities: available-for-sale	4,431	8,679
Other	130	300
Gross unrealized gains/(losses) on Group investments	5,988	10,658
Less: amount of unrealized gains/(losses) on investments attributable to:		
Life policyholder dividends and other policyholder liabilities	(2,948)	(3,918)
Life deferred acquisition costs and present value of future profits	(460)	(571)
Deferred income taxes	(738)	(1,385)
Non-controlling interests	(6)	(23)
Total[1]	**1,835**	**4,762**

[1] Net unrealized gains/(losses) on Group Investments include net gains arising on cash flow hedges of USD 106 million and USD 238 million as of December 31, 2013 and 2012, respectively.

7. Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments mainly for economic hedging purposes in order to mitigate risks. Such risks result from changes in interest rates, equity prices and exchange rates. Derivative financial instruments with a positive fair value are reported in other assets (see note 17) and those with a negative fair value are reported in other liabilities (see note 18).

Table 7.1 shows the fair value and notional amounts for instruments which do not qualify for hedge accounting as of December 31, 2013 and 2012, respectively. Whilst these notional amounts express the extent of the Group's involvement in derivative transactions, they are not, however, representative of amounts at risk. Fair values for derivative financial instruments are included in the consolidated balance sheets in receivables and other assets, and other liabilities.

Table 7.1

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

in USD millions, as of December 31	2013						2012		
	Maturity by notional amount			Notional amounts	Positive fair values	Negative fair values	Notional amounts	Positive fair values	Negative fair values
	< 1 year	1 to 5 years	> 5 years						
Interest rate contracts:									
OTC									
Swaps	950	974	2,840	4,764	175	(178)	5,292	349	(45)
Swaptions[1]	512	3,966	4,037	8,515	177	(234)	9,408	242	(104)
Exchange traded									
Futures	776	–	–	776	1	–	8	–	–
Total interest rate contracts	**2,238**	**4,939**	**6,877**	**14,054**	**353**	**(413)**	**14,709**	**591**	**(148)**
Equity contracts:									
OTC									
Swaps	52	–	–	52	–	(1)	42	–	(2)
Puts	1,768	556	2,331	4,655	99	(62)	9,854	220	(119)
Calls	1,500	517	–	2,017	37	(71)	3,214	62	(81)
Exchange traded									
Puts	10	–	–	10	–	–	49	1	–
Calls	–	–	–	–	–	–	–	–	–
Futures	519	–	–	519	–	(22)	503	1	(3)
Total equity contracts	**3,849**	**1,073**	**2,331**	**7,252**	**137**	**(156)**	**13,663**	**284**	**(206)**
Foreign exchange contracts:									
OTC									
Cross currency swaps	–	–	–	–	–	–	444	–	(45)
Forwards	17,474	–	–	17,474	62	(110)	13,681	45	(84)
Total foreign exchange contracts	**17,474**	**–**	**–**	**17,474**	**62**	**(110)**	**14,124**	**45**	**(129)**
Other contracts:									
OTC									
Puts	–	–	397	397	–	–	93	–	–
Swaps	–	–	64	64	–	(3)	66	–	(11)
Total other contracts	**–**	**–**	**460**	**460**	**–**	**(3)**	**159**	**–**	**(11)**
Total Group derivative financial instruments	23,561	6,012	9,668	39,241	552	(682)	42,656	920	(494)
Total unit-linked derivative financial instruments	1,885	225	–	2,110	45	(4)	2,113	62	(5)
Total	**25,446**	**6,238**	**9,668**	**41,352**	**596**	**(686)**	**44,769**	**982**	**(500)**

[1] Including net settled forward swaptions.

Consolidated financial statements *continued*

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

The decrease in the notional amount between December 31, 2012 and December 31, 2013 was mainly due to reductions in interest rate swaps to hedge a closed book of variable annuities products within the U.S. life business and a decrease in swaptions, to protect European life insurance books against falling interest rates.

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

The decrease in the notional amount of put options between December 31, 2012 and December 31, 2013 was mainly due to matured positions relating to a hedging program. Total return swaps, exchange traded options and futures are relating to the dynamic hedging strategy that has been put in place to reduce the volatility associated with a closed book of variable annuities products within the U.S. life business.

The majority of positions are for hedging purposes. For short positions, call options are used in collar structures to mitigate the hedging costs for some life portfolios and the written put positions are fully backed by long put positions and relate only to legacy positions.

Foreign exchange contracts
Forward contracts are used to hedge the Group's foreign currency exposures and to manage balance sheet mismatches. As of December 31, 2013 there were no open cross currency swap positions.

The increase in notional amounts of foreign exchange forwards between December 31, 2012 and December 31, 2013 was mostly volume driven.

Other contracts
Other contracts predominantly include stable value products (SVPs), which are designed to amortize on a quarterly basis investment gains and losses of the investment portfolios underlying certain life insurance policies, which are owned by banks (Bank Owned Life Insurance or BOLI) and other companies (Company Owned Life Insurance or COLI). The Group monitors the risk of surrender of those life insurance policies on an ongoing basis and considers the likelihood of surrender as an input factor to the model to determine the fair value of the SVPs. The notional SVP derived value was USD 397 million and USD 93 million as of December 31, 2013 and 2012, respectively, representing the total loss before surrender charges in the unlikely event that all policies would have been surrendered on those dates.

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

Table 7.2

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

in USD millions, as of December 31						2013			2012
	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	330	–	574	108	–	1,530	252	–
Currency swaps	–	8	62	69	–	(39)	69	–	(40)
Interest rate swaps	–	–	1,699	1,699	15	(6)	1,097	37	–
Total fair value hedges	**244**	**338**	**1,761**	**2,342**	**122**	**(45)**	**2,695**	**288**	**(40)**
Cash flow hedges:									
Options on interest rate swaps	–	949	2,347	3,296	282	–	3,207	438	–
Currency swaps	975	793	–	1,768	166	–	1,768	90	–
Interest rate swaps	15	76	40	132	20	–	159	14	–
Total cash flow hedges	**991**	**1,818**	**2,387**	**5,196**	**468**	**–**	**5,135**	**542**	**–**
Net investment hedges:									
Forwards	275	–	–	275	–	(2)	273	–	(2)
Total net investment hedges	**275**	**–**	**–**	**275**	**–**	**(2)**	**273**	**–**	**(2)**

Fair value hedges

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

Information on debt issuances designated as hedged items in fair value hedge relationships is set out in note 20.

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

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

Consolidated financial statements *continued*

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

Gains/(losses) arising from fair value hedges

Table 7.3

in USD millions, as of December 31	2013	2012
Gains/(losses)		
on hedging instruments[1]	*(57)*	*20*
on hedged items attributable to the hedged risk	*52*	*(30)*

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

Cash flow hedges

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

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

Information on debt issuances designated as hedged items in cash flow hedge relationships is set out in note 20.

The net gains/(losses) deferred in other comprehensive income on derivative financial instruments designated as cash flow hedges were USD (94) million and USD 32 million before tax for the years ended December 31, 2013 and 2012, respectively.

The portion recognized in income was a gain of USD 86 million and USD 35 million before tax for the years ended December 31, 2013 and 2012, respectively, as an offset to the foreign currency revaluation on the underlying hedged debt.

A loss of USD 9 million and USD 7 million for the years ended December 31, 2013 and 2012, respectively, was recognized in net capital gains/(losses) and impairments due to hedge ineffectiveness.

Net investment hedges

In 2012, the Group started to apply net investment hedge accounting in order to hedge against the effects of changes in exchange rates in its net investments in foreign operations. A net hedge relationship through a foreign exchange forward with a notional amount of USD 275 million and USD 273 million was in place as of December 31, 2013 and 2012, respectively.

Net gains/(losses) deferred in shareholders' equity on net investment hedges were USD 4 million and USD (2) million before tax for the years ended December 31, 2013 and 2012, respectively.

Derivative financial instruments: offsetting of financial assets and liabilities

Tables 7.4 and 7.5 show the net asset and liability position of derivative financial instruments subject to enforceable master netting arrangements and collateral agreements. Master netting arrangements are used by the Group to provide protection against loss in the event of bankruptcy or other circumstances that result in a counterparty being unable to meet its obligations. These arrangements commonly create a right of offset that becomes enforceable and affects the realization or settlement of individual financial assets and financial liabilities only following a specified event of default or other circumstances which would not be expected to arise in the normal course of business.

Table 7.4

Derivative financial instruments subject to enforceable master netting arrangements and collateral agreements – current period

in USD millions, as of December 31, 2013	Fair value	Related amounts not offset	Cash collateral (received)/ pledged	Non-cash collateral (received)/ pledged	Net amount
Assets					
Group derivatives	1,142	(216)	(845)	(9)	72
Unit-linked derivatives	45	(1)	(24)	–	20
Total derivative assets	**1,187**	**(217)**	**(868)**	**(9)**	**92**
Liabilities					
Group derivatives	(729)	216	375	7	(132)
Unit-linked derivatives	(4)	1	–	–	(3)
Total derivative liabilities	**(733)**	**217**	**375**	**7**	**(135)**

Table 7.5

Derivative financial instruments subject to enforceable master netting arrangements and collateral agreements – prior period

in USD millions, as of December 31, 2012	Fair value	Related amounts not offset	Cash collateral (received)/ pledged	Non-cash collateral (received)/ pledged	Net amount
Assets					
Group derivatives	1,750	(276)	(1,152)	(13)	309
Unit-linked derivatives	62	–	(47)	–	15
Total derivative assets	**1,813**	**(276)**	**(1,199)**	**(13)**	**324**
Liabilities					
Group derivatives	(537)	276	72	15	(174)
Unit-linked derivatives	(5)	–	–	–	(5)
Total derivative liabilities	**(542)**	**276**	**72**	**15**	**(179)**

Consolidated financial statements *continued*

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

Reserves for insurance contracts

Table 8.1

in USD millions, as of December 31	Gross		Ceded		Net	
	2013	2012	**2013**	2012	**2013**	2012
Reserves for losses and loss adjustment expenses	68,312	69,986	(10,993)	(12,601)	57,319	57,385
Reserves for unearned premiums	17,616	17,300	(2,576)	(2,666)	15,040	14,634
Future life policyholders' benefits	84,476	83,807	(2,501)	(2,507)	81,975	81,300
Policyholders' contract deposits and other funds	20,162	20,024	(2,036)	(2,106)	18,126	17,917
Reserves for unit-linked contracts	74,873	74,117	–	–	74,873	74,117
Total reserves for insurance contracts[1]	**265,440**	**265,233**	**(18,107)**	**(19,880)**	**247,333**	**245,353**

[1] The total reserves for insurance contracts ceded are gross of allowances for uncollected amounts of USD 129 million and USD 127 million as of December 31, 2013 and December 31, 2012, respectively.

Development of reserves for losses and loss adjustment expenses

Table 8.2

in USD millions	Gross		Ceded		Net	
	2013	2012	**2013**	2012	**2013**	2012
As of January 1	69,986	67,762	(12,601)	(12,421)	57,385	55,341
Losses and loss adjustment expenses incurred:						
Current year	26,936	27,612	(3,050)	(3,273)	23,885	24,340
Prior years	(1,187)	(676)	430	105	(757)	(571)
Total incurred	25,749	26,936	(2,621)	(3,168)	23,128	23,769
Losses and loss adjustment expenses paid:						
Current year	(10,350)	(10,548)	745	694	(9,605)	(9,853)
Prior years	(17,169)	(16,230)	3,370	2,706	(13,799)	(13,525)
Total paid	(27,519)	(26,778)	4,115	3,400	(23,404)	(23,378)
Acquisitions/(divestments) and transfers[1]	(61)	1,217	13	(257)	(49)	960
Foreign currency translation effects	157	849	101	(156)	258	693
As of December 31	**68,312**	**69,986**	**(10,993)**	**(12,601)**	**57,319**	**57,385**

[1] The 2013 net movement includes USD (49) million due to the reclassification of a subsidiary of Centre Group Holdings Limited to held for sale (see note 5). The 2012 net movement includes a transfer of USD 1,224 million from policyholders' contract deposits and other funds, partially offset by USD (235) million relating to a reinsurance agreement which transferred the benefits and risks of some of the Group's general insurance portfolio to RiverStone Insurance (UK) Limited, and by USD (33) million transferred to future life policyholders' benefits (see note 1 of the Consolidated financial statements 2012).

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

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

Table 8.2 shows the development of reserves for losses and loss adjustment expenses during the years 2013 and 2012.

The decrease of USD 66 million (USD 324 million before the foreign currency translation impact) during the year ended December 31, 2013 in net reserves for losses and loss adjustment expenses is mostly driven by payments on crop and storm Sandy losses in North America. Favorable reserve development arising from reserves established in prior years amounted to USD 757 million during the year ended December 31, 2013, and mainly relates to the following movements by market-facing business, country and line of business:

- The personal and commercial business in Europe reported favorable prior year development of USD 412 million, mostly driven by USD 326 million within motor liability in Switzerland and a reduction of large property claims of USD 46 million within the UK;
- In Global Corporate, favorable development of USD 355 million was driven by lower estimates of large property claims in Switzerland, the UK and Global Energy and lower estimates for the Thai floods.

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

- In Global Corporate, favorable development of USD 199 million was driven by Europe essentially originating from Switzerland, the UK and Ireland. The development occurred mostly in the property and engineering lines of business;
- In North America Commercial, favorable development of USD 203 million arose mostly from medical malpractice, general liability, errors and omissions and the Canadian operations;
- The personal and commercial business in Europe reported favorable prior year development of USD 90 million. The favorable development was driven by USD 435 million in Switzerland, mostly in motor, and USD 96 million in the UK and Ireland, coming from many lines of business. Partially offsetting this, Germany reported an adverse development of USD 476 million arising mainly from the medical and professional liability lines of business.

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

Consolidated financial statements *continued*

Development of insurance losses, net

Table 8.3

in USD millions, as of December 31	2004	2005	2006	2007	2008	2009	2010	2011	2012	**2013**
Gross reserves for losses and loss adjustment expenses	57,765	60,425	64,535	67,890	65,218	68,126	68,274	67,762	69,986	68,312
Reinsurance recoverable	(14,279)	(14,231)	(13,722)	(13,179)	(12,232)	(12,182)	(12,093)	(12,421)	(12,601)	(10,993)
Initial net reserves for losses and loss adjustment expenses	43,486	46,194	50,814	54,712	52,986	55,944	56,180	55,341	57,385	57,319
Cumulative paid as of December 31:										
One year later	*(9,464)*	*(11,423)*	*(11,237)*	*(12,551)*	*(13,047)*	*(12,716)*	*(13,092)*	*(13,525)*	*(13,799)*	
Two years later	*(16,273)*	*(18,044)*	*(18,362)*	*(19,660)*	*(19,909)*	*(19,821)*	*(21,073)*	*(21,245)*		
Three years later	*(21,234)*	*(23,077)*	*(23,421)*	*(24,428)*	*(24,693)*	*(25,623)*	*(27,137)*			
Four years later	*(24,945)*	*(26,850)*	*(26,839)*	*(27,735)*	*(28,808)*	*(30,127)*				
Five years later	*(27,798)*	*(29,425)*	*(29,224)*	*(30,690)*	*(32,170)*					
Six years later	*(29,810)*	*(31,189)*	*(31,483)*	*(33,310)*						
Seven years later	*(31,148)*	*(33,030)*	*(33,665)*							
Eight years later	*(32,655)*	*(34,896)*								
Nine years later	*(34,267)*									
Cumulative incurred as of December 31:										
One year later	*141*	*(218)*	*(1,219)*	*(1,271)*	*(1,059)*	*(1,378)*	*(1,302)*	*(571)*	*(757)*	
Two years later	*1,520*	*(367)*	*(2,171)*	*(2,152)*	*(2,350)*	*(2,565)*	*(1,819)*	*(891)*		
Three years later	*1,839*	*(897)*	*(2,686)*	*(2,844)*	*(3,048)*	*(2,700)*	*(2,028)*			
Four years later	*1,808*	*(945)*	*(3,003)*	*(3,533)*	*(3,176)*	*(2,770)*				
Five years later	*2,118*	*(1,044)*	*(3,438)*	*(3,580)*	*(3,235)*					
Six years later	*2,194*	*(1,184)*	*(3,279)*	*(3,478)*						
Seven years later	*2,254*	*(841)*	*(3,146)*							
Eight years later	*2,686*	*(681)*								
Nine years later	*2,815*									
Net reserves re-estimated as of December 31:										
One year later	*43,627*	*45,976*	*49,594*	*53,441*	*51,927*	*54,565*	*54,878*	*54,770*	56,628	
Two years later	*45,006*	*45,827*	*48,642*	*52,559*	*50,637*	*53,379*	*54,361*	*54,450*		
Three years later	*45,325*	*45,297*	*48,127*	*51,868*	*49,939*	*53,243*	*54,152*			
Four years later	*45,294*	*45,249*	*47,811*	*51,179*	*49,810*	*53,173*				
Five years later	*45,604*	*45,150*	*47,376*	*51,131*	*49,752*					
Six years later	*45,680*	*45,010*	*47,535*	*51,234*						
Seven years later	*45,740*	*45,353*	*47,668*							
Eight years later	*46,172*	*45,513*								
Nine years later	*46,301*									
Cumulative (deficiency)/redundancy of net reserves	(2,815)	681	3,146	3,478	3,235	2,770	2,028	891	757	
Cumulative (deficiency)/redundancy as a percentage of initial net reserves	(6.5%)	1.5%	6.2%	6.4%	6.1%	5.0%	3.6%	1.6%	1.3%	
Gross reserves re-estimated as of December 31, 2013	61,784	60,425	60,893	63,365	60,921	63,984	65,472	66,413	68,799	
Cumulative (deficiency)/redundancy of gross reserves	(4,019)	–	3,642	4,525	4,297	4,143	2,802	1,349	1,187	
Cumulative (deficiency)/redundancy as a percentage of initial gross reserves	(7.0%)	0.0%	5.6%	6.7%	6.6%	6.1%	4.1%	2.0%	1.7%	

Table 8.3 presents changes in the historical non-life reserves, net of reinsurance, that the Group established in 2004 and subsequent years. Reserves are presented by financial year, not by accident year. The reserves (and the development thereon) are for all accident years in that financial year. The top line of the table shows the estimated gross reserves for unpaid losses and loss adjustment expenses as of each balance sheet date, which represents the estimated amount of future payments for losses incurred in that year and in prior years. The cumulative paid portion of the table presents the cumulative amounts paid through each subsequent year in respect of the reserves established at each year end. Similarly, the cumulative incurred losses section details the sum of the cumulative paid amounts shown in the triangle above and the changes in loss reserves since the end of each financial year. The net reserves re-estimated portion of the table shows the re-estimation of the initially recorded reserve as of each succeeding year end. Reserve development is shown in each column. Changes to estimates are made as more information becomes known about the actual losses for which the initial reserves were established. The cumulative deficiency or redundancy is equal to the initial net reserves less the liability re-estimated as of December 31, 2013. It is the difference between the initial net reserve estimate and the last entry of the diagonal. Conditions and trends that have affected the development of reserves for losses and loss adjustment expenses in the past may or may not necessarily occur in the future, and accordingly, conclusions about future results cannot be derived from the information presented in table 8.3.

Development of reserves for losses and loss adjustment expenses for asbestos

Table 8.4

in USD millions	2013		2012	
	Gross	**Net**	Gross	Net
Asbestos				
As of January 1	3,332	2,779	3,283	2,867
Losses and loss adjustment expenses incurred	47	53	51	37
Losses and loss adjustment expenses paid	(267)	(104)	(134)	(110)
Acquisitions/(divestments) and transfers[1]	–	–	–	(127)
Foreign currency translation effects	41	41	132	112
As of December 31	**3,154**	**2,768**	**3,332**	**2,779**

[1] The 2012 net movement relates to a reinsurance agreement which transferred the benefits and risks of some of the Group's general insurance portfolio to RiverStone Insurance (UK) Limited.

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

Reserves for asbestos claims decreased by USD 178 million gross and USD 10 million net during 2013. The decrease in the gross reserve primarily relates to the transfer of a general insurance portfolio to RiverStone Insurance (UK) Limited, amounting to USD 152 million.

In 2012, following an in-depth review of asbestos, pollution and health (APH) book of business in the U.S., gross and net reserves were strengthened. Despite these increases, the total net reserves have decreased due to a reinsurance agreement which transferred the benefits and risks of a general insurance portfolio to RiverStone Insurance (UK) Limited.

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

Consolidated financial statements *continued*

Development of future life policyholders' benefits

Table 8.5

in USD millions	Gross		Ceded		Net	
	2013	2012	**2013**	2012	**2013**	2012
As of January 1	83,807	80,584	(2,507)	(2,583)	81,300	78,001
Premiums	8,972	8,867	(580)	(541)	8,392	8,326
Claims	(10,334)	(9,168)	453	414	(9,880)	(8,754)
Fee income and other expenses	(1,898)	(1,789)	176	182	(1,722)	(1,608)
Interest and bonuses credited to policyholders	2,017	2,649	(8)	(75)	2,009	2,575
Changes in assumptions	(64)	(147)	9	155	(55)	8
Acquisitions/(divestments) and transfers[1]	–	1,065	–	(14)	–	1,051
(Decreases)/increases recorded in other comprehensive income	(122)	167	–	–	(122)	167
Foreign currency translation effects	2,098	1,579	(45)	(45)	2,053	1,534
As of December 31	**84,476**	**83,807**	**(2,501)**	**(2,507)**	**81,975**	**81,300**

[1] The 2012 net movement includes USD 937 million transferred from reserves for unearned premiums, USD 66 million transferred from policyholders' contract deposits and other funds, USD 33 million transferred from loss reserves (see note 1 of the Consolidated financial statements 2012) and USD 15 million from the acquisition of Zurich Insurance Malaysia Berhad (ZIMB, see note 5 of the Consolidated financial statements 2012).

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

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

The net impact of changes in assumptions on net future life policyholders' benefits by type of assumption is shown in table 8.6.

Effect of changes in assumptions for future life policyholders' benefits

Table 8.6

in USD millions, for the years ended December 31	**2013**	2012
Interest rates	(134)	223
Investment return	37	(51)
Changes in modeling	27	(58)
Expense	(5)	(75)
Morbidity	–	(1)
Longevity	(5)	(4)
Lapses	22	(7)
Legislative Changes	–	88
Other	2	(108)
Net impact of changes in assumptions	**(55)**	**8**

Policyholders' contract deposits and other funds gross

Table 8.7

in USD millions, as of December 31	**2013**	2012
Universal life and other contracts	12,833	12,219
Policyholder dividends	7,329	7,804
Total	**20,162**	**20,024**

Development of policyholders' contract deposits and other funds

Table 8.8

in USD millions		**Gross**		**Ceded**		**Net**
	2013	2012	**2013**	2012	**2013**	2012
As of January 1	20,024	18,356	(2,106)	(2,181)	17,917	16,175
Premiums	1,371	1,157	(66)	(27)	1,305	1,131
Claims	(1,527)	(1,269)	228	211	(1,299)	(1,058)
Fee income and other expenses	(285)	(230)	(12)	(60)	(297)	(290)
Interest and bonuses credited to policyholders	1,217	708	(80)	(81)	1,137	627
Acquisitions/(divestments) and transfers[1]	–	(1,308)	–	32	–	(1,276)
(Decrease)/increase recorded in other comprehensive income	(1,041)	2,313	–	–	(1,041)	2,313
Foreign currency translation effects	403	296	–	(1)	403	296
As of December 31	**20,162**	**20,024**	**(2,036)**	**(2,106)**	**18,126**	**17,917**

[1] The 2012 net movement includes USD (1,224) million transferred to loss reserves and loss adjustment expenses and USD (66) million transferred to future life policyholders' benefits (see note 1 of the Consolidated financial statements 2012).

Financial information

Consolidated financial statements *continued*

Development of reserves for unit-linked contracts

Table 8.9

in USD millions	2013	2012
As of January 1	74,117	68,844
Premiums	6,541	11,064
Claims	(10,221)	(11,434)
Fee income and other expenses	(1,885)	(1,586)
Interest and bonuses credited/(charged) to policyholders	6,444	6,270
Acquisitions/(divestments) and transfers[1]	–	154
Foreign currency translation effects	(123)	804
As of December 31	**74,873**	**74,117**

[1] The 2012 movement includes USD 151 million transferred from liabilities for investment contracts (see note 1 of the Consolidated financial statements 2012).

9. Liabilities for investment contracts

Liabilities for investment contracts

Table 9.1

in USD millions, as of December 31	2013	2012
Liabilities related to unit-linked investment contracts	59,469	50,229
Liabilities related to investment contracts (amortized cost)	1,030	1,305
Liabilities related to investment contracts with DPF	6,614	5,903
Total	**67,113**	**57,437**

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

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

Development of liabilities for investment contracts

Table 9.2

in USD millions	2013	2012
As of January 1	57,437	50,309
Premiums	8,276	7,278
Claims	(6,499)	(6,294)
Fee income and other expenses	(594)	(607)
Interest and bonuses credited/(charged) to policyholders	6,800	4,906
Acquisitions/(divestments) and transfers[1]	–	(150)
Increase/(decrease) recorded in other comprehensive income	94	4
Foreign currency translation effects	1,598	1,991
As of December 31	**67,113**	**57,437**

[1] The 2012 movement includes USD (151) million transferred to reserves for unit-linked contracts (see note 1 of the Consolidated financial statements 2012).

10. Equity component relating to contracts with DPF

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

Development of the equity component relating to contracts with DPF

Table 10

in USD millions	2013	2012
As of January 1	2,560	1,488
Net unrealized gains/(losses) on investments	(196)	557
Current period profit/(loss)	(96)	476
Foreign currency translation effects	70	39
As of December 31	**2,338**	**2,560**

Consolidated financial statements *continued*

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	
	2013	2012	**2013**	2012	**2013**	2012
Losses and loss adjustment expenses	25,749	26,936	(2,621)	(3,168)	23,128	23,769
Life insurance death and other benefits	9,507	10,334	(437)	(351)	9,070	9,983
Total insurance benefits and losses	**35,256**	**37,271**	**(3,058)**	**(3,519)**	**32,198**	**33,752**

Policyholder dividends and participation in profits

Table 11.2

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2013	2012	**2013**	2012	**2013**	2012
Change in policyholders' contract deposits and other funds	1,185	1,210	–	(19)	1,185	1,190
Change in reserves for unit-linked products	6,290	6,153	–	–	6,290	6,153
Change in liabilities for investment contracts – unit-linked	6,605	4,091	–	–	6,605	4,091
Change in liabilities for investment contracts – other	218	233	–	–	218	233
Change in unit-linked liabilities related to UK capital gains tax	(352)	(264)	–	–	(352)	(264)
Total policyholder dividends and participation in profits	**13,946**	**11,424**	**–**	**(19)**	**13,946**	**11,405**

Underwriting and policy acquisition costs

Table 11.3

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2013	2012	**2013**	2012	**2013**	2012
Amortization of deferred acquisition costs	6,415	6,484	(456)	(536)	5,959	5,948
Amortization of deferred origination costs	125	168	–	–	125	168
Commissions and other underwriting and acquisition expenses[1]	4,323	4,283	(366)	(384)	3,957	3,898
Total underwriting and policy acquisition costs	**10,863**	**10,934**	**(822)**	**(920)**	**10,041**	**10,014**

[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	
	2013	2012	**2013**	2012	**2013**	2012
Change in reserves for unearned premiums	**971**	**845**	**54**	**(103)**	**1,025**	**741**

12. Deferred policy acquisition costs and deferred origination costs

Development of deferred policy acquisition costs

Table 12.1

in USD millions	General Insurance		Global Life		Other segments[1]		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
As of January 1	3,543	3,482	14,466	13,584	337	353	18,346	17,420
Acquisition costs deferred	3,460	3,355	2,243	2,656	833	898	6,537	6,908
Amortization	(3,141)	(3,240)	(1,882)	(1,744)	(847)	(914)	(5,871)	(5,898)
Impairments	–	(39)	(88)	(11)	–	–	(88)	(50)
Amortization (charged)/ credited to other comprehensive income	–	–	102	(314)	–	–	102	(314)
Acquisitions/(divestments) and transfers[2]	–	(3)	(313)	(5)	–	–	(313)	(8)
Foreign currency translation effects	(68)	(13)	79	301	–	–	11	288
As of December 31	**3,794**	**3,543**	**14,606**	**14,466**	**323**	**337**	**18,724**	**18,346**

[1] Net of eliminations from inter-segment transactions.
[2] The 2013 Global Life movement relates to a transfer to deferred front-end fees of USD (438) million and a transfer from receivables and other assets of USD 126 million (see note 1). The 2012 movement includes USD 5 million transferred to deferred origination costs in Global Life (see note 1 of the Consolidated financial statements 2012) and USD 3 million in General Insurance mainly as a consequence of the loss of control over one of the Group's subsidiaries (see note 5).

As of December 31, 2013 and 2012, deferred policy acquisition costs related to non-controlling interests were USD 614 million and USD 572 million, respectively.

The decision to stop offering life products through tied agents in Hong Kong triggered a reassessment of the recoverability of deferred policy acquisition costs, resulting in a USD 54 million impairment in 2013. The net impact on the Group is USD 30 million, including an impairment of deferred origination costs and the acceleration of the recognition of deferred front-end fees of USD 4 million and USD 27 million, respectively. An additional impairment of USD 34 million resulted from a reassessment of deferred policy acquisition costs in the Global Life business in Germany. Impairments in 2012 included USD 39 million, following a reassessment of the deferred policy acquisition costs in the General Insurance business in Germany.

Development of deferred origination costs

Table 12.2

in USD millions	2013	2012
As of January 1	770	824
Origination costs deferred	63	79
Amortization	(121)	(168)
Impairments	(4)	–
Acquisitions/(divestments) and transfers[1]	–	5
Foreign currency translation effects	16	29
As of December 31	**724**	**770**

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

Consolidated financial statements *continued*

13. Expenses

Table 13 shows expenses by functional area and by type of expense.

Table 13

Expenses

in USD millions, for the years ended December 31	2013	2012
Administrative and other operating expense	8,804	8,654
Other underwriting and policy acquisition expenses[1]	1,020	1,020
Net unallocated loss adjustment expenses[2]	1,725	1,711
Other investment expenses for Group investments[3]	125	132
Total	**11,674**	**11,517**
of which:		
Personnel and other related expenses	6,017	6,021
Amortization and impairments of intangible assets	1,011	874
Depreciation and impairments of property and equipment	186	210
Building and infrastructure expenses	582	614
Brand and marketing expenses	473	438
Life recurring commission	380	365
Asset and other non-income taxes	150	131
IT expenses	1,182	1,165
Restructuring costs	40	210
External professional services expenses	896	982
Foreign currency translation	38	(4)
Other	718	512
Total	**11,674**	**11,517**

[1] Included within commissions and other underwriting and acquisition expenses (see table 11.3).
[2] Included within losses and loss adjustment expenses (see table 11.1).
[3] Excludes expenses arising from rental of real estate held for investment within investment expenses for Group investments (see table 6.1b).

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	2013	2012
Farmers management fees and other related revenues	**2,810**	**2,846**

Farmers Group, Inc. and its subsidiaries (FGI) through its attorney-in-fact (AIF) relationship with the Farmers Exchanges, which are owned by their policyholders and managed by Farmers Group, Inc., a wholly owned subsidiary of the Group, is contractually permitted to receive a management fee of 20 percent (25 percent in the case of the Fire Insurance Exchange) of the gross premiums earned by the Farmers Exchanges.

FGI has historically charged a lower management fee than the amount allowed by contract. The range of fees has varied by line of business over time and from year to year. The gross earned premiums of the Farmers Exchanges were USD 18,757 million and USD 18,703 million for the years ended December 31, 2013 and 2012, respectively.

Consolidated financial statements *continued*

15. Property and equipment

Table 15.1

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, 2013	320	1,060	506	520	645	3,050
Less: accumulated depreciation/impairments	(7)	(378)	(348)	(442)	(346)	(1,520)
Net carrying value as of January 1, 2013	313	682	158	79	299	1,530
Additions and improvements	54	38	46	31	113	282
Disposals	(5)	(14)	(7)	(2)	(34)	(62)
Transfers	(19)	(63)	(14)	1	14	(81)
Depreciation and impairments	–	(39)	(33)	(35)	(79)	(186)
Foreign currency translation effects	5	11	(2)	(3)	–	12
Net carrying value as of December 31, 2013	**347**	**614**	**149**	**71**	**314**	**1,494**
Plus: accumulated depreciation/impairments	7	407	258	394	426	1,492
Gross carrying value as of December 31, 2013	**354**	**1,020**	**407**	**465**	**739**	**2,986**

Table 15.2

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

The fire insurance value of the Group's own-use property and equipment totaled USD 2,919 million and USD 3,036 million as of December 31, 2013 and 2012, respectively.

16. Goodwill and other intangible assets

Table 16.1

Intangible assets – current period

in USD millions	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other	Total
Gross carrying value as of January 1, 2013	2,239	2,890	4,435	1,025	4,418	219	15,226
Less: accumulated amortization/impairments	(132)	(2,047)	(620)	–	(2,747)	(125)	(5,671)
Net carrying value as of January 1, 2013	2,107	844	3,815	1,025	1,670	94	9,555
Additions and transfers	–	–	36	–	433	–	469
Divestments and transfers	–	–	–	–	(2)	–	(3)
Amortization	–	(139)	(188)	–	(399)	(10)	(736)
Amortization charged to other comprehensive income	–	22	–	–	–	–	22
Impairments	(209)	–	–	–	(65)	(2)	(275)
Foreign currency translation effects	(46)	2	(111)	–	4	(1)	(152)
Net carrying value as of December 31, 2013	**1,852**	**729**	**3,553**	**1,025**	**1,640**	**81**	**8,880**
Plus: accumulated amortization/impairments	338	2,189	811	–	3,080	145	6,563
Gross carrying value as of December 31, 2013	**2,190**	**2,918**	**4,364**	**1,025**	**4,720**	**226**	**15,443**

As of December 31, 2013, intangible assets relating to non-controlling interests were USD 163 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1,660 million for distribution agreements and USD 12 million for software.

In 2013, following a review of the Russian retail business, the Group decided to manage the retail business in Russia on a stand-alone basis and separately from the General Insurance CGU. On this basis, the Group reassessed the recoverability of the Russian goodwill of USD 209 million and concluded that it was fully impaired.

Additions of USD 36 million related to new distribution agreements entered into by Global Life in the Middle East, and by General Insurance and Global Life in Brazil.

Following the revised Global Life strategy, certain IT assets will no longer be required, and therefore resulted in an impairment of USD 37 million. Additionally, a review of existing IT platforms in General Insurance in Latin America identified software, which was not utilized as originally expected, resulting in a USD 21 million impairment.

Table 16.2

Intangible assets by segment – current period

in USD millions, as of December 31, 2013	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other	Total
General Insurance	588	–	683	–	616	70	1,956
Global Life	445	729	2,870	–	413	11	4,468
Farmers	819	–	–	1,025	343	–	2,187
Other Operating Businesses	–	–	–	–	268	–	268
Net carrying value as of December 31, 2013	**1,852**	**729**	**3,553**	**1,025**	**1,640**	**81**	**8,880**

Consolidated financial statements *continued*

Table 16.3

Intangible assets – prior period

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

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

Additions to goodwill of USD 14 million related to the acquisition of Zurich Insurance Malaysia Berhad (ZIMB) in 2011, resulting from an increase in the anticipated purchase price adjustment and finalization of the purchase accounting (see note 5 of the Consolidated financial statements 2012) and an increase of USD 8 million relating to the increase of an earn out liability in Brazil.

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

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

Table 16.4

Intangible assets by segment – prior period

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

17. Receivables and other assets

Receivables and other assets

Table 17

in USD millions, as of December 31	2013	2012
Financial assets		
Derivative assets	1,187	1,813
Receivables from policyholders	3,711	3,514
Receivables from insurance companies, agents and intermediaries	5,506	5,884
Receivables arising from ceded reinsurance	1,094	1,117
Reverse repurchase agreements	678	988
Amounts due from investment brokers	758	493
Other receivables	2,238	1,974
Allowance for impairments[1]	(297)	(327)
Other assets[2]	768	135
Non-financial assets		
Current tax receivables	1,084	1,198
Accrued premiums	731	688
Prepaid expenses	319	277
Prepaid insurance benefits	344	333
Other assets	377	340
Total receivables and other assets	**18,499**	**18,425**

[1] Allowance for impairments includes USD 45 million and USD 79 million as of December 31, 2013 and 2012, respectively, for receivables arising from ceded reinsurance.
[2] December 31, 2013 included investments managed on a fiduciary and ring-fenced basis on behalf of Banco Santander S.A. amounting to USD 603 million, carried at fair value through profit or loss.

