Annual Report 2013

Zurich Insurance Company Group

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.

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Operating and financial review

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

The holding company, Zurich Insurance Company Ltd, is incorporated in Zurich, Switzerland. The address of the registered office is Mythenquai 2, 8002 Zurich, Switzerland. Zurich Insurance Company Ltd is a wholly owned subsidiary of Zurich Insurance Group Ltd and together with its subsidiaries forms part of the Zurich Insurance Group.

The Operating and financial review is the management analysis of the business performance of the ZIC Group for the year ended December 31, 2013 compared with 2012. It also explains key aspects of the ZIC 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 ZIC 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 amount rather than the rounded amount. This document should be read in conjunction with the Annual Report 2013 of the ZIC 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 according to the International Financial Reporting Standards (IFRS), the ZIC Group uses business operating profit (BOP) and other performance indicators to enhance the understanding of its results. Details of these additional measures are set out in the Glossary. These should be viewed as complementary to, and not as substitute to the IFRS figures. For a reconciliation of BOP to net income after income taxes 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	**4,763**	4,127	15%
Net income attributable to shareholders	**4,127**	3,971	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	**1,262**	1,341	(6%)
Farmers business operating profit	**1,450**	1,335	9%
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	**208,426**	203,825	2%
Net investment result on Group investments	**7,504**	9,059	(17%)
Net investment return on Group investments[3]	**3.6%**	4.4%	(0.8 pts)
Total return on Group investments[3]	**1.4%**	7.1%	(5.7 pts)
Shareholders' equity	**31,851**	33,896	(6%)

[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] Calculated on average Group investments.

Operating and financial review *continued*

Performance overview for the year ended December 31, 2013

The ZIC Group delivered solid results in all core businesses with overall business operating profit of USD 4.8 billion, an increase of USD 636 million or 15 percent compared with 2012.

The performance in the core businesses was achieved through continued focus on profitability, underpinned by the sustained execution of the ZIC 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 ZIC Group's focus on growth was maintained in its priority markets in both General Insurance and Global Life.

Shareholders' equity decreased by USD 2.0 billion to USD 31.9 billion during 2013 including net income attributable to shareholders of USD 4.1 billion, and after a decrease in net unrealized gains on investments of USD 2.8 billion, and the dividend of USD 2.4 billion paid in April 2013.

Business operating profit increased by USD 636 million to USD 4.8 billion, or by 15 percent.

- **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 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 79 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.

- **Farmers** business operating profit increased by USD 115 million to USD 1.5 billion, or by 9 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 Zurich Insurance Group. **Farmers Management Services** business operating profit decreased by USD 36 million to USD 1.3 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 151 million to USD 124 million.

- **Other Operating Businesses** reported a business operating loss of USD 1.0 billion. This 15 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 180 million compared with USD 200 million in 2012. This reduction resulted primarily 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.

- **General Insurance** gross written premiums and policy fees increased by USD 828 million to USD 36.4 billion, or by 2 percent, led by markets where the ZIC 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. 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 4.1 billion, an increase of USD 155 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 24.3 percent for the year ended December 31, 2013, compared with 23.9 percent for the year ended December 31, 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. 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. 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 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	**1,262**	**1,341**	**(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]	267,210	253,515	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.

Business operating profit decreased by USD 79 million to USD 1.3 billion, or by 6 percent, with increases in Latin America more than offset by reductions in North America, Europe and APME.

The net expense margin improved overall due to significant expense reductions in mature markets, while improvements in fund-based fees were offset by a reduction in premium-based fees. Improvements in the net risk margin resulted from the underlying growth in protection business and positive experience in Latin America. Persistently low investment yields continued to affect the investment margin, which decreased principally in Germany and North America. Other profit margins also decreased. An increase related to Zurich Santander 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.

Non-controlling interests increased primarily due to the higher contribution from Zurich Santander. The impact of acquisition deferrals declined compared with 2012, 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. Furthermore, special operating items decreased mainly from a charge for the reassessment of deferred acquisition costs following the closure of the agency distribution channel in Hong Kong.

Insurance deposits decreased by USD 3.5 billion to USD 13.2 billion, or by 21 percent. 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 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, compared with December 31, 2012, primarily reflecting increased values of unit-linked assets. **Assets under management** increased by 5 percent compared with December 31, 2012, driven by unit-linked asset growth and favorable exchange rate movements. **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.

Operating and financial review *continued*

Farmers

Farmers business operating profit increased by USD 115 million to USD 1.5 billion, or by 9 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 Zurich Insurance 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/(expenses)	(26)	(3)	nm
Business operating profit	**1,327**	**1,362**	**(3%)**
Managed gross earned premium margin	7.2%	7.3%	–

Business operating profit of USD 1.3 billion decreased by USD 36 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 expenses of USD 26 million increased by USD 22 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.

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	**124**	**(27)**	**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 124 million improved by USD 151 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 Zurich Insurance Group, declined by USD 291 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.

Operating and financial review *continued*

Other Operating Businesses

in USD millions, for the years ended December 31	2013	2012	Change
Business operating profit:			
Holding and financing	(792)	(687)	(15%)
Headquarters	(196)	(175)	(12%)
Total business operating profit	**(988)**	**(862)**	**(15%)**

Holding and financing business operating loss deteriorated by USD 104 million to USD 792 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	134	101	33%
Other run-off	46	100	(54%)
Total business operating profit	**180**	**200**	**(10%)**

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 134 million. The increase of USD 33 million compared with 2012 was mainly driven by recognizing a profit from the reinsurance of a UK general insurance run-off portfolio.

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.

Investment performance

Performance of Group investments

in USD millions, for the years ended December 31	2013	2012	Change
Net investment income[1]	6,228	6,746	(8%)
Net capital gains/(losses) on investments and impairments	1,276	2,313	(45%)
of which: net capital gains/(losses) on investments and impairments attributable to shareholders	707	1,800	(61%)
Net investment result on Group investments[1]	7,504	9,059	(17%)
Net investment return on Group investments[2]	**3.6%**	**4.4%**	**(0.8 pts)**
Movements in net unrealized gains/(losses) on investments included in total equity	(4,648)	5,393	nm
Total investment result on Group investments[1]	**2,856**	**14,452**	**(80%)**
Average Group investments	208,426	203,825	2%
Total return on Group investments[2]	**1.4%**	**7.1%**	**(5.7 pts)**

[1] After deducting investment expenses of USD 257 million and USD 253 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 to USD 6.2 billion, compared with USD 6.7 billion in 2012, reflecting persistent low investment yields on debt securities.

Total **net capital gains on investments and impairments** were USD 1.3 billion compared with USD 2.3 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 285 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 144 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 ZIC Group's remaining shares in New China Life Insurance Company Ltd.

Impairments of USD 87 million were USD 28 million lower compared with 2012.

Net investment return on Group investments was 3.6 percent, 0.8 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 4.6 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 230 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 ZIC Group's remaining shares in New China Life Insurance Company Ltd.

Total return on Group investments was 1.4 percent compared with 7.1 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 ZIC Group's insurance liability profiles, returned 0.5 percent. Equity securities and other investments returned 11.6 percent and 2.1 percent, respectively.

Operating and financial review *continued*

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.

Balance Sheet highlights

in USD millions, as of December 31	2013	2012[1]	Change
Total Group investments	207,516	209,335	(1%)
Investments for unit-linked contracts	134,267	123,913	8%
Total investments	341,783	333,249	3%
Net reserves for losses and loss adjustment expenses	57,319	57,385	–
Net reserves for unearned premiums	15,040	14,634	3%
Net other reserves for insurance contracts, including unit-linked insurance products	174,974	173,334	1%
Net reserves for insurance contracts[2]	247,333	245,353	1%
Liabilities for investment contracts (primarily unit-linked)	67,113	57,437	17%
Total equity	34,428	36,568	(6%)

[1] Restated as set out in note 1 of the Consolidated financial statements.
[2] Gross of allowances for uncollected amounts of USD 129 million and USD 127 million as of December 31, 2013 and December 31, 2012, respectively.

Group investments decreased by USD 1.8 billion to USD 207.5 billion, or by 1 percent in U.S. dollar terms during the year ended December 31, 2013. On a local currency basis, total Group investments decreased by USD 4.7 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.

Investments for unit-linked contracts increased by USD 10.4 billion to USD 134.3 billion, or by 8 percent during the year ended December 31, 2013, driven by increases in equity markets mainly in Europe.

Net reserves for losses and loss adjustment expenses for the total ZIC Group decreased by USD 66 million to USD 57.3 billion during the year ended December 31, 2013. 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.

Net other reserves for insurance contracts, including unit-linked insurance products increased by USD 1.6 billion or by 1 percent. This increase was mainly driven by the impact of favorable market movements on investments in Europe.

Liabilities for investment contracts (primarily unit-linked) increased by USD 9.7 billion or by 17 percent. This increase was also mainly driven by the impact of favorable market movements on investments in Europe.

Total equity decreased by USD 2.1 billion to USD 34.4 billion, or by 6 percent. This decrease was mainly driven by net unrealized gains on investments of USD 2.8 billion and the dividend of USD 2.7 billion paid in April 2013, partly offset by the net income attributable to shareholders of USD 4.1 billion.

Operating and financial review *continued*

Currency translation impact

The ZIC Group operates worldwide in multiple currencies and seeks to match foreign exchange exposures on an economic basis.

As the ZIC Group has chosen the U.S. dollar as its presentation currency, differences arise when functional currencies are translated into the ZIC 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	7	–
Business operating profit	(23)	–

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	3,617	1%
Reserves for insurance contracts, gross	2,399	1%
Cumulative foreign currency translation adjustment in shareholders' equity	(230)	(1%)

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.

Risk review

The Risk review is an integral part of the Consolidated financial statements. Risks are managed at the Zurich Insurance Group, segment, region and business unit level according to our risk management framework. The principles of the Zurich Insurance Group's enterprise risk management described in the "Risk Management" section are equally applicable to the Zurich Insurance Company Ltd (ZIC) and its consolidated subsidiaries (collectively the "ZIC Group"). The figures presented are prepared on a ZIC Group-basis.

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Risk review *continued*

Risk management

The Risk review is an integral part of the Consolidated financial statements. Risks are managed at the Zurich Insurance Group, segment, region and business unit level according to the risk management framework. The principles of the Zurich Insurance Group's enterprise risk management described in the "Risk Management" section are equally applicable to the Zurich Insurance Company Ltd (ZIC) and its consolidated subsidiaries (collectively the "ZIC Group"). The figures presented are prepared on a ZIC Group-basis.

Mission and objectives of risk management

The mission of risk management at Zurich Insurance 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 Zurich Insurance Group's stated risk tolerance to respond to new threats and opportunities in order to optimize returns.

The Zurich Insurance Group's major risk management objectives are to:

- Protect the capital base by monitoring that risks are not taken beyond the Zurich Insurance 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 Zurich Insurance Group's decision-making processes by providing consistent, reliable and timely risk information
- Protect Zurich Insurance Group'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 Zurich Insurance Group relies on its 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 Zurich Insurance 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 Zurich Insurance Group relies on documented policies and guidelines. The Zurich Risk Policy is the Zurich Insurance Group's main risk governance document; it specifies the Zurich Insurance 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 Zurich Insurance Group's willingness and ability to take risk, considering earnings stability, economic capital adequacy, financial flexibility and liquidity, franchise value and reputation, the Zurich Insurance Group's strategic direction and operational plan, and a reasonable balance between risk and return, aligned with economic and financial objectives. The Zurich Insurance Group regularly enhances the Zurich Risk Policy to reflect new insights and changes in the Zurich Insurance Group's environment and to reflect changes to the Zurich Insurance 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 Zurich Insurance Group's risk management framework is to foster risk transparency by establishing risk reporting standards throughout the Zurich Insurance Group. The Zurich Insurance 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 Zurich Insurance Group level. The Zurich Insurance 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 Insurance Group's business but is also aligned with the Zurich Insurance Group's strategic and operational planning process. The Zurich Insurance Group assesses risks systematically and from a strategic perspective through its proprietary Total Risk Profiling™ (TRP) process, which allows the Zurich Insurance Group to identify and then evaluate the probability of a risk scenario occurring, as well as the severity of the consequences should it occur. The Zurich Insurance Group then develops, implements and monitors appropriate improvement actions. The TRP process is integral to how the Zurich Insurance Group deals with change, and is particularly suited for evaluating strategic risks as well as risks to its reputation. At Zurich Insurance Group level this process is performed annually, reviewed regularly and tied to the planning process.

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 Insurance Group risk management framework. In addition, these operations continue to leverage their existing internal control system while introducing the Zurich Insurance Group'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 Zurich Insurance Group's risk management framework is a well-balanced and effectively managed remuneration program. This includes a Zurich Insurance 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 Zurich Insurance Group. Based on the Zurich Insurance Group's Remuneration Rules, the Zurich Insurance Group's Board establishes the structure and design of the remuneration arrangements so that they do not encourage inappropriate risk taking. The Zurich Insurance Group Chief Risk Officer (Group CRO) consults with the other assurance, control and governance functions to provide the Zurich Insurance Group CEO with a review of risk factors to consider in the annual process to determine variable compensation. Also in consultation with these functions, the Zurich Insurance Group CRO provides an individual assessment of Zurich Insurance Group Key Risk Takers as part of their annual individual performance assessment.

Through these processes, responsibilities and policies, the Zurich Insurance Group embeds a culture of disciplined risk taking across the Zurich Insurance Group. The Zurich Insurance 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. The Zurich Insurance Group monitors developments in the external environment and assesses the impact on the Zurich Insurance Group's business, the insurance industry, and the communities in which the Zurich Insurance 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, the Zurich Insurance Group 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 the Zurich Insurance Group's overall enterprise risk management is "strong." This reflects its positive view of the Zurich Insurance Group's risk management culture, risk controls, and strategic and emerging risk management. S&P regards these capabilities as enabling the Zurich Insurance 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 Zurich Insurance Group maintains close working relationship with such stakeholders as external organizations and expert groups.

The Zurich Insurance Group 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 the Zurich Insurance Group's expertise is also part of the Zurich Insurance Group's commitment to corporate responsibility.