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

18. Other liabilities

Other liabilities

Table 18.1

in USD millions, as of December 31	2013	2012
Other financial liabilities		
Derivative liabilities	733	542
Amounts due to policyholders	923	761
Amounts due to insurance companies, agents and intermediaries	1,437	1,360
Amounts due to reinsurers	1,226	1,398
Liabilities for cash collateral received for securities lending	332	330
Amounts due to investment brokers	1,068	1,334
Deposits from banking activities	344	672
Collateralized bank financing for structured lease vehicles	796	860
Liabilities for defined benefit plans	3,665	3,399
Other liabilities for employee benefit plans	123	108
Other liabilities	4,043	4,594
Other non-financial liabilities		
Current tax payables	1,246	1,101
Restructuring provisions	188	297
Premium prepayments and other advances	973	916
Other liabilities	806	694
Total other liabilities	**17,904**	**18,368**

Consolidated financial statements *continued*

Table 18.2 shows the maturity schedule of other financial liabilities as of December 31, 2013 and 2012, respectively.

Table 18.2

Maturity schedule – other financial liabilities[1]

in USD millions, as of December 31	2013 Carrying value[2]	2013 Undiscounted cash flows[3]	2012 Carrying value[2]	2012 Undiscounted cash flows[3]
< 1 year	8,687	8,734	9,674	9,717
1 to 2 years	175	240	151	176
2 to 3 years	209	256	172	204
3 to 4 years	176	225	220	265
4 to 5 years	76	116	177	241
> 5 years	1,703	2,434	1,566	2,159
Total	**11,026**	**12,005**	**11,960**	**12,762**

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

Table 18.3

Restructuring provisions

in USD millions	2013	2012
As of January 1	297	254
Provisions made during the period	62	174
Increase of provisions set up in prior years	34	43
Provisions used during the period	(154)	(170)
Provisions reversed during the period	(55)	(6)
Foreign currency translation effects	5	5
As of December 31	**188**	**297**

During the year ended December 31, 2013, restructuring programs with estimated costs of USD 62 million were announced and primarily impacted General Insurance in Middle East and Africa, Global Life in the UK and Ireland as well as Farmers. USD 34 million related to increases of provisions for restructuring which were initiated in prior years. In addition, the Group recorded USD 37 million of software impairments (see note 16), and USD 30 million for impairments of deferred policy acquisition costs and deferred origination costs, net of deferred front-end fees (see note 12), resulting from restructuring decisions.

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

19. Income taxes

Income tax expense – current/deferred split

Table 19.1

in USD millions, for the years ended December 31	2013	2012
Current	1,474	1,033
Deferred	227	463
Total income tax expense	**1,701**	**1,496**

Income tax expense – policyholder/shareholder attribution

Table 19.2

in USD millions, for the years ended December 31	2013	2012
Total income tax expense/(benefit) attributable to policyholders	285	194
Total income tax expense attributable to shareholders	1,415	1,302
Total income tax expense	**1,701**	**1,496**

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

Expected and actual income tax expense

Table 19.3

in USD millions, for the years ended December 31	Rate	2013	Rate	2012
Net income before income taxes		5,960		5,472
less: income tax (expense)/benefit attributable to policyholders		(285)		(194)
Net income before income taxes attributable to shareholders		5,674		5,277
Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%	1,248	22.0%	1,161
Increase/(reduction) in taxes resulting from:				
Tax rate differential in foreign jurisdictions		*158*		*238*
Tax exempt and lower taxed income		*(107)*		*(133)*
Non-deductible expenses		*78*		*85*
Tax losses previously unrecognized or no longer recognized		*40*		*(12)*
Prior year adjustments and other		*(2)*		*(37)*
Actual income tax expense attributable to shareholders	**24.9%**	**1,415**	**24.7%**	**1,302**
plus: income tax expense/(benefit) attributable to policyholders		285		194
Actual income tax expense	28.5%	1,701	27.3%	1,496

Table 19.3 sets out the factors that cause the actual income tax expense to differ from the expected expense computed by applying the Swiss statutory tax rate of 22.0 percent, which is the rate applicable in the jurisdiction where the ultimate parent company is resident.

Consolidated financial statements *continued*

Current tax receivables and payables

Table 19.4

in USD millions, as of December 31	2013	2012
Current tax receivables	1,084	1,198
Current tax payables	(1,246)	(1,101)
Net current tax receivables/(payables)	**(162)**	**96**

Deferred tax assets and liabilities

Table 19.5

in USD millions, as of December 31	2013	2012
Deferred tax assets	2,020	1,853
Deferred tax liabilities	(5,110)	(5,244)
Net deferred tax liabilities	**(3,090)**	**(3,390)**

Development of net deferred tax liabilities

Table 19.6

in USD millions	2013	2012
As of January 1	(3,390)	(2,502)
Net change recognized in the income statement	(227)	(463)
Net change recognized in equity	555	(407)
Net changes due to acquisitions/(divestments)	–	44
Foreign currency translation effects	(28)	(64)
As of December 31	**(3,090)**	**(3,390)**

The net deferred tax liabilities relating to non-controlling interests amounted to USD 531 million and USD 577 million as of December 31, 2013 and 2012, respectively.

Deferred taxes – policyholder/ shareholder attribution

Table 19.7

in USD millions, as of December 31	2013	2012
Net deferred tax liabilities attributable to policyholders	(586)	(321)
Net deferred tax liabilities attributable to shareholders	(2,504)	(3,070)
Net deferred tax liabilities	**(3,090)**	**(3,390)**

Deferred tax assets/(liabilities) analysis by source

Table 19.8

in USD millions, as of December 31	2013		2012	
	Assets	Liabilities	Assets	Liabilities
Gross deferred tax				
Deferred acquisition and origination costs	20	(773)	35	(677)
Depreciable and amortizable assets	49	(65)	45	(63)
Life policyholders' benefits and deposits[1]	32	(13)	13	(15)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	368	(443)	251	(511)
Accruals and deferred income	185	(1)	158	(1)
Reserves for losses and loss adjustment expenses	614	(192)	434	(132)
Reserves for unearned premiums	728	(37)	765	(59)
Pensions and other employee benefits	604	–	544	–
Other assets/liabilities	620	(96)	785	(89)
Tax loss carryforwards	572	–	484	–
Gross deferred tax assets/(liabilities) before valuation allowance	3,791	(1,621)	3,514	(1,549)
Valuation allowance	(150)	–	(112)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,641	(1,621)	3,403	(1,549)
Deferred tax assets	**2,020**		**1,853**	
Deferred acquisition and origination costs	90	(2,560)	89	(2,662)
Depreciable and amortizable assets	373	(2,566)	247	(2,585)
Life policyholders' benefits and deposits[1]	1,229	(940)	1,162	(961)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	172	(888)	209	(1,364)
Accruals and deferred income	112	(136)	116	(94)
Reserves for losses and loss adjustment expenses	159	(111)	149	(82)
Reserves for unearned premiums	46	(84)	50	(72)
Deferred front-end fees	551	–	616	–
Pensions and other employee benefits	369	(42)	482	(40)
Other assets/liabilities	605	(1,549)	744	(1,363)
Tax loss carryforwards	77	–	127	–
Gross deferred tax assets/(liabilities) before valuation allowance	3,784	(8,876)	3,992	(9,224)
Valuation allowance	(18)	–	(12)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,766	(8,876)	3,980	(9,224)
Deferred tax liabilities		**(5,110)**		**(5,244)**
Net deferred tax liabilities		**(3,090)**		**(3,390)**

[1] Includes reserves for unit-linked contracts.

The Group's deferred tax assets and liabilities are recorded by its tax paying entities throughout the world, which may include several legal entities within each tax jurisdiction. Legal entities are grouped as a single taxpayer only when permitted by local legislation and when deemed appropriate. The first part of table 19.8 includes single taxpayers with a net deferred tax asset position and the second part includes single taxpayers with a net deferred tax liability position.

As of December 31, 2013 and 2012, 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 20 billion and USD 22 billion, respectively. In the remote scenario in which these temporary differences were to reverse simultaneously, the resulting tax liabilities would be very limited due to participation exemption rules.

Consolidated financial statements *continued*

Tax losses carryforwards and tax credits

Table 19.9

in USD millions, as of December 31	2013	2012
For which deferred tax assets have been recognized, expiring		
< 5 years	71	105
5 to 20 years	344	622
> 20 years or with no time limitation	1,395	1,002
Subtotal	1,810	1,729
For which deferred tax assets have not been recognized, expiring		
5 to 20 years	127	102
> 20 years or with no time limitation	658	629
Subtotal	795	731
Total	**2,604**	**2,460**

The tax rates applicable to tax losses for which a deferred tax asset has not been recognized are 18.3 percent and 18.6 percent for the years 2013 and 2012, respectively.

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

Management assesses the recoverability of the deferred tax asset carrying values based on future years taxable income projections and believes that the carrying values of the deferred tax assets as of December 31, 2013, are recoverable.

20. Senior and subordinated debt

Senior and subordinated debt

Table 20.1

in USD millions, as of December 31		2013	2012
Senior debt			
Zurich Insurance Company Ltd	3.75% CHF 500 million notes, due September 2013[5]	–	545
	2.25% CHF 500 million notes, due July 2017[5]	559	543
	2.375% CHF 525 million notes, due November 2018[5]	585	568
	1.50% CHF 400 million notes, due June 2019[4,5,6]	443	440
	1.125% CHF 400 million notes, due September 2019[4,5,6]	450	–
	2.875% CHF 250 million notes, due July 2021[5]	277	269
	3.375% EUR 500 million notes, due June 2022[4,5,6]	687	682
	1.875% CHF 100 million notes, due September 2023[4,5,6]	112	–
Zurich Finance (Luxembourg) S.A.	3.25% USD 750 million notes, due September 2013[4,5,6]	–	757
Zurich Finance (USA), Inc.	USD 400 million Euro Commercial Paper Notes, due in less than 1 year	400	400
	4.50% EUR 1 billion notes, due September 2014[1,5,6]	1,384	1,333
	6.50% EUR 600 million notes, due October 2015[2,5,6]	825	790
Zurich Santander Insurance America S.L.	7.5% EUR 152 million loan, due December 2035	210	220
Other	Various debt instruments	113	113
Senior debt		6,044	6,660
Subordinated debt			
Zurich Insurance Company Ltd	12.0% EUR 143 million perpetual capital notes, first callable July 2014[5]	197	188
	4.25% CHF 700 million perpetual notes, first callable May 2016[5]	780	756
	8.25% USD 500 million perpetual capital notes, first callable January 2018[5]	496	495
	4.625% CHF 500 million perpetual notes, first callable May 2018[5]	555	539
	7.5% EUR 425 million notes, due July 2039, first callable July 2019[5]	582	557
	4.25% EUR 1 billion notes, due October 2043, first callable October 2023[5]	1,360	–
Zurich Finance (UK) plc	6.625% GBP 450 million perpetual notes, first callable October 2022[3,5]	737	723
Zurich Finance (USA), Inc.	5.75% EUR 500 million notes, due October 2023, first callable October 2013[5]	–	652
	4.5% EUR 269 million notes, due June 2025, first callable June 2015[4,5,6]	385	705
ZFS Finance (USA) Trust II	Series II 6.45% USD 700 million Trust Preferred Securities (ECAPS), due December 2065, first callable June 2016	677	676
ZFS Finance (USA) Trust V	Series V 6.5% USD 1 billion Trust Preferred Securities, due May 2067, first callable May 2017	498	498
Other	Various debt instruments	74	73
Subordinated debt		6,342	5,861
Total senior and subordinated debt		**12,386**	**12,521**

[1] The bond is part of a qualifying cash flow hedge (80 percent of the total) and fair value hedge (20 percent of the total).
[2] The bond is part of a qualifying cash flow hedge (100 percent).
[3] The holders of these notes benefit from the Replacement Capital Covenant which states that if Series V Fixed/Floating Trust Preferred Securities, issued by ZFS Finance (USA) Trust V, are called before 2047, the Group will issue a replacement debt instrument with terms and provisions that will be as or more equity-like than the replaced notes.
[4] These bonds are part of qualifying fair value hedges (100 percent).
[5] Issued under the Group's Euro Medium Term Note Programme (EMTN Programme).
[6] The Group applied the cash flow hedge methodology to hedge the foreign currency exposure and deferred the attributable basis spreads in shareholders' equity, whereas the fair value hedge methodology was used to hedge the interest rate exposure with changes in the fair value being recorded through the income statement.

None of the debt instruments listed in table 20.1 were in default as of December 31, 2013 or 2012.

Consolidated financial statements *continued*

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

i) Senior debt

Senior debt amounted to USD 6,044 million and USD 6,660 million as of December 31, 2013 and December 31, 2012, respectively.

The decrease was due to the maturities in September 2013 of 3.75% CHF 500 million notes and 3.25% USD 750 million notes issued by Zurich Insurance Company Ltd and Zurich Finance (Luxembourg) S.A., respectively. This decrease was partially offset by the placement of 6 and 10-year notes for a combined amount of CHF 500 million in September 2013, issued by Zurich Insurance Company Ltd under the Group's EMTN Programme. The coupon for the 6-year tranche was set at 1.125% and at 1.875% for the 10-year tranche. The remaining increase was due to the translation effects of the U.S. dollar against the currencies in which the notes were issued.

ii) Subordinated debt

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

Subordinated debt amounted to USD 6,342 million and USD 5,861 million as of December 31, 2013 and December 31, 2012, respectively.

The increase is mainly the result of the total of 4.25% EUR 1 billion notes due 2043 issued in March and July 2013 by Zurich Insurance Company Ltd under the Group's EMTN Programme. Simultaneously with this new issuance, investors who held Zurich Finance (USA), Inc. 4.5% EUR 500 million subordinated notes due June 2025, were made an offer to switch part or all of their holdings against this new issue and, with regard to the notes issued in July 2013, were offered to deliver notes against cash. The total nominal of EUR 231 million of the Zurich Finance (USA), Inc. notes were cancelled. A further decrease was due to the early repayment of the 5.75% EUR 500 million notes due October 2023 issued by Zurich Finance (USA), Inc. on the first call date in October 2013. The remaining increase was due to the translation effects of the U.S. dollar against the currencies in which the notes were issued.

Operational and financial debt

Table 20.2

Indebtedness

in USD millions, as of December 31	Senior debt		Subordinated debt		Total	
	2013	2012	**2013**	2012	**2013**	2012
Operational debt	72[2]	829[1, 2]	28[2]	28[2]	100	857
Financial debt	5,972	5,831	6,314	5,833	12,286	11,664
Total	**6,044**	**6,660**	**6,342**	**5,861**	**12,386**	**12,521**

[1] Operational senior debt included USD 750 million in senior debt issued under the Group's EMTN Programme by Zurich Finance (Luxembourg) S.A. in September 2009, which was loaned directly to the Group's banking activities, matured in September 2013. This issue had been recognized as operational debt by Moody's but not by Standard & Poor's.
[2] Operational senior and subordinated debt included USD 100 million for non-recourse debt.

Table 20.3

Description and features of significant subordinated debt

Description	Coupon conditions	Call/ redemption date
12.00% EUR 143 million perpetual capital notes	12.00% payable annually up to July 15, 2014 and then reset quarterly to 3-month EURIBOR plus 10.33%.	Quarterly on or after July 15, 2014
4.5% EUR 269 million notes, due June 2025	4.5% payable annually up to June 15, 2015 and then reset quarterly to 3-month EURIBOR plus 2.20%.	Quarterly on or after June 15, 2015
4.25% CHF 700 million perpetual notes	4.25% payable annually up to May 26, 2016 and then reset quarterly to 3-month CHF-Libor plus 3.046%.	Quarterly on or after May 26, 2016
Series II 6.45% USD 700 million Fixed/Adjustable Trust Preferred Securities (ECAPS), due December 2065	6.45% payable semi-annually until June 15, 2016 and then reset quarterly to the adjustable rate plus 2.00%.[2]	Quarterly on or after June 15, 2016
Series V 6.5% USD 1 billion Fixed/Floating Trust Preferred Securities, due May 2067	6.5% payable semi-annually until May 9, 2017 and then reset quarterly to 3-month LIBOR plus 2.285%.	Quarterly on or after May 9, 2017
8.25% USD 500 million perpetual capital notes	8.25% per annum payable quarterly until January 18, 2018. Resets to the 6-Year USD mid swap rate plus 6.84% until January 18, 2024. Resets thereafter every 6 years to the 6-Year USD mid swap rate plus 7.84%.	Quarterly on or after January 18, 2018
4.625% CHF 500 million perpetual notes	4.625% payable annually up to May 16, 2018 and then reset to the prevailing 7 year CHF mid swap rate plus 2.691%.	Annually on or after May 16, 2018
7.5% EUR 425 million notes, due July 2039	7.5% payable annually up to July 24, 2019 and then reset quarterly to 3-month EURIBOR plus 5.85%.	Quarterly on or after July 24, 2019
6.625% GBP 450 million perpetual notes	6.625% payable annually up to October 2, 2022 and then reset every 5 years to the reset rate of interest plus 2.85%.[1]	Every five years on or after October 2, 2022
4.25% EUR 1 billion notes, due October 2043	4.25% payable annually up to October 02, 2023 and then reset quarterly to 3-month EURIBOR plus 3.45%.	Quarterly on or after October 2, 2023

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

Consolidated financial statements *continued*

Maturity schedule of outstanding debt

Table 20.4

in USD millions, as of December 31	2013		2012	
	Carrying value	**Undiscounted cash flows**	Carrying value	Undiscounted cash flows
< 1 year	1,796	2,411	1,702	2,299
1 to 2 years	949	1,446	1,356	1,907
2 to 3 years	–	458	902	1,371
3 to 4 years	559	987	–	429
4 to 5 years	613	1,024	543	934
5 to 10 years	2,729	4,529	2,705	4,340
> 10 years	5,741	8,568	5,313	7,418
Total	**12,386**	**19,422**	**12,521**	**18,698**

Debt maturities reflect original contractual dates without taking early redemption options into account. For call/redemption dates, see table 20.3. The total notional amount of debt due in each period is not materially different from the total carrying value disclosed in table 20.4. Undiscounted cash flows include interest and principal cash flows on debt outstanding as of December 31, 2013 and 2012. All debt is assumed to mature within 20 years of the balance sheet date without refinancing. Floating interest rates are assumed to remain constant as of December 31, 2013 and 2012. The aggregated cash flows are translated into U.S. dollars at end-of-period rates.

Interest expense on debt

Table 20.5

in USD millions, for the years ended December 31	2013	2012
Senior debt	200	221
Subordinated debt	386	348
Total	**586**	**570**

The lower interest expense on senior debt was mainly due to the maturity of the 4.875% EUR 800 million notes in April 2012. This reduction was partially offset by the issuance of two new senior notes under the EMTN Programme in June 2012.

The increase in the interest expense on subordinated debt was mainly due to the issuance of 4.25% EUR 1 billion notes in March and July 2013. This was partially offset by the reduction in 4.5% EUR 500 million notes as investors could switch part or all of their holdings against the new issue or, with regard to the notes issued in July 2013, against cash. A further reduction resulted from the repayment of 5.875% USD 500 million Trust Preferred Securities in June 2012.

Credit facilities

The Group has access to a multicurrency revolving credit facility of USD 3.2 billion that terminates in 2018 at the latest. It is guaranteed by Zurich Insurance Company Ltd.

In addition, the Group has access to four other revolving credit facilities totaling USD 441 million, of which USD 366 million will expire in 2014 and USD 75 million in 2015. No borrowings were outstanding under any of these facilities as of December 31, 2013 or 2012.

21. Shareholders' equity

Share capital

Table 21.1

	Share capital in CHF	Number of shares	Par value in CHF
Issued share capital			
As of December 31, 2011	14,738,582	147,385,822	0.10
New shares issued from contingent capital in 2012	91,430	914,301	0.10
As of December 31, 2012	14,830,012	148,300,123	0.10
New shares issued from contingent capital in 2013	60,310	603,099	0.10
As of December 31, 2013	14,890,322	148,903,222	0.10
Authorized, contingent and issued share capital			
As of December 31, 2012	17,129,526	171,295,259	0.10
As of December 31, 2013	17,129,526	171,295,259	0.10

a) Issued share capital

The issued share capital of Zurich Insurance Group Ltd as of December 31, 2013 amounts to CHF 14,890,322.20, divided into 148,903,222 fully paid registered shares with a nominal value of CHF 0.10 each.

b) Authorized share capital

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

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

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

c) Contingent share capital

Capital market instruments and option rights to shareholders

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

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

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

Consolidated financial statements *continued*

Employee participation

During 2013 and 2012, 603,099 shares and 914,301 shares, respectively, were issued to employees from contingent share capital as outlined in note 23. As a result, on December 31, 2013 and 2012, respectively, the remaining contingent share capital, which can be issued to employees of Zurich Insurance Group Ltd and its subsidiaries, amounted to CHF 239,203.70 and CHF 299,513.60 or 2,392,037 and 2,995,136 fully paid registered shares, respectively, with a nominal value of CHF 0.10 each. Pre-emptive rights of the shareholders, as well as the right for advance subscription, are excluded. The issuance of shares or respective option rights to employees is subject to one or more regulations to be issued by the Board of Directors and takes into account performance, functions, levels of responsibility and criteria of profitability. Shares or option rights may be issued to employees at a price lower than that quoted on the stock exchange.

d) Additional paid-in capital

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

e) Treasury shares

Treasury shares

Table 21.2

number of shares, as of December 31	**2013**	2012
Treasury shares	1,320,652	1,348,395

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

f) Earnings per share

Earnings per share

Table 21.3

for the years ended December 31	**Net income attributable to shareholders (in USD millions)**	**Weighted average number of shares**	**Per share (USD)**	**Per share (CHF)[1]**
2013				
Basic earnings per share	**4,028**	**147,404,623**	**27.33**	**25.33**
Effect of potentially dilutive shares related to share-based compensation plans		568,876	(0.11)	(0.10)
Diluted earnings per share	**4,028**	**147,973,499**	**27.22**	**25.23**
2012				
Basic earnings per share	**3,887**	**146,641,273**	**26.50**	**24.84**
Effect of potentially dilutive shares related to share-based compensation plans		728,444	(0.13)	(0.12)
Diluted earnings per share	**3,887**	**147,369,717**	**26.37**	**24.72**

[1] The translation from USD to CHF is shown for information purposes only and has been calculated at the Group's average exchange rates for the years ended December 31, 2013 and 2012, respectively.

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

22. Employee benefits

The Group had 55,102 and 55,312 employees (full-time equivalents) as of December 31, 2013 and 2012, respectively. Personnel and other related costs incurred for the years ended December 31, 2013 and 2012, were USD 6,054 million and USD 6,100 million, including wages and salaries of USD 4,803 million and USD 4,861 million, respectively.

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

Certain of the Group's operating companies also provide post-employment benefit plans covering medical care and life insurance, mainly in the U.S. Eligibility for these plans is generally based on completion of a specified period of eligible service and reaching a specified age. The plans 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.

Governance of the Group's pension and post-employment benefit plans is the responsibility of the Group Pensions Committee, a technical committee to the Board. The Group Pensions Committee provides oversight and guidance over the costs and risks of the Group's overall benefits policy. This includes oversight of the impact of the Group's principal defined benefit pension and post retirement benefit plans on the Group in terms of cash, expense, and balance sheet accounting impact and capital implications by the development and maintenance of policies on funding, asset allocation and assumption setting.

The Group's policy on funding and asset allocation is subject to local legal and regulatory requirements and tax efficiency.

a) Defined benefit plans

Employees of the Group's companies are covered by various pension plans, the largest of which are in Switzerland, the UK, the U.S. and Germany, which together comprise over 90 percent of the Group's total defined benefit obligation. The remaining plans in other countries are not individually significant, therefore no separate disclosure is provided.

Certain Group companies provide defined benefit pension plans, some of which provide benefits on retirement, death or disability related to employees' service periods and pensionable earnings. Others provide cash balance plans where the participants receive the benefit of the accumulated employer and employee contributions together with additional cash credits in line with the rules of the plan. Eligibility for participation in the various plans is either immediate on commencement of employment or based on completion of a specified period of continuous service.

Most of the Group's defined benefit pension plans are funded through contributions by the Group and, in some cases also by employees, to investment vehicles managed by trusts or foundations independent of the Group's finances, or by management committees with fiduciary responsibilities. Where a trust or foundation exists, it is required by law or by articles of association to act in the interests of the fund and of all relevant beneficiaries to the plan, which can also include the sponsoring company, and is responsible for the investment policy with regard to the assets of the fund. The trust/foundation board or committee is usually composed of representatives from both employers and plan members. In these cases, the annual funding requirements are determined in accordance with the Group's overall funding policy and local regulation. Independent actuarial valuations for the plans are performed as required. It is the Group's general principle to ensure that the plans are appropriately funded in accordance with local pension regulations in each country.

The pension plans typically expose the company to actuarial risks such as interest rate, price inflation, longevity and salary risks. To the extent the pension plans are funded, the assets held mitigate some of the liability risk but introduce investment risk.

The overall investment policy and strategy for the Group's defined benefit pension plans is to achieve an investment return which, together with contributions, targets having sufficient assets to pay pension benefits as they fall due while also mitigating the various risks of the plans. The actual asset allocation is determined by reference to current and expected economic and market conditions and in consideration of specific asset class risk in the risk profile. The Group has a governance framework to ensure the trust/foundation board or committee considers how the asset investment strategy correlates with the maturity profile of the plan liabilities and the potential impact on the funding status of the plans, including short-term liquidity requirements. The investment strategies for each pension plan are independently determined by the governance body in each country, with oversight by the Group Pensions Committee. The pension assets are invested in diversified portfolios across geographical regions and asset classes to ensure diversified returns,

Consolidated financial statements *continued*

also taking into account local pension laws. The investment strategies aim to mitigate asset-liability mismatches in the long run.

For post-employment defined benefit plans, total contributions to funded plans and benefits paid directly by the Group were USD 491 million for 2013 compared with USD 491 million for 2012. The estimated total for 2014 is USD 523 million (actual amount may differ), not taking into account the plan amendment becoming effective January 1, 2014, as outlined in Swiss pension plans.

Swiss pension plans
The Group has two pension plans in Switzerland both of which provide benefits that exceed the minimum benefit requirements under Swiss pension law. The plans provide a lifetime pension to members at the normal retirement age of 65 (age 62 for Executive Staff). Participants can draw retirement benefits early from age 60 (age 58 for Executive Staff). Alternatively, the benefit can be taken as a lump sum payment at retirement. Contributions to the plan are paid by the employees and the employer, both for retirement savings and to finance risk benefits paid out in the event of death and disability. The accumulated balance on the pension account is based on the employee and employer pension contributions and interest accrued. The interest rate credited is defined annually by the plans' Foundation Board which is responsible for the governance of the plans. The amount of pension payable on retirement is a result of the conversion rate applied on the accumulated balance of the individual participant's pension account at the retirement date. Although the Swiss plan operates like a defined contribution plan under local regulations, it is accounted for as a defined benefit plan under IAS 19 "Employee Benefits", because of the need to accrue interest on the pension accounts and the payment of a lifetime pension at a fixed conversion rate under the plan rules.

Actuarial valuations are completed regularly and if the plans become underfunded under local regulations, options for dealing with this include the Group paying additional contributions into the plan and/or reducing future benefits. At present, the plans are sufficiently funded, meaning that it is not expected for additional contributions into the plans to be required in the next year. The investment strategy of the Swiss plans is constrained by Swiss pension law including regulations relating to diversification of plan assets. Under IAS 19, volatility arises in the Swiss pension plan net liability because the fair value of the plan assets is not directly correlated to movements in the value of the plan's defined benefit obligation in the short-term.

Effective January 1, 2014, following a plan amendment, the fixed annuity conversion rates will be revised downwards to reflect the migration of the plan's technical basis to a revised interest rate expectation and new mortality tables resulting in a curtailment gain. This change will be phased in over a period of four years. It has also been agreed that the two pension plans will be merged into a single plan at the end of 2014 or beginning of 2015.

UK pension plan
The major UK pension plan is a final salary plan and accrued benefits increase in line with salary increases. Normal retirement age for the plan is 60. The plan is split into distinct sections and the two defined benefit sections are closed to new entrants, who instead can participate in a defined contribution section within the same trust. The notes that follow consider only the defined benefit sections. There is a UK Pension Trustee Board, which is responsible for the governance of the plan. The employer contributions are determined based on regular triennial actuarial valuations which are conducted using assumptions agreed by the Trustee Board and the sponsoring company. A valuation was carried out during 2013 and the results are yet to be finalized. In the event of any under-funding, the sponsoring company must agree a deficit recovery plan with the Trustee Board within the statutory deadlines. The ongoing funding of the plan is closely monitored by the Trustee Board and a dedicated funding committee is made up of representatives from the Trustee Board and the Group. The plan rules and UK pension legislation set out maximum levels of inflationary increases applied to plan benefits. The plan assets are invested in diversified classes of assets and a portion are invested in inflation-linked debt securities, to provide a partial hedge against inflation. The Trustees have also implemented an interest rate swap contract which will provide partial protection against volatility in interest rates.

U.S. pension plans
There are two major pension plans in the U.S., the Zurich North America (ZNA) plan and the Farmers Group, Inc. pension (the Farmers Group) plan. These are both cash balance pension plans funded entirely by the Group. The ZNA plan is entirely cash balance and the Farmers Group plan provides benefits on a cash balance pension formula for benefits accruing after January 1, 2009, except with respect to certain grandfathered participants. A final average pay defined benefit formula applied for benefits accrued before 2009, and for the grandfathered participants. For both cash balance plans, an amount is credited to the cash balance plan each quarter, determined by an employee's age, service and their level of earnings up to and above the social security taxable wage base. The minimum annual interest earned on the account balance is 5 percent. The retirement account is available from age 65, or age 55 with five years' service. The benefit can be taken as a monthly annuity or a lump sum. Both the ZNA plan and the Farmers Group plan have fiduciaries as required under local pension laws. The fiduciaries are responsible for the governance of the plans. Actuarial valuations are completed regularly and the Group has historically elected to make contributions to the plans to maintain a funding ratio of at least 90 percent as valued under local pension regulations. The annual employer contributions are equal to the present value of benefits accrued each year, plus a rolling amortization of any prior underfunding.

German pension plans
There are a number of legacy defined benefit plans in Germany, most of which were set up under works council agreements. In 2007, a contractual trust arrangement was set up to support all pension commitments of the employing companies in Germany. No contributions or assets have been added to the contractual trust arrangements since 2007. A separate arrangement was also established in 2007 to provide for retirement obligations that were in payment at that time. Consideration is given from time to time based on the fiscal efficiency of adding recent retirees to this arrangement and to adding assets to the contractual trust. There is currently no plan to pay any further contributions to the contractual trust arrangement.

These defined benefit plans provide benefits on either a final salary, career average salary or a cash balance basis. These plans are now closed to new entrants, who instead participate in a new cash balance arrangement, which has the characteristics of a defined contribution arrangement with a capital guarantee on members' balances, which mirrors the capital guarantee given in a conventional life insurance arrangement in Germany.

Consolidated financial statements *continued*

Tables 22.1a and 22.1b set out the reconciliation of the defined benefit obligation and plan assets for the total of the Group's post-employment defined benefit plans.

Table 22.1a

Movement in defined benefit obligation and fair value of assets – current period

in USD millions	Defined benefit obligation	Fair Value Assets	Asset ceiling	Net defined benefit asset/ (liability)
As of January 1, 2013	**(19,668)**	**16,268**	**–**	**(3,400)**
Net post-employment benefit (expense)/income:				
Current service cost	(370)	–	–	(370)
Interest (expense)/income	(701)	575	–	(126)
Past service (cost)/credit	19	–	–	19
Net post-employment benefit (expense)/income	**(1,052)**	**575**	**–**	**(477)**
Remeasurement effects included in other comprehensive income:				
Return on plan assets excluding interest income	–	(31)	–	(31)
Experience gains/(losses)	101	–	–	101
Actuarial gains/(losses) arising from changes in demographic assumptions	(70)	–	–	(70)
Actuarial gains/(losses) arising from changes in financial assumptions	(182)	–	–	(182)
Remeasurement effects included in other comprehensive income	**(151)**	**(31)**	**–**	**(182)**
Employer contributions	–	458	–	458
Employer contributions paid to meet benefits directly	40	–	–	40
Plan participants' contributions	(53)	53	–	–
Payments from the plan	648	(648)	–	–
Foreign currency translation effects	(449)	344	–	(105)
As of December 31, 2013	**(20,685)**	**17,020**	**–**	**(3,666)**

Movement in defined benefit obligation and fair value of assets – prior period

Table 22.1b

in USD millions	Defined benefit obligation	Fair Value Assets	Asset ceiling	Net defined benefit asset/ (liability)
As of January 1, 2012	**(17,780)**	**14,901**	**(3)**	**(2,882)**
Net post-employment benefit (expense)/income:				
Current service cost	(344)	–	–	(344)
Interest (expense)/income	(753)	629	–	(124)
Settlements	254	(211)	–	43
Past service (cost)/credit	(11)	–	–	(11)
Net post-employment benefit (expense)/income	**(854)**	**418**	**–**	**(436)**
Remeasurement effects included in other comprehensive income:				
Return on plan assets excluding interest income	–	596	–	596
Experience gains/(losses)	(127)	–	–	(127)
Actuarial gains/(losses) arising from changes in demographic assumptions	(5)	–	–	(5)
Actuarial gains/(losses) arising from changes in financial assumptions	(955)	–	–	(955)
Change in asset ceiling	–	–	3	3
Remeasurement effects included in other comprehensive income	**(1,087)**	**596**	**3**	**(488)**
Employer contributions	–	452	–	452
Employer contributions paid to meet benefits directly	51	–	–	51
Plan participants' contributions	(50)	50	–	–
Payments from the plan	628	(628)	–	–
Foreign currency translation effects	(576)	479	–	(97)
As of December 31, 2012	**(19,668)**	**16,268**	**–**	**(3,400)**

Net post-employment benefit (expense)/income is recognized in other employee benefits, which are included in administrative and other operating expense.

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

Table 22.2 provides a breakdown of plan assets by asset class.

Fair value of assets held in post-employment defined benefit plans

Table 22.2

in USD millions, as of December 31				**2013**				2012
	Quoted in active markets[1]	**Other[2]**	**Total**	**% of Total**	Quoted in active markets[1]	Other[2]	Total	% of Total
Mortgage loans	–	424	424	2%	–	444	444	3%
Cash and cash equivalents	164	–	164	1%	182	–	182	1%
Equity securities	3,735	52	3,787	22%	3,645	51	3,696	23%
Debt securities	–	11,656	11,656	68%	–	11,002	11,002	68%
Real estate	–	983	983	6%	–	938	938	6%
Other assets[3]	–	7	7	–	–	7	7	–
Total	**3,898**	**13,122**	**17,020**	**100%**	**3,826**	**12,442**	**16,268**	**100%**

[1] Level 1 assets (see note 25)
[2] Level 2 and 3 assets (see note 25)
[3] UK annuity policies

Consolidated financial statements *continued*

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

Tables 22.3a and 22.3b provide a breakdown of the key information included in tables 22.1a and 22.1b for the main countries for the years ended December 31, 2013 and 2012 respectively.

Key information by main country – current period

Table 22.3a

as of December 31, 2013	Switzerland	United Kingdom	United States	Germany	Other	Total
Defined benefit obligation	(4,935)	(10,250)	(3,047)	(1,277)	(1,177)	(20,685)
Fair value of plan assets	4,501	8,243	2,311	1,017	948	17,020
Net defined benefit asset/(liability)	**(433)**	**(2,007)**	**(736)**	**(260)**	**(229)**	**(3,666)**
Net post-employment benefit (expense)/income	(134)	(150)	(138)	(25)	(30)	(477)

Key information by main country – prior period

Table 22.3b

as of December 31, 2012	Switzerland	United Kingdom	United States	Germany	Other	Total
Defined benefit obligation	(4,774)	(9,143)	(3,302)	(1,260)	(1,190)	(19,668)
Fair value of plan assets	4,250	7,847	2,286	975	910	16,268
Net defined benefit asset/(liability)	**(524)**	**(1,296)**	**(1,016)**	**(285)**	**(280)**	**(3,400)**
Net post-employment benefit (expense)/income	(133)	(167)	(90)	(29)	(17)	(436)

Table 22.4 shows the key financial assumptions used to calculate the Group's post-employment defined benefit obligations and the Group's post-employment benefit expenses.

Key financial assumptions used for major plans

Table 22.4

as of December 31				**2013**				2012
	Switzerland	**United Kingdom**	**United States**	**Germany**	Switzerland	United Kingdom	United States	Germany
Discount rate	2.2%	4.5%	4.8%	3.4%	1.7%	4.7%	3.9%	3.3%
Inflation rate (CPI)[1]	1.4%	2.7%	2.7%	2.0%	1.5%	2.5%	2.9%	2.3%
Salary increase rate	2.0%	3.7%	4.4%	3.3%	2.1%	3.8%	4.4%	3.6%
Expected future pension increases	1.0%	3.7%	n/a	2.0%	1.0%	3.3%	n/a	2.3%
Interest crediting rate	2.2%	n/a	5.0%	n/a	1.4%	n/a	5.0%	n/a

[1] In the UK part of the liability is linked to the inflation measure of the Retail Prices Index (RPI), which is assumed to be 1.0 percent and 0.8 percent higher than the Consumer Prices Index (CPI) as of December 31, 2013 and 2012, respectively.

Tables 22.5a and 22.5b set out the life expectancies used in the valuation of the Group's major plans. The mortality assumptions in each country have been based on mortality tables in accordance with typical practice in that market.

Table 22.5a

Mortality tables and life expectancies for major plans – current period

as of December 31, 2013		Life expectancy at age 65 for a male currently		Life expectancy at age 65 for a female currently	
		aged 65	aged 45	aged 65	aged 45
Country	Mortality table for major plans				
Switzerland	BVG 2010 Generational	21.29	23.08	23.76	25.52
United Kingdom	PNXA00 with CMI_2012 projection	23.14	24.54	25.24	26.74
United States	RP 2000 Generational, partially with projection	19.87	20.65	21.95	22.63
Germany	Heubeck 2005G	18.71	21.39	22.79	25.34

Table 22.5b

Mortality tables and life expectancies for major plans – prior period

as of December 31, 2012		Life expectancy at age 65 for a male currently		Life expectancy at age 65 for a female currently	
		aged 65	aged 45	aged 65	aged 45
Country	Mortality table for major plans				
Switzerland	BVG 2010 Generational, partially with projection	21.18	23.00	23.66	25.44
United Kingdom	PNXA00 with CMI_2009 projection	22.94	24.34	24.74	26.24
United States	RP 2000 Generational, partially with projection	19.46	19.98	21.40	21.71
Germany	Heubeck 2005G	18.60	21.30	22.70	25.20

Table 22.6 shows the expected benefits to be paid under the Group's major plans in the future. It should be noted that actual amounts may vary from expected amounts. Therefore future benefit payments may differ from the amounts shown in table 22.6.

Table 22.6

Maturity profile of future benefit payments for major plans

as of December 31	2013				2012			
	Switzerland	United Kingdom	United States	Germany	Switzerland	United Kingdom	United States	Germany
Duration of the defined benefit obligation	15.6	20.7	14.1	14.2	14.7	20.5	13.8	14.4
Maturity analysis of benefits expected to be paid:								
< 1 year	155	248	141	54	247	230	131	48
1 to 5 years	661	1,171	631	212	969	1,088	596	192
5 to 10 years	978	1,942	964	295	1,222	1,735	917	272

Consolidated financial statements *continued*

Table 22.7

Sensitivity analysis of significant actuarial assumptions

in USD millions, as of December 31, 2013	Defined benefit obligation[1]
Discount rate + 50 bps	1,621
Discount rate – 50 bps	(1,855)
Salary increase rate + 50 bps	(149)
Salary decrease rate – 50 bps	144
Price inflation increase rate + 50 bps	(1,001)
Price inflation decrease rate – 50 bps	901
Cash balance interest credit rate + 50 bps	(112)
Cash balance interest credit rate – 50 bps	109
Mortality 10% increase in life expectancy	(1,498)
Mortality 10% decrease in life expectancy	1,419

[1] A negative number indicates an increase in DBO, a positive number a decrease in DBO, respectively.

Table 22.7 sets out the sensitivity of the defined benefit obligations (DBO) to the key actuarial assumptions. The effect on DBO shown allows for an alternative value for each assumption while the other actuarial assumptions remain unchanged. Whilst this table illustrates the overall impact on DBO of the changes shown, the significance of the impact and the range of reasonably possible alternative assumptions may differ between the different plans that comprise the total DBO; in particular the plans differ in benefit design, currency and average term, meaning that different assumptions have different levels of significance for different plans. The sensitivity analysis is intended to illustrate the inherent uncertainty in the evaluation of the DBO under market conditions at the measurement date; its results cannot be extrapolated due to non-linear effects that changes in the key actuarial assumptions may have on the overall total DBO. Furthermore, the analysis does not indicate a probability of such changes occurring and it does not necessarily represent the Group's view of expected future changes in DBO. Any management actions that may be taken to mitigate the inherent risks in the post-employment defined benefit plans are not reflected in this analysis.

b) Defined contribution pension plans

Certain of the Group's companies sponsor defined contribution pension plans. Eligibility for participation in such plans is either based on completion of a specified period of continuous service or the date of commencement of employment. The plans provide for voluntary contributions by employees and contributions by the employer which typically range from 2 percent to 10 percent of annual pensionable salary, depending on a number of factors. The Group's contributions under these plans amounted to USD 143 million and USD 132 million for the years ended December 31, 2013 and 2012, respectively.

23. Share-based compensation and cash incentive plans

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

a) Cash incentive plans

Various businesses throughout the Group operate short-term incentive programs for executives, management and, in some cases, for employees of that business. Awards are made in cash, based on the accomplishment of both organizational and individual performance objectives. The expense recognized for these cash incentive plans amounted to USD 472 million and USD 490 million for the years ended December 31, 2013 and 2012, respectively.

b) Share-based compensation plans for employees and executives

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

Table 23.1

Expenses recognized in income

in USD millions, as of December 31	2013	2012
Total option-based expenses	5	14
Total share-based expenses	46	126
Total expenses	**50**	**140**

Expenses for share-based payments depend on various factors, including achievement of targets, and are subject to the discretion of the Remuneration Committee. The net amount reflects all aspects of share-based compensation, including adjustments made during the year. The expenses in table 23.1, therefore, may vary significantly from year to year.

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

Employee share plans

Share Incentive Plan for employees in the UK

The Group established an Inland Revenue approved Share Incentive Plan and launched the Partnership Shares element of this plan in 2003, which enabled participating employees to make monthly purchases of Zurich Insurance Group Ltd shares at the prevailing market price out of their gross earnings. This plan was terminated in 2007. There were 138 and 181 participants in the plan as of December 31, 2013 and 2012, respectively.

A new Partnership Share Scheme was launched in March 2013. Participants also benefit from making the deductions from their gross salary up to a maximum of GBP 1,500 or 10 percent of their year to date earnings. There were 782 active participants in the plan as of December 31, 2013.

The Group also operates the profit-sharing element of the Share Incentive Plan (Reward Shares) which was launched in 2004 with annual share allocations being made in May each year subject to business performance. The awards are based on the business operating profit (BOP) after tax for the year, for the business unit of each participating employee. Individual awards are subject to a maximum of 5 percent of a participant's base salary (before any flexible benefit adjustments) with an overall maximum of GBP 3,000. The total number of participating employees in the Reward Share element of the plans as of December 31, 2013 and 2012 was 5,201 and 5,289 respectively.

Share Incentive Plan for employees in Switzerland

Under this plan, employees have the option to acquire sales-restricted shares at a 30 percent discount to the market value. The maximum permitted investment in shares is equivalent to CHF 3,500 per employee per annum. During 2013, 4,533 employees were eligible to participate in the share incentive plan for employees in Switzerland compared with 4,894 in 2012. For the years ended December 31, 2013 and 2012, 1,506 and 1,385 employees, respectively, purchased shares under the 2012 and 2011 share plans.

Consolidated financial statements *continued*

The Group Long-Term Incentive Plan
Participants in this plan are granted a target number of performance shares in shares of Zurich Insurance Group Ltd in April each year, such that the economic value is a defined percentage of the annual salary of each participant in the year of grant. Performance shares vest on an annual basis over the subsequent three year period, with the actual level of vesting being between 0 percent and 175 percent of the original shares granted, with an additional discretion to increase vesting to a maximum of 200 percent, depending on the performance of the Group over the previous three calendar years. Performance metrics used to determine the level of vesting are the Group's return on equity and the position of its total annual relative shareholder return measured against an international peer group of insurance companies. One half of the shares that actually vest are sales-restricted for a further three years. As of December 31, 2013 and 2012 there were 1,138 and 1,129 participants in the plan, respectively.

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

c) Further information on performance share and option plans

Table 23.2

Movements in options under the Group Long-Term Incentive Plan

	Number of shares under option		Weighted average exercise price (in CHF)	
	2013	2012	**2013**	2012
As of January 1	2,504,584	3,268,779	295	285
Options vesting	236,045	444,277	260	240
Options forfeited	(6,789)	(33,940)	336	258
Options exercised	(152,107)	(408,159)	229	202
Options expired during period	(818,115)	(766,373)	297	273
As of December 31	**1,763,618**	**2,504,584**	**272**	**295**
Exercisable options as of December 31	1,763,618	2,261,239	272	295

The average share price for Zurich Insurance Group Ltd shares in 2013 and 2012 was CHF 250.47 and CHF 221.56, respectively.

Table 23.3

Share options exercised during the period

	Amount		Weighted average share price (in CHF)	
	2013	2012	**2013**	2012
Exercise date				
January to April	117,205	296,042	265	235
May to August	15,301	33,289	256	222
September to December	19,601	78,828	252	238
Total	**152,107**	**408,159**	**258**	**232**

Table 23.4

Range of exercise prices for options outstanding

in CHF, as of December 31

	Number of options		Weighted average contractual life in years		Weighted average remaining expected life in years	
	2013	2012	**2013**	2012	**2013**	2012
Exercise price						
100 to 200	174,732	255,683	7.0	7.0	2.3	3.3
201 to 300	750,298	876,150	7.0	7.0	3.3	4.3
301 to 400	838,588	1,372,751	7.0	7.0	0.7	1.3
Total	**1,763,618**	2,504,584	**7.0**	7.0	**2.0**	2.6

Table 23.5

Shares granted during the period

for the years ended December 31

	Number		Weighted average fair value at grant date (in CHF)	
	2013	2012	**2013**	2012
Shares granted during the period	496,342	549,831	267	226

The shares granted during the year are the target allocations made under the Group's Long-Term Incentive Plan. Whether these grants vest or not will depend on whether the performance metrics are achieved. If the vesting level turns out to be different to the target, the expense is adjusted accordingly.

Consolidated financial statements *continued*

24. Contingent liabilities, contractual commitments and financial guarantees

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

Quantifiable commitments and contingencies

Table 24.1

in USD millions, as of December 31	**2013**	2012
Commitments under investment agreements	4,509	4,225
Less funded commitments	(3,824)	(3,690)
Remaining commitments under investment agreements	685	535
Guarantees and letters of credit[1]	10,283	10,565
Future operating lease commitments	884	1,085
Undrawn loan commitments	8	20
Other commitments and contingent liabilities	72	41

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

Commitments under investment agreements

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

Guarantees and letters of credit

USD 9,270 million of the USD 10,283 million and USD 9,104 million of the USD 10,565 million for financial guarantees and letters of credit as of December 31, 2013 and 2012, respectively, relate to guarantees in the aggregate amount of GBP 5,595 million provided to the directors of a fully owned subsidiary in connection with the rationalization of the Group's top legal holding structure which resulted in the merger of Zurich Group Holding into Zurich Financial Services Ltd in December 2009. These guarantees will expire in August 2015. In 2013 and 2012, an additional USD 787 million and USD 773 million, respectively, relate to guarantees in the aggregate amount of GBP 475 million which were provided to the directors of a fully owned subsidiary in connection with the repatriation of capital. These guarantees have no expiry date.

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

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

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

Commitments under lease agreements

The Group has entered into various operating leases as lessee for office space and certain computer and other equipment. Lease expenses totaled USD 92 million and USD 102 million for the years ended December 31, 2013 and 2012, respectively.

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

Table 24.2

in USD millions, as of December 31	2013	2012
< 1 year	193	205
1 to 2 years	180	187
2 to 3 years	147	174
3 to 4 years	101	155
4 to 5 years	66	110
> 5 years	198	254
Total	**884**	1,085

Indemnity agreements

The Group, through certain of its subsidiaries, has agreed to arrangements that cap Converium's (now Scor Holding (Switzerland) AG) and its successor companies' net exposure for losses arising out of the September 11, 2001 World Trade Center event in New York. As of December 31, 2013 the Group has recorded provisions of USD 38 million, for losses in excess of USD 289 million.

Other contingent liabilities

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

The Group has commitments to provide collateral on certain contracts in the event of a financial strength downgrading for Zurich Insurance Company Ltd from the current AA– by Standard & Poor's. Should the rating by Standard & Poor's fall to A+, then the additional collateral based on information available as of December 31, 2013 and 2012 is estimated to amount to approximately USD 88 million and USD 71 million, respectively.

In common with other insurance companies in Europe, the Group is faced with the continued trend towards enhanced consumer protection. Significant uncertainty exists regarding the ultimate cost of these consumer protection trends. The main areas of uncertainty concern court decisions as well as the volume of potential customer complaints related to sales activities and withdrawal rights and their respective individual assessment.

Pledged assets

The majority of assets pledged to secure the Group's liabilities relate to debt securities pledged under short-term sale and repurchase agreements. The total amount of pledged financial assets including the securities under short-term sale and repurchase agreements amounted to USD 11,752 million and USD 9,445 million as of December 31, 2013 and 2012, respectively.

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

Legal proceedings and regulatory investigations

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

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

Consolidated financial statements *continued*

The plaintiffs further allege that the defendants should be held responsible for Home's alleged obligations under their Home policies. The trial judge designated the plaintiffs' claims for constructive fraudulent transfer for adjudication before all other claims; he subsequently ordered an initial bench trial on certain threshold elements of those fraudulent transfer claims and on certain of defendants' affirmative defenses. The trial commenced on November 1, 2010. Closing arguments were heard on February 22 and 23, 2012.

The court issued a tentative decision on the initial bench trial on November 7, 2013, following which the parties had an opportunity to submit proposed corrections to nonsubstantive matters. The court issued its final decision on December 27, 2013. While the court found that plaintiffs had established that Home transferred certain assets to one of the defendants in connection with the 1995 recapitalization transaction, it held that plaintiffs' fraudulent transfer claims, which all related to transfers allegedly made as part of the 1995 recapitalization, were time-barred. The court further held that Home's liquidator had exclusive standing to bring fraudulent transfer claims involving Home's assets. The effect of these holdings should be the dismissal of plaintiffs' fraudulent transfer claims. In addition, the court accepted defendants' arguments that the findings made by the regulators in approving the recapitalization transaction are binding on plaintiffs in the Fuller-Austin Case.

The court set a second phase for hearing on March 6 and 7, 2014, which will consider the effect of the initial decision on the remaining claims. The Group maintains that the Fuller-Austin Case is without merit and intends to continue to defend itself vigorously.

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

25. Fair value measurement

The Group carries certain assets and liabilities at fair value and discloses the fair value of most other assets and liabilities.

Investment accounting, operations and process functions, are independent from those responsible for buying and selling the assets, and are responsible for receiving, challenging and verifying values provided by third party pricing providers to ensure that fair values are reliable, as well as ensuring compliance with applicable accounting and valuation policies. The quality control procedures used depend on the nature and complexity of the invested assets. They 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.

The Group gives the highest priority to quoted and unadjusted prices in active markets to measure fair value. In the absence of quoted prices, fair values are calculated through valuation techniques, making the maximum use of relevant observable market data inputs. Whenever observable parameters are not available, the inputs used to derive the fair value are based on common market assumptions that market participants would use when pricing assets and liabilities. Depending on the observability of prices and inputs to valuation techniques, the Group classifies instruments measured at fair value within the following three levels (the fair value hierarchy):

Level 1 – includes assets and liabilities for which fair values are determined directly from unadjusted current quoted prices resulting from orderly transactions in active markets for identical assets/liabilities.

Level 2 – includes assets and liabilities for which fair values are determined using significant inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. These inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and other observable market inputs.

Level 3 – includes 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. This approach is used only in circumstances when there is little, if any, market activity for a certain instrument, and the Group is required to develop internal valuation inputs based on the best information available about the assumptions that market participants would use when pricing the asset or liability.

Consolidated financial statements *continued*

Tables 25.1a and 25.1b compare the fair value of financial assets and financial liabilities with their carrying value. Certain financial instruments are not included within these tables as their carrying value is a reasonable approximation of their fair value. Such instruments include cash and cash equivalents, obligations to repurchase securities, deposits made under assumed reinsurance contracts and deposits received under ceded reinsurance contracts and other financial assets and liabilities.

Fair value and carrying value of financial assets and financial liabilities – non unit-linked

Table 25.1a

in USD millions, as of December 31	Total fair value		Total carrying value	
	2013	2012	**2013**	2012
Available-for-sale securities				
Equity securities	9,758	8,796	9,758	8,796
Debt securities	144,723	141,597	144,723	141,597
Total available-for-sale securities	154,481	150,392	154,481	150,392
Fair value through profit or loss securities				
Equity securities	3,425	3,545	3,425	3,545
Debt securities	7,121	8,985	7,121	8,985
Total fair value through profit or loss securities	10,546	12,530	10,546	12,530
Derivative assets	1,142	1,750	1,142	1,750
Held-to-maturity debt securities	5,172	5,745	4,613	5,012
Investments in associates and joint ventures	129	85	129	85
Mortgage loans	10,326	11,298	9,798	10,519
Other loans	13,365	15,857	11,789	13,385
Total financial assets	**195,159**	**197,657**	**192,496**	**193,674**
Derivative liabilities	(729)	(537)	(729)	(537)
Financial liabilities held at amortized cost				
Liabilities related to investment contracts	(1,163)	(1,540)	(1,030)	(1,305)
Liabilities related to investment contracts with DPF	(6,241)	(5,663)	(6,614)	(5,903)
Senior debt	(6,340)	(7,180)	(6,044)	(6,660)
Subordinated debt	(6,821)	(6,379)	(6,342)	(5,861)
Total financial liabilities held at amortized cost	(20,565)	(20,763)	(20,030)	(19,729)
Total financial liabilities	**(21,294)**	**(21,299)**	**(20,759)**	**(20,265)**

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

Table 25.1b

in USD millions, as of December 31	Total fair value		Total carrying value	
	2013	2012	2013	2012
Fair value through profit or loss securities				
Equity securities	111,954	99,478	111,954	99,478
Debt securities	11,605	11,646	11,605	11,646
Other loans	6,066	8,279	6,066	8,279
Total fair value through profit or loss securities	129,624	119,403	129,624	119,403
Derivative assets	45	62	45	62
Total financial assets	**129,669**	**119,465**	**129,669**	**119,465**
Fair value through profit or loss financial liabilities				
Liabilities related to unit-linked investment contracts	(59,469)	(50,229)	(59,469)	(50,229)
Derivative liabilities	(4)	(5)	(4)	(5)
Total financial liabilities	**(59,473)**	**(50,234)**	**(59,473)**	**(50,234)**

All of the Group's financial assets and financial liabilities are initially recorded at fair value. Subsequently, available-for sale financial assets, fair value through profit or loss financial assets and financial liabilities, and derivative financial instruments are carried at fair value as of the balance sheet date. All other financial instruments are carried at amortized cost and the valuation techniques used to determine their fair value measurement are described below.

Fair values of held-to-maturity debt securities and senior and subordinated debt are obtained from third party pricing providers. The fair value received from these pricing providers may be based on quoted prices in an active market for identical assets, alternative pricing methods such as matrix pricing or an income approach employing discounted cash flow models. Such instruments are categorized within level 2.

Discounted cash flow models are used for mortgage loans and other loans. The discount yields in these models use either current interest rates charged by the Group on these instruments or calculated rates that reflect the return a market participant would expect to receive on instruments with similar remaining maturities, cash flow patterns, currencies, credit risk, collateral and interest rates. Such instruments are categorized within level 3.

Fair values of liabilities related to investment contracts and investment contracts with DPF are determined using discounted cash flow models. Such instruments are categorized within level 3 due to the unobservability of certain inputs used in the valuation.

Consolidated financial statements *continued*

Recurring fair value measurements of assets and liabilities

Fair value hierarchy – Group

Table 25.2a

in USD millions, as of December 31, 2013	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Equity securities	8,420	338	1,000	9,758
Debt securities	122	141,827	2,775	144,723
Total available-for-sale securities	8,542	142,164	3,774	154,481
Fair value through profit or loss securities				
Equity securities	1,006	245	2,175	3,425
Debt securities	66	6,836	219	7,121
Total fair value through profit or loss securities	1,072	7,080	2,394	10,546
Derivative assets	1	1,046	95	1,142
Real estate held for Investment	–	2,011	6,734	8,745
Reinsurers' share of reserves for insurance contracts fair value option[1]	–	–	346	346
Total	**9,615**	**152,301**	**13,343**	**175,260**
Derivative liabilities	(22)	(637)	(70)	(729)
Reserves for insurance contracts fair value option[2]	–	–	(3,306)	(3,306)
Total	**(22)**	**(637)**	**(3,377)**	**(4,035)**

[1] Included within reinsurers' share of reserves for insurance contracts.
[2] Included within reserves for insurance contracts.

Fair value hierarchy – unit-linked

Table 25.2b

in USD millions, as of December 31, 2013	Level 1	Level 2	Level 3	Total
Fair value through profit or loss securities				
Equity securities	85,375	26,514	64	111,954
Debt securities	35	11,486	84	11,605
Other loans	–	6,066	–	6,066
Total fair value through profit or loss securities	85,411	44,066	148	129,624
Derivative assets	1	44	–	45
Real estate held for Investment	–	–	3,661	3,661
Total	**85,412**	**44,109**	**3,809**	**133,330**
Fair value through profit or loss financial liabilities				
Liabilities related to unit-linked investment contracts	–	(59,469)	–	(59,469)
Derivative liabilities	–	(4)	–	(4)
Total	**–**	**(59,473)**	**–**	**(59,473)**

Within level 1, the Group has classified common stocks, exchange traded derivative financial instruments, investments in unit trusts that are actively traded in an exchange market and highly liquid debt securities.

Within level 2, the Group has classified government and corporate bonds, investments in unit trusts, and investments in agency-backed and senior tranches of asset-backed securities where quotes are obtained from independent pricing providers. The fair value received from these pricing providers may be based on quoted prices in an active market for similar assets, alternative pricing methods such as matrix pricing or an income approach employing discounted cash flow models. If such quoted prices are not available, then fair values are estimated on the basis of information from external pricing providers or internal pricing models (for example, discounted cash flow models or other recognized valuation techniques). Upon adoption of IFRS 13, the Group elected to classify certain government and corporate debt within level 2, which were previously within level 1. While these debt securities may qualify for level 1 classification based on ordinary transactions in identical instruments, it has been assumed, as a practical expedient, that such instruments would predominantly be valued based on a mix of observable inputs.

Over the counter derivative financial instruments are valued using internal models. The fair values are determined using 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. Prices are typically sourced from independent pricing providers, banks and brokers. Such instruments are classified within level 2 as the inputs used in pricing models are generally market observable or derived from market observable data.

Fair values of liabilities related to unit-linked investment contracts are usually determined by reference to the fair value of the underlying assets backing these liabilities. Such instruments are classified within level 2.

Within level 3, the Group has classified:

- Unlisted stocks, private equity funds and certain hedge funds that are not actively traded. Such instruments are obtained from net asset value information and audited financial statements provided by the issuing hedge funds and private equity funds. Performance of these investments and determination of their fair value are monitored and reviewed closely by the Group's in-house investment professionals and may be adjusted based on their understanding of the circumstances of individual investments.

- Asset-backed securities (ABSs) for which very limited market activity is currently observed. These ABSs include non-agency backed securities for which the Group's external pricing providers are required to make internal valuation assumptions due to the limited observable market activity. To determine the fair value of these investments, pricing providers use valuation models that are based on an expected present value technique using unobservable inputs such as prepayment rates.

- Certain options and long-dated derivative financial instruments with fair values determined using unobservable inputs such as historical volatilities, implied volatilities from the counterparty valuations or using other extrapolation techniques.

- Certain real estate properties. Fair value of real estate held for investment is based on valuations performed annually by internal valuation specialists and generally on a rotation basis at least once every three years by an independent qualified appraiser. The valuation methods applied are income capitalization, discounted cash flow analysis, and market comparables taking into account the actual letting status and observable market data. The majority of such investments have been categorized within level 3 because the valuation techniques used include significant adjustments to observable data of similar properties. Some of these investments have been categorized within level 2, where there are active and transparent markets and no significant adjustments to the observable data are required.

- Reinsurers' share of reserves and reserves for insurance contracts fair value option. The fair values are determined using discounted cash flows models. The discount factors used are based on derived rates for LIBOR swap forwards, spreads to US Treasuries and spreads to US Corporate A or higher rated bond segments for Financials, Industrials and Utilities. The liability projected cash flows use contractual information for premiums, benefits and agent commissions, administrative expenses under third party administrative service agreements and best estimate parameters for policy decrements. The primary unobservable inputs are the policy decrement assumptions used in projecting cash flows. These include disability claim parameters for incidence and termination (whether for recovery or death) and lapse rates.

The fair value hierarchy is reviewed at the end of each reporting period to determine whether significant transfers between levels have occurred. Transfers between levels mainly arise as a result of changes in market activity and observability of the inputs to the valuation techniques used to determine the fair value of certain instruments.

For the year ended December 31, 2013, no material transfers between level 1 and level 2 occurred.

Consolidated financial statements *continued*

Development of assets and liabilities classified within level 3 – non unit-linked

Table 25.3a

in USD millions	Available-for-sale securities		Fair value through profit or loss securities				
	Equity securities	Debt securities	Equity securities	Debt securities	**Derivative assets**	**Derivative liabilities**	**Real estate held for investment**
As of January 1, 2013	966	2,789	1,670	246	170	(110)	6,926
Realized gains/(losses) recognized in income[1]	71	30	(18)	(2)	–	(37)	99
Unrealized gains/(losses) recognized in income[1, 2]	(5)	(18)	252	4	(78)	41	26
Unrealized gains/(losses) recognized in other comprehensive income	53	(23)	–	–	–	–	15
Purchases	132	944	694	–	–	–	345
Settlements/sales/redemptions	(240)	(1,001)	(435)	(32)	–	37	(750)
Transfer from assets held for own use	–	–	–	–	–	–	10
Transfer to assets held for sale	–	–	–	–	–	–	(42)
Transfers into level 3	10	57	–	1	–	–	–
Transfers out of level 3	–	(20)	–	–	–	–	–
Foreign currency translation effects	12	17	12	2	3	(2)	106
As of December 31, 2013	**1,000**	**2,775**	**2,175**	**219**	**95**	**(70)**	**6,734**

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

For the year ended December 31, 2013, the Group transferred USD 57 million of available-for-sale debt securities into level 3. The transfers were mainly the result of higher price volatility and credit rating downgrades of certain asset-backed securities, resulting in a reduction of market activity in the instruments.

Development of reserves for insurance contracts fair value option classified within level 3

Table 25.3b

in USD millions	**Gross**	**Ceded**	**Net**
As of January 1, 2013	4,183	(456)	3,727
Premiums	101	(8)	93
Claims	(312)	31	(281)
Fee income and other expenses	3	(1)	2
Interest and bonuses credited to policyholders	(501)	75	(426)
Changes in assumptions	(167)	13	(154)
As of December 31, 2013	**3,306**	**(346)**	**2,960**

Development assets and liabilities classified within level 3 – unit-linked

Table 25.3c

in USD millions	Fair value through profit or loss securities		Real estate held for investment
	Equity securities	Debt securities	
As of January 1, 2013	2,663	109	3,401
Realized gains/(losses) recognized in income[1]	35	(1)	(4)
Unrealized gains/(losses) recognized in income[1]	(70)	(4)	90
Purchases	62	2	183
Sales/redemptions	(144)	(24)	(82)
Transfers into Level 3	5	2	–
Transfers out of Level 3	(2,489)	–	–
Foreign currency translation effects	2	–	74
As of December 31, 2013	**64**	**84**	**3,661**

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

For the year ended December 31, 2013, the Group transferred USD 2,489 million of fair value through profit or loss equity securities out of level 3 into level 2. The transfers were the result of using observable inputs for the price valuation of the underlying assets of certain mutual funds.

Non-recurring fair value measurements of assets and liabilities

In particular circumstances, the Group may measure certain assets or liabilities at fair value on a non-recurring basis when an impairment charge is recognized.

For the year ended December 31, 2013, the Group has valued USD 691 million of mortgage loans at fair value on a non-recurring basis. The fair value measurement is classified within level 3 as it is based on internal pricing models, using significant unobservable inputs.

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

Within level 3, the Group classified asset-backed securities amounting to USD 2,993 million and USD 84 million for Group investments and investments for unit-linked contracts, respectively, as of December 31, 2013.

Within level 3, the Group also classified investments in private equity funds, certain hedge funds and other securities which are not quoted on an exchange amounting to USD 3,175 million and USD 64 million for Group investments and investments for unit-linked contracts, respectively, as of December 31, 2013.

The key assumptions driving the valuation of these investments include equity levels, discount rates, credit spread rates and prepayment 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 25.4. While this table 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. Inter-relationships between those unobservable inputs are disclosed in table 25.5. The correlation is based on the historical correlation matrix derived from the risk factors which are assigned to each of the level 3 exposures (equity and debt securities). The main market drivers are equity markets and rate indicators and the impact of such changes on the other factors. The spread scenario has been added to analyze the impact of an increase of borrowing cost for entities.

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

Consolidated financial statements *continued*

Table 25.4

Sensitivity analysis of level 3 investments to changes in key assumptions

as of December 31, 2013	Less favorable values (relative change)	Decrease in reported fair value (in USD millions)	More favorable values (relative change)	Increase in reported fair value (in USD millions)
Key assumptions				
Equity levels	–20%	(647)	+20%	647
Discount rates	+20%	(85)	–20%	87
Spread rates	+20%	(70)	–20%	70
Prepayment rates	–20%	(3)	+20%	2

Table 25.5

Inter-relationship analysis of level 3 investments to changes in key assumptions

as of December 31, 2013	Key assumptions				
	Equity Levels	Discount Rates	Spread rates	Prepayment rates	Increase / decrease in reported fair value (in USD millions)
Scenarios					
Equity levels +10%	+10.0%	+1.2%	+1.2%	+1.2%	311
Equity levels –10%	–10.0%	–1.2%	–1.3%	–1.3%	(312)
Discount rates +10%	–1.0%	+10.0%	+12.2%	–2.0%	(69)
Discount rates –10%	+1.0%	–10.0%	–6.9%	+2.0%	60
Spread rates +10%	+0.1%	+7.0%	+10.0%	+0.2%	(68)

Within level 3, the Group also classified:

- Real estate held for investment amounting to USD 6,734 million and USD 3,661 million for Group investments and investments for unit-linked contracts, respectively, as of December 31, 2013. A large portion of this portfolio is valued using an internal income capitalization model. The model is asset specific and capitalizes the sustainable investment income of a property with its risk specific cap rate. This cap rate is an "all risk yield" with components such as asset class yield for core assets (lowest risk) plus additional premiums for additional risks, for example second tier location or deterioration risk. All cap rate components (risk premiums) are reviewed and, if necessary, adjusted annually before revaluations are performed. The model takes into consideration external factors such as interest rate, market rent and vacancy rate. The significant unobservable inputs which are outside this model, are estimated rental value, rental growth, long term vacancy rate and discount rate. Significant increases/(decreases) in rental value and rental growth, in isolation, would result in a significantly higher/(lower) fair value measurement. Significant increases/(decreases) in the long term vacancy rate and discount rate, in isolation, would result in a significantly lower/(higher) fair value measurement.

- Reinsurers' share of reserves and reserves for insurance contracts fair value option amounting to USD 346 million and USD 3,306 million respectively, as of December 31, 2013. The significant unobservable inputs used in the fair value measurement are the policy decrement assumptions used in projecting cash flows. Significant increases/(decreases) in claim incidence rates and significant decreases/(increases) in claim termination rates would result in a significantly higher(lower) fair value measurement.

26. Related party transactions

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

Table 26.1 sets out related party transactions with equity method accounted investments, reflected in the consolidated income statements and consolidated balance sheets.

Related party transactions included in the Consolidated financial statements

Table 26.1

in USD millions		
for the years ended December 31	**2013**	2012
Net earned premiums and policy fees	4	13
Net investment result on Group investments	10	12
Insurance benefits and losses, net of reinsurance	(7)	(9)
Underwriting and policy acquisition costs, net of reinsurance	–	(1)
Administrative and other operating expense	(3)	(2)
as of December 31	**2013**	2012
Other loans	15	18
Deposits made under assumed reinsurance contracts	1	4
Receivables and other assets	2	5
Reserves for insurance contracts	(9)	(11)
Other liabilities	(1)	(1)

Table 26.2 summarizes related party transactions with key personnel reflected in the Consolidated financial statements. Key personnel includes members of the Board of Directors of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd and members of the Group Executive Committee.

Related party transactions – key personnel

Table 26.2

in USD millions, for the years ended December 31	**2013**	2012
Remuneration of key personnel of the Group		
Cash compensation, current benefits and fees	30	31
Post-employment benefits	3	3
Share-based compensation	15	14
Total remuneration of key personnel	**48**	48

As of December 31, 2013 and 2012 there were no loans, advances or credits outstanding from members of the Group Executive Committee. Outstanding loans and guarantees granted to members of the Board of Directors amounted to USD 3 million for both the years ended December 31, 2013 and December 31, 2012. The terms "members of the Board of Directors" and "members of the Group Executive Committee" in this context include the individual as well as members of their respective households. The figures in table 26.2 include the fees paid to members of the Board of Directors of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd, which were USD 5 million for both the years ended December 31, 2013 and December 31, 2012.

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

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

Consolidated financial statements *continued*

27. Farmers Exchanges

Farmers Group, Inc. and its subsidiaries (FGI) provide certain administrative and non-claims management services to the Farmers Exchanges, which are managed by Farmers Group, Inc. a wholly owned subsidiary of the Group. The finances and operations of the Farmers Exchanges are governed by independent Boards of Governors. In addition, the Group has the following relationships with the Farmers Exchanges.

a) Certificates of contribution issued by the Farmers Exchanges

As of December 31, 2013 and 2012, FGI and other Group companies held the following certificates of contribution issued by the Farmers Exchanges. Originally these were purchased by FGI in order to supplement the policyholders' surplus of the Farmers Exchanges.

Table 27

Surplus Notes

in USD millions, as of December 31	**2013**	2012
6.15% certificate of contribution, due June 2021	707	707
6.15% certificate of contribution, due June 2021	140	140
6.15% certificate of contribution, due June 2021	60	60
4.65% certificate of contribution, due December 2013	–	150
Various other certificates of contribution	23	23
Total	**930**	**1,080**

Conditions governing payment of interest and repayment of principal are outlined in the certificates of contribution. Generally, repayment of principal and payment of interest may 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. Additionally, the approval by the issuer's governing board is needed for repayment of principal.

b) Quota share reinsurance treaties with the Farmers Exchanges

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

Auto Physical Damage Quota Share reinsurance agreement

The Auto Physical Damage (APD) Quota Share reinsurance agreement (APD agreement) with the Farmers Exchanges provides for annual ceded premiums of USD 1 billion with 20.0 percent originally assumed by Farmers Re Co (USD 200 million) and 80.0 percent assumed by ZIC (USD 800 million), with the ceding commission for acquisition expenses ranging between 27.1 percent and 29.1 percent, and the ceding commission for unallocated loss adjustment expenses ranging between 8 percent and 10 percent, both based on a previous 5 year average experience. In addition, Farmers Re Co and ZIC assume a quota share percentage of ultimate net losses sustained by the Farmers Exchanges in their APD lines of business. The APD agreement can be cancelled after 90 days' notice by any of the parties.