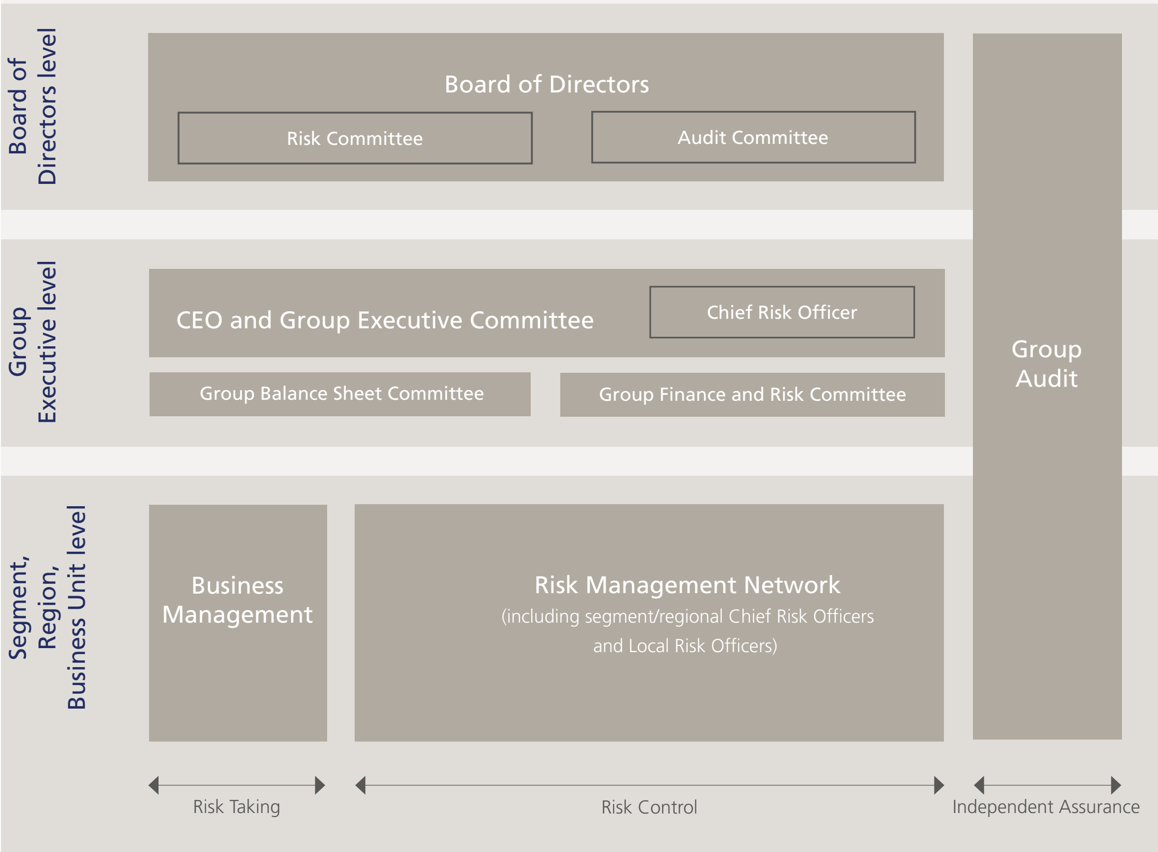
The Zurich Insurance Group is also involved in a number of international industry organizations engaged in advancing the regulatory dialogue and sound risk management practices. The Zurich Insurance Group is a standing member of and actively contributes to the Emerging Risk Initiative of the CRO Forum (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 Zurich Insurance 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. In addition, the Investment Management Advisory Council provides feedback to Investment Management on achieving superior risk-adjusted returns versus liabilities for the Zurich Insurance Group's invested assets.

Risk governance and risk management organization

The section below gives an overview of the Zurich Insurance 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 has ultimate oversight responsibility for the Zurich Insurance Group's risk management. It establishes the guidelines for the Zurich Insurance 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 Zurich Insurance Group's risk management, in particular the Zurich Insurance Group's risk tolerance, including agreed limits that the Board regards as acceptable for the Zurich Insurance Group to bear, the aggregation of these limits across the Zurich Insurance Group, the measurement of adherence to risk limits, and the Zurich Insurance Group's risk tolerance in relation to anticipated capital levels. The Risk Committee further oversees the Zurich Insurance 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 Zurich Insurance Group's adherence to risk limits. The Risk Committee further reviews, with business management and the Zurich Insurance Group Risk Management function, the Zurich Insurance Group's general policies and procedures and satisfies itself that effective systems of risk management are established and maintained. It receives regular reports from Zurich Insurance 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

Risk review *continued*

Committee assesses the independence and objectivity of the Zurich Insurance 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.

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.

Zurich Insurance Group Executive level

The CEO, together with the Zurich Insurance Group Executive Committee (GEC), oversees the Zurich Insurance Group's performance with regard to risk management and control, strategic, financial and business policy issues of Zurich Insurance Group-wide relevance. This includes monitoring adherence to and further development of the Zurich Insurance Group's risk management policies and procedures. The Zurich Insurance Group Balance Sheet Committee and the Zurich Insurance Group Finance and Risk Committee regularly review and make recommendations on the Zurich Insurance 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 Zurich Insurance Group level the management committees dealing with risks are:

- Zurich Insurance 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 Zurich Insurance Group and its subsidiaries. The GBSC is charged with setting the annual capital and balance sheet plans for the Zurich Insurance Group based on the Zurich Insurance Group's strategy and financial plans, as well as recommending specific transactions or unplanned business changes to the Zurich Insurance 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 Zurich Insurance Group's overall risk tolerance. It is chaired by the CEO.
- Zurich Insurance 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 Zurich Insurance Group. The GFRC oversees financial implications of business decisions and the effective management of the Zurich Insurance 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 Zurich Insurance Group Risk Management on the risk profile of the Zurich Insurance 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 Zurich Insurance Group, material changes to the Zurich Insurance 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 Zurich Insurance Group's asset/liability exposure and investment strategies and is chaired by the Zurich Insurance Group 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.
- Zurich Insurance Group Reinsurance Committee – defines the Zurich Insurance Group's reinsurance strategy in alignment with the Zurich Insurance Group's risk framework and is chaired by the Global Head of Zurich Insurance Group Reinsurance.

Representatives of Zurich Insurance Group Risk Management are members of all these technical committees.

Zurich Insurance Group Risk Management organization

The Chief Risk Officer leads the Zurich Insurance Group Risk Management function, which develops methods and processes for identifying, measuring, managing, monitoring and reporting risks throughout the Zurich Insurance Group. Zurich Insurance Group Risk Management proposes changes to the risk management framework and the Zurich Insurance Group's risk policies; it makes recommendations on the Zurich Insurance Group's risk tolerance and assesses the risk profile. The Chief Risk Officer is responsible for the oversight of risks across the Zurich Insurance Group; he regularly reports risk matters to the Chief Executive Officer, senior management committees and the Risk Committee of the Board.

The Zurich Insurance Group Risk Management organization consists of central functions at Zurich Insurance Group level and a decentralized risk management network at segment, regional, business unit and functional levels.

At Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance Group's Chief Risk Officer. The CROs of the Zurich Insurance Group's segments and regions are members of the leadership team of the Zurich Insurance Group's Chief Risk Officer.

In addition to the risk management network, the Zurich Insurance 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, the Zurich Insurance Group 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 Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance Group, and external events such as outsourcing, catastrophes, legislation, or external fraud
- Reputation – risk that an act or omission by the Zurich Insurance Group or any of its employees could result in damage to the Zurich Insurance Group's reputation or loss of trust among its stakeholders

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 Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance Group Executive Committee regularly assesses key strategic risk scenarios for the Zurich Insurance Group as a whole, including scenarios for emerging risks and their strategic implications.

The Zurich Insurance Group specifically evaluates the risks of M&A transactions both from a quantitative and a qualitative perspective. The Zurich Insurance Group conducts risk assessments of M&A transactions to evaluate risks specifically related to the integration of acquired businesses.

Insurance risk

Insurance risk is the inherent uncertainty regarding the occurrence, amount or timing of insurance liabilities. The exposure is transferred to the Zurich Insurance Group through the underwriting process. The Zurich Insurance Group actively seeks to write those risks it understands and that provide a reasonable opportunity to earn an acceptable profit. As the Zurich Insurance Group 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 Zurich Insurance Group's insurance business
- Ceding insurance risk through proportional, non-proportional and facultative reinsurance treaties. The Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance Group's underwriting strategy is to take advantage of the diversification of general insurance risks across lines of business and geographic regions. The Zurich Insurance 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 Zurich Insurance Group's underwriting is a robust governance process. The Zurich Insurance Group's four major processes for underwriting governance – underwriting strategy, authorities, referrals and reviews – are implemented at Zurich Insurance Group and local levels.

A fundamental component of managing insurance risk is underwriting discipline. The Zurich Insurance Group sets limits on underwriting capacity, and cascades authority to individuals based on their specific expertise. The Zurich Insurance Group sets appropriate pricing guidelines with a focus on consistent technical pricing across the organization. As part of these guidelines, the Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance Group's global line of business networks share best practices across the globe, providing additional guidance and governance. The Zurich Insurance 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.

Risk review *continued*

The Zurich Insurance 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 adjustment expense reserves are based on work performed by qualified and experienced actuaries at the local, regional and Zurich Insurance 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 the Zurich Insurance Group's economic view on inflation and specific claims activity, and feeds into actuarial models and Zurich Insurance Group'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 Zurich Insurance 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 Zurich Insurance Group reserve committee, where the Zurich Insurance Group's total loss and loss adjustment expense reserves are consolidated and recommended for approval by Zurich Insurance 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 Zurich Insurance Group closely monitors potential new emerging risk exposures. The Zurich Insurance Group 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 Zurich Insurance 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 ZIC Group's concentration of risk within the General Insurance business by region and line of business based on direct written premiums before reinsurance. The ZIC 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 ZIC 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 Zurich Insurance Group monitors insurance risk by evaluating extreme scenarios, taking into account non-linear effects of reinsurance contracts.

Insurance risk sensitivity for the General Insurance business – current period

Table 2.a

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)	(58)	(88)	(34)

Insurance risk sensitivity for the General Insurance business – prior period

Table 2.b

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	(42)	(58)	(89)	(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 Zurich Insurance 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 Insurance Group buys.

The Zurich Insurance 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 Zurich Insurance 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 modeling principally addresses climate-induced perils such as windstorms, river floods, tornadoes and hail, and geologically induced perils such as earthquakes. The Zurich Insurance 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.

Risk review *continued*

With an expanded catastrophe research and development team, the Zurich Insurance 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 Insurance Group further validates modeling results through comparisons with claims experience. In addition, Zurich Insurance Group continues its effort to extend assessments by evaluating potential non-modeled catastrophe hotspots and including appropriate modeling or loadings for non-modeled lines.

Risks from man-made catastrophes

Man-made catastrophes include such risks as industrial accidents and terrorism attacks. Zurich Insurance Group's experience in monitoring potential exposures from natural catastrophes is also applicable to threats posed by man-made catastrophes, particularly terrorism.

The Zurich Insurance Group reviews and aggregates worker injury and property exposures to identify areas of significant concentration. The Zurich Insurance 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 Insurance Group's overall exposure. In North America, Zurich Insurance Group uses a vendor-provided catastrophe model to evaluate potential exposures in every major U.S. city. The Zurich Insurance Group undertakes more detailed and frequent analytics for cities in which Zurich Insurance Group has greater exposure, and continues to refine its reporting about such risks.

Although the Zurich Insurance Group's analysis has shown its exposures outside North America are lower, in large part due to government-provided pools; the Zurich Insurance Group has extended its approach to improve its view of the risk for countries with the next greatest potential net exposure. The Zurich Insurance 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 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 Zurich Insurance Group has local product development committees and a Zurich Insurance 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 Insurance Group to manage new risks inherent in its new business propositions. The Zurich Insurance Group regularly reviews the continued suitability and the potential risks of existing life products.

The Zurich Insurance Group's use of market-consistent embedded value reporting principles allows Zurich Insurance Group 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.

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 Zurich Insurance Group. Those risks inherent in these products are largely passed on to the policyholder, although a portion of the Zurich Insurance 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 Zurich Insurance 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.

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 Zurich Insurance 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 Zurich Insurance Group-level product approval committee. The Zurich Insurance 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 Zurich Insurance 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 Insurance Group 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 Insurance Group to financial losses that may arise as a result of adverse movements in interest rates. The Zurich Insurance 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 Insurance Group is not exposed to significant concentrations of insurance risk.

Table 3 shows the ZIC 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 Zurich Insurance 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.

Risk review *continued*

Reserves, net of reinsurance, by region

Table 3

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 ZIC 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 Zurich Insurance Group is based on a market-consistent approach to allow explicitly for market risks. See the "Embedded value report" of the Zurich Insurance Group 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 Zurich Insurance Group's objectives for purchasing reinsurance are to provide market-leading capacity for customers while protecting the balance sheet and optimizing the Zurich Insurance Group's capital efficiency. The Zurich Insurance 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 Insurance Group is able to structure and align its reinsurance programs to achieve an optimum risk/reward ratio. Zurich Insurance Group manages its central reinsurance purchasing according to these principles. The Zurich Insurance 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.

The Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance 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.

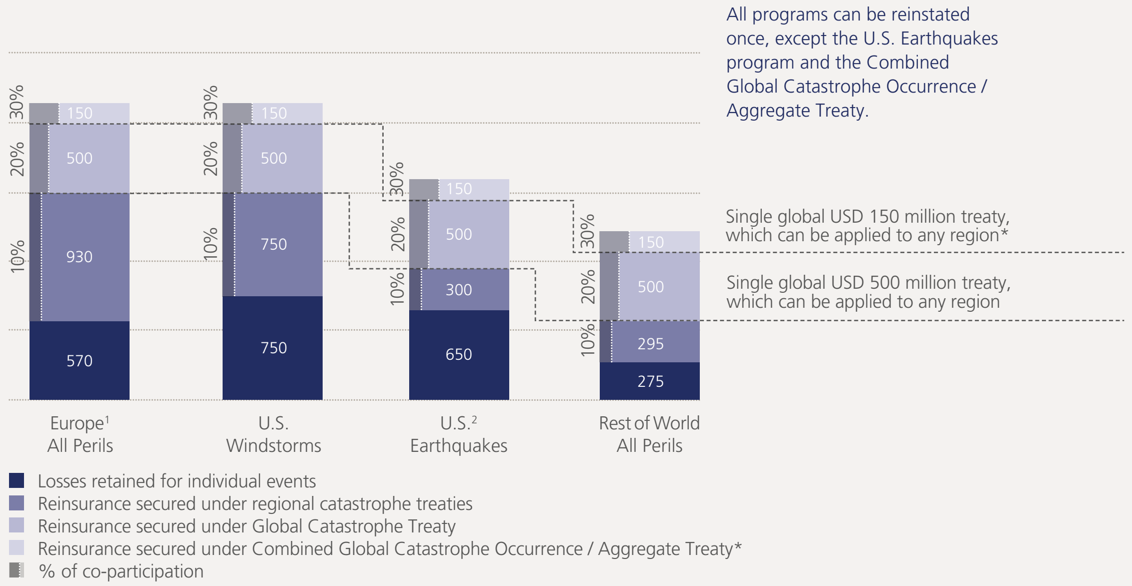
The Zurich Insurance Group uses reinsurance to manage risk to unusually severe or unusually frequent events, as illustrated on the following page, through the main in-force reinsurance covers as of December 31, 2013 for natural catastrophe events.

The Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance 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*

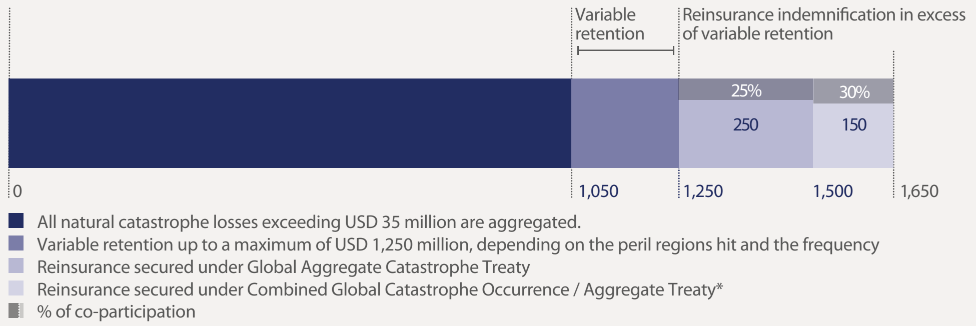
Reinsurance for natural catastrophes by region – unusually severe catastrophe events
(in USD millions, as of December 31, 2013)



* 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)



* 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

Market risk is the risk associated with the Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance Group's risk tolerance as well as local regulatory constraints.

The Zurich Insurance Group has policies and limits to manage market risk. It aligns its strategic asset allocation to its risk-taking capacity. Zurich Insurance Group 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 Insurance Group regularly measures and manages market risk exposure. The Zurich Insurance 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 Zurich Insurance Group limits investments that are illiquid.

The Zurich Insurance Group Balance Sheet Committee reviews and recommends the Zurich Insurance Group's capital allocation to market risk, while the Asset/Liability Management Investment Committee reviews and monitors the Zurich Insurance Group's strategic asset allocation and tactical boundaries and monitors the Zurich Insurance Group's asset/liability exposure. The Zurich Insurance Group oversees the activities of local Asset/Liability Management Investment Committees and regularly assesses market risks both at a Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance 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 Insurance Group's borrowings, in order to mitigate exposure to foreign currency and interest rate risk. In compliance with Swiss insurance regulation, the Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance Group Risk Management of open positions and annual reviews of derivative programs.

For more information on the ZIC 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 Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance 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 Insurance Group 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 Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance Group's available-for-sale debt securities through periodic recognition of changes in their fair values through shareholders' equity. Zurich Insurance Group has limits on holdings in real assets and limits on deviations of asset interest rate sensitivities from liability interest rate sensitivities. The Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance 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 ZIC Group investments, IFRS insurance liabilities discounted at risk-free market rates (the Zurich Insurance 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 Insurance Group 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 ZIC 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 ZIC Group. The net impact is the difference between the impact on ZIC Group investments and liabilities. It represents the economic risk the ZIC 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 ZIC 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 Zurich Insurance 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 ZIC Group's financial condition.
- 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 ZIC Group effective tax rate is 24.3 percent for 2013 and 23.9 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.

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	105	41	2	8	9	**165**
Net impact after tax	(326)	(127)	(5)	(26)	(29)	**(513)**
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	(98)	(41)	–	7	(8)	**(140)**
Net impact after tax	305	128	–	(22)	26	**437**

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	40	40	(4)	(5)	19	**90**
Net impact after tax	(128)	(127)	12	17	(59)	**(285)**
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	(35)	10	23	(17)	**(9)**
Net impact after tax	(34)	112	(31)	(74)	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**

Economic interest rate sensitivities for the Global Life business – prior period

Table 5.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						
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**

Economic interest rate sensitivities for the rest of the businesses – current period

Table 6.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	(797)	(110)	(4)	(56)	–	**(968)**
Liabilities	(390)	(194)	(15)	(131)	–	**(731)**
Net impact before tax	(407)	84	11	75	–	**(238)**
Tax impact	99	(20)	(3)	(18)	–	**58**
Net impact after tax	(308)	64	8	57	–	**(180)**
100 basis points decrease in the interest rate yield curves						
Group investments	895	93	5	62	1	**1,055**
Liabilities	475	163	16	80	–	**734**
Net impact before tax	420	(70)	(11)	(18)	1	**322**
Tax impact	(102)	17	3	4	–	**(78)**
Net impact after tax	318	(53)	(9)	(14)	–	**244**

Economic interest rate sensitivities for the rest of the businesses – prior period

Table 6.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	(831)	(146)	(21)	(36)	(1)	**(1,034)**
Liabilities	(585)	(166)	(18)	(117)	–	**(887)**
Net impact before tax	(245)	21	(3)	81	(1)	**(147)**
Tax impact	64	(5)	1	(19)	–	**40**
Net impact after tax	(182)	16	(2)	62	–	**(107)**
100 basis points decrease in the interest rate yield curves						
Group investments	895	109	23	26	1	**1,054**
Liabilities	642	140	20	34	–	**837**
Net impact before tax	252	(31)	3	(8)	1	**217**
Tax impact	(62)	7	(1)	2	–	**(54)**
Net impact after tax	190	(24)	2	(6)	–	**163**

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.

Risk review *continued*

Economic equity price sensitivities for the General Insurance business

Table 7

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	128	109
Net impact after tax	(398)	(347)

Economic equity price sensitivities for the Global Life business

Table 8

in USD millions, as of December 31	**2013**	2012
10% decline in stock markets		
Total impact on Embedded Value	(279)	(246)

Economic equity price sensitivities for the rest of the businesses

Table 9

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	48
Net impact after tax	(86)	(157)

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.