Effective January 1, 2013, the APD agreement was amended such that Farmers Re Co assumed 12.5 percent of the ceded annual premiums (USD 125 million) while ZIC continues to assume USD 800 million of the annual ceded premiums. The remaining USD 75 million of the APD premiums is assumed by a third party on the same terms as Farmers Re Co and ZIC.

Farmers Exchanges' share of ceded premiums amounted to USD 1 billion for both the years ended December 31, 2013 and 2012. Ceded incurred losses and loss adjustment expenses totaled USD 703 million and USD 723 million for the years ended December 31, 2013 and 2012, respectively. Farmers Exchanges' share of the total commission income was USD 291 million and USD 290 million for the years ended December 31, 2013 and 2012, respectively.

All Lines Quota Share reinsurance agreement

Certain of the Farmers Exchanges participate in an All Lines Quota Share reinsurance agreement (All Lines agreement) with Farmers Re Co and ZIC which has been amended over the years, with the participation ratio at 20 percent as of December 31, 2011 and 18.5 percent as of December 31, 2012. 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. Under the All Lines agreement, which can be terminated after 90 days' notice by any of the parties, Farmers Re Co and ZIC assumed a 4.0 percent and 16.0 percent respective quota share of the premiums written and the ultimate net losses sustained in all lines of business written by the Farmers Exchanges after the APD agreement has been applied. In addition, under the All Lines agreement, the Farmers Exchanges catastrophe losses are subject to a maximum of USD 1.2 billion. As a result, Farmers Re Co and ZIC are subject to a maximum annual catastrophe loss of USD 48.0 million and USD 192 million, respectively. The All Lines agreement also provides for the Farmers Exchanges to receive a provisional ceding commission of 26.7 percent, 9.0 percent of premiums for unallocated loss adjustment expenses and 5.3 percent of premiums for other expenses.

Effective December 31, 2012, the All Lines agreement was amended such that Farmers Re Co assumes a 2.5 percent quota share. The remaining 1.5 percent quota share is assumed by a third party on the same terms as Farmers Re Co and ZIC. Unearned premiums totaling USD 102 million were transferred from Farmers Re Co to the Farmers Exchanges as a result of its decreased participation in the All Lines agreement effective December 31, 2012. In addition, the Farmers Exchanges remitted USD 27 million of reinsurance commissions to Farmers Re Co for acquisition expenses due to the decreased participation in the All Lines agreement.

Effective December 31, 2013, the All Lines agreement was amended such that Farmers Re Co assumes a 2.0 percent quota share. The remaining 2.0 percent quota share is assumed by a third party on the same terms as Farmers Re Co and ZIC. Unearned premiums totaling USD 34 million were transferred from Farmers Re Co to the Farmers Exchanges as a result of its decreased participation in the All Lines agreement effective December 31, 2013. In addition, the Farmers Exchanges remitted USD 9.0 million of reinsurance commissions to Farmers Re Co for acquisition expenses due to the decreased participation in the All Lines agreement.

Based on the results for 2013, the Farmers Exchanges share of ceded premiums earned and commissions were USD 3,431 million and USD 1,098 million, respectively, and recoveries totaled USD 2,349 million, for the year ended December 31, 2013.

Consolidated financial statements *continued*

28. Segment information

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

General Insurance provides a variety of motor, home and commercial products and services for individuals, as well as small and large businesses.

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

Farmers, through Farmers Group, Inc. and its subsidiaries (FGI), provides non-claims related management services to the Farmers Exchanges. FGI receives fee income for the provision of services to the Farmers Exchanges, which are owned by their policyholders and managed by Farmers Group, Inc., a wholly owned subsidiary of the Group. This segment also includes all reinsurance assumed from the Farmers Exchanges by the Group. Farmers Exchanges are prominent writers of personal and small commercial lines of business in the U.S.

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

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

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

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

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

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

For external reporting purposes Latin America, Asia-Pacific and Middle East and Africa are aggregated into International Markets.

The Group decided that from January 1, 2014, the General Insurance business will manage Middle East and Africa together with Europe to form a single market-facing business called Europe, Middle East & Africa (EMEA). This change has no impact on total General Insurance or the Group.

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

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

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

Consolidated financial statements *continued*

Business operating profit by business segment

Table 28.1

in USD millions, for the years ended December 31	General Insurance		Global Life	
	2013	2012	**2013**	2012
Revenues				
Direct written premiums[1]	34,240	33,393	11,143	11,043
Assumed written premiums	2,198	2,217	209	102
Gross Written Premiums	36,438	35,610	11,352	11,145
Policy fees	–	–	2,564	2,445
Gross written premiums and policy fees	36,438	35,610	13,916	13,590
Less premiums ceded to reinsurers	(5,959)	(5,874)	(693)	(710)
Net written premiums and policy fees	30,479	29,736	13,223	12,880
Net change in reserves for unearned premiums	(710)	(540)	(371)	(259)
Net earned premiums and policy fees	29,769	29,195	12,852	12,621
Farmers management fees and other related revenues	–	–	–	–
Net investment result on Group investments	2,384	2,587	4,489	4,833
Net investment income on Group investments	2,217	2,516	3,895	3,991
Net capital gains/(losses) and impairments on Group investments	167	71	595	842
Net investment result on unit-linked investments	–	–	12,731	9,629
Other income	830	992	1,156	1,047
Total BOP revenues	32,983	32,774	31,229	28,128
of which: inter-segment revenues	*(389)*	*(510)*	*(362)*	*(367)*
Benefits, losses and expenses				
Insurance benefits and losses, net[1]	20,321	20,527	9,167	9,592
Losses and loss adjustment expenses, net	20,323	20,547	–	–
Life insurance death and other benefits, net[1]	(1)	(20)	9,167	9,592
Policyholder dividends and participation in profits, net	6	4	13,820	10,706
Income tax expense/(benefit) attributable to policyholders	–	–	285	194
Underwriting and policy acquisition costs, net	5,756	5,833	3,003	2,804
Administrative and other operating expense (excl. depreciation/amortization)	3,604	3,878	2,653	2,523
Interest credited to policyholders and other interest	19	18	420	403
Restructuring provisions and other items not included in BOP	(276)	(113)	(88)	(113)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	29,429	30,147	29,261	26,109
Business operating profit (before interest, depreciation and amortization)	**3,554**	**2,627**	**1,968**	**2,020**
Depreciation and impairments of property and equipment	90	110	38	32
Amortization and impairments of intangible assets	394	211	405	483
Interest expense on debt	138	141	21	22
Business operating profit before non-controlling interests	2,932	2,165	1,504	1,484
Non-controlling interests	72	52	233	133
Business operating profit	**2,859**	**2,112**	**1,272**	**1,351**

[1] The Global Life segment includes approximately USD 521 million and USD 603 million of gross written premiums and future life policyholders' benefits for certain universal life-type contracts in the Group's Spanish operations for the years ended December 31, 2013 and 2012, respectively (see note 3).

Farmers 2013	Farmers 2012	Other Operating Businesses 2013	Other Operating Businesses 2012	Non-Core Businesses 2013	Non-Core Businesses 2012	Eliminations 2013	Eliminations 2012	Total 2013	Total 2012
–	–	–	–	113	114	–	–	45,496	44,550
4,045	4,361	109	116	102	113	(194)	(175)	6,469	6,734
4,045	4,361	109	116	215	227	(194)	(175)	51,965	51,285
–	–	–	–	320	248	–	–	2,884	2,692
4,045	4,361	109	116	535	475	(194)	(175)	54,849	53,977
–	–	(55)	(50)	(33)	(21)	194	175	(6,546)	(6,481)
4,045	4,361	54	66	502	454	–	–	48,303	47,496
54	56	–	–	1	1	–	–	(1,025)	(741)
4,099	4,418	54	66	504	455	–	–	47,277	46,755
2,810	2,846	–	–	–	–	–	–	2,810	2,846
107	124	315	396	(439)	390	(602)	(658)	6,254	7,671
107	124	315	396	309	413	(602)	(658)	6,240	6,782
–	–	–	–	(748)	(24)	–	–	14	889
–	–	–	–	73	565	–	–	12,805	10,193
80	101	730	931	144	113	(1,183)	(1,515)	1,757	1,669
7,095	7,489	1,099	1,393	282	1,521	(1,785)	(2,173)	70,903	69,133
(64)	*(69)*	*(919)*	*(1,171)*	*(51)*	*(56)*	*1,785*	*2,173*	–	–
2,823	3,198	49	56	(162)	380	–	–	32,198	33,752
2,823	3,198	–	(1)	(18)	27	–	(3)	23,128	23,769
–	–	49	56	(144)	353	–	3	9,070	9,983
–	–	–	–	121	694	–	–	13,946	11,405
–	–	–	–	–	–	–	–	285	194
1,285	1,383	–	–	6	2	(10)	(9)	10,041	10,014
1,343	1,346	993	1,155	132	150	(1,119)	(1,483)	7,607	7,570
–	–	4	6	91	121	(23)	(3)	510	545
(12)	3	(63)	(24)	2	(1)	–	–	(437)	(248)
5,440	5,931	984	1,193	189	1,346	(1,151)	(1,495)	64,151	63,231
1,655	**1,558**	**115**	**200**	**93**	**175**	**(634)**	**(678)**	**6,752**	**5,902**
48	53	10	15	1	1	–	–	186	210
91	100	121	79	–	1	–	–	1,011	874
1	3	1,040	1,038	20	44	(634)	(678)	586	570
1,516	1,402	(1,056)	(932)	72	129	–	–	4,968	4,248
–	–	(16)	(22)	–	1	–	–	288	164
1,516	**1,402**	**(1,039)**	**(910)**	**73**	**129**	**–**	**–**	**4,680**	**4,084**

Consolidated financial statements *continued*

Reconciliation of BOP to net income after income taxes

Table 28.2

in USD millions, for the years ended December 31	General Insurance		Global Life	
	2013	2012	**2013**	2012
Business operating profit	**2,859**	**2,112**	**1,272**	**1,351**
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	480	1,051	1	352
Net gain/(loss) on divestments of businesses	–	(38)	–	3
Restructuring provisions	8	(114)	(36)	(83)
Net income/(expense) on intercompany loans	(12)	(21)	(2)	(2)
Impairments of goodwill	(209)	–	–	–
Change in estimates of earn-out liabilities	(50)	–	35	–
Other adjustments	(13)	22	(84)[1]	(28)
Business operating profit attributable to non-controlling interests	72	52	233	133
Net income before shareholders' taxes	3,135	3,065	1,417	1,725
Income tax expense/(benefit) attributable to policyholders	–	–	285	194
Net income before income taxes	**3,135**	**3,065**	**1,702**	**1,919**
Income tax expense				
attributable to policyholders				
attributable to shareholders				
Net income after taxes				
attributable to non-controlling interests				
attributable to shareholders				

[1] Includes USD 37 million of software impairments relating to a restructuring program (see notes 16 and 18).
[2] Includes USD 75 million of foreign exchange movements relating to operations which were liquidated or substantially liquidated.

Farmers		Other Operating Businesses		Non-Core Businesses		Total	
2013	2012	2013	2012	2013	2012	2013	2012
1,516	**1,402**	**(1,039)**	**(910)**	**73**	**129**	**4,680**	**4,084**
6	18	645	(149)	12	41	1,144	1,312
–	–	(1)	1	–	–	(1)	(34)
(12)	(1)	(2)	(11)	1	(1)	(41)	(211)
–	–	14	23	–	–	–	–
–	–	–	–	–	–	(209)	–
–	–	–	–	–	–	(16)	–
–	5	(74)[2]	(36)	–	–	(172)	(38)
–	–	(16)	(22)	–	1	288	164
1,510	1,423	(474)	(1,104)	86	169	5,674	5,277
–	–	–	–	–	–	285	194
1,510	**1,423**	**(474)**	**(1,104)**	**86**	**169**	**5,960**	**5,472**
						(1,701)	(1,496)
						(285)	(194)
						(1,415)	(1,302)
						4,259	**3,975**
						231	89
						4,028	3,887

Consolidated financial statements *continued*

Assets and liabilities by business segment

Table 28.3

in USD millions, as of December 31	General Insurance		Global Life	
	2013	2012	**2013**	2012
Assets				
Total Group Investments	90,369	89,557	113,864	113,305
Cash and cash equivalents	10,125	10,795	3,181	3,096
Equity securities	6,733	5,716	5,132	4,467
Debt securities	65,408	65,556	80,715	79,626
Real estate held for investment	3,159	2,827	5,239	5,334
Mortgage loans	1,470	1,460	7,463	7,934
Other loans	3,467	3,197	12,069	12,779
Investments in associates and joint ventures	7	7	65	69
Investments for unit-linked contracts	–	–	122,423	112,036
Total investments	90,369	89,557	236,287	225,340
Reinsurers' share of reserves for insurance contracts	13,008	13,901	2,068	1,983
Deposits made under assumed reinsurance contracts	56	46	49	29
Deferred policy acquisition costs	3,794	3,543	14,606	14,466
Deferred origination costs	–	–	724	770
Goodwill	588	852	445	435
Other intangible assets	1,369	1,375	4,023	4,366
Other assets	15,492	15,642	7,291	6,669
Total assets (after cons. of investments in subsidiaries)	**124,675**	**124,916**	**265,493**	**254,059**
Liabilities				
Liabilities for investment contracts	–	–	67,113	57,437
Reserves for insurance contracts, gross	82,148	82,693	161,131	158,533
Reserves for losses and loss adjustment expenses, gross	65,629	66,542	–	–
Reserves for unearned premiums, gross	16,409	16,023	–	–
Future life policyholders' benefits, gross	77	96	80,302	78,718
Policyholders' contract deposits and other funds, gross	33	32	17,801	17,572
Reserves for unit-linked contracts, gross	–	–	63,028	62,243
Senior debt	7,021	6,625	545	289
Subordinated debt	193	617	7	334
Other liabilities	14,611	13,967	17,147	17,447
Total liabilities	**103,973**	**103,901**	**245,943**	**234,040**
Equity				
Shareholders' equity				
Non-controlling interests				
Total equity				
Total liabilities and equity				
Supplementary information				
Additions and capital improvements to property, equipment and intangible assets	344	331	157	150

Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
3,769	3,881	17,834	18,503	9,856	13,120	(28,412)	(28,785)	207,280	209,582
418	377	9,023	8,562	1,676	2,518	(17,242)	(16,249)	7,181	9,098
91	96	1,098	1,686	130	376	–	–	13,183	12,341
1,190	1,274	5,925	4,707	5,012	6,250	(1,794)	(1,819)	156,456	155,594
76	101	–	43	272	256	–	–	8,745	8,561
–	–	–	–	864	1,125	–	–	9,798	10,519
1,995	2,033	1,733	3,498	1,901	2,595	(9,376)	(10,717)	11,789	13,385
–	–	55	9	2	1	–	–	129	85
–	–	–	–	11,844	11,877	–	–	134,267	123,913
3,769	3,881	17,834	18,503	21,701	24,998	(28,412)	(28,785)	341,547	333,496
–	–	–	–	3,013	4,042	(111)	(174)	17,978	19,753
2,376	2,319	–	–	165	194	(2)	–	2,645	2,588
323	337	–	–	–	–	–	–	18,724	18,346
–	–	–	–	–	–	–	–	724	770
819	819	–	–	–	–	–	–	1,852	2,107
1,368	1,407	268	300	–	1	–	–	7,028	7,448
985	1,071	1,662	1,717	1,324	1,347	(2,198)	(2,122)	24,556	24,324
9,640	**9,834**	**19,765**	**20,520**	**26,203**	**30,583**	**(30,723)**	**(31,081)**	**415,053**	**408,831**
–	–	–	–	–	–	–	–	67,113	57,437
2,820	2,841	35	36	19,416	21,303	(111)	(174)	265,440	265,233
1,612	1,580	27	27	1,119	1,969	(75)	(131)	68,312	69,986
1,208	1,262	3	4	17	20	(21)	(9)	17,616	17,300
–	–	5	6	4,107	5,020	(14)	(33)	84,476	83,807
–	–	–	–	2,328	2,420	–	–	20,162	20,024
–	–	–	–	11,844	11,874	–	–	74,873	74,117
172	214	24,251	24,398	1,668	2,554	(27,612)	(27,421)	6,044	6,660
–	–	6,268	5,788	23	23	(149)	(901)	6,342	5,861
1,175	1,318	1,830	1,925	3,467	4,695	(2,850)	(2,586)	35,380	36,766
4,167	**4,373**	**32,385**	**32,148**	**24,574**	**28,576**	**(30,723)**	**(31,081)**	**380,319**	**371,957**
								32,503	34,505
								2,231	2,369
								34,734	36,874
								415,053	**408,831**
169	120	81	150	–	–	–	–	752	751

Consolidated financial statements *continued*

General Insurance – Customer segment overview

Table 28.4

in USD millions, for the years ended December 31	Global Corporate		North America Commercial	
	2013	2012	**2013**	2012
Gross written premiums and policy fees	9,264	8,609	10,215	10,003
Net earned premiums and policy fees	6,077	5,499	7,633	7,634
Insurance benefits and losses, net	4,471	4,291	5,193	5,453
Policyholder dividends and participation in profits, net	–	1	5	3
Total net technical expenses	1,140	1,157	2,072	2,151
Net underwriting result	466	50	362	26
Net investment income	505	573	634	827
Net capital gains/(losses) and impairments on investments	48	17	114	44
Net non-technical result (excl. items not included in BOP)	(140)	(142)	(139)	(199)
Business operating profit before non-controlling interests	878	497	970	699
Non-controlling interests	–	(1)	(1)	(1)
Business operating profit	879	498	972	699
Ratios, as % of net earned premiums and policy fees				
Loss ratio	73.6%	78.0%	68.0%	71.4%
Expense ratio	18.8%	21.1%	27.2%	28.2%
Combined ratio	92.3%	99.1%	95.3%	99.7%

Europe		International Markets		GI Global Functions including Group Reinsurance		Eliminations		Total	
2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
11,799	11,882	5,700	5,603	390	345	(930)	(832)	36,438	35,610
11,583	11,772	4,465	4,282	12	9	–	–	29,769	29,195
7,804	8,225	2,757	2,583	96	(25)	–	–	20,321	20,527
–	–	–	–	–	–	–	–	6	4
3,139	3,222	1,737	1,645	12	11	(4)	(2)	8,095	8,185
640	324	(29)	54	(96)	22	4	2	1,347	479
724	785	278	269	79	64	(3)	(2)	2,217	2,516
5	1	–	9	–	–	–	–	167	71
(351)	(414)	(69)	(110)	(99)	(37)	(1)	–	(799)	(901)
1,018	697	180	223	(116)	49	–	–	2,932	2,165
9	(5)	65	58	–	–	–	–	72	52
1,009	702	115	165	(116)	49	–	–	2,859	2,112
67.4%	69.9%	61.7%	60.3%	nm	nm	n/a	n/a	68.3%	70.3%
27.1%	27.4%	38.9%	38.4%	nm	nm	n/a	n/a	27.2%	28.0%
94.5%	97.2%	100.7%	98.7%	nm	nm	n/a	n/a	95.5%	98.4%

Consolidated financial statements *continued*

General Insurance – Revenues by region

Table 28.5

in USD millions, for the years ended December 31	Gross written premiums and policy fees from external customers 2013	2012	of which Global Corporate 2013	2012
North America				
United States	12,736	12,223		
Canada	904	928		
Bermuda	11	10		
North America	13,651	13,160	3,632	3,343
Europe				
United Kingdom	3,920	3,899		
Germany	3,134	3,110		
Switzerland	3,330	3,243		
Italy	1,896	1,879		
Spain	1,398	1,438		
Austria	595	544		
Ireland	357	376		
Portugal	326	339		
France	433	410		
Rest of Europe	1,088	1,049		
Europe	16,477	16,287	4,555	4,279
Latin America				
Argentina	422	393		
Brazil	1,112	920		
Chile	324	470		
Mexico	685	600		
Venezuela	287	257		
Rest of Latin America	33	34		
Latin America	2,864	2,674	–	–
Asia-Pacific				
Australia	1,163	1,178		
Hong Kong	246	210		
Japan	702	780		
Taiwan	130	129		
Malaysia	176	156		
Rest of Asia-Pacific	279	264		
Asia-Pacific	2,695	2,717	601	581
Middle East	191	183	140	121
Africa				
South Africa	427	460		
Morocco	131	125		
Africa	558	585	37	19
Total	**36,436**	**35,607**	**8,965**	**8,342**

General Insurance – Non-current assets by region

Table 28.6

in USD millions, as of December 31	Property, equipment and intangible assets	
	2013	2012
North America		
United States	228	223
Canada	8	4
Bermuda	21	24
North America	257	252
Europe		
United Kingdom	244	213
Germany	224	210
Switzerland	609	593
Italy	30	34
Spain	349	346
Austria	23	24
Ireland	59	56
Portugal	23	22
France	2	2
Rest of Europe	224	501
Europe	1,787	2,001
Latin America		
Argentina	15	11
Brazil	221	234
Chile	29	34
Mexico	254	263
Venezuela	14	16
Rest of Latin America	1	5
Latin America	534	561
Asia-Pacific		
Australia	58	74
Hong Kong	14	13
Japan	22	27
Taiwan	14	9
Malaysia	1	1
Rest of Asia-Pacific	3	4
Asia-Pacific	113	128
Middle East	53	43
Africa		
South Africa	11	15
Morocco	32	32
Africa	43	46
Total	**2,787**	**3,032**

Consolidated financial statements *continued*

Global Life – Overview

Table 28.7

in USD millions, for the years ended December 31	North America		Latin America	
	2013	2012	**2013**	2012
Revenues				
Life insurance deposits	264	235	1,937	2,508
Gross written premiums[1]	548	526	3,230	2,982
Policy fees	310	297	76	24
Gross written premiums and policy fees	858	823	3,307	3,005
Net earned premiums and policy fees	652	611	2,920	2,686
Net investment income on Group investments	288	312	278	254
Net capital gains/(losses) and impairments on Group investments	–	–	12	272
Net investment result on Group investments	288	312	290	526
Net investment income on unit-linked investments	(29)	(34)	14	9
Net capital gains/(losses) and impairments on unit-linked investments	100	59	577	1,166
Net investment result on unit-linked investments	71	24	591	1,175
Other income	86	92	194	83
Total BOP revenues	1,098	1,039	3,995	4,470
Benefits, losses and expenses				
Insurance benefits and losses, net[1]	390	350	1,307	1,404
Policyholder dividends and participation in profits, net	93	48	611	1,196
Income tax expense/(benefit) attributable to policyholders	–	–	–	–
Underwriting and policy acquisition costs, net	104	97	996	964
Administrative and other operating expense (excl. depreciation/amortization)	154	141	458	365
Interest credited to policyholders and other interest	152	147	9	36
Restructuring provisions and other items not included in BOP	(2)	(1)	31	7
Total BOP benefits, losses and expenses	891	783	3,413	3,972
Business operating profit (before interest, depreciation and amortization)	**207**	**257**	**582**	**498**
Depreciation and impairments of property and equipment	1	1	4	3
Amortization and impairments of intangible assets	31	9	124	223
Interest expense on debt	3	4	–	(6)
Business operating profit before non-controlling interests	173	243	455	277
Non-controlling interests	–	–	210	122
Business operating profit	**173**	**243**	**245**	**155**

[1] Europe includes approximately USD 521 million and USD 603 million of gross written premiums and future life policyholders' benefits for certain universal life-type contracts in the Group's Spanish operations for the years ended December 31, 2013 and 2012, respectively (see note 3).

Europe		Asia-Pacific and Middle East		Other		Eliminations		Total	
2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
8,520	11,685	1,634	1,636	824	605	–	–	13,180	16,670
6,628	6,820	759	721	297	137	(111)	(40)	11,352	11,145
1,969	1,928	200	191	9	5	–	–	2,564	2,445
8,597	8,748	959	912	306	142	(111)	(40)	13,916	13,590
8,204	8,405	825	786	251	133	–	–	12,852	12,621
3,176	3,225	140	188	13	11	(1)	–	3,895	3,991
563	552	20	18	–	–	–	–	595	842
3,739	3,778	160	206	13	11	(1)	–	4,489	4,833
1,943	2,009	71	79	29	32	–	–	2,027	2,095
9,310	5,529	655	682	61	98	–	–	10,704	7,534
11,253	7,538	726	761	90	131	–	–	12,731	9,629
368	332	202	190	309	357	(3)	(6)	1,156	1,047
23,564	20,052	1,912	1,943	663	631	(4)	(6)	31,229	28,128
7,055	7,480	248	293	167	64	–	–	9,167	9,592
12,158	8,404	869	919	88	139	–	–	13,820	10,706
270	170	16	25	–	–	–	–	285	194
1,542	1,401	197	204	164	138	–	–	3,003	2,804
1,274	1,404	470	328	303	292	(4)	(6)	2,653	2,523
235	192	23	27	1	1	–	–	420	403
(47)	(114)	(8)	7	(63)	(13)	–	–	(88)	(113)
22,485	18,936	1,815	1,802	661	622	(4)	(6)	29,261	26,109
1,079	**1,115**	**98**	**141**	**2**	**9**	**–**	**–**	**1,968**	**2,020**
27	21	6	6	–	–	–	–	38	32
234	242	11	1	6	7	–	–	405	483
14	21	1	1	3	2	–	–	21	22
803	831	80	133	(7)	–	–	–	1,504	1,484
25	12	(2)	(2)	–	–	–	–	233	133
778	**819**	**83**	**134**	**(7)**	**–**	**–**	**–**	**1,272**	**1,351**

Consolidated financial statements *continued*

Table 28.8

Global Life – Revenues by region

in USD millions, for the years ended December 31	Gross written premiums and policy fees from external customers 2013	2012	Life insurance deposits 2013	2012
North America				
United States	858	823	264	235
North America	858	823	264	235
Latin America				
Chile	1,102	900	50	–
Argentina	133	78	50	47
Mexico	382	352	250	–
Venezuela	60	65	–	–
Brazil	1,624	1,606	1,586	2,462
Uruguay	6	5	–	–
Latin America	3,307	3,005	1,937	2,508
Europe				
United Kingdom	1,883	1,773	2,765	6,339
Germany	2,837	2,920	1,827	1,966
Switzerland	1,649	2,047	133	141
Ireland[1]	729	479	2,902	2,497
Spain	841	906	70	163
Italy	426	408	684	488
Portugal	27	30	83	42
Austria	151	135	55	49
Europe	8,542	8,698	8,520	11,685
Asia-Pacific and Middle East				
Hong Kong	121	86	112	133
Taiwan	–	–	4	3
Indonesia	4	1	–	–
Australia	329	332	75	83
Japan	81	99	16	21
Singapore	1	–	5	2
Malaysia	195	263	49	–
Zurich International Life[2]	204	130	1,372	1,395
Asia-Pacific and Middle East	935	912	1,634	1,636
Other				
Luxembourg[1]	9	5	824	605
International Group Risk Solutions[3]	191	92	–	–
Other	200	97	824	605
Total	**13,842**	**13,535**	**13,180**	**16,670**

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

Global Life – Non-current assets by region

Table 28.9

in USD millions, as of December 31	Property, equipment and intangible assets	
	2013	2012
North America		
United States	161	165
North America	161	165
Latin America		
Chile	403	472
Argentina	72	96
Mexico	232	256
Brazil	804	965
Latin America	1,510	1,789
Europe		
United Kingdom	414	426
Germany	717	743
Switzerland	76	81
Ireland[1]	4	2
Spain	1,741	1,759
Italy	106	122
Austria	32	32
Europe	3,091	3,164
Asia-Pacific and Middle East		
Hong Kong	6	7
Indonesia	3	3
Japan	9	3
Singapore	3	1
Malaysia	46	124
Zurich International Life	17	20
Asia-Pacific and Middle East	84	158
Other		
Luxembourg[1]	3	4
Other	3	4
Total	**4,849**	**5,280**

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

Consolidated financial statements *continued*

Farmers – Overview

Table 28.10

in USD millions, for the years ended December 31	Total 2013	Total 2012
Farmers Management Services		
Management fees and other related revenues	2,810	2,846
Management and other related expenses	1,457	1,480
Gross management result	1,353	1,366
Other net income (excl. items not included in BOP)	38	62
Business operating profit before non-controlling interest	1,390	1,428
Business operating profit	1,390	1,428
Farmers Re		
Gross written premiums and policy fees	4,045	4,361
Net earned premiums and policy fees	4,099	4,418
Insurance benefits and losses, net	(2,823)	(3,198)
Total net technical expenses	(1,285)	(1,383)
Net underwriting result	(9)	(163)
Net non-technical result (excl. items not relevant for BOP)	68	65
Net investment income	66	72
Business operating profit before non-controlling interests	125	(26)
Business operating profit	125	(26)
Farmers business operating profit	**1,516**	**1,402**

Ratios, as % of net earned premiums and policy fees		
Farmers Re Combined ratio	100.2%	103.7%

Supplementary information		
Property, equipment and intangible assets	2,412	2,403

THIS PAGE HAS INTENTIONALLY BEEN LEFT BLANK

Consolidated financial statements *continued*

Other Operating Businesses – Overview

Table 28.11

in USD millions, for the years ended December 31	Holding and Financing	
	2013	2012
Gross written premiums and policy fees	102	108
Net earned premiums and policy fees	47	58
Net investment income	284	362
Other income	86	85
Total BOP revenues	417	506
Insurance benefits and losses, incl. PH dividends, net	50	57
Administrative and other operating expense (excl. depreciation/amortization)	237	169
Other expenses and items not included in BOP	(55)	(14)
Depreciation, amortization and impairments of property, equipment and intangible assets	–	8
Interest expense on debt	1,045	1,042
Business operating profit before non-controlling interests	(859)	(757)
Non-controlling interests	(16)	(22)
Business operating profit	**(843)**	**(735)**

	Headquarters		Eliminations		Total	
	2013	2012	2013	2012	2013	2012
	7	8	–	–	109	116
	8	8	–	–	54	66
	36	39	(6)	(5)	315	396
	860	1,015	(217)	(169)	730	931
	904	1,062	(222)	(175)	1,099	1,393
	(1)	(1)	–	–	49	56
	972	1,154	(216)	(169)	993	1,155
	(3)	(4)	–	–	(58)	(18)
	130	86	–	–	130	94
	1	2	(6)	(6)	1,040	1,038
	(196)	(175)	–	–	(1,056)	(932)
	–	–	–	–	(16)	(22)
	(196)	**(175)**	**–**	**–**	**(1,039)**	**(910)**

Consolidated financial statements *continued*

Non-Core Businesses – Overview

Table 28.12

in USD millions, for the years ended December 31	Total	
	2013	2012
Gross written premiums and policy fees	535	475
Net earned premiums and policy fees	504	455
Insurance benefits and losses, net	(162)	380
Policyholder dividends and participation in profits, net	121	694
Total net technical expenses	44	56
Net underwriting result	501	(675)
Net investment income	(1)	138
Net capital gains/(losses) and impairments on investments	(365)	816
Net non-technical result (excl. items not included in BOP)	(64)	(150)
Business operating profit before non-controlling interests	**72**	**129**
Non-controlling interests	–	1
Business operating profit	**73**	**129**

29. Interests in subsidiaries

Significant subsidiaries

Table 29.1

as of December 31, 2013	Domicile	Segment[1]	Voting rights %	Ownership interest %	Nominal value of common stock (in local currency millions)	
Australia						
Zurich Australia Limited	Sydney	Global Life	100	100	AUD	0.5
Zurich Australian Insurance Limited	Sydney	General Insurance	100	100	AUD	6.6
Austria						
Zürich Versicherungs-Aktiengesellschaft	Vienna	General Insurance/ Global Life	99.98	99.98	EUR	12.0
Bermuda						
Centre Group Holdings Limited	Hamilton	Non-Core Businesses	100	100	USD	0.3
CMSH Limited	Hamilton	Non-Core Businesses	100	100	USD	0.3
Zurich International (Bermuda) Ltd.	Hamilton	General Insurance	100	100	USD	9.9
Brazil						
Zurich Santander Brasil Seguros e Previdência S.A.	Sao Paulo	Global Life	51	51	BRL	1,659.2
Zurich Minas Brasil Seguros S.A.	Belo Horizonte	General Insurance/ Global Life	100	100	BRL	1,312.4
Chile						
Chilena Consolidada Seguros de Vida S.A.	Santiago	Global Life	98.98	98.98	CLP	24,484.0
Zurich Santander Seguros de Vida Chile S.A.	Santiago	Global Life	51	51	CLP	100,707.5
Cyprus						
Zurich Insurance Holding (Cyprus) Ltd.[3]	Nicosia	General Insurance	100	100	RUB	7.4
Germany						
Deutscher Herold Aktiengesellschaft[4]	Bonn	Global Life	79.83	79.83	EUR	18.4
Zürich Beteiligungs-Aktiengesellschaft (Deutschland)	Frankfurt	General Insurance	100	100	EUR	152.9
Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft	Bonn	Global Life	86.37	86.37	EUR	68.5
Ireland						
Zurich Life Assurance plc	Dublin	Global Life	100	100	EUR	17.5
Zurich Financial Services EUB Holdings Limited	Dublin	Non-Core Businesses	100	100	GBP	0.001
Zurich Insurance plc	Dublin	General Insurance	100	100	EUR	8.2
Zurich Holding Ireland Limited	Dublin	Other Operating Businesses	100	100	EUR	0.1
Italy						
Zurich Investments Life S.p.A.	Milan	Global Life	100	100	EUR	164.0
Zurich Life and Pensions S.p.A.	Milan	Global Life	100	100	EUR	40.5
Zurich Life Insurance Italia S.p.A.	Milan	Global Life	100	100	EUR	85.8
Luxembourg						
Zurich Eurolife S.A.	Bertrange	Global Life	100	100	EUR	12.0
Malaysia						
Zurich Insurance Malaysia Berhad	Kuala Lumpur	General Insurance/ Global Life	100	100	MYR	579.0

Consolidated financial statements *continued*

Significant subsidiaries (continued)

Table 29.1

as of December 31, 2013	Domicile	Segment[1]	Voting rights %	Ownership interest %	Nominal value of common stock (in local currency millions)	
Mexico						
Zurich Santander Seguros México, S.A.	Mexico City	General Insurance/ Global Life	51	51	MXN	190.0
South Africa						
Zurich Insurance Company South Africa Limited[5]	Johannesburg	General Insurance	84.05	84.05	ZAR	3.0
Spain						
Bansabadell Pensiones, E.G.F.P, S.A.[2]	Barcelona	Global Life	50	50	EUR	7.8
Bansabadell Seguros Generales, S.A. de Seguros y Reaseguros[2]	Barcelona	General Insurance	50	50	EUR	10.0
Bansabadell Vida S.A. de Seguros y Reaseguros[2]	Barcelona	Global Life	50	50	EUR	43.9
Zurich Latin America Holding S.L. – Sociedad Unipersonal	Barcelona	Other Operating Businesses	100	100	EUR	43.0
Zurich Santander Holding (Spain), S.L.	Madrid	Global Life	51	51	EUR	94.3
Zurich Santander Holding Dos (Spain), S.L.	Madrid	Global Life	51	51	EUR	40.0
Zurich Santander Insurance America, S.L.	Madrid	Global Life	51	51	EUR	177.0
Zurich Vida, Compañía de Seguros y Reaseguros, S.A. – Sociedad Unipersonal	Madrid	Global Life	100	100	EUR	56.4
Switzerland						
Genevoise Real Estate Company Ltd	Geneva	Global Life	100	100	CHF	20.4
Zurich Insurance Company Ltd[6]	Zurich	Other Operating Businesses	100	100	CHF	825.0
Zurich Life Insurance Company Ltd[7]	Zurich	Other Operating Businesses	100	100	CHF	60.0
Zurich Investment Management AG	Zurich	Other Operating Businesses	100	100	CHF	10.0
Taiwan						
Zurich Insurance (Taiwan) Ltd.	Taipei	General Insurance	99.73	99.73	TWD	2,000.0
Turkey						
Zurich Sigorta A.S.	Istanbul	General Insurance	100	100	TRY	168.9
United Kingdom						
Allied Zurich Holdings Limited	Jersey, Channel Islands	Other Operating Businesses	100	100	GBP	90.7
Zurich Assurance Ltd	Swindon, England	Global Life	100	100	GBP	236.1
Zurich Financial Services (UKISA) Limited	Swindon, England	Other Operating Businesses	100	100	GBP	1,652.1
Zurich Holdings (UK) Limited	Fareham, England	Other Operating Businesses	100	100	GBP	137.3
Zurich International Life Limited	Douglas, Isle of Man	Global Life	100	100	GBP	105.6

Significant subsidiaries (continued)

Table 29.1

as of December 31, 2013	Domicile	Segment[1]	Voting rights %	Ownership interest %	Nominal value of common stock (in local currency millions)	
United States of America						
Farmers Group, Inc.[8]	Reno, NV	Farmers	100	100	USD	0.001
Farmers New World Life Insurance Company[8]	Mercer Island, WA	Global Life	100	100	USD	6.6
Farmers Reinsurance Company[8]	Los Angeles, CA	Farmers	100	100	USD	58.8
Farmers Services LLC[9]	Wilmington, DE	Farmers	100	100	USD	–
Zurich American Corporation	Wilmington, DE	Non-Core Businesses	100	100	USD	0.00001
Zurich American Life Insurance Company	Schaumburg, IL	Global Life/ Non-Core Businesses	100	100	USD	2.5
ZFS Finance (USA) LLC V[9]	Wilmington, DE	Other Operating Businesses	100	100	USD	–
Zurich American Insurance Company (and subsidiaries)	New York, NY	General Insurance	100	100	USD	5.0
Zurich Finance (USA), Inc.	Wilmington, DE	Other Operating Businesses	100	100	USD	0.000001
Zurich Holding Company of America, Inc.[10]	Wilmington, DE	Other Operating Businesses	100	100	USD	–

1 The segments are defined in note 28.
2 Relates to Bansabadell insurance entities which are controlled by the Group.
3 Zurich Insurance Holding (Cyprus) Limited indirectly holds 99.9% of Zurich Insurance Company Limited in Russia which is a wholly owned subsidiary of the Zurich Insurance Group.
4 In addition, buyout options exist which allow the minority shareholders to sell 15.17 percent of the shares of Deutscher Herold Aktiengesellschaft to the Zurich Insurance Group.
5 Listed on the Johannesburg Stock Exchange. On December 31, 2013, the company had a market capitalization of ZAR 3.2 billion (ISIN Number ZAE000094496).
6 The results of the operating activities are included in the General Insurance, Global Life and Farmers segments, whereas the headquarter's activities are included in Other Operating Businesses.
7 The results of the operating activities are included in the Global Life segment, whereas the headquarter's activities are included in Other Operating Businesses.
8 The ownership percentages in Farmers Group, Inc. and its fully owned subsidiaries have been calculated based on the participation rights of Zurich Insurance Group in a situation of liquidation, dissolution or winding up of Farmers Group, Inc.
9 These entities are LLCs and have no share capital.
10 Shares have no nominal value in accordance with the company's articles of incorporation and local legislation.