Economic credit spread sensitivities for the General Insurance business – current period

Table 10.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	(1,001)	(332)	(178)	(144)	(89)	**(1,744)**
Tax impact	243	81	43	35	22	**424**
Net impact after tax	(758)	(251)	(135)	(109)	(68)	**(1,320)**

Economic credit spread sensitivities for the General Insurance business – prior period

Table 10.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	(939)	(278)	(198)	(160)	(102)	**(1,677)**
Tax impact	224	66	47	38	24	**401**
Net impact after tax	(715)	(212)	(150)	(122)	(78)	**(1,276)**

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 Embeedded 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	(337)	(48)	(1)	4	–	**(382)**
Tax impact	82	12	–	(1)	–	**93**
Net impact after tax	(255)	(36)	–	3	–	**(289)**

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)	(72)	2	(4)	–	**(394)**
Tax impact	88	17	–	1	–	**106**
Net impact after tax	(232)	(55)	1	(3)	–	**(288)**

Risk review *continued*

Currency risk

Currency risk is the risk of loss resulting from changes in exchange rates. The Zurich Insurance Group operates internationally and therefore is exposed to the financial impact arising from changes in the exchange rates of various currencies. The Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance Group. Zurich Insurance Group 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 Zurich Insurance Group has chosen the U.S. dollar as its presentation currency, differences arise when functional currencies are translated into the presentation currency. The Zurich Insurance Group applies net investment hedge accounting in order to protect against the effects of changes in certain exchange rates on selected net investments. The Zurich Insurance Group does not take speculative positions on foreign currency market movements. Using constant exchange rates from one year to the next, the Zurich Insurance Group's 2013 net income attributable to shareholders would have been lower by USD 5 million (applying 2012 exchange rates to the 2013 result). In 2012, the result would have been higher by USD 48 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 ZIC Group is exposed. Positive values represent an increase in the value of the ZIC 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 Insurance Group'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 ZIC Group's total IFRS equity to exchange rate fluctuations

in USD millions, as of December 31	**2013**	2012[1]
10% increase in		
EUR/USD rate	915	904
GPB/USD rate	283	323
CHF/USD rate	(427)	(286)
Other currencies/USD rates	760	787

Credit risk

Credit risk is the risk associated with a loss or potential loss from counterparties failing to fulfill their financial obligations. The Zurich Insurance 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 Zurich Insurance Group manages individual exposures as well as credit risk concentrations. The Zurich Insurance Group's objective in managing credit risk exposures is to maintain them within parameters that reflect the Zurich Insurance Group's strategic objectives and risk tolerance. Sources of credit risk are assessed and monitored, and the Zurich Insurance Group has policies to manage the specific risks within the various subcategories of credit risk. To assess counterparty credit risk, the Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance Group maintains counterparty credit risk databases, which record external and internal sources of credit intelligence.

The Zurich Insurance Group regularly tests and analyzes credit risk scenarios and prepares possible contingency measures, which may be implemented should the credit risk environment worsen. Zurich Insurance Group adjusts the scenarios if market conditions warrant.

Although the Zurich Insurance Group actively uses collateral to mitigate credit risks, the principle is nevertheless to manage the underlying credit risks independently from the collateral. The Zurich Insurance Group has limits and quality criteria to identify acceptable letter-of-credit providers. Letters of credit enable Zurich Insurance Group 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 Insurance Group 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 Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance Group's limits for counterparty aggregation as of December 31, 2013 or December 31, 2012. In line with the Zurich Insurance 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 ZIC Group also has off-balance sheet exposures related to undrawn loan commitments of USD 8 million and USD 16 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 Zurich Insurance 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 Zurich Insurance Group limits the maximum cash amount that can be deposited with a single counterparty. In addition, the Zurich Insurance 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 7.1 billion as of December 31, 2013 and USD 8.7 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+". 62 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

ZIC Group is exposed to credit risk from third party counterparties where the ZIC 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%	48,595	31.3%
AA	57,908	37.0%	48,384	31.2%
A	26,992	17.3%	26,718	17.2%
BBB	31,170	19.9%	28,315	18.2%
BB and below	2,360	1.5%	2,494	1.6%
Unrated	939	0.6%	748	0.5%
Total	**156,379**	**100.0%**	**155,255**	**100.0%**

As of December 31, 2013, investment grade securities comprise 97.9 percent of the ZIC 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 97.9 percent of debt securities, and 31.3 percent were rated "AAA." The Zurich Insurance Group's investment policy prohibits speculative grade investments, unless specifically authorized and under exceptional circumstances. Where the Zurich Insurance Group identifies investments expected to be downgraded to below investment grade, it implements appropriate corrective actions.

The Zurich Insurance 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 ZIC 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 Zurich Insurance Group's risk policy.

As of December 31, 2013, the largest concentration in the ZIC 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 ZIC 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 ZIC Group's debt exposure to Eurozone government & 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	14,351	11,301
Ireland	491	243
Italy	8,885	6,646
Portugal	530	531
Spain	4,445	3,881
Rest of Eurozone	1,147	974
Eurozone Supranationals & similar	679	1,058
Total	**36,747**	**34,226**

As shown in table 15, ZIC 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 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, ZIC 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.

The second largest concentration in ZIC Group's debt securities portfolio is to financial institutions (including banks), at 21.1 percent, of which 42.7 percent is secured. In response to the European government-debt crisis, the Zurich Insurance 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 ZIC 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 Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance Group to credit risk.

Zurich Insurance Group's Corporate Reinsurance Security Committee manages the credit quality of cessions and reinsurance assets. The ZIC 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,

Risk review *continued*

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 Zurich Insurance 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 Zurich Insurance 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	22.7%	7,672	40.3%	1,434	22.1%	8,852	42.6%
A	2,152	32.9%	6,681	35.1%	2,279	35.2%	6,959	33.5%
BBB	1,071	16.4%	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%	32	0.2%	34	0.5%	42	0.2%
Unrated	1,313	20.1%	1,890	9.9%	1,644	25.4%	2,390	11.5%
Total	**6,546**	**100.0%**	**19,027**	**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 Zurich Insurance 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 Zurich Insurance 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. The Zurich Insurance Group specifies requirements for the local policies and sets monitoring and reporting standards. The Zurich Insurance Group closely monitors the performance of the portfolios in terms of impairments and losses.

ZIC 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 Zurich Insurance Group's investment policy, mortgage exposure has been reduced. To mitigate the impact of potential bubbles in the portfolio, the Zurich Insurance Group has a process to regularly review regional property markets, and to tighten underwriting standards in areas with strong price appreciation. ZIC Group's German and Swiss mortgage portfolios remain strong and well managed; LTV lending buffers are generally strong, and loss impairments and losses remain low.