Due to the nature of the insurance industry, the Group's business is subject to extensive regulatory supervision, and companies in the Group are subject to numerous legal restrictions and regulations. These restrictions may refer to minimum capital requirements or the ability of the Group's subsidiaries to pay dividends imposed by regulators in the countries in which the subsidiaries operate. These are considered industry norms, generally applicable to insurers who operate in the same markets.

For Zurich Santander Insurance America, S.L. and its subsidiaries, certain protective rights exist, amongst others around liquidation, material sale of assets, transactions impacting the legal ownership structure, dividend distribution and capital increase, distribution channel partnerships and governance, which are not quantifiable.

For details on the Group's capital restrictions, see the capital management section in the Risk review, which forms an integral part of the Consolidated financial statements.

Consolidated financial statements *continued*

Table 29.2 shows the summarized financial information for each subsidiary that has non-controlling interests that are material to the Group.

Non-controlling interests

Table 29.2

in USD millions, as of December 31	Zurich Santander Insurance America, S.L. and its subsidiaries		Bansabadell insurance entities	
	2013	2012	**2013**	2012
Non-controlling interest percentage	49%	49%	50%	50%
Total investments	11,527	13,407	7,749	7,394
Other assets	4,460	3,917	2,750	2,708
Insurance and investment contracts liabilities[1]	12,256	13,190	7,944	7,572
Other liabilities	1,752	1,800	626	637
Net assets	**1,979**	2,334	**1,929**	1,893
Non-controlling interests in net assets	**970**	1,144	**965**	947
Total revenues	2,643	3,647	1,197	1,089
Net income after taxes	349	213	33	14
Other comprehensive income	(328)	(22)	93	51
Total comprehensive income	**22**	192	**126**	65
Non-controlling interests in total comprehensive income	**11**	94	**63**	33
Dividends paid to non-controlling interests	181	6	44	26

[1] Includes reserves for premium refunds, liabilities for investment contracts, deposits received under ceded reinsurance contracts, deferred front-end fees and reserves for insurance contracts.

THIS PAGE HAS INTENTIONALLY BEEN LEFT BLANK

Report of the statutory auditor

Report of the Statutory Auditor

To the General Meeting of Zurich Insurance Group Ltd

Report of the statutory auditor on the Consolidated financial statements

As statutory auditor, we have audited the Consolidated financial statements of Zurich Insurance Group Ltd, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity, and notes (pages 128 to 168 and 181 to 301), for the year ended December 31, 2013.

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, 2013 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on other legal requirements

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

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

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

PricewaterhouseCoopers AG

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

Zurich, February 12, 2014

Embedded value report

Zurich produces and reports embedded value in accordance with the Market Consistent Embedded Value (MCEV) Principles and Guidance issued by the European Insurance CFO Forum (CFO Forum) in October 2009 to provide an economic view of the value of the life business to shareholders and to support financial management and strategic decision making. This report provides an overview of the movement in the MCEV over the calendar year 2013 and new business value added from new sales during the year, including further splits into constituent parts and geographical regions.

Contents

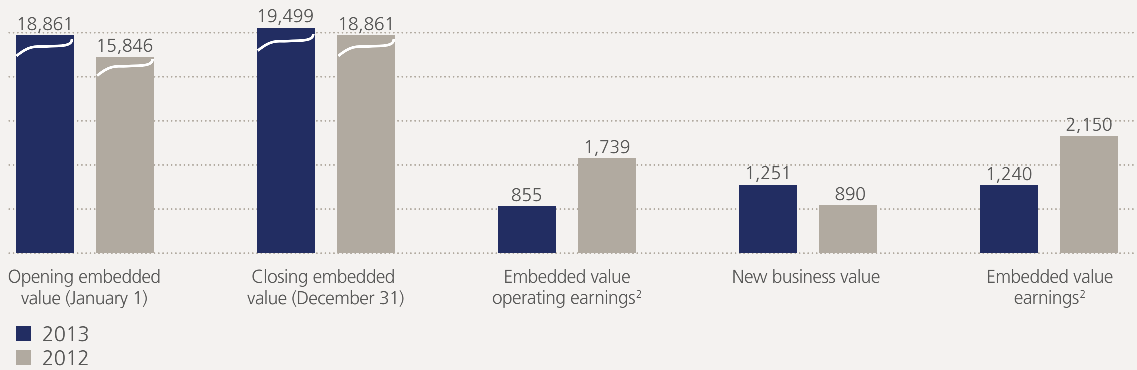
This report describes the development of embedded value of the Zurich Insurance Group (the Group) for the year ended December 31, 2013.

The majority of this report, sections 1 to 10, relates to Global Life, but summary information relating to total Group MCEV is given in section 11.

Embedded value report – executive summary

Key results

in USD millions, for the years ended December 31



Embedded value key results

in USD millions, for the years ended December 31	2013[1]	2012[1]	Change
Opening embedded value	18,861	15,846	3,016
Closing embedded value	19,499	18,861	638
Embedded value operating earnings[2]	855	1,739	(883)
of which new business value	*1,251*	*890*	*361*
Embedded value earnings[2]	1,240	2,150	(910)

[1] As of December 31, 2012, Zurich Santander businesses were included in embedded value. New business for 2012 did not include Zurich Santander or new operations in Asia. See Annual Report 2012 for details.

[2] Embedded value operating earnings and embedded value earnings are gross of new business value non-controlling interests. Net of new business value non-controlling interests, embedded value operating earnings is reduced to USD 665 million and USD 1,693 million in 2013 and 2012, respectively, and embedded value earnings is reduced to USD 1,049 million and USD 2,104 million in 2013 and 2012, respectively. New business value non-controlling interests was USD 190 million and USD 46 million in 2013 and 2012, respectively.

Embedded value operating earnings were USD 855 million. The earnings were negatively impacted by management changes to expense methodology, most of the impact of which is reflected in development expenses. The earnings included USD 689 million of expected emergence of value from business in-force and USD 1,251 million of new business value, offset by USD 1,084 million of operating variances.

New business value of USD 1,251 million increased by USD 361 million or 41 percent compared with 2012. Including the new business value of USD 195 million, not reflected in the 2012 results, for the insurance businesses acquired from Banco Santander S.A. (Zurich Santander) and Zurich Insurance Malaysia Berhad (ZIMB) and excluding the impact in 2012 from the Social Security business in Chile, new business value increased by USD 185 million or 20 percent on a local currency basis. This increase was driven by generally improved volumes and profitability in some European and Asia-Pacific and Middle East markets.

Embedded value earnings were USD 1,240 million. The earnings were negatively impacted, as noted above for embedded value operating earnings, by management changes to expense methodology.

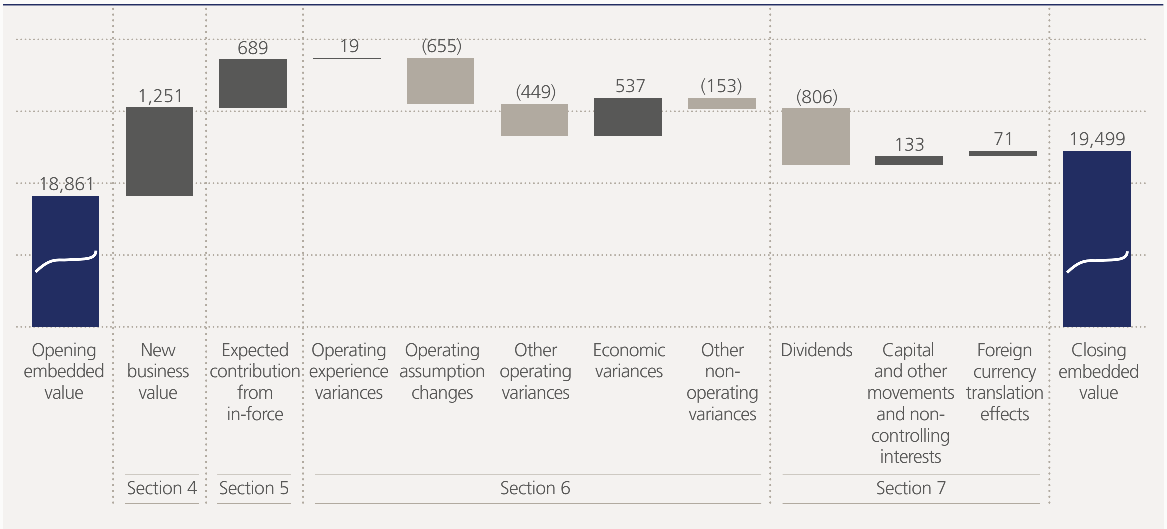
Embedded value report *continued*

1. Analysis of embedded value earnings

The graph and table below show how embedded value has increased from USD 18,861 million to USD 19,499 million during 2013. Each movement is described in its own section of the report, as detailed on the graph below.

Embedded value development

in USD millions, for the year ended December 31, 2013

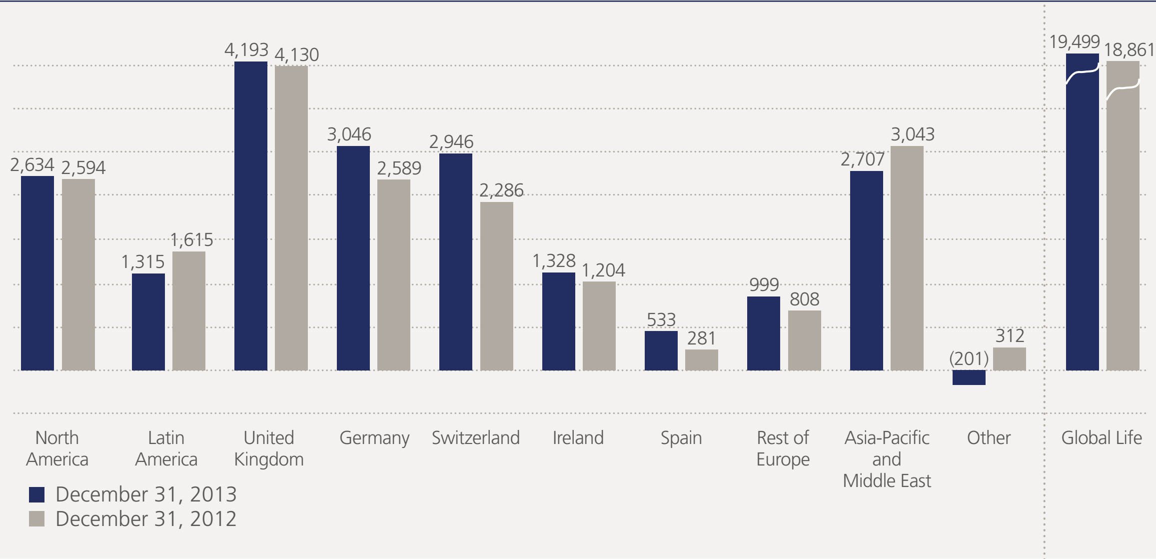


Analysis of embedded value earnings

in USD millions, for the years ended December 31	2013					2012
	Required capital	Free surplus	Shareholders' net assets	Value of business in-force	Total	Total
Opening embedded value	**5,222**	**2,280**	**7,502**	**11,359**	**18,861**	**15,846**
Dividends in the first six months of the year[1]	–	(465)	**(465)**	–	**(465)**	**(534)**
Capital and other movements in the first six months of the year[1]	(56)	259	**204**	**(88)**	**116**	
New business value[2]	**851**	**(1,626)**	**(776)**	**2,026**	**1,251**	**890**
New business value net of non-controlling interests	*677*	*(1,400)*	*(723)*	*1,783*	*1,060*	*844*
Expected contribution at reference rate	22	102	**124**	**75**	**199**	**274**
Expected contribution in excess of reference rate	22	156	**178**	**312**	**491**	**680**
Expected transfer to shareholders' net assets	(419)	1,674	**1,254**	**(1,254)**	**–**	**–**
Operating experience variances	28	56	**84**	**(65)**	**19**	**(220)**
Operating assumption changes	147	(90)	**58**	**(712)**	**(655)**	**(226)**
Other operating variances	(361)	370	**9**	**(458)**	**(449)**	**342**
Embedded value operating earnings[2]	**289**	**642**	**932**	**(76)**	**855**	**1,739**
Economic variances	1	287	**288**	**249**	**537**	**405**
Other non-operating variances	241	(249)	**(8)**	**(144)**	**(153)**	**6**
Embedded value earnings[2]	**531**	**680**	**1,211**	**29**	**1,240**	**2,150**
Dividends in the last six months of the year[1]	–	(342)	**(342)**	–	**(342)**	**1,059**
Capital and other movements in the last six months of the year[1]	75	120	**195**	**13**	**208**	
New business value non-controlling interests	(174)	227	**53**	**(243)**	**(190)**	**(46)**
Foreign currency translation effects	(29)	30	**1**	**71**	**71**	**387**
Closing embedded value	**5,569**	**2,790**	**8,359**	**11,140**	**19,499**	**18,861**

[1] In 2012 dividends included capital and other movements.
[2] Embedded value operating earnings and embedded value earnings are gross of new business value non-controlling interests. Net of new business value non-controlling interests, embedded value operating earnings is reduced to USD 665 million and USD 1,693 million in 2013 and 2012, respectively, and embedded value earnings is reduced to USD 1,049 million and USD 2,104 million in 2013 and 2012, respectively. New business value non-controlling interests was USD 190 million and USD 46 million in 2013 and 2012, respectively.

Embedded value by geographical region
in USD millions



In **North America**, embedded value increased by USD 40 million, as operating earnings were partially offset by operating assumption changes.

In **Latin America**, embedded value decreased by USD 300 million mainly as a result of a change in the valuation interest rate used in Chile, exchange rate impacts and management changes to expense methodology.

In the **UK**, embedded value increased by USD 63 million, with contributions from new business value being partially offset by negative economic variances.

In **Germany**, embedded value increased by USD 457 million mainly driven by modeling changes, profits from companies outside the main life insurance entity, exchange rate impacts and other economic impacts.

In **Switzerland**, embedded value increased by USD 660 million as a result of strong operating earnings and positive economic variances that were partially offset by dividend payments.

In **Ireland**, a stable new business value, positive economic variances and exchange rate impacts were the main contributors to the increase in embedded value of USD 124 million.

In **Spain**, embedded value increased by USD 252 million as a result of continued strong new business performance and positive economic variances.

In the **Rest of Europe**, embedded value increased by USD 191 million, mainly from positive economic variances in Italy partially offset by dividend payments.

In **Asia-Pacific and Middle East**, embedded value decreased by USD 336 million mainly as a result of assumption changes and management changes to expense methodology.

In **Other**, embedded value decreased by USD 513 million, mainly as a result of management changes to expense methodology. Of this reduction, USD 173 million resulted from expenses charged against the shareholders' net assets of Global Life's central unit during the year ended December 31, 2013, and USD 347 million from the capitalized value of certain central overhead expenses now treated as a recurring maintenance expense, charged against the value of business in-force in Global Life's central unit.

Embedded value report *continued*

2. Free surplus

Required capital is the amount of shareholders' net assets required to cover the target capital requirement, covering both minimum solvency margin and target excess solvency margin. Free surplus is shareholders' net assets less required capital.

Shareholders' net assets

in USD millions, as of December 31	2013				2012
	Shareholders' net assets	Required capital	Required capital (% SM)[1]	Free surplus	Free surplus
North America	605	545	355%	59	(53)
Latin America	975	502	110%	473	593
of which:					
Zurich Santander	*497*	*243*	*119%*	*254*	*360*
Europe	5,701	3,585	136%	2,116	1,288
United Kingdom	*1,599*	*906*	*138%*	*693*	*(3)*
Germany	*1,983*	*902*	*130%*	*1,081*	*1,167*
Switzerland	*627*	*467*	*146%*	*160*	*13*
Ireland	*493*	*419*	*150%*	*73*	*36*
Spain	*308*	*344*	*125%*	*(35)*	*(83)*
Rest of Europe	*691*	*547*	*130%*	*144*	*159*
Asia-Pacific and Middle East	1,172	837	135%	334	400
Other	(93)	100	145%	(193)	53
Global Life	**8,359**	**5,569**	**141%**	**2,790**	**2,280**

[1] SM is the local minimum solvency margin.

In **North America**, free surplus increased by USD 113 million mainly as a result of a change in reinsurance arrangements.

In **Latin America**, free surplus decreased by USD 120 million mainly as a result of dividend payments.

In the **UK**, free surplus increased by USD 697 million mainly due to expected transfer of profits from business in-force exceeding the strain of writing new business and changes to the treatment of internal reinsurance.

In **Germany**, expected transfer of profits from business in-force was more than offset by adverse development of assets held outside the main life insurance entities and, in total, free surplus decreased by USD 87 million.

In **Switzerland**, expected transfer of profits from business in-force and improved economic conditions increased free surplus by USD 437 million, which were offset by dividend payments and other variances.

In **Ireland**, free surplus increased by USD 38 million as a result of the expected transfer of profits from business in-force exceeding the strain of writing new business.

In **Spain**, free surplus increased mainly due to positive economic variances and expected contribution from in-force, partially offset by dividend payments.

In **Rest of Europe**, free surplus decreased by USD 14 million. The main drivers were dividend payments, offset by positive economic variances.

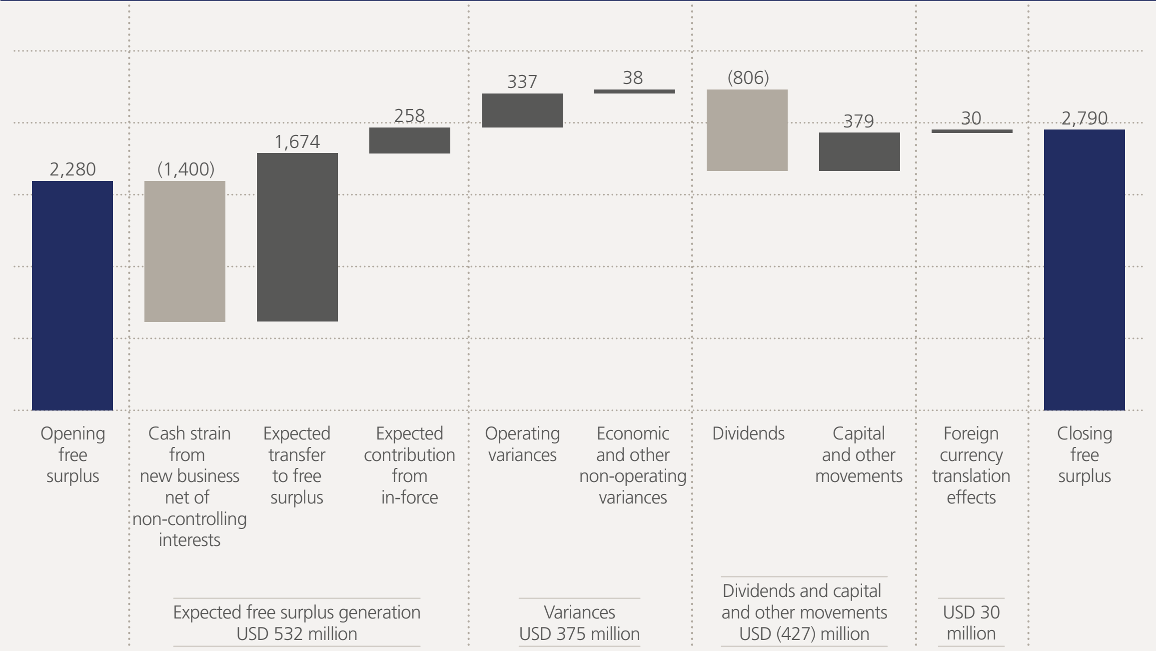
In **Asia-Pacific and Middle East**, free surplus decreased by USD 65 million due to various operating variances exceeding capital injections into the region.

In **Other**, free surplus decreased by USD 247 million due to expenses charged to Global Life's central unit, in part resulting from management changes to expense methodology, and dividend payments made to the Group.

3. Analysis of free surplus generation

The graph below shows how the free surplus value has increased from USD 2,280 million to USD 2,790 million during 2013.

Free surplus development
in USD millions, for the year ended December 31, 2013



Expected free surplus generation includes cash strain from new business net of non-controlling interests, expected transfer to free surplus and expected contribution from in-force to free surplus. This was USD 532 million in 2013. The cash strain on new business of USD 1,400 million results from the combination of initial cash consumption of USD 723 million and the increase in required capital of USD 677 million. The expected transfer to shareholders' net assets increased free surplus by USD 1,674 million and was driven by expected profits of USD 1,254 million and the release of required capital of USD 419 million. The expected contribution from in-force to free surplus was USD 258 million.

Variances arising on operating and economic assumptions increased free surplus by USD 375 million. Variances represent the difference between actual experience during the period and that implied by assumptions on the emergence of free surplus, and actual market development over the period.

Dividends and capital and other movements decreased free surplus by USD 427 million as dividends of USD 806 million paid to the Group exceeded capital and other movements of USD 379 million into the life business.

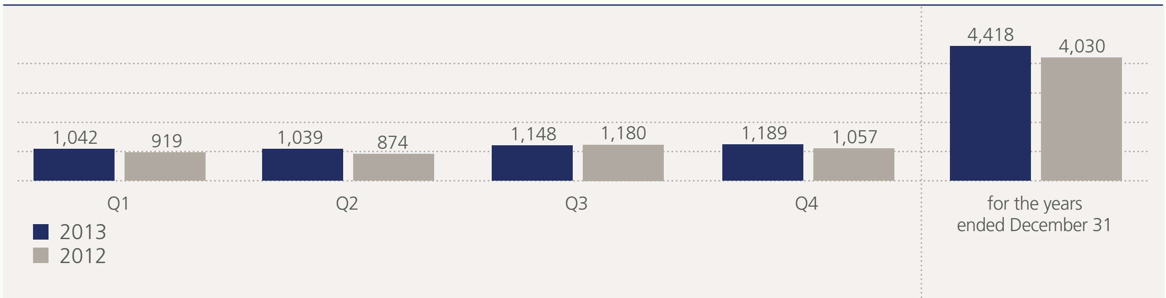
Foreign currency translation effects increased the U.S. dollar free surplus by USD 30 million.

Embedded value report *continued*

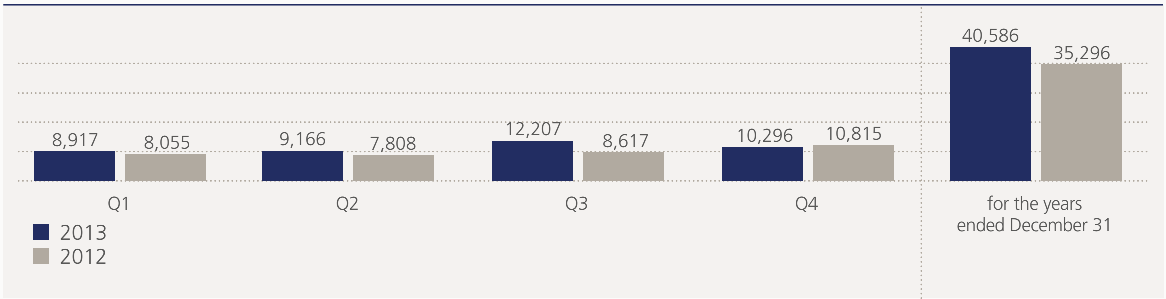
4. New business[1]

Global Life

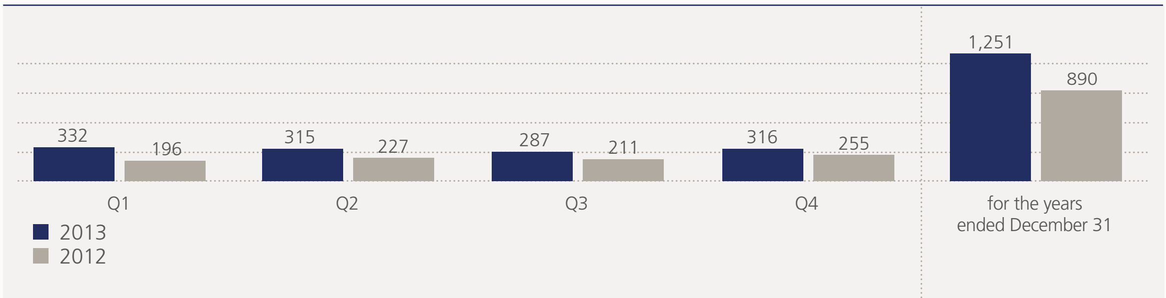
Annual premium equivalent (APE)
in USD millions



Present value of new business premiums (PVNBP)
in USD millions

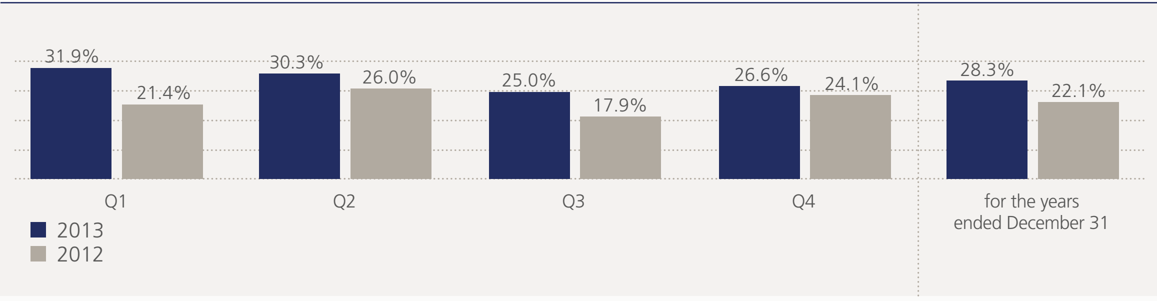


New business value
in USD millions

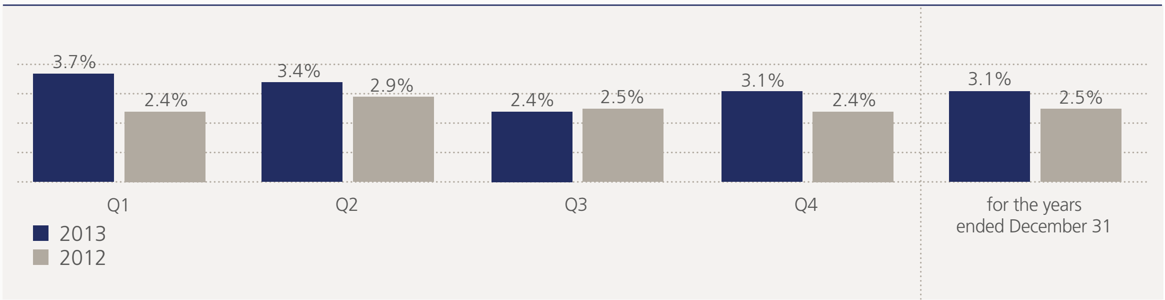


[1] New business for 2012 did not include Zurich Santander or Zurich Insurance Malaysia Berhad (ZIMB). The new business value from Zurich Santander and ZIMB for 2012 was USD 195 million.

New business margin (%APE)
in percent



New business margin (%PVNBP)
in percent



New business by quarter

in USD millions	2013					2012				
	Q1	Q2	Q3	Q4	Q4 YTD	Q1	Q2	Q3	Q4	Q4 YTD
Annual premium equivalent (APE)[1]	**1,042**	**1,039**	**1,148**	**1,189**	**4,418**	**919**	**874**	**1,180**	**1,057**	**4,030**
New annual premiums	684	706	783	807	2,981	582	529	906	661	2,677
New single premiums	3,583	3,330	3,649	3,816	14,378	3,371	3,451	2,741	3,964	13,527
Present value of new business premiums (PVNBP)[2]	8,917	9,166	12,207	10,296	40,586	8,055	7,808	8,617	10,815	35,296
Average annual premium multiplier	7.8	8.3	10.9	8.0	8.8	8.1	8.2	6.5	10.4	8.1
New business value	**332**	**315**	**287**	**316**	**1,251**	**196**	**227**	**211**	**255**	**890**
New business margin (% of APE)	**31.9%**	**30.3%**	**25.0%**	**26.6%**	**28.3%**	**21.4%**	**26.0%**	**17.9%**	**24.1%**	**22.1%**
New business margin (% of PVNBP)	**3.7%**	**3.4%**	**2.4%**	**3.1%**	**3.1%**	**2.4%**	**2.9%**	**2.5%**	**2.4%**	**2.5%**

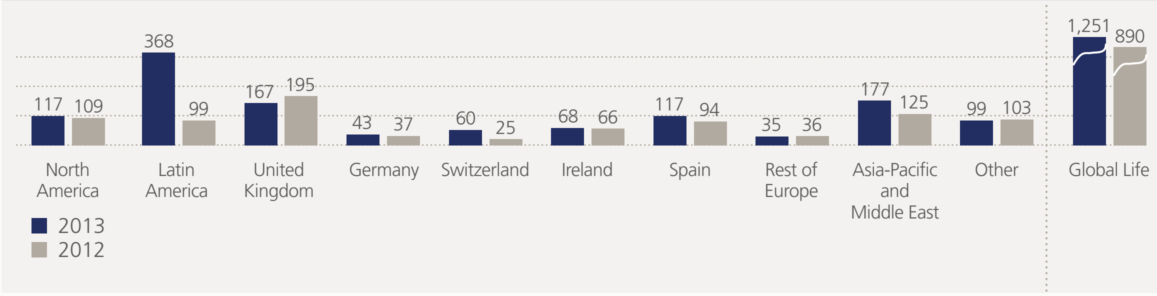
[1] APE is measured as new annual premiums plus 10 percent of new single premiums.
[2] PVNBP is measured as new single premiums plus the present value of new annual premiums.

Embedded value report *continued*

Geographical region

New business value by geographical region

in USD millions, for the years ended December 31



New business by geographical region

in USD millions, for the years ended December 31	APE		PVNBP		New business value		New business margin % of APE		New business margin % of PVNBP	
	2013	2012[1]	**2013**	2012[1]	**2013**	2012[1]	**2013**	2012[1]	**2013**	2012[1]
North America	162	125	1,406	1,227	117	109	72.4%	87.1%	8.3%	8.9%
Latin America	1,178	755	6,158	2,458	368	99	31.2%	13.2%	6.0%	4.0%
of which:										
Zurich Santander	*821*	–	*4,381*	–	*268*	–	*32.6%*	–	*6.1%*	–
Europe	2,376	2,538	27,751	26,998	490	453	20.6%	17.9%	1.8%	1.7%
United Kingdom	*1,019*	*1,194*	*15,422*	*14,112*	*167*	*195*	*16.4%*	*16.4%*	*1.1%*	*1.4%*
Germany	*363*	*453*	*2,937*	*4,503*	*43*	*37*	*11.8%*	*8.2%*	*1.5%*	*0.8%*
Switzerland	*225*	*220*	*2,651*	*2,544*	*60*	*25*	*26.7%*	*11.5%*	*2.3%*	*1.0%*
Ireland	*420*	*355*	*3,637*	*3,033*	*68*	*66*	*16.1%*	*18.5%*	*1.9%*	*2.2%*
Spain	*155*	*149*	*1,410*	*1,335*	*117*	*94*	*75.4%*	*62.9%*	*8.3%*	*7.0%*
Rest of Europe	*195*	*167*	*1,694*	*1,471*	*35*	*36*	*17.9%*	*21.5%*	*2.1%*	*2.4%*
Asia-Pacific and Middle East	530	464	3,368	3,058	177	125	33.5%	26.9%	5.3%	4.1%
Other	173	147	1,903	1,554	99	103	57.4%	70.1%	5.2%	6.6%
Global Life	**4,418**	**4,030**	**40,586**	**35,296**	**1,251**	**890**	**28.3%**	**22.1%**	**3.1%**	**2.5%**

[1] New business for 2012 did not include Zurich Santander or Zurich Insurance Malaysia Berhad (ZIMB). The new business value from Zurich Santander and ZIMB for 2012 was USD 195 million.

North America increased APE by USD 36 million or 29 percent, driven by increased sales of individual protection business. Changes in the mix of business resulted in reduced margins. New business value increased by USD 8 million or 7 percent.

Zurich Santander delivered strong APE of USD 821 million. Strong sales of protection business were the result of an incentive campaign in Brazil. With strong margins, Zurich Santander delivered new business value of USD 268 million.

In the rest of Zurich's businesses in **Latin America**, APE decreased by USD 399 million or 50 percent on a local currency basis. This was the result of the successful participation in the Social Security biennial bid process in Chile in 2012. New business value was stable.

Overall in **Europe**, APE decreased by USD 162 million or 7 percent on a local currency basis. The main reductions were in the UK and Germany. Margins increased strongly in Switzerland and Spain, contributing to the increase in new business value of USD 36 million or 6 percent on a local currency basis.

In the **UK**, APE decreased by USD 176 million or 14 percent on a local currency basis as a result of reduced sales of individual savings business following the implementation of new regulation on intermediary commission payments, partially offset by increased sales of corporate pensions business in the third quarter. Margins were stable with the positive impact of lower corporation tax rates offset by lower profitability from corporate business. Overall new business value decreased by USD 28 million or 13 percent on a local currency basis.

In **Germany**, APE decreased by USD 90 million or 22 percent on a local currency basis, mainly driven by lower sales of savings business. However, new business value increased by USD 6 million or 12 percent on a local currency basis as a result of improved margins on saving business more than offsetting the APE decrease.

In **Switzerland**, APE increased by USD 5 million or 1 percent on a local currency basis. As a result of increased profitability on individual life due to re-pricing and a change in the mix of business, new business value increased by USD 35 million.

In **Ireland**, APE increased by USD 65 million or 15 percent on a local currency basis benefitting from cross-border sales, mainly to Italy. The effect on new business value from this increased volume was offset by reduced margins on domestic Irish business. In total, new business value was increased by USD 2 million.

In **Spain**, APE increased by USD 5 million, while new business value increased by USD 23 million or 20 percent on a local currency basis as a consequence of increased sales of highly profitable protection business.

In **Rest of Europe**, APE increased by USD 29 million or 13 percent on a local currency basis. However, new business value decreased by USD 1 million as a result of lower margins on savings business in Italy.

In **Asia-Pacific and Middle East**, APE increased by USD 66 million or 17 percent on a local currency basis. The increase arose from the inclusion of Zurich Insurance Malaysia Berhad (ZIMB) in new business reporting and from new local life insurance businesses in Singapore, Indonesia and Taiwan in 2013. New business value increased by USD 53 million or 47 percent on a local currency basis.

In **Other**, APE increased by USD 26 million or 15 percent on a local currency basis. New business value decreased by USD 4 million or 5 percent on a local currency basis due to a reduction in margins.

Embedded value report *continued*

5. Expected contribution and expected transfer to shareholders' net assets

Expected contribution at reference rate
The expected contribution at reference rate is the projected change in embedded value over the year using risk free investment returns applicable at the start of the year. The expected contribution at reference rate was USD 199 million.

Expected contribution in excess of reference rate
The expected contribution in excess of reference rate is the additional embedded value expected to be created if "real world" expected investment returns applicable at the start of the year were to emerge. The expected contribution in excess of reference rate was USD 491 million.

Expected transfer to shareholders' net assets
The expected transfer to shareholders' net assets shows the profits expected to emerge during the year in respect of business in-force at the start of the year. The net effect on embedded value is zero, because the change in the value of business in-force is offset by an equal and opposite change in shareholders' net assets.

6. Operating, economic and other non-operating variances

Operating, economic and other non-operating variances

in USD millions, for the year ended December 31, 2013	Operating experience variances	Operating assumption changes	Other operating variances	Economic variances	Other non-operating variances
North America	(13)	(265)	(51)	57	26
Latin America	18	(19)	(48)	(191)	(2)
of which:					
Zurich Santander	*7*	*22*	*4*	*37*	*(5)*
Europe	22	(95)	390	706	(121)
United Kingdom	*(6)*	*(83)*	*(15)*	*(100)*	*(91)*
Germany	*2*	*(47)*	*357*	*38*	*(40)*
Switzerland	*12*	*103*	*111*	*302*	*8*
Ireland	*9*	*(47)*	*(68)*	*73*	*–*
Spain	*14*	*(24)*	*(5)*	*153*	*–*
Rest of Europe	*(9)*	*2*	*8*	*239*	*2*
Asia-Pacific and Middle East	–	(226)	(225)	(28)	(54)
Other	(8)	(50)	(515)	(6)	(2)
Global Life	**19**	**(655)**	**(449)**	**537**	**(153)**

Operating experience variances

Operating experience variances measure the difference between actual experience during the period and that implied by the operating assumptions. Experience variances occur in the normal course of business as short-term experience fluctuates around long-term assumptions.

Embedded value split of operating experience variance
in USD millions, for the year ended December 31, 2013

- **Mortality and morbidity** experience increased embedded value by USD 87 million. The main positive experience variance of USD 56 million arose in Chile from the disability and survival business.
- **Persistency** experience decreased embedded value by USD 53 million. The main negative experience was USD 51 million in Latin America.
- **Expenses** experience increased embedded value by USD 3 million. Following management changes to expense methodology introduced during 2013, an expense variance resulting from costs exceeding long-term expense assumptions for start-up businesses, reported as "expenses" in the operating experience variance in the Half Year Report 2013, is reported as "development expenses" included in other operating variances in this report.
- **Other** operating experience variances reduced embedded value by USD 19 million.

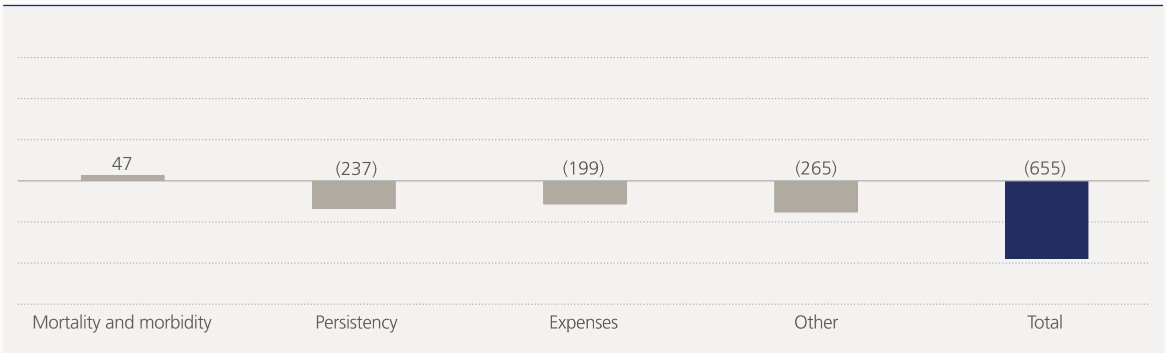
Embedded value report *continued*

Operating assumption changes

Changes in assumptions about future operating experience also have an impact on operating variances.

Embedded value split of operating assumption changes

in USD millions, for the year ended December 31, 2013



- **Mortality and morbidity** assumption updates increased embedded value by USD 47 million. The main impacts arose in Germany, Asia-Pacific and Middle East and Switzerland contributing USD 45 million, USD 37 million and USD 20 million respectively, partially offset by a decrease in North America of USD 30 million.

- **Persistency** assumption updates negatively impacted embedded value by USD 237 million. The main drivers were North America, Asia-Pacific and Middle East and the UK contributing USD 138 million, USD 87 million and USD 85 million respectively, partially offset by an increase in Switzerland of USD 133 million.

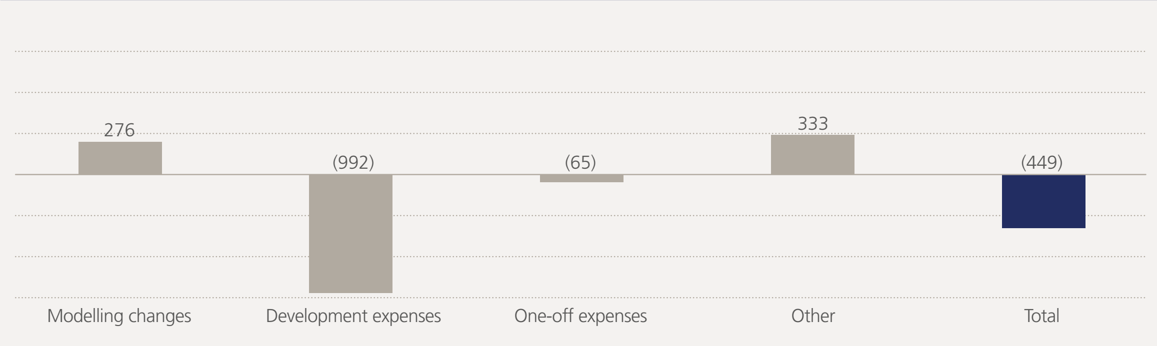
- **Expense** assumption changes reduced embedded value by USD 199 million. The main contributors were Asia-Pacific and Middle East and Ireland contributing USD 163 million and USD 33 million respectively.

- **Other** assumption changes decreased embedded value by USD 265 million. The main contributors were a decrease of USD 82 million in North America, mainly due to a reduction in the assumed take-up rate of policy loans, and a decrease of USD 63 million in Germany, partly as a result of policyholder dividend declaration impacts.

Other operating variances

Other operating variances include modeling changes, development and one-off expenses and other operating variances not captured elsewhere.

Embedded value split of other operating variances
in USD millions, for the year ended December 31, 2013



- **Modeling changes** increased embedded value by USD 276 million. In Germany, modeling changes increased embedded value by USD 189 million. The major changes related to risk, reducing the cost of residual non-hedgeable risk. In Switzerland, enhancements to the valuation models, in particular the disability model, increased embedded value by USD 47 million.

- **Development expenses** reduced embedded value by USD 992 million. During 2013 there were management changes to expense methodology in embedded value reporting. These changes reduced embedded value as of December 31, 2013, and the impact of these changes is included in development expenses. The major impacts were USD 246 million for the capitalized value of future projected excess maintenance expenses for start-up operations and associated regional office expenses and USD 347 million for the capitalized value of certain central overhead expenses now treated as a recurring maintenance expense.

  Development expenses also include USD 134 million for the excess of initial and maintenance expenses over the long-term expense assumptions incurred during 2013 by start-up operations in North America, Latin America and Asia-Pacific and Middle East and their associated regional offices, and USD 173 million charged against the shareholders' net assets of region Other during 2013.

  Other development expenses were predominantly for platform developments, expansion and other projects in the UK and Ireland.

- **One-off expenses** reduced embedded value by USD 65 million, mainly driven by the costs of implementing efficiency improvements and other projects in Switzerland and Ireland.

- **Other** operating variances had a positive impact on embedded value of USD 333 million. The main contribution arose in Germany where profits from companies outside the main life insurance entity and other experience variances increased embedded value.

Embedded value report *continued*

Economic variances

Economic variances arise from the difference between actual economic experience during the year and the expected experience implied by the economic assumptions at the start of the year. Economic variances also include the impact of changes in assumptions in respect of future economic experience at the end of the year. In total, economic variances increased embedded value by USD 537 million in 2013.

In 2013, risk free rates increased for each major currency and in particular for the U.S. dollar and the pound sterling, while the liquidity premium spread decreased for each major currency, particularly for the pound sterling. Yields on sovereign debt were volatile across Europe, but spreads have reduced during the year. These movements are most significant for spread business and traditional participating business and as a result investment performance was positive in Switzerland, Italy, Germany and Spain. Outside Europe, increased interest rates negatively affected the economic variance on protection business in Asia-Pacific and Middle East.

Other non-operating variances

Other non-operating variances include the impact of legal, tax and regulatory changes implemented during the year as well as other one-off items.

Other non-operating variances decreased embedded value by USD 153 million, mainly driven by a reduction in the value of business in-force in the UK in the light of new regulation, which will be effective from April 2014, on payments to platform service providers, and USD 40 million in Germany.

7. Dividends and capital and other movements and other adjustments

Dividends and capital and other movements

Dividends and capital and other movements reflect dividends paid by Global Life to the Group, shown as a negative number in the table below, net of capital and other movements received from the Group, shown as a positive number in the table. Capital and other movements can also relate to the value of business in-force in respect of acquisitions and disposals, or corporate restructuring.

Dividends and capital and other movements

in USD millions, for the year ended December 31, 2013	Total
North America	10
Latin America	(173)
of which:	
Zurich Santander	*(203)*
Europe	(388)
United Kingdom	*55*
Germany	*(78)*
Switzerland	*(161)*
Ireland	*13*
Spain	*(37)*
Rest of Europe	*(180)*
Asia-Pacific and Middle East	89
Other	(21)
Global Life	**(483)**

Changes in value for Global Life arising from dividends and capital and other movements are offset by equal and opposite value changes in the non-covered businesses of the Group and therefore have no impact on Group MCEV as shown in section 11, except as noted below.

North America paid a dividend of USD 136 million to the Group, partially offset by a capital transfer from non-covered business.

In **Latin America**, the net dividends and capital movements reduced embedded value by USD 173 million.

In **Europe**, the net dividends and capital movements were USD 388 million. The main contributions to this were a dividend payment by Switzerland of USD 163 million and dividend payments by Rest of Europe of USD 153 million. In the UK, the main drivers of capital movements of USD 55 million were a change in the treatment of an internal reinsurance treaty which increased embedded value by USD 113 million, with equal and offsetting impacts in other segments of the Group, and a non-life insurance entity which was reclassified and excluded from entities covered by MCEV valuation principles reducing embedded value by USD 88 million, with equal impact on Group MCEV.

In **Asia Pacific and Middle East**, capital injections amounted to USD 104 million.

In **Other**, a dividend of USD 26 million was paid.

Other adjustments

The adjustment to embedded value to remove non-controlling interests from new business value is shown separately and it largely arose from the interests of non-controlling shareholders in Zurich Santander and Spain.

Foreign currency translation effects represent the impact of adjusting opening embedded value, and movements during the year which are translated at average exchange rates during the year, to end-of-year exchange rates. The net effect of the change of the U.S. dollar against other currencies increased the U.S. dollar embedded value by USD 71 million.

.

Embedded value report *continued*

8. Value of business in-force

Components of value of business in-force

in USD millions, as of December 31	2013					2012
	CE[1]	FC[2]	TVFOG[3]	CRNHR[4]	Value of business in-force	Value of business in-force
North America	2,475	(81)	(157)	(207)	**2,029**	**2,120**
Latin America	446	(46)	(3)	(56)	**340**	**534**
of which:						
Zurich Santander	*323*	*(22)*	*(3)*	*(20)*	*279*	*205*
Europe	9,196	(521)	(821)	(511)	**7,342**	**6,724**
United Kingdom	*2,834*	*(65)*	*(16)*	*(159)*	*2,594*	*3,119*
Germany	*1,982*	*(364)*	*(396)*	*(159)*	*1,063*	*658*
Switzerland	*2,607*	*(30)*	*(152)*	*(106)*	*2,319*	*2,002*
Ireland	*905*	*(16)*	*(15)*	*(39)*	*835*	*781*
Spain	*266*	*(15)*	*–*	*(26)*	*224*	*31*
Rest of Europe	*603*	*(30)*	*(242)*	*(23)*	*307*	*134*
Asia-Pacific and Middle East	1,746	(80)	(12)	(118)	**1,536**	**1,766**
Other	(59)	(6)	–	(43)	**(107)**	**215**
Global Life	**13,803**	**(735)**	**(994)**	**(935)**	**11,140**	**11,359**

[1] CE is the certainty equivalent value of business in-force.
[2] FC is the frictional costs.
[3] TVFOG is the time value of financial options and guarantees including the application of a liquidity premium.
[4] CRNHR is the cost of residual non-hedgeable risk (see section 12 d) for further details).

Maturity profile of value of business in-force

The value in-force (VIF) maturity profile sets out when the VIF profits are expected to emerge as free surplus. It does not include the release of required capital to free surplus which usually accompanies the emergence of the VIF profit. The VIF emergence is determined after taking into account frictional costs, the cost of residual non-hedgeable risk and the time value of financial options and guarantees.

Maturity profile of value of business in-force

in USD millions, as of December 31	2013		2012	
	VIF	% of Total	VIF	% of Total
1 to 5 years	3,923	35%	3,929	35%
6 to 10 years	2,856	26%	2,891	25%
11 to 15 years	1,892	17%	2,111	19%
16 to 20 years	1,096	10%	1,193	11%
more than 20 years	1,373	12%	1,236	11%
Total	**11,140**	**100%**	**11,359**	**100%**

The VIF maturity profile shows that 35 percent of the VIF should emerge as free surplus over the next five years and 61 percent over the next ten years.

9. Reconciliation of shareholders' equity to embedded value

Reconciliation of shareholders' equity to embedded value

in USD billions, as of December 31, 2013	Total
Shareholders' equity[1]	**19.6**
Less intangible assets	
Goodwill	*(0.4)*
Deferred policy acquisition costs and deferred origination costs	*(15.3)*
Other intangibles and present value of future profits	*(4.0)*
Deferred front-end fees	*5.8*
Pension scheme liabilities[2]	1.1
Less non-controlling interests[3]	0.1
Other adjustments[4]	1.6
Embedded value shareholders' net assets	**8.4**
Value of business in-force	11.1
Embedded value	**19.5**

[1] Shareholders' equity is the Global Life share of total shareholders' equity as reported in the Consolidated financial statements prepared on the basis of the Group's accounting policies set out in note 3 of the Consolidated financial statements.
[2] Pension scheme liabilities are deducted from shareholders' equity but are not deducted from embedded value shareholders' net assets.
[3] Primarily from non-controlling interests in Zurich Santander and Spain.
[4] Other adjustments include tax differences, policyholders' share of intangibles, reserving differences and asset valuation differences including the write-off in embedded value shareholders' net assets of an intangible asset to which certain project-based costs were related.

Embedded value report *continued*

10. Sensitivities

Sensitivities

in USD millions, as of December 31, 2013	Change in embedded value[1]	Change in new business value[1]
Reported embedded value and new business value[1]	**19,499**	**1,251**
Base embedded value and base new business value[1]	**19,113**	**904**
Operating sensitivities		
10% increase in initial expenses	n/a	(5%)
10% decrease in maintenance expenses	3%	7%
10% increase in voluntary discontinuance rates	(3%)	(12%)
10% decrease in voluntary discontinuance rates	4%	14%
5% improvement in mortality and morbidity for assurances	2%	10%
5% improvement in mortality for annuities	(1%)	(1%)
Required capital set equal to minimum solvency capital	–	1%
Economic sensitivities		
100 basis points increase in risk free yield curve	(2%)	(1%)
100 basis points decrease in risk free yield curve[2]	2%	(1%)
10% fall in equity market values	(1%)	n/a
10% fall in property market values	(1%)	n/a
25% increase in implied volatilities for risk free yields	(1%)	–
25% decrease in implied volatilities for risk free yields	1%	1%
25% increase in implied volatilities for equities and properties	(1%)	–
25% decrease in implied volatilities for equities and properties	1%	–

[1] Values used to calculate the sensitivities exclude a liquidity premium and are net of new business value non-controlling interests. These adjustments for the sensitivity calculations reduce the reported embedded value and new business value by USD 386 million and USD 347 million, respectively.
[2] Risk free forward annual yields are decreased by 100 basis points at each duration. However, if a risk free forward annual yield at a given duration is less than 100 basis points, the decrease is to zero at that duration, not to a negative rate.

The key assumption changes represented by each of these sensitivities are given in section 12 q).

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised assumption. The results include the impact of assumption changes on the time value of financial options and guarantees. The 100 basis points decrease in risk free yield curve increases the value of some products, such as term assurance, with fixed future cash flows discounted at lower rates. This increase is offset by a reduction in the value of other products, such as those where lower assumed investment returns reduce profitability.

11. Group MCEV

The Group MCEV is presented in the following table as the Global Life covered business valued using MCEV Principles and the non-covered businesses which are valued at the unadjusted shareholders' equity. Non-covered businesses include the life businesses in Non-Core Businesses managed outside Global Life and all other Group businesses including General Insurance and Farmers.

Group MCEV

in USD billions, for the year ended December 31, 2013	Covered business MCEV	Non-covered businesses	Total Group MCEV
Opening Group MCEV	**18.9**	**16.5**	**35.4**
Operating MCEV earnings[1]	0.9	3.1	4.0
Non-operating MCEV earnings	0.4	0.0	0.4
Total MCEV earnings	1.2	3.1	4.3
Other movements in shareholders' equity[2]	(0.2)	(2.4)	(2.6)
Adjustments[3]	(0.4)	(2.4)	(2.9)
Closing Group MCEV	**19.5**	**14.7**	**34.2**

[1] For non-covered businesses this is set equal to the Net Income After Tax over the period.
[2] For covered business this is equal to new business value non-controlling interests. For non-covered businesses this is equal to the change in non-controlling interests and unrealized gains and losses excluding the foreign currency translation effects over the period.
[3] Adjustments include dividends, capital and other movements and foreign currency translation effects.

Embedded value report *continued*

12. Embedded value methodology

The Group has applied Market Consistent Embedded Value (MCEV) Principles and Guidance issued by the European Insurance CFO Forum in October 2009, for its Embedded value report for the companies and businesses in its Global Life segment (the covered business). The Embedded value report primarily relates to Global Life. Total Group MCEV is shown in section 11. The embedded value methodology adopted by the Group is based on a "bottom-up" market consistent approach to allow explicitly for market risk. In particular, asset and liability cash flows are valued using risk discount rates consistent with those applied to similar cash flows in capital markets, and options and guarantees are valued using market consistent models calibrated to observable market prices. Where markets exhibit a limited capacity, the valuation is based on historical averages. Embedded value excludes any value from future new business.

All amounts shown in U.S. dollars are rounded. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts.

a) Covered business

Covered business includes all business written by companies that are included in Global Life, unless otherwise stated. In particular:

- life and critical illness;
- savings (with profit, non-profit and unit-linked);
- pensions and annuity; and
- long-term health and accident.

For certain smaller companies in Global Life, no embedded value has been calculated but these companies have been included in embedded value at shareholders' equity, as calculated in accordance with the Group's accounting policies. The contribution from these companies to embedded value is less than 5 percent.

b) Reporting of embedded value

In line with MCEV Principles, embedded value is split between shareholders' net assets, including free surplus and required capital, and the value of business in-force.

The results are disclosed in a format that the Group considers to be appropriate for the market consistent methodology adopted.

c) Shareholders' net assets

Shareholders' net assets represent the market value of net assets held in respect of the covered business, and consist of the required capital and free surplus. The level of required capital reflects the amount of capital considered by the directors of each legal entity to be appropriate to manage the business. This is set at least at the level equal to the regulatory required capital of each legal entity, at which the regulator would intervene to request a capital injection and in addition, for the main companies, an adequate buffer to cover short-term volatilities in solvency due to financial and non-financial risks or to achieve the capital required to maintain the desired credit rating.

The free surplus comprises the market value of shareholders' net assets allocated to the covered business in excess of the assets backing the required capital.

In the UK, insurers are required to assess capital requirements on two separate bases, Pillar 1 and Pillar 2. For Zurich Assurance Ltd, Pillar 2 was more onerous at December 31, 2012, and Pillar 1 was more onerous at December 31, 2013. The amounts of required capital and free surplus shown in this report as of December 31, 2012 and December 31, 2013 applicable to Zurich Assurance Ltd reflect those positions. The required capital modelled for embedded value is based on the Group's target Pillar 1 required capital, and the analysis of change is performed on a Pillar 1 basis.

Shareholders' net assets are based on local statutory and regulatory accounting. Adjustments are made to embedded value where appropriate, for example in respect of any unrealized gains attributable to shareholders. Any such adjustments are made consistently with the calculation of the value of business in-force.

d) Value of business in-force

The value of business in-force is the present value of future projected profits, distributable after tax to shareholders from the covered business. It is defined as the certainty equivalent value of business in-force less frictional costs, the time value of financial options and guarantees, and the cost of residual non-hedgeable risk. These components are explained below.

Certainty equivalent (CE) value is the value calculated using discount rates consistent with those applied to the underlying cash flows in the capital markets. It includes the intrinsic value but excludes the time value of financial options and guarantees which is allowed for separately, as described below.

Frictional costs (FC) reflect a deduction for the cost of holding the required capital. Under the Group's market consistent framework, the FC represents tax in respect of the future investment return on required capital together with the cost of future investment management expenses on required capital. In Germany, the policyholders' share of investment income on the required capital is also included.

For the purpose of these calculations, required capital is assumed to run off in line with existing business.

The allowance for FC is included both in the value of business in-force and in new business value. For new business value, FC is applied to the minimum solvency capital required to be held in respect of that business.

No allowance is made for "agency costs" as these are considered to be subjective and depend on the view of each shareholder.

Time value of financial options and guarantees (TVFOG) represents additional costs in excess of the intrinsic value of options and guarantees which are already allowed for in the CE value. These are based on the variability of investment returns which need to be allowed for explicitly under MCEV Principles. The time value is calculated on a market consistent basis using stochastic modeling techniques, and after making allowance for expected management and policyholder behavior.

For products with significant guarantees, the time value has been calculated on a market consistent basis by deducting the average present value of shareholder cash flows using 1,000 stochastic economic simulations from the CE value (both for the value of business in-force and separately for new business value).

For most products, the average value has been calculated using Monte Carlo simulations. For a small number of products, the TVFOG has been derived using closed form solutions.

Where appropriate, the calculation of the TVFOG makes allowance for:

- dynamic actions that would be taken by management under different economic simulations, for example to implement a life business' investment strategy; and
- dynamic policyholder behavior, for example changes in surrender behavior as interest rates rise or fall, or take-up rates of guaranteed annuity options.

The **cost of residual non-hedgeable risk (CRNHR)** is an explicit deduction for non-hedgeable financial risks (non-hedgeable asset/liability management risks and reinsurance credit risk), and non-financial risks (mortality, persistency, expenses and operational risk). The CE value allows for best estimate shareholder cashflows. The CRNHR is largely an allowance for uncertainty in shareholder cashflows, and for risks which are not already considered in the CE value or the TVFOG, such as operational risk. Most residual non-hedgeable risks have a symmetric impact on embedded value apart from operational risk.

CRNHR is calculated as a charge on the capital held for residual non-hedgeable risks. This is calculated according to Zurich's internal risk based capital model by applying 2,000 shocks to the embedded value assumptions. To align with the MCEV Principles the risk based capital is scaled to a 99.5 percent confidence level by using empirical distributions where available, or by assuming probability distributions as appropriate.

The capital is projected over the lifetime of the business using appropriate risk drivers for each risk type. The present value of the risk capital is calculated by applying the swap curve as of the valuation date. The CRNHR allows for diversification across risk types and across geographical segments. This approach complies with MCEV Principles except

Embedded value report *continued*

Guidance 9.7 which does not allow for diversification benefits between covered and non-covered business. The Embedded value report does allow for diversification benefits between covered and non-covered business, which is consistent with the management view of the business and adds an estimated USD 545 million to embedded value.

A 4 percent cost of capital charge has been applied to the diversified present value of non-hedgeable risk based capital.

e) New business

New business covers new contracts sold during the reporting period and includes recurring single premiums, new premiums written during the period on existing contracts and variations to premiums on existing contracts where these premiums and variations have not previously been assumed to be part of business in-force. Where recurring single premiums are projected over time to derive the corresponding new business value, they are treated as annual premium for the volume definition. Group Life business valued with a contract renewal assumption is treated as annual premium.

New business is valued at the point of sale. Explicit allowance is made for FC, TVFOG, and CRNHR. New business value is valued using actual new business volumes, except in Germany. See section 12 f).

The value generated by new business written during the period is the present value of the projected stream of after tax distributable profits from that business.

In certain profit sharing funds, the new business written can affect the TVFOG for business written in prior years. This effect is taken into account in the new business value by valuing the new business on a marginal approach, the difference between embedded value with and without the new business. This captures the effect of cross-subsidies between business in-force and new business due to, for example, different interest rate guarantees operating in a shared common pool of assets.

New business is valued on a discrete quarter basis. Once calculated and reported, new business value for a quarter will not change in subsequent quarters in local currency terms. For details on the assumptions used for new business see section 13.

New business amounts in the Embedded value report are reported before the effects of non-controlling interests. New business value is reduced by USD 190 million and USD 46 million after the effects of non-controlling interests in 2013 and 2012, respectively.

f) Asset and liability data

The majority of the Group's embedded value has been calculated using a "hard close" approach, such that all asset and liability data reflect the actual position as of the valuation date.

Germany has followed an approach where liability model points are set up in advance, using the structure of a previous run, and then projected to the valuation date by scaling to match the expected balance sheet figures. New business model points are determined quarterly. For each quarter, new business model points are scaled to the expected APE in the quarter.

g) Market consistent discounting

The Group has adopted a "bottom-up" market consistent approach for the projection and discounting of future cash flows in the calculation of embedded value. As a result, the risks inherent in the cash flows are allowed for in a way that is consistent with the way the market is expected to allow for such risks.

In principle, this method values each cash flow using a discount rate consistent with that applied to such a cash flow in the capital markets. For example, an equity cash flow is valued using an equity risk discount rate, and a debt security cash flow is valued using a debt security discount rate. If a higher return is assumed for equities, the equity cash flow is discounted at this higher rate.

In practice, the Group has applied a computational method known as a "risk neutral" approach. This involves projecting the assets and liabilities using a distribution of asset returns where all asset types, on average, earn the same risk free rate.

The risk free yield curve assumptions are based on the swap curve in each major currency (U.S. dollars, euro, British pounds and Swiss francs). For liabilities where payouts are either independent or move linearly with markets, deterministic techniques (referred to as "certainty equivalent") have been used. In such cases, the projection and discounting are based on the same risk free yield curve. Further details are set out under "Economic assumptions" in section 13.

h) Economic scenario generator
All operations use actual yield curves observable as of the valuation date for the calculation of the certainty equivalent value of business in-force.

The calculations of the TVFOG are based on stochastic simulations using an economic scenario generator provided by Barrie & Hibbert. The outputs ("simulations") have been calibrated to conform to the economic parameters specified by the Group.

The simulations used for calculation of TVFOG reflect the actual yield curves and implied volatilities observable as of the valuation date.

Simulations are produced for the economies in the U.S., the UK, Switzerland and the eurozone. In each economic area, risk free nominal interest rates are modeled using a LIBOR market model. The excess return on other asset classes relative to the total returns on risk free assets are then modeled using a multi-factor lognormal model. Hong Kong uses U.S. dollar simulations because their principal liabilities are U.S. dollar-denominated. Chile uses closed form solutions rather than simulations. Other operations, not mentioned above, have no significant options and guarantees. Further details are set out under "Economic assumptions" in section 13.

i) Expenses
Initial commissions and renewal commissions directly attributable to policies are allocated to those policies.

In 2013, management changes have been made to the methodology for allocating expenses between those which are included in unit costs and those which are charged as expenses in operating experience variances or as development expenses or one-off expenses in other operating variances.

Business units allocate expenses incurred by them between those expenses that form the unit cost base for assumption setting, and those that are excluded from the unit cost base. Any expense excluded from the unit cost base requires approval from the Global Life Chief Financial Officer.

Expenses that form the unit cost base for assumption setting are split into initial expenses and maintenance expenses. The initial expenses impact the new business value directly. The maintenance expenses form the basis for the maintenance expense assumptions and impact the new business value and value of business in-force directly.

Expenses excluded from the unit cost base for embedded value reporting are split into development expenses and one-off expenses. Development expenses relate to expenses incurred to improve the long-term capacity of the business or to reduce its future unit costs, and include certain expenses for start-up operations, certain expenses for regional offices, and certain central overhead expenses not reflected in the long-term assumptions of the business units. They also include certain project-based costs and certain distribution expenses. One-off expenses are those that are not expected to recur and are short-term in nature. Development expenses and one-off expenses do not impact the new business value.

The expenses of start-up operations and of regional offices focused on developing or supporting new businesses are likely to exceed the levels of expense that can be absorbed by the initial level of business generated in those business units. In these cases, expenses included in the unit cost base are based on long-term initial and maintenance expense assumptions which are then the basis for new business value. Expenses incurred in excess of those in the long-term assumptions are written off substantially as development expenses. The value of business in-force reflects the long-term maintenance expense assumptions and the projected excess of maintenance expenses over the long-term maintenance expense assumptions relating to business in-force. The value of such excess is written off to other operating variances as development expenses. This is a management change to expense methodology in 2013 and the projected excess maintenance expenses for start-up operations and regional office expenses is USD 246 million, reported as a development expense. In previous years, such expenses were reported annually as incurred.

In previous years, certain central expenses not reflected in the long-term assumptions of the business units were written off to other operating variances as development expenses as incurred. As of December 31, 2013 these are treated as a maintenance expense for embedded value reporting and a capitalized value of the projected amount

Embedded value report *continued*

is included as a negative value of business in-force for region Other. The impact of this change at December 31, 2013 is USD 347 million and is reported as a development expense.

In previous years, certain project-based costs related to intangible assets were reported as variances in line with amortization. In 2013, as part of the management changes to expense methodology, all such intangible assets were written off through development expenses in embedded value. This reduced embedded value by USD 83 million as of December 31, 2013. This is not an impairment of value of these intangible assets.

Certain payments to distributors or sales agents are made in exchange for an expectation of new business production over a period longer than one year. Such payments, whether up-front or payable in stages, are reported as development expenses.

All expenses in embedded value are net of tax appropriate to the business unit to which the expense is charged.

j) Holding companies
Holding companies allocated to Global Life have been consolidated in embedded value at their shareholders' equity. Related expenses have been included in the projection assumptions. Holding companies outside Global Life are not included in embedded value of the covered business.

k) Consolidation adjustments
Where a reinsurance arrangement exists between two life companies within Global Life, the value of the reinsurance is shown in embedded value of the region to which the ceding company belongs.

Embedded value is shown net of non-controlling interests. Where the Group has a controlling interest in a subsidiary company, the new business value and the premium information are shown gross of non-controlling interests. The non-controlled share of new business value is eliminated through "new business value non-controlling interests".

l) Debt
Where a loan exists between a company in Global Life and a Group company outside Global Life, the loan is included in embedded value at the same value included in the balance sheet of the other Group company.

m) "Look through" principle – service companies
There are some companies within Global Life that provide administration and distribution services. These are valued on a "look through" basis. The results do not include any Group service companies outside Global Life.

In Germany, the majority of distribution and administration is provided by service companies. These are valued on a "look through" basis. These companies also provide limited services to companies outside Global Life. The value of business in-force and new business value reflect the services provided to companies within Global Life. The shareholders' net assets of Global Life include, however, the full shareholders' net assets of these service companies.

In Switzerland, an investment management company provides asset management services to pension schemes written in foundations and other pension funds. The present value of the net asset management fees, after tax, is included in embedded value and new business value.

n) Employee pension schemes
In the Group's Consolidated financial statements, actuarial gains and losses arising from defined benefit pension and other defined benefit post-retirement plans are recognized in full in the period in which they occur and are presented on a separate line in the statement of comprehensive income, with a liability recognized for employee benefit deficits under IAS 19. This adjustment has not been made in the detailed embedded value described in this Embedded value report. If the adjustment had been made embedded value as of the valuation date would have been lower by USD 1,099 million. The actuarial and economic assumptions used for this adjustment are consistent with those used for the equivalent allowance made in the Group's Consolidated financial statements.

Expense assumptions for each life business include expected pension scheme costs in respect of future service entitlements.

o) Change in legislation or solvency regime
The impacts of changes in legislation or solvency regimes are included in economic variance for the analysis of movement when they occur.

p) Translation to Group presentation currency
To align embedded value reporting with the Group's Consolidated financial statements, relevant results have been translated to the Group presentation currency, U.S. dollar, using average exchange rates for the period. This applies to new business value and new business volumes (APE and PVNBP) for the current period and comparative figures. This approach has also been applied to the analysis of movement. Valuations as at a specified date are translated at end-of-period exchange rates.

The rates can be found in note 1 of the audited Consolidated financial statements as of December 31, 2013.

q) Sensitivities
The key assumption changes represented by each of the sensitivities in section 10 are as follows:

Operating sensitivities

A 10 percent increase in initial expenses was considered for new business value only.

A 10 percent decrease in maintenance expenses means that, for example, a base assumption of USD 30 per annum would decrease to USD 27 per annum.

A 10 percent decrease in voluntary discontinuance rates means that, for example, a base assumption of 5 percent per annum would decrease to 4.5 percent per annum.

A 5 percent improvement in mortality and morbidity assumptions for assurances means that, for example, if the actuarial mortality assumption for assurances was 90 percent of a particular table, this would decrease to 85.5 percent.

A 5 percent improvement in mortality assumptions for annuities means that, for example, if the actuarial mortality assumption for annuities was 90 percent of a particular table, this would decrease to 85.5 percent.

Required Capital set to Minimum Solvency Capital means that frictional costs are applied to minimum solvency capital only and frictional costs on excess solvency capital are released.

Economic sensitivities

A 100 basis points increase and decrease was applied to the risk free forward yield curve across all durations. For the 100 basis points decrease sensitivity, if a risk free forward annual yield at a given duration is less than 100 basis points, the decrease is to zero at that duration, not to a negative rate.

A 10 percent fall in equity and property market values was assessed for embedded value only.

A 25 percent increase in implied risk free volatilities means that, for example, a volatility of 20 percent per annum would increase to 25 percent per annum.

A 25 percent increase in implied equity and property volatilities means that, for example, a volatility of 20 percent per annum would increase to 25 percent per annum.

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised conditions. The results include any impact of the assumption changes on the time value of financial options and guarantees.