Credit risk related to other loans

The credit risk arising from other loans is assessed and monitored together with the fixed income securities portfolio. 58.5 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 62.1 percent of loans are secured. As of December 31, 2012, a total of USD 8.0 billion or 54.6 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	48.7%	6,852	46.8%
AA	2,216	17.4%	3,572	24.4%
A	2,257	17.8%	2,113	14.4%
BBB and below	1,167	9.2%	1,524	10.4%
Unrated	887	7.0%	582	4.0%
Total	**12,712**	**100.0%**	**14,643**	**100.0%**

Credit risk related to receivables

The Zurich Insurance 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 Zurich Insurance Group or pay claims to customers on behalf of the Zurich Insurance Group. The Zurich Insurance 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 Zurich Insurance Group requires that intermediaries maintain segregated cash accounts for policyholder money. Additionally, the Zurich Insurance 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 Zurich Insurance Group reports internally on 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 Zurich Insurance 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.

Risk review *continued*

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 Zurich Insurance Group. In addition there is a potential exposure arising from possible changes in replacement value. The Zurich Insurance 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 Zurich Insurance Group standard to only transact derivatives with counterparties where the Zurich Insurance 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 Zurich Insurance 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	**156,103**	**8,787**	**12,710**	**15,021**	**192,622**
Past due but not impaired financial assets. Past due by:					
1 to 90 days	–	95	–	1,477	1,572
91 to 180 days	–	17	–	304	321
181 to 365 days	–	14	–	182	196
> 365 days	–	20	–	285	305
Past due but not impaired financial assets	**–**	**146**	**1**	**2,248**	**2,395**
Financial assets impaired	**275**	**26**	**20**	**162**	**484**
Gross carrying value	**156,379**	**8,959**	**12,731**	**17,431**	**195,500**
Less: impairment allowance					
Impairment allowances on individually assessed financial assets	–	13	19	89	122
Impairment allowances on collectively assessed financial assets	–	13	–	208	221
Net carrying value	**156,379[1]**	**8,933**	**12,712**	**17,134**	**195,158**

[1] Available-for-sale debt securities are included net of USD 2 million of impairment charges recognized during the year.

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	**154,843**	**9,240**	**14,642**	**14,495**	**193,220**
Past due but not impaired financial assets. Past due by:					
1 to 90 days	–	92	–	1,206	1,299
91 to 180 days	–	15	–	290	305
181 to 365 days	–	21	–	223	244
> 365 days	–	24	–	305	328
Past due but not impaired financial assets	**–**	**152**	**–**	**2,024**	**2,176**
Financial assets impaired	**412**	**22**	**–**	**248**	**683**
Gross carrying value	**155,255**	**9,414**	**14,643**	**16,768**	**196,079**
Less: impairment allowance					
Impairment allowances on individually assessed financial assets	–	10	–	117	128
Impairment allowances on collectively assessed financial assets	–	10	–	210	220
Net carrying value	**155,255[1]**	**9,394**	**14,643**	**16,440**	**195,732**

[1] Available-for-sale debt securities are included net of USD 12 million of impairment charges recognized during the year.

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	20	–	327
Increase/(Decrease) in allowance for impairments	7	20	12
Amounts written-off	(2)	(1)	(38)
Foreign currency translation effects	1	–	(5)
As of December 31, 2013	**26**	**19**	**297**

Development of allowance for impairments – prior period

Table 19.b

in USD millions	Mortgage loans	Other loans	Receivables
As of January 1, 2012	14	–	320
Increase/(Decrease) in allowance for impairments	8	13	39
Amounts written-off	(3)	(13)	(37)
Foreign currency translation effects	–	–	5
As of December 31, 2012	**20**	**–**	**327**

Risk review *continued*

Liquidity risk

Liquidity risk is the risk that the Zurich Insurance 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 Insurance Group'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 Zurich Insurance Group assesses, monitors and manages its liquidity needs on an ongoing basis.

The Zurich Insurance Group has Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance Group would face if it had to recapitalize local balance sheets.

At the Zurich Insurance Group level, similar guidelines apply and detailed liquidity forecasts based on the local businesses' input and the Zurich Insurance Group's own forecasts are regularly performed. As part of its liquidity management, the Zurich Insurance 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 Zurich Insurance Group maintains internal liquidity sources that cover the Zurich Insurance Group's potential liquidity needs, including those that might arise under stressed conditions. The Zurich Insurance Group takes into account the amount, permanence of availability and speed of accessibility of the sources. The Zurich Insurance 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 Zurich Insurance Group maintains a broad range of maturities for external debt securities. A possible liquidity risk could arise from a downgrade of the Zurich Insurance Group's credit rating. This could impact the Zurich Insurance Group's commitments and guarantees, thus potentially increasing the Zurich Insurance Group's liquidity needs. This risk and potential mitigating actions are assessed on an ongoing basis within the Zurich Insurance Group's liquidity framework.

The Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance Group's regular liquidity monitoring includes monthly reporting to the executive management and quarterly reporting to the Zurich Insurance Group's Risk Committee of the Board, covering aspects such as the Zurich Insurance Group's actual and forecasted liquidity, possible adverse scenarios that could affect the Zurich Insurance Group's liquidity and possible liquidity needs from the Zurich Insurance 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.

Expected maturity profile for reserves for insurance contracts, net of reinsurance – current period

Table 20.a

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**

Expected maturity profile for reserves for insurance contracts, net of reinsurance – prior period

Table 20.b

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 Zurich Insurance Group actively manages the Global Life in-force business to improve persistency and retention.

Expected maturity profile for liabilities for investment contracts – current period

Table 21.a

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**

Risk review *continued*

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 Zurich Insurance 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 Zurich Insurance Group has committed to contribute capital to subsidiaries and third parties that engage in making investments in direct private equity and private equity funds. Commitments may be called by the counterparty over the term of the investment (generally three to five years) and must be funded by the Zurich Insurance Group on a timely basis. See note 24 of the Consolidated financial statements.

Operational risk

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 Insurance Group has a comprehensive framework with a common approach to identify, assess, quantify, mitigate, monitor and report operational risk within the Zurich Insurance Group.

Within this framework, the Zurich Insurance 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 Zurich Insurance Group.
- Documents and evaluates loss events above a threshold determined by the Zurich Risk Policy, in a Zurich Insurance 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 Zurich Insurance Group level. Plans for improvement actions are documented and tracked on an ongoing basis. The Zurich Insurance Group uses a scoping exercise to determine which business units and Zurich Insurance Group-wide functional areas conduct operational risk assessments. In the assessments, the Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance Group to better protect information assets and ensure compliance with regulation and policies.

A key task is maintaining and developing the Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance Group continued its global anti-fraud initiative to further improve the Zurich Insurance 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 Insurance Group 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 Zurich Insurance Group Chief Risk Officer reports regularly on the status and development of significant project risks to the Zurich Insurance Group CEO, senior management committees and the Zurich Insurance Group Risk Committee of the Board.

Risk review *continued*

The Zurich Insurance 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 Zurich Insurance 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.

Risks to the Group's reputation

Risks to the Zurich Insurance Group's reputation include the risk that an act or omission by the Zurich Insurance Group or any of its employees could result in damage to the Zurich Insurance Group's reputation or loss of trust among its stakeholders. Every risk type has potential consequences for Zurich Insurance Group's reputation, and therefore, effectively managing each type of risk helps Zurich Insurance Group reduce threats to its reputation.

Additionally, the Zurich Insurance Group endeavors to preserve its reputation by adhering to applicable laws and regulations, and by following the core values and principles of Zurich Basics, Zurich Insurance Group's code of conduct, which includes integrity and good business practice. The Zurich Insurance Group centrally manages certain aspects of reputation risk, for example, communications, through functions with the appropriate expertise.