Embedded value report *continued*

13. Embedded value assumptions

Projections of future shareholder cash flows expected to emerge from covered business and for new business are determined using best estimate operating assumptions. These assumptions, including mortality, morbidity, persistency and expenses, reflect recent experience and are reviewed annually and updated as appropriate. Allowance is made for future improvements in annuitant mortality based on experience and externally published data. Favorable changes in future operating efficiency are not anticipated in the assumptions – in particular for expenses and persistency.

For the purposes of calculating the value of business in-force, future economic assumptions, for example, investment returns and inflation, are based on period end conditions and assumed risk discount rates are consistent with these conditions.

For the purposes of calculating new business value, for each discrete quarter of new business, economic assumptions are based on market conditions at the start of the quarter. New business operating assumptions are reviewed annually and updated as appropriate with effect from the first quarter of the next calendar year. In general the operating assumptions remain unchanged throughout the year.

a) Economic assumptions

Market consistent framework

The Group has adopted a computational method known as "risk neutral." With this method the key economic assumptions are:

- risk free rates;
- implied volatilities of different assets; and,
- correlations between different asset returns.

Expected asset returns in excess of the risk free rate have no bearing on the calculated embedded value other than in the expected contribution used for the analysis of embedded value earnings. The expected return for equities comprises an equity risk premium added to the start of period one year swap rate. The expected return on corporate bonds is equal to the start of period one year swap rate plus a risk premium estimated by comparing the market yield on corporate bonds with the swap rates for equivalent durations. In addition, a reduction must be made to the yield to allow for the expected level of defaults.

Choice of "risk free yield curve"

The risk free yield curve is derived from mid-market swap rates applicable to each economy as of the valuation date. These curves were used to extract forward reinvestment yields that are used for all asset classes. The yield curves are consistent with the assumptions used by investment banks to derive their option prices and their use ensures consistency with the derivation of implied volatilities. They also have the advantage of being available for most of the markets in which the Group operates. Domestic yield curves are used by businesses in other countries, except Hong Kong and Argentina which use the U.S. dollar, as their liabilities are principally U.S. dollar-denominated.

Implied asset volatility and correlations

The Group's embedded value model is based on market consistent assumptions. Interest volatility is derived from the implied volatility of interest rate swaptions. Swaption implied volatilities vary both by the term of the option and also the term of the underlying swap contract, a fact that is reflected in the economic scenarios. The equity volatilities are based on at-the-money forward European options on capital indices, consistent with traded options in the market. Volatility of property investments is derived from relevant historical return data for each modeled economy. Assumptions for long-term equity volatility and long-term correlations between equity, property and bond indices are prepared with reference to historical analysis.

Inflation

Inflation assumptions have been derived from the yields on index linked government bonds relative to the corresponding nominal government yield curve, where such index linked government bonds exist. Where appropriate, allowance has been made for expense inflation to exceed the assumed level of price inflation reflecting the contribution of salary related expenses to life company expenses. In Switzerland, reference was made to Swiss Financial Market Supervisory Authority (FINMA) published rate.

Risk discount rate

Under the "risk neutral" approach, risk discount rates are based on the same risk free yield curves as those used to project the investment return.

For stochastic modeling, the risk discount rates are simulation specific and also vary by calendar year consistently with the projected risk free yields in each simulation.

Liquidity premiums

The CFO Forum engaged Barrie & Hibbert who estimated a liquidity premium proxy to be equal to 50 percent times the credit spread over swaps less 40 basis points where credit spreads over swaps are equal to the credit spread on a representative corporate bond index less the swap rate for each particular currency.

The Group applies liquidity premium in the operating currencies of U.S. dollar, euro, British pound and Swiss franc in its embedded value.

The liquidity premium is applied to the following lines of business:

- 100 percent for annuities;

- 75 percent for contracts with participating features, universal life contracts and fixed interest annuities in the U.S.;

- 0 percent for all other lines of business.

All sensitivities in the report relate to the base yield curve with no liquidity premium.

Expected contribution

The expected contribution for the analysis of embedded value earnings is based on a projection from the start of period to the end of period. This requires assumptions regarding the investment returns expected to be achieved over the period on different asset classes. The investment return assumptions (for this purpose only) are based on the "real world" returns expected by the Group. The use of "real world" investment assumptions gives a more realistic basis for the expected contribution calculation and allows for the risk underlying each asset. Any under or over performance will be reported through economic variance.

For fixed interest assets, the "real world" investment return assumptions are based on the gross redemption yield on the assets, less an allowance for defaults where appropriate, together with an adjustment to reflect the change over the period implied in the yield curve assumptions.

For equity assets for units where there is a substantial equity allocation, the investment return assumption is based on the long-term "real world" expected return. For equity assets for units without a material equity allocation the investment return assumption is based on the one year swap rate at the start of period plus a margin to reflect the additional risk associated with investment in this asset class.

For property assets, the investment return assumptions are based on the one year swap rate at the start of period plus a margin to reflect the additional risk associated with investment in this asset class.

These assumptions have been set by asset class and separately for each sub-fund in each life business in order to best reflect the actual assets held.

Participating business

Rates of future bonus or crediting rates have been set at levels consistent with the "risk neutral" investment return assumptions and current bonus plans. In the UK, bonus rates have been set so as to exhaust any remaining assets in the relevant long-term funds. In certain scenarios shareholder injections may be required to meet existing guaranteed benefits and this additional cost is included in the TVFOG.

In other European life businesses and in the U.S., bonuses have been set to be consistent with the investment return assumptions and with the book value approach used by these life businesses in practice. Existing practice, contractual and regulatory requirements as well as the reasonable expectations of policyholders are considered in setting bonuses.

Embedded value report *continued*

Taxation

Current income tax legislation and rates have been assumed to continue unaltered, except where changes in future such tax rates or practices have been announced.

b) Operating assumptions

Demographic assumptions

The assumed future mortality, morbidity and lapse rates have been derived from recent operating experience and relevant industry statistics. Where operating experience or industry statistics are limited, the assumptions are derived from a best estimate of future developments and are subject to regular review as more experience emerges. Where appropriate, surrender and option take-up rate assumptions that vary according to the investment simulation under consideration have been used, based on an assessment of likely policyholder behavior.

As of December 31, 2013 the valuation approach for some group savings schemes and group pension schemes was changed from the individual member approach to the scheme approach. Under the scheme approach, it is assumed members leaving the scheme will be replaced by members joining the scheme and hence the scheme population will remain on average stable over time; however, an assumption for the entire scheme lapsing is made. The scheme approach is considered appropriate when it is clear that the negotiation and pricing activity is carried out at a scheme level. This change increased the value of business in-force, and hence embedded value, as of December 31, 2013 by USD 42 million. For each scheme, measurements of future new business volumes and values will be consistent with the valuation approach used for the value of business in-force.

Expense assumptions

Management expenses have been analyzed between expenses related to acquisition of new business, the maintenance of business in-force and, where appropriate, development expenses and one-off expenses. Future expense assumptions allow for expected levels of maintenance expenses. Headquarters' expenses relating to covered business have been allocated to business units, or to Global Life's central unit which is in region Other, and are reflected in assumed future expenses.

The maintenance expense assumptions allow for the expected cost of providing future service benefits in respect of the Group staff pension schemes. An adjustment to embedded value is noted in section 12 n) for pension scheme liabilities and no allowance is made in the expense assumptions for any contributions as a result of past service benefits.

No allowance has been made for future productivity improvements in the expense assumptions.

Where service companies have been valued on a "look through" basis, the value of profits or losses arising from these services have been included in embedded value and new business value.

Zurich is liable for payments to be made to various distributors, each payment being dependent on preceding sales volumes or profits or other factors, in accordance with distribution agreements. As part of the economic valuation, for each such agreement, a liability is included in embedded value shareholders' net assets for the best estimate of the next potential payment attributable to the business issued to date.

In countries where significant development work is performed these are shown under "development expenses".

c) Dynamic decisions

To reflect more realistically the outcome of stochastic simulations, the assumptions for each simulation make allowance for the behavior of policyholders and management actions in response to the investment conditions modeled.

In many life businesses, policyholders can exercise an option against the life company in certain circumstances, such as to surrender a policy. This leads to an increase in the assumed lapse rates when interest rates rise (or a corresponding reduction when interest rates fall). This dynamic effect in relation to lapse rates has been allowed for in the stochastic models.

The stochastic models allow, where appropriate, for management actions to change investment strategy in response to market conditions.

THIS PAGE HAS INTENTIONALLY BEEN LEFT BLANK

Appendix

Embedded value results Global Life, by region

in USD millions, for the years ended December 31	North America		Latin America	
	2013	2012	**2013**	2012
Embedded value information:				
Opening embedded value	**2,594**	2,780	**1,615**	683
Dividends in the first six months of the year[1]	(68)	(109)	(24)	(5)
Capital and other movements in the first six months of the year[1]	1		(20)	
New business value[2]	117	109	368	99
Expected contribution from in-force	159	171	42	31
Operating experience variances	(13)	(24)	18	(20)
Operating assumption changes	(265)	(113)	(19)	(14)
Other operating variances	(51)	(221)	(48)	(22)
Embedded value operating earnings[2]	**(53)**	(79)	**361**	75
Economic variances	57	99	(191)	(11)
Other non-operating variances	26	30	(2)	(2)
Embedded value earnings[2]	**30**	50	**168**	62
Dividends in the last six months of the year[1]	(68)	(127)	(182)	869
Capital and other movements in the last six months of the year[1]	145		53	
New business value non-controlling interests	–	–	(133)	(2)
Foreign currency translation effects	–	–	(161)	7
Closing embedded value	**2,634**	2,594	**1,315**	1,615
New business information:				
Annual premiums	154	110	855	704
Single premiums	74	154	3,231	517
Annual premium equivalent (APE)	162	125	1,178	755
Present value of new business premiums (PVNBP)	1,406	1,227	6,158	2,458
New business value	**117**	109	**368**	99
New business margin (% of APE)	72.4%	87.1%	31.2%	13.2%
New business margin (% of PVNBP)	8.3%	8.9%	6.0%	4.0%

[1] In 2012 dividends included capital and other movements.
[2] Embedded value operating earnings and embedded value earnings are gross of new business value non-controlling interests.

of which Zurich Santander		Europe		Asia-Pacific and Middle East		Other		Global Life	
2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
820	–	**11,298**	9,701	**3,043**	2,465	**312**	217	**18,861**	15,846
(22)	–	(347)	(365)	–	(11)	(26)	(45)	(465)	(534)
(35)		43		93		(1)		116	
268	–	490	453	177	125	99	103	1,251	890
32	–	392	658	94	93	2	2	689	954
7	–	22	(124)	–	(50)	(8)	(2)	19	(220)
22	–	(95)	(102)	(226)	(4)	(50)	6	(655)	(226)
4	–	390	593	(225)	(16)	(515)	8	(449)	342
332	–	**1,198**	1,477	**(178)**	148	**(472)**	117	**855**	1,739
37	–	706	224	(28)	86	(6)	7	537	405
(5)	–	(121)	37	(54)	(62)	(2)	3	(153)	6
365	–	**1,782**	1,738	**(261)**	172	**(480)**	127	**1,240**	2,150
(146)	833	(77)	(59)	(15)	371	–	6	(342)	1,059
–		(7)		11		6		208	
(131)	–	(56)	(44)	(1)	–	–	–	(190)	(46)
(75)	(13)	408	326	(163)	46	(12)	7	71	387
776	820	**13,044**	11,298	**2,707**	3,043	**(201)**	312	**19,499**	18,861
561	–	1,398	1,374	483	403	90	86	2,981	2,677
2,603	–	9,782	11,642	466	608	824	605	14,378	13,527
821	–	2,376	2,538	530	464	173	147	4,418	4,030
4,381	–	27,751	26,998	3,368	3,058	1,903	1,554	40,586	35,296
268	–	**490**	453	**177**	125	**99**	103	**1,251**	890
32.6%	–	20.6%	17.9%	33.5%	26.9%	57.4%	70.1%	28.3%	22.1%
6.1%	–	1.8%	1.7%	5.3%	4.1%	5.2%	6.6%	3.1%	2.5%

Appendix *continued*

Embedded value results Europe

in USD millions, for the years ended December 31

	United Kingdom		Germany	
	2013	2012	**2013**	2012
Embedded value information:				
Opening embedded value	**4,130**	3,692	**2,589**	2,058
Dividends in the first six months of the year[1]	–	6	(4)	(1)
Capital and other movements in the first six months of the year[1]	55		3	
New business value[2]	167	195	43	37
Expected contribution from in-force	61	176	54	236
Operating experience variances	(6)	(52)	2	2
Operating assumption changes	(83)	(29)	(47)	(28)
Other operating variances	(15)	197	357	286
Embedded value operating earnings[2]	**124**	488	**409**	533
Economic variances	(100)	(269)	38	(14)
Other non-operating variances	(91)	17	(40)	1
Embedded value earnings[2]	**(66)**	236	**408**	521
Dividends in the last six months of the year[1]	–	13	(77)	(34)
Capital and other movements in the last six months of the year[1]	–		–	
New business value non-controlling interests	–	–	(1)	(1)
Foreign currency translation effects	74	183	128	47
Closing embedded value	**4,193**	4,130	**3,046**	2,589
New business information:				
Annual premiums	652	583	307	382
Single premiums	3,670	6,117	557	707
Annual premium equivalent (APE)	1,019	1,194	363	453
Present value of new business premiums (PVNBP)	15,422	14,112	2,937	4,503
New business value	**167**	195	**43**	37
New business margin (% of APE)	16.4%	16.4%	11.8%	8.2%
New business margin (% of PVNBP)	1.1%	1.4%	1.5%	0.8%

[1] In 2012 dividends included capital and other movements.
[2] Embedded value operating earnings and embedded value earnings are gross of new business value non-controlling interests.

Europe									
Switzerland		Ireland		Spain		Rest of Europe		Europe total	
2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
2,286	2,126	**1,204**	1,156	**281**	164	**808**	506	**11,298**	9,701
(163)	(355)	–	13	(27)	(19)	(153)	(8)	(347)	(365)
4		13		(6)		(27)		43	
60	25	68	66	117	94	35	36	490	453
139	166	19	22	66	17	52	40	392	658
12	(5)	9	(51)	14	(18)	(9)	–	22	(124)
103	(13)	(47)	(49)	(24)	2	2	14	(95)	(102)
111	79	(68)	(26)	(5)	126	8	(70)	390	593
426	253	**(19)**	(38)	**169**	222	**88**	19	**1,198**	1,477
302	192	73	52	153	(18)	239	280	706	224
8	24	–	–	–	(1)	2	(5)	(121)	37
735	470	**54**	14	**322**	203	**329**	294	**1,782**	1,738
–	(10)	–	–	–	(29)	–	–	(77)	(59)
(2)		–		(4)		–		(7)	
–	–	–	–	(55)	(43)	–	–	(56)	(44)
86	55	56	20	21	6	42	16	408	326
2,946	2,286	**1,328**	1,204	**533**	281	**999**	808	**13,044**	11,298
111	107	117	116	84	69	128	116	1,398	1,374
1,141	1,127	3,037	2,388	703	803	675	501	9,782	11,642
225	220	420	355	155	149	195	167	2,376	2,538
2,651	2,544	3,637	3,033	1,410	1,335	1,694	1,471	27,751	26,998
60	25	**68**	66	**117**	94	**35**	36	**490**	453
26.7%	11.5%	16.1%	18.5%	75.4%	62.9%	17.9%	21.5%	20.6%	17.9%
2.3%	1.0%	1.9%	2.2%	8.3%	7.0%	2.1%	2.4%	1.8%	1.7%

Statement by Directors

Statement by Directors

This Embedded value report has been prepared in all material respects in accordance with the Market Consistent Embedded Value Principles and Guidance issued by the European Insurance CFO Forum in October 2009.

The methodology and assumptions underlying the report are described in sections 12 and 13.

Auditor's report on embedded value

Auditor's report on embedded value

To the Board of Directors of Zurich Insurance Group Ltd

We have audited the Embedded value report of Zurich Insurance Group Ltd ("the Company") included on pages 305 to 338 of the Annual Report 2013 for the year ended December 31, 2013. The embedded value information included in the Embedded value report has been prepared in accordance with the Market Consistent Embedded Value ("MCEV") Principles and Guidance issued by the European Insurance CFO Forum, as described on pages 324 to 329.

Board of Directors' Responsibility
The Board of Directors is responsible for the preparation of the Embedded value report in accordance with the MCEV Principles and Guidance, including consistency of the applied methodology and the assumptions used and for such internal controls as determined necessary to enable the preparation of the Embedded value report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on whether the Embedded value report has been properly prepared in accordance with the MCEV Principles and Guidance. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Embedded value report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Embedded value report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Embedded value report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the Embedded value report 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 controls. An audit also includes evaluating the appropriateness of the principles used and the reasonableness of significant estimates made, as well as evaluating the adequacy of the overall presentation of the Embedded value report.

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 Embedded value report of the Company for the year ended December 31, 2013 is prepared, in all material respects, in accordance with the MCEV Principles and Guidance.

Basis of preparation
Without modifying our opinion, we draw attention to sections 12 and 13 of the Embedded value report, which describe the basis of embedded value methodology and embedded value assumptions. The Embedded value report is prepared in compliance with the MCEV Principles and Guidance referred to above and as a result, may not be suitable for another purpose. This report does not extend to any financial statements of Zurich Insurance Group Ltd.

PricewaterhouseCoopers AG

Richard Burger
Audit expert

Stephen O'Hearn
Global relationship partner

Zurich, February 12, 2014

Holding company

Principal activity and review of the year

Zurich Insurance Group Ltd was incorporated on April 26, 2000, and is the holding company of the Zurich Insurance Group with the principal activity of holding subsidiary companies. The company is listed on the SIX Swiss Exchange.

Net income after taxes for the year was CHF 2,327 million compared with CHF 2,382 million in 2012. The result was mainly driven by the lower dividend income from its subsidiary Zurich Insurance Company Ltd which paid a dividend of CHF 2,200 million in 2013, compared with CHF 2,400 million in 2012 and by higher interest income of CHF 307 million compared with CHF 101 million in the previous year. In 2013, other financial expenses of CHF 207 million included impairments on investments in subsidiaries of CHF 160 million, compared with CHF 190 million in 2012, thereof CHF 75 million related to impairments on investments in subsidiaries.

The Annual General Meeting on April 4, 2013, approved a gross dividend of CHF 17.00 per share to be paid free of Swiss withholding tax to the shareholders out of the capital contribution reserve.

Shareholders' equity decreased by CHF 36 million to CHF 16,662 million as of December 31, 2013, from CHF 16,699 million as of December 31, 2012, as a result of the dividend paid in 2013, partially offset by the net income after taxes for the year and capital contributed through the issuance of new shares to employees out of the contingent capital. The Board will propose a dividend from the capital contribution reserve of CHF 17.00 per share for the year 2013 for approval at the Annual General Meeting to be held on April 2, 2014.

Income statements

in CHF thousands, for the years ended December 31	Notes	2013	2012
Revenues			
Interest income	3	307,361	100,581
Dividend income		2,200,000	2,400,000
Other financial income	4	46,583	79,495
Other income	5	18,464	18,690
Total revenues		2,572,408	2,598,766
Expenses			
Administrative expense	6	(19,768)	(19,365)
Other financial expense	7	(207,372)	(190,330)
Tax expense	8	(18,230)	(6,934)
Total expenses		(245,370)	(216,629)
Net income after taxes		**2,327,038**	**2,382,137**

Holding company *continued*

Balance sheets

Assets

in CHF thousands, as of December 31	Notes	2013	2012
Non-current assets			
Investments in subsidiaries	9	11,619,569	11,779,569
Subordinated loans to subsidiaries	10	4,876,670	4,877,074
Total non-current assets		16,496,239	16,656,643
Current assets			
Cash and cash equivalents		767	12,786
Loans to subsidiaries		260,314	646,367
Receivables from subsidiaries		466,229	–
Receivables from third parties		99	808
Accrued income from subsidiaries		298	306
Accrued income from third parties		14	14
Total current assets		727,721	660,281
Total assets		**17,223,960**	**17,316,924**

Liabilities and shareholders' equity

Short-term liabilities			
Other liabilities to subsidiaries		–	668
Other liabilities to third parties		12,507	865
Other liabilities to shareholders		810	607
Accrued liabilities to subsidiaries		1,836	14,227
Accrued liabilities to third parties		40,250	63,622
Derivatives with subsidiaries		3,033	3,065
Total short-term liabilities		58,436	83,054
Long-term liabilities			
Long-term loans from subsidiaries		466,229	479,029
Provisions		36,874	56,067
Total long-term liabilities		503,103	535,096
Total liabilities		561,539	618,150
Shareholders' equity (before appropriation of available earnings)			
Share capital	12	14,890	14,830
Legal reserves:		8,660,644	11,029,552
Capital contribution reserve	*13*	*8,319,504*[1]	*10,688,412*
General capital contribution reserve		*7,997,448*	*10,359,588*
Reserve for treasury shares	*14*	*322,056*	*328,824*
General legal reserve		*341,140*	*341,140*
Free reserve:			
As of January 1		*332,986*	*332,986*
Transfer from capital contribution reserve		*5,457*	*2,494,314*
Dividends paid		*–*	*(2,494,314)*[2]
Free reserve, as of December 31		338,443	332,986
Retained earnings:			
As of January 1		*5,321,406*	*2,939,269*
Net income after taxes		*2,327,038*	*2,382,137*
Retained earnings, as of December 31		7,648,444	5,321,406
Total shareholders' equity (before appropriation of available earnings)		16,662,421	16,698,774
Total liabilities and shareholders' equity		**17,223,960**	**17,316,924**

[1] Dividends paid in the year, out of capital contribution reserve in respect of the 2012 result, amounting to CHF 2,507,249
[2] Dividends paid in the year, in respect of the 2011 result

Notes to the financial statements

1. Basis of Presentation
Zurich Insurance Group Ltd (the Company) presents its financial statements in accordance with Swiss law. The latest changes within the Swiss Code of Obligations effective January 1, 2013, were not yet adopted due to the transitional period.

Unless otherwise stated all amounts in these financial statements including the notes are shown in Swiss franc thousands, rounded to the nearest thousand.

2. Summary of significant accounting policies
a) Exchange rates
Unless otherwise stated, assets and liabilities expressed in currencies other than Swiss francs are translated at year end exchange rates. Revenues and expenses are translated using the exchange rate at the date of the transaction. Net unrealized exchange losses are recorded in the income statements and net unrealized exchange gains are deferred until realized.

b) Investments in subsidiaries
Investments in subsidiaries are equity interests, held on a long-term basis for the purpose of the holding company's business activities. They are carried at cost less adjustments for impairment.

c) Accrued income
Income is accrued for interest which is earned but not yet due for payment at the end of the reporting period.

d) Derivatives
Derivatives are carried at market value, with changes in the market value recorded in the income statements.

3. Interest income
Interest income is earned mainly on the Company's subordinated loan of CHF 4,832 million with its subsidiary Zurich Insurance Company Ltd. The increase of CHF 207 million compared to 2012 is the result of higher interest earned in 2013 on this loan.

4. Other financial income
Other financial income primarily includes realized foreign exchange gains and net gains on derivatives with subsidiaries.

5. Other income
Other income for 2013 mainly represents the partial release of CHF 18.4 million (prior year CHF 18.7 million) of the irrevocable commitment made by the Company on behalf of the Zurich Insurance Group to the Z Zurich Foundation in 2011, as another Group company made the 2013 and 2012 payments.

6. Administrative expense
Administrative expense includes directors' fees of CHF 4.0 million for the year ended December 31, 2013 and CHF 4.1 million for the previous year as well as overhead expenses of CHF 10.0 million for both the years ended December 31, 2013 and 2012. Fees paid to the Swiss Financial Market Supervisory Authority slightly increased by CHF 0.1 million to CHF 3.5 million for 2013.

7. Other financial expense
Other financial expense includes impairments on investments in subsidiaries of CHF 160 million in 2013 and CHF 75 million in the previous year.

8. Tax expense
The tax expense consists of income, capital and other taxes.

Holding company *continued*

9. Investments in subsidiaries

Investment in subsidiaries

as of December 31	2013		2012	
	Carrying value[1]	**Voting rights in %**	Carrying value[1]	Voting rights in %
Zurich Insurance Company Ltd	11,088,466	100.00	11,088,466	100.00
Zurich Financial Services EUB Holdings Ltd	372,936	99.90	532,936	99.90
Farmers Group, Inc.	157,992	12.10	157,992	12.10
Allied Zurich Limited	175	100.00	175	100.00
Total	**11,619,569**		**11,779,569**	

[1] in CHF thousands

The investment in Zurich Financial Services EUB Holdings Limited was impaired by CHF 160 million in 2013 compared with an impairment of CHF 75 million in the previous year.

10. Subordinated loans to subsidiaries

Subordinated loans have remained unchanged in local currency compared with 2012, and mainly include a loan to Zurich Insurance Company Ltd of CHF 4,832 million as of December 31, 2013 and 2012.

11. Commitments and contingencies

Zurich Insurance Group Ltd has provided unlimited guarantees in support of various entities belonging to the Zurich Capital Markets group of companies. The Company has also entered into various support agreements and guarantees for the benefit of certain of its subsidiaries and their directors. They amounted to CHF 11,448 million as of December 31, 2013, and CHF 11,587 million as of December 31, 2012. CHF 8,256 million out of the total of CHF 11,448 million relate to guarantees in the aggregate amount of GBP 5,595 million provided to a fully owned subsidiary and certain of its directors in connection with the restructuring of the Group's top legal holding structure which resulted in the merger of Zurich Group Holding into Zurich Insurance Group Ltd (formerly known as Zurich Financial Services Ltd) in December 2009. These guarantees will expire in August 2015. Furthermore, the Zurich Insurance Group Ltd has issued an unlimited guarantee in favor of the Institute of London Underwriters in relation to business transferred to Zurich Insurance plc from a group company which no longer has insurance licenses.

Zurich Insurance Group Ltd knows of no event of default that would require it to satisfy any of these guarantees or to take action under a support agreement.

12. Shareholders' equity

a) Issued share capital

In 2013, there was no change to the ordinary share capital. At the Annual General Meeting on March 29, 2012, the shareholders approved an extension of authorized share capital with the number of shares remaining unchanged at 10,000,000 fully paid registered shares with a nominal value of CHF 0.10 each until March 29, 2014. In 2012, there were no changes to the ordinary share capital or to the authorized share capital.

During the years 2013 and 2012, a total of 603,099 shares and 914,301 shares, respectively, were issued to employees out of the contingent capital.

b) Authorized share capital

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

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

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

c) Contingent share capital

Capital market instruments and option rights to shareholders

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

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

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

Employee participation

On January 1, 2012, the contingent share capital, to be issued to employees of Zurich Insurance Group Ltd and its subsidiaries, amounted to CHF 390,943.70 or 3,909,437 fully paid registered shares with a nominal value of CHF 0.10 each. On January 1, 2013, the contingent share capital, to be issued to employees of Zurich Insurance Group Ltd and its subsidiaries, amounted to CHF 299,513.60 or 2,995,136 fully paid registered shares with a nominal value of CHF 0.10 each.

During 2013 and 2012, 603,099 shares and 914,301 shares, respectively, were issued to employees out of the contingent share capital. Of the total 603,099 registered shares issued to employees during the year 2013, 479,377 shares were issued in the period from January 1, 2013 to March 31, 2013 and 123,722 registered shares were issued as from April 1, 2013, to December 31, 2013. As a result, on December 31, 2013 and 2012, respectively, the remaining contingent share capital, which can be issued to employees of Zurich Insurance Group Ltd and its subsidiaries, amounted to CHF 239,203.70 and CHF 299,513.60 or 2,392,037 and 2,995,136 fully paid registered shares, respectively, with a nominal value of CHF 0.10 each. Pre-emptive rights of the shareholders, as well as the right for advance subscription, are excluded. The issuance of shares to employees is subject to one or more regulations to be issued by the Board and take into account performance, functions, levels of responsibility and criteria of profitability. Shares or option rights may be issued to the employees at a price lower than the price quoted on the SIX Swiss Exchange.

Holding company *continued*

13. Capital contribution reserve

Capital contribution reserve

in CHF thousands	2013	2012
As of January 1	10,688,412	12,981,667
Transfer to free reserve for dividend payment	–	(2,494,314)
Transfer to free reserve (adjustment capital contribution reserve)	(5,457)	–
Dividend payment out of capital contribution reserve	(2,507,249)	–
Agio on share-based payment transactions	143,798	200,631
Subscription rights out of capital increase 2002	–	428
As of December 31	**8,319,504**	**10,688,412**

14. Capital contribution reserve (reserve for treasury shares)

This reserve corresponds to the purchase value of all Zurich Insurance Group Ltd shares held by companies in the Zurich Insurance Group as shown in the table below. The Company itself does not hold any treasury shares.

Capital contribution reserve (reserve for treasury shares)

	Number of shares 2013	Purchase value 2013[1]	Number of shares 2012	Purchase value 2012[1]
As of January 1	1,348,395	328,824	1,373,392	334,910
Additions during the year	–	–	120	19
Sales during the year	(27,743)	(6,768)	(25,117)	(6,105)
As of December 31	**1,320,652**	**322,056**	**1,348,395**	**328,824**
Average purchase price of additions, in CHF		–		155
Average selling price, in CHF		247		229

[1] in CHF thousands

15. Shareholders

The shares registered in the share ledger as of December 31, 2013, were owned by 127,992 shareholders of which 122,403 were private individuals holding 26.2 percent of the shares (or 16.3 percent of all outstanding shares), 2,046 were foundations and pension funds holding 6.9 percent of the shares (or 4.3 percent of all outstanding shares), and 3,543 were other legal entities holding 66.9 percent of the shares (or 41.5 percent of all outstanding shares).

According to information available as of December 31, 2013, Zurich Insurance Group Ltd is not aware of any person or institution, other than BlackRock, Inc., New York, (4.97%) and Norges Bank, Oslo, (3.07%) which, directly or indirectly, had an interest as a beneficial owner in shares, option rights and/or conversion rights relating to shares of Zurich Insurance Group Ltd representing three percent or more of its issued shares.

Information required by art. 663c paragraph 3 of the Swiss Code of Obligations on the share and option holdings of the members of the Board of Directors and the members of the Group Executive Committee are disclosed in note 18.

16. Information on the risk assessment process

Refer to the disclosures in the Risk review on pages 127 to 168 of this Annual Report.

17. Remuneration of the Board of Directors and the Group Executive Committee

This note sets out details of the remuneration of the Board and of the members of the Group Executive Committee (GEC) in accordance with the information required by articles 663b^{bis} and 663c paragraph 3 of the Swiss Code of Obligations. This information should be read in connection with the unaudited Remuneration report, set out on pages 70 to 99 in which additional details of the remuneration principles and architecture can be found.

The remuneration paid to the Directors for their Board membership of Zurich Insurance Group Ltd, the holding company of the Group, and Zurich Insurance Company Ltd is paid entirely by Zurich Insurance Group Ltd. The fees for Mr. de Swaan's additional Board membership in Zurich Insurance plc (ZIP) and for the additional Board memberships of Ms. Bies and Mr. Nicolaisen in Zurich Holding Company of America (ZHCA) are paid by the respective companies. Remuneration paid to the members of the GEC is not paid by Zurich Insurance Group Ltd, but by the Group entities where they are employed. The remuneration shown below includes the remuneration that the members of the Board and the GEC received for all their functions in the Group. As the financial statements of the holding company are presented in Swiss francs, all figures are shown in Swiss francs, with totals also presented in U.S. dollars. The remuneration paid to the members of the Board is presented in Swiss francs. The remuneration of the members of the GEC is paid in local currency and therefore year-on-year comparisons are affected by movements in exchange rates.

Remuneration of Directors

The following tables set out the total fees paid to Directors of Zurich Insurance Group Ltd. All the Directors are also Directors of Zurich Insurance Company Ltd. The Directors receive a combined fee for their work in connection with Zurich Insurance Group Ltd and Zurich Insurance Company Ltd. In addition, Mr. de Swaan is a member of the Board of ZIP and Ms. Bies and Mr. Nicolaisen are members of the Board in ZHCA. The fee structure for Directors was reviewed and no changes were made for 2013. The fees are set out in the Remuneration report on page 84.

A fixed portion of the fee continues to be allocated towards the provision of three-year sales-restricted Zurich Insurance Group Ltd shares. The portion for the Chairman was set at CHF 333,500 for both years ended December 31, 2013 and 2012, the portion for the Vice-Chairman was set at CHF 125,000 for both years ended December 31, 2013 and 2012 and the portion for the other members of the Board at CHF 80,000 for both years ended December 31, 2013 and 2012. The overall fees are set out in the following tables:

Directors' fees 2013

in CHF							2013[1]
	Basic fee	Committee fee[2]	Chair fee[3]	Other fee[7]	Total fees[8]	Of which paid in cash	Of which allocated in shares[4, 5]
T. de Swaan, Chairman[6,10]	589,041	–	–	80,000	669,041	544,041	125,000
J. Ackermann, Former Chairman[6,10]	666,750	–	–	–	666,750	333,250	333,500
F. Kindle, Vice-Chairman[6,10]	281,424	34,658	–	–	316,082	236,082	80,000
S. Bies, Member	240,000	50,000	9,206	50,000	349,206	269,206	80,000
A. Carnwath, Member	240,000	50,000	–	–	290,000	210,000	80,000
V.L.L. Chu, Member	240,000	50,000	–	–	290,000	210,000	80,000
R. del Pino, Member	240,000	50,000	–	–	290,000	210,000	80,000
Th. Escher, Member	240,000	50,000	30,000	–	320,000	240,000	80,000
M. Mächler, Member[10]	177,986	37,260	–	–	215,246	155,630	59,616
A. Meyer, Member[10]	61,808	12,877	–	–	74,685	74,685	–
D. Nicolaisen, Member	240,000	50,000	40,000	50,000	380,000	300,000	80,000
R. Watter, Member	240,000	50,000	–	–	290,000	210,000	80,000
Total in CHF[9]	**3,457,009**	**434,795**	**79,206**	**180,000**	**4,151,009**	**2,992,893**	**1,158,116**
Total in USD[12]	**3,760,357**	**472,947**	**86,156**	**195,795**	**4,515,255**	**3,255,516**	**1,259,739**

Holding company *continued*

Directors' fees 2012

in CHF	2012[1]						
	Basic fee	Committee fee[2]	Chair fee[3]	Other fee[7]	Total fees[8]	Of which paid in cash	Of which allocated in shares[4, 13]
J. Ackermann, Chairman[6,11]	846,198	–	–	–	846,198	563,399	282,799
M. Gentz, Former Chairman[6,11]	243,170	–	–	–	243,170	243,170	n/a
T. de Swaan, Vice-Chairman[6,11]	342,172	12,159	7,295	85,000	446,626	332,569	114,057
S. Bies, Member	240,000	50,000		50,000	340,000	260,000	80,000
A. Carnwath, Member[11]	181,202	37,705	–	–	218,907	158,361	60,546
V.L.L. Chu, Member	240,000	50,000	–	–	290,000	210,000	80,000
R. del Pino, Member[11]	181,202	37,705	–	–	218,907	158,361	60,546
Th. Escher, Member	240,000	50,000	22,623	–	312,623	232,623	80,000
F. Kindle, Member	240,000	50,000	–	–	290,000	210,000	80,000
A. Meyer, Member	240,000	50,000	–	–	290,000	210,000	80,000
D. Nicolaisen, Member	240,000	50,000	40,000	50,000	380,000	300,000	80,000
V.L. Sankey, Member[11]	58,361	12,159	7,295	–	77,815	77,815	n/a
R. Watter, Member	240,000	50,000	–	–	290,000	210,000	80,000
Total in CHF[9]	**3,532,305**	**449,728**	**77,213**	**185,000**	**4,244,246**	**3,166,298**	**1,077,948**
Total in USD[12]	**3,797,932**	**483,547**	**83,019**	**198,912**	**4,563,411**	**3,404,402**	**1,159,009**

1 The remuneration shown in the tables is gross, based on the accrual principle and does not include any business-related expenses incurred in the performance of the Directors' services.
2 Committee members receive a cash fee of CHF 50,000 (CHF 50,000 in 2012) for all committees on which they serve, irrespective of the number. The committees on which the Directors serve are set out in the Corporate Governance Report on page 38.
3 Committee chairs receive an annual fee of CHF 30,000 (CHF 30,000 in 2012) and the chair of the Audit Committee receives an additional CHF 10,000 (CHF 10,000 in 2012). Ms. Bies took on the role of the Risk Committee Chair as of September 11, 2013. The committees on which the Directors serve and the chairs are set out in the Corporate Governance Report on page 38.
4 The shares allocated to the Directors are sales-restricted for three years.
5 As of June 16, 2013, Mr. Ackermann was allocated 1,384 shares, Mr. de Swaan was allocated 518 shares, and the other Board members were allocated 332 shares. The share price (CHF 240.90) as of June 15, 2013 was adopted to calculate the number of shares based on the fixed portion of the fee allocated in shares for the respective members. Where the value of the allocated shares did not equal the value of the portion of the fee to be allocated in shares, the difference was paid in cash.
6 Neither the Chairman nor the Vice-Chairman receive any additional fees for their committee work.
7 In addition to the fees received as Directors of Zurich Insurance Group Ltd, Ms. Bies, Mr. Nicolaisen and Mr. de Swaan earned fees for their board memberships of the following of Zurich Insurance Group companies:
– In both 2013 and 2012, Ms. Bies and Mr. Nicolaisen earned CHF 50,000 for their membership of the board of Zurich Holding Company of America (ZHCA).
– In 2013, Mr. de Swaan earned CHF 75,000 for his membership of the board of Zurich Insurance plc. He also earned an annual fee of CHF 5,000 for being chair of the audit committee of this company. In 2012, Mr. de Swaan earned CHF 75,000 in respect for his work on the board of Zurich Insurance plc and Zurich Life Assurance plc. He also earned an annual fee of CHF 10,000 for being chair of the audit committees of these two companies.
8 Swiss-based Directors are eligible for selected employee benefits.
9 In line with applicable laws, Zurich paid the company-related portion of contributions to social security systems, which amounted to CHF 136,246 in 2013. The corresponding contributions amounted to CHF 160,340 in 2012. Any personal contributions of the Directors to social security systems are included in the amounts shown in the table above.
10 At the Annual General Meeting on April 4, 2013, Mr. Meyer retired from the Board and Ms. Mächler was elected to the Board. In August 2013, Mr. Ackermann resigned from the Board. Mr. de Swaan was appointed Chairman and Mr. Kindle Vice-Chairman of the Board of Directors as of September 11, 2013.
11 At the Annual General Meeting on March 29, 2012, Mr. Gentz and Mr. Sankey retired from the Board and Ms. Carnwath and Mr. del Pino were elected to the Board. Mr. Ackermann was appointed Chairman and Mr. de Swaan Vice-Chairman of the Board of Directors.
12 The amounts have been translated from Swiss francs to US dollars at the relevant exchange rates throughout the year.
13 As of June 16, 2012, Mr. Ackermann was allocated 1,365 shares, Mr. de Swaan was allocated 550 shares, and the other Board members were allocated 386 shares. The share price (CHF 207.10) as of June 16, 2012 was adopted to calculate the number of shares based on the fixed portion of the fee allocated in shares for the respective members. Where the value of the allocated shares did not equal the value of the portion of the fee to be allocated in shares, the difference was paid in cash.

The Directors' fees are not pensionable. None of the Directors received any benefits-in-kind or any other compensation other than that set out in the tables above.

At the Annual General Meeting on April 4, 2013, the term of office of Mr. Meyer expired and he did not stand for re-election as he had served the maximum tenure. No termination payments (i.e. "golden parachutes") were made and no other benefits such as waiver of lock-up periods for equities, shorter vesting periods or additional contributions to occupational pension schemes were provided. Ms. Mächler was elected new member of the Board. No special payments (i.e. "golden handshakes") or other benefits were provided.

Except for Mr. Watter none of the Directors had outstanding loans, advances or credits as of December 31, 2013 or 2012. Unrelated to his Board membership and on terms and conditions available to other customers, Mr. Watter had a collateralized policy loan of CHF 2.5 million outstanding as of December 31, 2013 and 2012. The annual interest rate charged on the loan is 4 percent.

No benefits (or waiver of claims) have been provided to former members of the Board during the year 2013 or during the year 2012. Neither had any former member of the Board outstanding loans, advances or credits as of December 31, 2013 or 2012.

No benefits (or waiver of claims) have been provided to related parties of the Directors or related parties of former members of the Board during the year 2013, nor during the year 2012. Neither had any related party of the Directors or of former members of the Board outstanding loans, advances or credits as of December 31, 2013 or 2012.

Remuneration of Group Executive Committee

The total remuneration of the members of the GEC for 2013 comprised the value of cash compensation, pensions, other remuneration and the value of the target equity grants made under the Group's Long-Term Incentive Plan in 2013 and is calculated based on the same methodology as in 2012. Overall compensation of the GEC members in total
and the overall compensation of the highest paid executive are set out in the following tables:

All GEC members (incl. the highest paid)

in CHF million[1], for the years ended December 31	**2013[2]**	2012[3]
Base salaries	10.70	11.30
Cash incentive awards earned for the year	10.80	11.20
Value of target performance share grants[4]	15.30	15.20
Service costs for pension benefits[5]	3.00	3.10
Value of other remuneration[6]	2.70	1.80
Total in CHF million[7]	**42.50**	**42.60**
Total in USD million[8]	**46.30**	**46.40**

[1] The remuneration shown in the table is gross, based on the accrual principle and does not include any business related expenses incurred in the performance of the members' services.
[2] On the basis of 11 GEC members, of whom 9 served during the full year 2013. Included in the figures are the relevant compensation amounts for the 2 individuals who were acting "ad interim" in the positions Chief Financial Officer and Group Head of Operations during the year.
[3] On the basis of 13 GEC members, of whom 9 served during the full year 2012.
[4] The share grants will vest in the future according to achievement of defined performance conditions. The value of the shares assumes that the grant will vest in the future at 100 percent of the target level with the valuation of the target performance share grants based on the share price on the day prior to the grants (CHF 267.30 for 2013 and CHF 225.90 for 2012).
[5] The amounts reflect the total value of pension benefits accruing to members of the GEC during 2013 and 2012, respectively, calculated on the basis of the service costs for the company as assessed under IAS 19 accounting principles. Service costs value the amount of the pension benefits accruing during the year and for defined contribution plans takes the amount of the company contribution paid during the year. Service costs do not include the interest costs on accrued benefits, adjustments for actuarial gains and losses, nor the expected return on any assets held.
[6] Includes employee benefits, expatriate allowances, perquisites, benefits-in-kind and any other payments due under employment contracts. Benefits-in-kind have been valued using market rates.
[7] In line with applicable laws where the executives are employed, Zurich paid the company-related portion of contributions to social security systems, which amounted to CHF 1.5 million in 2013 and CHF 1.6 million in 2012. Since the contributions are based on full earnings, whereas benefits are capped, there is not a direct correlation between the costs paid to the social security system and the benefits received by the executives.
[8] The amounts have been translated to US dollars at the relevant exchange rates throughout the year and the cash incentive to be paid in 2014 has been translated at the year-end rate in 2013.

Holding company *continued*

Highest paid executive, Chief Executive Officer, Martin Senn

in CHF millions[1], for the years ended December 31	2013	2012
Base salary	1.60	1.60
Cash incentive awards earned for the year	2.00	2.00
Value of target performance share grants[2]	3.60	3.60
Service costs for pension benefits[3]	0.30	0.30
Value of other remuneration[4]	0.10	0.10
Total in CHF million	**7.60**	**7.60**
Total in USD million[5]	**8.10**	**8.30**

[1] The remuneration shown in the table is gross, based on the accrual principle and does not include any business related expenses incurred in the performance of the CEO's services.
[2] The share grants will vest in the future according to the achievement of defined performance conditions. The value of the shares assumes that the grant will vest in the future at 100 percent of the target level with the valuation of the target performance share grants based on the share price on the day prior to the grants (CHF 267.30 for 2013 and CHF 225.90 for 2012).
[3] The amounts reflect the total value of pension benefits, calculated on the basis of the service costs for the company as assessed under IAS 19 accounting principles. Service costs value the amount of the pension benefits accruing during the year and for defined contribution plans takes the amount of the company contribution paid during the year. Service costs do not include the interest costs on accrued benefits, adjustments for actuarial gains and losses, nor the expected return on any assets held.
[4] Includes employee benefits, perquisites, benefits-in-kind and any other payments due under the employment contract. Benefits-in-kind have been valued using market rates.
[5] Mr. Senn's remuneration is paid in Swiss francs. The amounts have been translated from Swiss francs to US dollars at the relevant exchange rates throughout the year and the cash incentive to be paid in 2014 has been translated at the year-end rate in 2013.

As of December 31, 2013 and 2012, there were no loans, advances or credits outstanding from GEC members.

During 2013, one member of the GEC left the Group and one other member died. In these circumstances, the remuneration provided was in line with terms of their employment contracts. No termination payments (i.e. "golden parachutes") were made and no other benefits such as agreements concerning special notice periods or longer term contracts (exceeding 12 months in duration), waiver of lock-up periods for equities, shorter vesting periods or additional contributions to occupational pension schemes were provided. No former members of the GEC received remuneration in 2013. In addition, as of December 31, 2013 and 2012 no former member of the Group Executive Committee had any outstanding loans, advances or credits.

No benefits (or waiver of claims) have been provided to related parties of GEC members or related parties of former members of the GEC during the year 2013 or 2012. Neither had any related party of GEC members or of former members of the GEC outstanding loans, advances or credits as of December 31, 2013 or 2012.

18. Shareholdings of the Board of Directors and the Group Executive Committee

Share and share option holdings of the Directors and of the members of the GEC, who held office as of December 31, 2013 and 2012, are set out below in accordance with the information required by article 663c paragraph 3 of the Swiss Code of Obligations. This information is also included in the unaudited Remuneration report, set out on pages 70 to 99 of the Annual Report in which additional details can be found.

Shareholdings of Directors

Shareholdings of Directors

Number of Zurich Insurance Group Ltd shares [1], as of December 31	Ownership of shares	
	2013	2012
T. de Swaan, Chairman	2,597	2,079
J. Ackermann, Former Chairman	n/a	23,271
F. Kindle, Vice Chairman	17,247	16,915
S. Bies, Member	1,964	1,632
A. Carnwath, Member	624	292
V.L.L. Chu, Member	1,964	1,632
R. del Pino, Member	624	292
Th. Escher, Member	9,802	9,470
A. Meyer, Member	n/a	3,239
M. Mächler, Member	247	n/a
D. Nicolaisen, Member	2,247	1,915
R. Watter, Member	5,215	4,883
Total	**42,531**	**65,620**

[1] None of the Directors together with parties related to them held more than 0.5 percent of the voting rights of Zurich Insurance Group Ltd shares as of December 31, 2013 or 2012, respectively.

All interests are beneficial, include sales-restricted shares allocated to the Directors as part of their fees and shares held by related parties of the Directors.

None of the Directors, nor any related party of a Director, held any share options or conversion rights over Zurich Insurance Group Ltd shares as of December 31, 2013 or 2012.

Share and share option holdings of the members of the GEC

The following table sets out the actual share and share option holdings of the members of the GEC as of December 31, 2013 and 2012. In addition to any shares acquired in the market, the numbers include vested shares, whether sales-restricted or not, and vested share options received under the Group's Long-Term Incentive Plan. However, the table does not include the share interests of the members of the GEC through their participation in the currently unvested performance shares and unvested restricted shares.

All interests are beneficial and include Zurich Insurance Group Ltd shares or share options held by parties related to the members of the GEC. One vested option gives the right to one share with normal voting and dividend rights. Further details on the overall number of share options allocated under the Group's Long-Term Incentive Plan and the terms of the options are set out in the tables "Summary of outstanding options". With effect from 2011, share option grants were discontinued. Those option grants made in the period up to and including 2010 continue to earn out in accordance with the terms and conditions of those grants.

Holding company *continued*

Share and vested share option holdings of the GEC members

Number of vested shares and vested share options [1], as of December 31	2013		2012	
	Ownership of shares	**Ownership of vested options over shares[2]**	Ownership of shares	Ownership of vested options over shares[2]
M. Senn, Chief Executive Officer	41,392	107,212	29,719	103,447
J. Dailey, CEO of Farmers Group, Inc.	3,564	17,605	2,373	14,987
M. Foley, Chief Executive Officer North America Commercial and Regional Chairman of the Americas	8,679	59,404	9,306	52,710
Y. Hausmann, Group General Counsel	5,644	10,193	3,728	7,301
K. Hogan, Former CEO Global Life[3]	n/a	n/a	3,080	13,032
M. Kerner, CEO General Insurance	9,090	21,588	8,469	24,432
A. Lehmann, Chief Risk Officer and Regional Chairman of Europe	27,955	79,559	23,128	84,640
M. Nordlin, ad interim Group Head of Operations[4]	5,288	11,322	n/a	n/a
C. Reyes, Chief Investment Officer	8,041	25,922	4,823	22,012
G. Riddell, Regional Chairman of Asia-Pacific & Middle East	27,840	67,171	25,002	73,136
V. Sharma, ad interim Chief Financial Officer[5]	3,988	8,741	n/a	n/a
K. Terryn, CEO Global Life	7,086	20,302	4,324	20,540
P. Wauthier, Former Chief Financial Officer[6]	n/a	n/a	4,947	23,283
	148,567	**429,019**	**118,899**	**439,520**

[1] None of the GEC members together with parties related to them held more than 0.5 percent of the voting rights as at December 31, 2013 or 2012, either directly or through share options.
[2] The distribution of the vested options according to the grants identified in the tables "Summary of outstanding options" is shown in the table below.
[3] Mr. Hogan left the function on August 1, 2013 and his employment contract terminated on October 12, 2013.
[4] Mr. Nordlin, currently Chief Information Officer assumed responsibility for Group Operations on an ad interim basis succeeding Mr. Terryn effective August 14, 2013. He is formally not a member of the GEC.
[5] Mr. Sharma, currently Group Controller assumed responsibility for Group Finance on an ad interim basis succeeding Mr. Wauthier effective August 26, 2013. He is formally not a member of the GEC.
[6] Mr. Wauthier died on August 26, 2013.

The following tables show how the totals of vested share options owned by members of the GEC as of December 31, 2013 and 2012, are distributed according to the grants identified in the tables "Summary of outstanding options."

Distribution of vested share options 2013

Number of vested share options as of December 31, 2013	Year of grant				Total
	2010	2009	2008	2007	
M. Senn	54,883	16,035	17,094	19,200	107,212
J. Dailey	9,231	3,284	5,090	n/a	17,605
M. Foley	23,601	13,640	11,568	10,595	59,404
Y. Hausmann	10,193	n/a	n/a	n/a	10,193
M. Kerner	7,637	4,414	4,210	5,327	21,588
A. Lehmann	29,402	16,035	17,094	17,028	79,559
M. Nordlin[1]	4,699	2,182	2,082	2,359	11,322
C. Reyes	19,601	2,115	2,256	1,950	25,922
G. Riddell	21,963	12,255	14,330	18,623	67,171
V. Sharma[2]	7,553	1,188	n/a	n/a	8,741
K. Terryn[3]	8,781	4,789	3,624	3,108	20,302
P. Wauthier[4]	n/a	n/a	n/a	n/a	n/a
Total	**197,544**	**75,937**	**77,348**	**78,190**	**429,019**

[1] Mr. Nordlin, currently Chief Information Officer assumed responsibility for Group Operations on an ad interim basis succeeding Mr. Terryn effective August 14, 2013. He is formally not a member of the GEC.
[2] Mr. Sharma, currently Group Controller assumed responsibility for Group Finance on an ad interim basis succeeding Mr. Wauthier effective August 26, 2013. He is formally not a member of the GEC.
[3] Mr. Terryn, former Group Head of Operations, was appointed to CEO Global Life effective August 14, 2013.
[4] Mr. Wauthier died on August 26, 2013.

Distribution of vested share options 2012

Number of vested share options as of December 31, 2012	Year of grant					Total
	2010	2009	2008	2007	2006	
M. Senn	39,316	16,035	17,094	19,200	11,802	103,447
J. Dailey[1]	6,613	3,284	5,090	n/a	n/a	14,987
M. Foley	16,907	13,640	11,568	10,595	n/a	52,710
Y. Hausmann[2]	7,301	n/a	n/a	n/a	n/a	7,301
K. Hogan	7,212	5,820	n/a	n/a	n/a	13,032
M. Kerner[3]	5,471	4,414	4,210	5,327	5,010	24,432
A. Lehmann	21,063	16,035	17,094	17,028	13,420	84,640
C. Reyes	14,041	2,115	2,256	1,950	1,650	22,012
G. Riddell	15,734	12,255	14,330	18,623	12,194	73,136
K. Terryn	6,290	4,789	3,624	3,108	2,729	20,540
P. Wauthier	5,701	4,341	4,627	4,675	3,939	23,283
Total	**145,649**	**82,728**	**79,893**	**80,506**	**50,744**	**439,520**

[1] Mr. Dailey was appointed to the GEC as of January 1, 2012.
[2] Mr. Hausmann was appointed to the GEC as of July 1, 2012.
[3] Mr. Kerner was appointed to the GEC as of September 1, 2012.

The following tables set out additional details of the options outstanding for members of the GEC as at December 31, 2013 and 2012, respectively. Further details can be found in the unaudited Remuneration report, pages 70 to 99.

Holding company *continued*

Summary of outstanding options, 2013

as of December 31, 2013

Year of grant	Number of options vested	Number of options unvested	Total number of shares under option	Exercise price per share CHF	Year of expiry
2010	197,544	–	197,544	259.90	2017
2009	75,937	–	75,937	198.10	2016
2008	77,348	–	77,348	336.50	2015
2007	78,190	–	78,190	355.75	2014
Total	**429,019**	**–**	**429,019**		

Summary of outstanding options, 2012

as of December 31, 2012

Year of grant	Number of options vested	Number of options unvested	Total number of shares under option	Exercise price per share CHF	Year of expiry
2010	145,649	59,453	205,102	259.90	2017
2009	82,728	–	82,728	198.10	2016
2008	79,893	–	79,893	336.50	2015
2007	80,506	–	80,506	355.75	2014
2006	50,744	–	50,744	308.00	2013
Total	**439,520**	**59,453**	**498,973**		

Proposed appropriation of available earnings and capital contribution reserve

as of December 31	2013	2012
Registered shares eligible for dividends		
Eligible shares	148,903,222	148,300,123

in CHF thousands	2013	2012
Appropriation of available earnings as proposed by the Board of Directors		
Net income after taxes	2,327,038	2,382,137
Balance brought forward	5,321,406	2,939,269
Retained earnings	7,648,444	5,321,406
Balance carried forward	7,648,444	5,321,406

The Board of Directors proposes to the shareholders at the Annual General Meeting on April 2, 2014, to carry forward retained earnings of CHF 7,648,444,276 as shown in the above table.

in CHF thousands	Capital contribution reserve
Appropriation of capital contribution reserve	
Balance at January 1, 2014 (incl. reserve for treasury shares)	8,319,504
Dividend payment out of capital contribution reserve	(2,531,355)[1]
Balance carried forward	5,788,149[1]

[1] These figures are based on the issued share capital as of December 31, 2013. They may change following the issuance of shares out of contingent capital for employees after the balance sheet date (see note 12). Treasury shares are not entitled to dividends.

The Board of Directors proposes to the Annual General Meeting on April 2, 2014, to pay out a dividend of CHF 2,531 million from the capital contribution reserve.

If this proposal is approved, a payment of CHF 17.00 per share exempt from Swiss withholding tax is expected to be paid starting from April 9, 2014.

Zurich, February 12, 2014

On behalf of the Board of Directors of Zurich Insurance Group Ltd

T. de Swaan

Report of the statutory auditor

Report of the statutory auditor

To the General Meeting of Zurich Insurance Group Ltd

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Zurich Insurance Group Ltd, which comprise the income statement, balance sheet and notes (pages 341–354), for the year ended December 31, 2013.

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, 2013, 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 355) 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	Peter Bieri
Audit expert	Audit expert
Auditor in charge	

Zurich, February 12, 2014

Report in relation to the conditional capital increase

Report in Relation to the Conditional Capital Increase

To the Board of Directors of Zurich Insurance Group Ltd

On your instructions, we have audited in accordance with Art. 653f, paragraph 1 Swiss Code of Obligations the issuance of new shares, which took place during the period of January 1, 2013, to December 31, 2013, according to the resolution of the general meeting of March 30, 2010.

It is the duty of the Board of Directors to perform the issuance of new shares in accordance with the requirements of the Company's statutes. Our responsibility is to perform audit procedures designed to test whether the issuance was performed in accordance with the law and requirements of the Company's statutes. We confirm that we meet the licensing and independence requirements as stipulated by Swiss law.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether material violations against legal and statutory requirements and deviations from the regulations as mentioned in the prospectus regarding the issuance of shares are detected. We have performed audit procedures appropriate to the circumstances and we believe that our audit provides a reasonable basis for our opinion.

In our opinion, the issuance of 603,099 registered shares with a par value of CHF 0.10 complies with Swiss law and the Company's articles of incorporation.

PricewaterhouseCoopers AG

Richard Burger Audit expert Auditor in charge	Peter Bieri Audit expert

Zurich, January 10, 2014

THIS PAGE HAS INTENTIONALLY BEEN LEFT BLANK

Shareholder information

In this section

Shareholder information

Zurich Insurance Group Ltd registered share data

Key indicators

as of December 31	2013	2012
Number of shares issued	148,903,222	148,300,123
Number of dividend-bearing shares[1]	148,903,222	148,300,123
Market capitalization (in CHF millions at end of period)	38,491	36,096
Authorized capital, number of shares	10,000,000	10,000,000
Contingent capital, number of shares	12,392,037	12,995,136

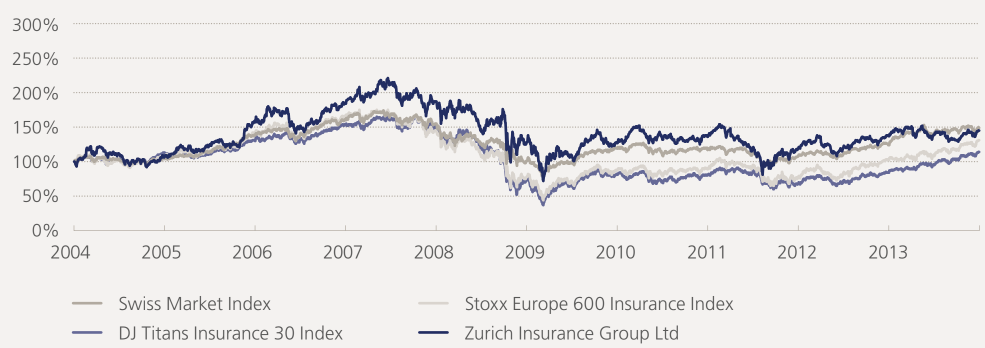
[1] Treasury shares are not entitled to dividends.

Per share data

in CHF	2013	2012
Gross dividend	17.00[1]	17.00
Basic earnings per share	25.33	24.84
Diluted earnings per share	25.23	24.72
Book value per share, as of December 31	196.14	214.86
Nominal value per share	0.10	0.10
Price at end of period	258.50	243.40
Price period high	270.30	245.00
Price period low	228.80	193.10

[1] Proposed dividend, subject to approval by shareholders at the Annual General Meeting 2014; expected payment date as from April 9, 2014. As the dividend payment will be paid from the capital contribution reserve, it will be exempt from Swiss withholding tax.

Zurich share performance (indexed) over the last ten years



Source: Thomson Reuters

Dividend/ payout history

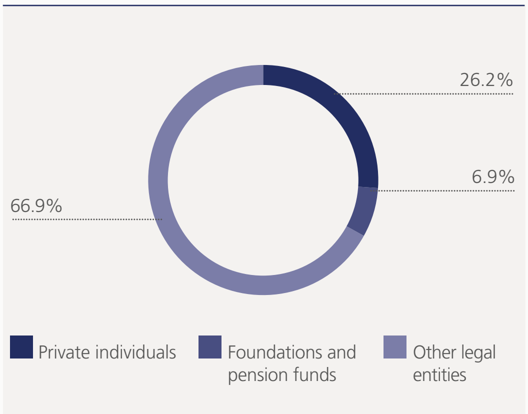
	Financial Year	Gross amount per registered share in CHF	Payment date as from
Dividend	2013	17.00[1]	April 9, 2014[1]
Dividend	2012	17.00	April 11, 2013
Dividend	2011	17.00	April 5, 2012
Dividend	2010	17.00	April 7, 2011
Dividend	2009	16.00	April 8, 2010
Dividend	2008	11.00	April 7, 2009
Dividend	2007	15.00	April 8, 2008
Dividend	2006	11.00	April 10, 2007
Dividend/nominal value reduction	2005	7.00	July 4, 2006
Nominal value reduction	2004	4.00	July 4, 2005

[1] Proposed dividend, subject to approval by shareholders at the Annual General Meeting 2014; expected payment date as from April 9, 2014.

Share trading

Zurich Insurance Group Ltd shares are listed on the SIX Swiss Exchange and traded on the SIX Swiss Exchange Blue Chip Segment; ticker symbol: ZURN; the Swiss security number (Valorennummer) is 1107539. Trading in Zurich Insurance Group Ltd shares on the Blue Chip Segment is conducted in Swiss francs.

Zurich Insurance Group Ltd shareholders registered in the share ledger



The shares registered in the share ledger as of December 31, 2013 were owned by 127,922 shareholders of which 122,403 were private individuals holding 26.2% of the shares (or 16.3% of all outstanding shares), 2,046 were foundations and pension funds holding 6.9% of the shares (or 4.3% of all outstanding shares), and 3,543 were other legal entities holding 66.9% of the shares (or 41.5% of all outstanding shares).

Significant shareholders

As of December 31, 2013 Zurich Insurance Group Ltd is not aware of any person or institution, other than BlackRock, Inc., New York, and Norges Bank, Oslo, which, directly or indirectly, had an interest as a beneficial owner in shares, option rights and/or conversion rights relating to shares of Zurich Insurance Group Ltd representing three percent or more of its issued shares. The related announcements of these notifications can be found via the search facility on the SIX Disclosure Office's platform: http://www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html

Zurch Insurance Group Ltd is not aware of any person or institution which, as of December 31, 2013, directly or indirectly, alone or with others, exercised or was a party to any arrangements to exercise control over Zurich Insurance Group Ltd.

Shareholder information *continued*

Financial calendar

Annual General Meeting 2014
April 2, 2014

Ex-dividend date
April 4, 2014

Dividend payable as from
April 9, 2014

Results for the three months to March 31, 2014
May 15, 2014

Half year results 2014
August 7, 2014

Results for the nine months to September 30, 2014
November 6, 2014

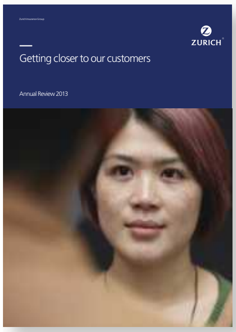
Annual results 2014
February 12, 2015

Publications

Annual Review 2013
The Annual Review provides an overview of Zurich's businesses and strategy, and its performance in 2013. It is available in English, German, and French.

Annual Report 2013
The Annual Report contains detailed information about Zurich's financial performance, executive bodies, risk management, corporate governance and remuneration in 2013. It is available in English, German and French, with the financial statements in English only.

www.zurich.com
If you are an iPad user, try our Investors and Media App, available on www.zurich.com.



PDF and interactive versions of our Annual Report and Annual Review are available on: www.zurich.com/investors

Contact information

For more information please contact the appropriate office below, or visit our website at www.zurich.com

Registered Office
Zurich Insurance Group Ltd
Mythenquai 2
8002 Zurich, Switzerland

Media Relations
Zurich Insurance Group Ltd, Switzerland
Telephone: +41 (0)44 625 21 00
Email: media@zurich.com

Investor Relations
Zurich Insurance Group Ltd, Switzerland
Telephone: +41 (0)44 625 22 99
Email: investor.relations@zurich.com

Share Register Services
Zurich Insurance Group Ltd, Switzerland
Telephone: +41 (0)44 625 22 55
Email: shareholder.services@zurich.com
Website:
www.zurich.com/investors/shareholderinformation/

Corporate Responsibility
Zurich Insurance Group Ltd, Switzerland
Telephone: +41 (0)44 625 24 04
Email: corporate.responsibility@zurich.com

American Depositary Receipts
Zurich Insurance Group Ltd has an American Depositary Receipt program with The Bank of New York Mellon (BNYM). For information relating to an ADR account, please contact BNY Mellon's Shareowner Services in the U. S. on +1 888 BNY ADRS or outside the U.S. on +1 201 680 6825 or by email to shrrelations@bnymellon.com. General information on the company's ADR-program can be obtained from The Bank of New York Mellon at www.adrbnymellon.com

Glossary

Group

Book value per share

is a measure that is calculated by dividing common shareholders' equity by the number of shares issued less the number of treasury shares.

Business operating profit (BOP)

is a measure that is the basis on which the Group manages all of its business units. It indicates the underlying performance of the Group's business units, after non-controlling interests, by eliminating the impact of financial market volatility and other non-operational variables. BOP reflects adjustments for shareholders' taxes, net capital gains on investments and impairments (except for the capital markets and property lending/banking operations included in Non-Core Businesses, investments in hedge funds, certain securities held for specific economic hedging purposes, and policyholders' share of investment results for the life businesses) and non-operational foreign exchange movements. Significant items arising from special circumstances, including restructuring charges, charges for litigation outside the ordinary course of business, gains and losses on divestments of businesses, impairments of goodwill and the change in estimates of earn-out liabilities (with the exception of experience adjustments, which remain within BOP) are also excluded from BOP. **Business operating profit before interest, depreciation and amortization (BOPBIDA)** is BOP before interest expense on debt, depreciation of property and equipment and amortization and impairment of goodwill and other intangibles, but including amortization of DAC and DOC. **Adjusted business operating profit** is adjusted for notional investment income on the difference between the average actual International Financial Reporting Standards (IFRS) equity and the average allocated IFRS equity using one global swap rate. Allocated IFRS equity is equal to a segment's share of the Group's total IFRS equity allocated based on the segment's proportion of the Group's total risk-based capital (RBC) at each period end.

Business operating profit (after-tax) return on common shareholders' equity

indicates the level of business operating profit or loss relative to resources provided by common shareholders. It is calculated as business operating profit or loss, annualized on a linear basis and adjusted for preferred shareholder dividends and taxes, divided by the average value of common shareholders' equity on a simple basis using the value at the beginning and end of the period.

Investments

Total investments in the consolidated balance sheets includes Group investments and investments for unit-linked products. **Group investments** are those for which the Group bears part or all of the investment risk. They also include investments related to investment contracts with discretionary participation features. Average invested assets exclude cash collateral received for securities lending. The Group manages its diversified investments portfolio to optimize benefits for both shareholders and policyholders while ensuring compliance with local regulatory and business requirements under the guidance of the Group's Asset/Liability Management and Investment Committee. **Investments for unit-linked products** include such investments where the policyholder bears the investment risk, and are held for liabilities related to unit-linked investment contracts and reserves for unit-linked insurance contracts. They are managed in accordance with the investment objectives of each unit-linked fund. The investment result for unit-linked products is passed to policyholders through a charge to policyholder dividends and participation in profits.

Return on common shareholders' equity (ROE)

is a measure that indicates the level of profit or loss relative to resources provided by common shareholders. It is calculated as net income after taxes attributable to common shareholders, annualized on a linear basis, divided by the average value of common shareholders' equity on a simple basis using the value at the beginning and end of the period.

General Insurance

The following General Insurance measures are net of reinsurance.

Net underwriting result

is calculated as the difference between earned premiums and policy fees and the sum of insurance benefits and losses and net technical expenses.

Total net technical expenses

includes underwriting and policy acquisition costs, as well as the technical elements of administrative and other operating expenses, amortization of intangible assets, interest credited to policyholders and other interest, and other income.

Combined ratio

is a performance measure that indicates the level of claims and net technical expenses during the period relative to earned premiums and policy fees. It is calculated as the sum of loss ratio and expense ratio.

Loss ratio
is a performance measure that indicates the level of claims during the period relative to earned premiums and policy fees. It is calculated as insurance benefits and losses, which include paid claims, claims incurred but not reported (IBNR) and claims handling costs, divided by earned premiums and policy fees.

Expense ratio
is a performance measure that indicates the level of technical expenses during the period relative to earned premiums and policy fees. It is calculated as the sum of net technical expenses and policyholder dividends and participation in profits, divided by earned premiums and policy fees.

Net non-technical result
includes the non-technical elements of administrative and other operating expenses, amortization of intangible assets, interest credited to policyholders and other interest, other income, as well as net gains and losses on divestments of businesses and interest expense on debt.

Global Life

Embedded value (EV) principles
is a methodology using a "bottom-up" market consistent approach, which explicitly allows for market risk. In particular, asset and liability cash flows are valued using risk discount rates consistent with those applied to similar cash flows in the capital markets. A liquidity premium, which increases risk discount rates, has been applied to certain lines of business consistent with the CFO Forum principles. Options and guarantees are valued using market consistent models calibrated to observable market prices.

Insurance deposits
are deposits, similar to customer account balances, not recorded as revenues. However, the fees charged on insurance deposits are recorded as revenue within the gross written premiums and policy fees line item within the consolidated income statement. These deposits arise from investment contracts and insurance contracts that are accounted for under deposit accounting. They represent the pure savings part, which is invested.

New business annual premium equivalent (APE)
is calculated as new business annual premiums plus 10 percent of single premiums, before the effect of non-controlling interests. **Present value of new business premiums (PVNBP)** is calculated as the value of new business premiums discounted at the risk-free rate, before the effect of non-controlling interests.

New business value, after tax
is a measure that reflects the value added by new business written during the period, including allowing for frictional costs, time value of options and guarantees, and the cost of non-market risk, and is valued at the point of sale. It is calculated as the present value of the projected after-tax profit from life insurance contracts sold during the period using a valuation methodology consistent with the EV principles, before the effect of non-controlling interests.

Profit by source
is the analysis of the Global Life BOP into components in a consistent and intuitive way to show profit sources. The net expense margin includes fund and non-fund based fees, policy acquisition costs, maintenance expenses and surrender charges. The net risk margin shows the mortality, morbidity, and longevity premiums less benefits to the policyholder together with the reinsurance result. The investment margin is the spread between investment income and interest credited to the policyholder plus the return on free surplus. All margins are net of any related policyholder bonuses. **BOP before deferrals** is a measure of profit excluding i) the net effect of deferral and amortization of policy acquisition costs and front-end fees, which may be affected by movements in financial markets and changes in assumptions; ii) interest expense on debt, depreciation of property and equipment, amortization and impairment of goodwill and other intangibles; and iii) special operating items. **Special operating items** are material non-recurring items that could lead to distortions in underlying margins and trends.

Farmers

Gross management result
is a performance measure of Farmers Management Services calculated as management fees and other related revenues minus management and other related expenses, which include amortization and impairments of intangible assets.

Managed gross earned premium margin
is a performance measure calculated as gross operating profit of Farmers Management Services divided by the gross earned premiums of the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc. a wholly owned subsidiary of the Group.

Disclaimer and cautionary statement

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C016003

ClimatePartner
climate neutral
Print | ID: 53232-1402-1003

The Annual Report is published in English, German and French. In the event of inconsistencies in the German and French translations, the English original version shall prevail.

Design by Addison Group, www.addison-group.net

Photography by Anne Morgenstern (executives) and Elisabeth Real (cover)

Publishing system: ns.publish by Multimedia Solutions AG, www.mmsag.ch

Cover printed on Heaven 42, an environmentally friendly paper sourced from well-managed forests independently certified according to the rules of the Forest Stewardship Council® (FSC).

Content printed on PlanoPlus, an environmentally friendly paper made from totally chlorine-free pulp also sourced from well-managed forests independently certified according to the rules of the Forest Stewardship Council® (FSC).

Printed climate neutrally with ClimatePartner using green electricity end of February 2014 by Neidhart + Schön AG, www.nsgroup.ch. ISO 14001 certified.

Zurich Insurance Group

Mythenquai 2
8002 Zurich, Switzerland
Phone +41 (0)44 625 25 25
www.zurich.com

48559-1402

ZURICH®