Capital management and analysis of capital adequacy

Capital management

Zurich Insurance 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 Zurich Insurance Group endeavors to manage its capital such that the Zurich Insurance Group and all of its regulated entities are adequately capitalized in compliance with the relevant regulatory capital adequacy requirements.

Further, Zurich Insurance Group strives to simplify the its legal entity structure in order to reduce complexity and increase fungibility of capital. The Zurich Insurance Group also wants to minimize constraints to capital fungibility by pooling risk, capital and liquidity centrally as much as possible.

Capital management framework

The Zurich Insurance Group's capital management framework forms the basis for actively managing capital within Zurich Insurance Group. Major elements are economic, regulatory, and rating agency capital adequacy.

Zurich Insurance Group'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 Zurich Insurance Group regulatory solvency requirements and rating agency capital adequacy constraints.

The Zurich Insurance Group manages capital and solvency through an integrated and comprehensive framework. The Zurich Insurance Group Balance Sheet Committee defines the capital management strategy and sets the principles, standards and policies for the execution of the strategy. Zurich Insurance Group Treasury and Capital Management is responsible for the execution of the capital management strategy within the mandate set by the Zurich Insurance Group Balance Sheet Committee.

Within these defined principles, the Zurich Insurance Group manages its capital using a number of different capital models taking into account economic, regulatory, and rating agency constraints. The Zurich Insurance Group's capital and solvency position is monitored and reported regularly. Based on the results of the capital models and defined standards and principles, Zurich Insurance 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 Zurich Insurance Group's capital management program comprises various actions to optimize shareholders' total return and to meet capital needs, while enabling Zurich Insurance Group 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 Zurich Insurance 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.

Zurich Insurance Company 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 Zurich Insurance Company Ltd. Similarly, company laws in many countries in which the ZIC Group's subsidiaries operate may restrict the amount of dividends payable by those subsidiaries to their parent companies.

Risk review *continued*

The ability of the ZIC 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 Zurich Insurance 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 Zurich Insurance Group's main operating entity is an important element of Zurich Insurance Group's competitive position. Moreover, the Zurich Insurance Group's credit ratings derived from the financial strength ratings affect the cost of capital.

The Zurich Insurance 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 ZIC 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 Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance Group is subject to different capital requirements depending on the country in which it operates.

At a Zurich Insurance Group level, Zurich Insurance Group endeavors to pool risk and capital as much as possible and thereby create diversification benefits for the Zurich Insurance Group. This also allows the Zurich Insurance 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.

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 Insurance Group 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 Insurance Group's internal model for 2013, without prejudicing the final approval of the internal model. Zurich Insurance Group 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).

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 Insurance Group is fully engaged in an extensive program of work in order to meet Solvency II requirements when they enter into force. The Zurich Insurance 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 Zurich Insurance Group is in the pre-application process in order to gain regulatory approval for the internal model from the Central Bank of Ireland, the Zurich Insurance 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.

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	7,504	9,059
Net investment income on Group investments		6,228	6,746
Net capital gains/(losses) and impairments on Group investments		1,276	2,313
Net investment result on unit-linked investments	6	12,805	10,193
Net gain/(loss) on divestments of businesses		(1)	(34)
Other income		1,748	1,660
Total revenues		72,144	70,478
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	8,769	8,611
Interest expense on debt	20	587	571
Interest credited to policyholders and other interest		500	529
Total benefits, losses and expenses		66,041	64,882
Net income before income taxes		6,103	5,596
Income tax expense	19	(1,697)	(1,485)
attributable to policyholders	19	(285)	(194)
attributable to shareholders	19	(1,412)	(1,291)
Net income after taxes		**4,406**	**4,111**
attributable to non-controlling interests		279	140
attributable to shareholders		4,127	3,971

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	3,971	1,763	6
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		3,915	32
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(1,721)	(35)
Deferred income tax (before foreign currency translation effects)		(512)	4
Foreign currency translation effects		82	6
2013			
Comprehensive income for the period	4,127	(2,760)	(133)
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		(1,643)	(87)
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(1,691)	(86)
Reclassification to retained earnings		–	–
Deferred income tax (before foreign currency translation effects)		589	40
Foreign currency translation effects		(16)	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
	395	2,165	–	(455)	(454)	1,711	5,682	188	5,870
	351	4,299	–	(479)	(478)	3,821			
	44	(1,712)	–	–	–	(1,712)			
	–	(509)	–	101	101	(407)			
	–	87	–	(77)	(77)	10			
	(260)	(3,153)	15	(373)	(358)	(3,511)	616	165	781
	(339)	(2,069)	24	(215)	(190)	(2,259)			
	79	(1,698)	–	–	–	(1,698)			
	–	–	(6)	–	(6)	(6)			
	–	629	(4)	(73)	(77)	552			
	–	(14)	–	(86)	(86)	(100)			

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	207,516	209,335	198,316
Cash and cash equivalents		7,053	8,700	8,650
Equity securities		13,566	12,698	13,348
Debt securities		156,379	155,255	143,917
Real estate held for investment		8,745	8,561	8,472
Mortgage loans		8,933	9,394	9,649
Other loans		12,712	14,643	14,199
Investments in associates and joint ventures		129	85	80
Investments for unit-linked contracts	6	134,267	123,913	111,911
Total investments	6	341,783	333,249	310,227
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		2,320	2,426	2,600
Receivables and other assets	17	18,455	18,348	17,770
Mortgage loans given as collateral		–	–	223
Deferred tax assets	19	2,018	1,849	2,059
Assets held for sale[1]		223	102	54
Property and equipment	15	1,494	1,529	1,578
Goodwill	16	1,852	2,107	2,060
Other intangible assets	16	7,028	7,447	8,061
Total assets		**415,242**	**408,512**	**385,178**

[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		3,012	3,264	3,132
Other liabilities	18	18,131	17,673	17,462
Collateralized loans		–	–	223
Deferred tax liabilities	19	5,098	5,234	4,577
Liabilities held for sale[1]		49	–	55
Senior debt	20	6,337	7,366	7,065
Subordinated debt	20	6,342	5,861	5,476
Total liabilities		**380,814**	**371,944**	**351,191**
Equity				
Share capital	21	660	660	660
Additional paid-in capital	21	14,729	14,733	14,767
Net unrealized gains/(losses) on available-for-sale investments		1,626	4,386	2,622
Cash flow hedges		106	238	232
Cumulative foreign currency translation adjustment		(4,288)	(4,028)	(4,423)
Revaluation reserve		195	180	180
Retained earnings		18,825	17,727	17,207
Shareholders' equity		31,851	33,896	31,244
Non-controlling interests		2,576	2,673	2,743
Total equity		**34,428**	**36,568**	**33,987**
Total liabilities and equity		**415,242**	**408,512**	**385,178**

[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).

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	4,127	3,971
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	1,197	1,084
Other non-cash items	221	75
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*	5,284
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:	(11,192)	(12,198)
Net capital (gains)/losses on total investments and impairments	*(12,364)*	(10,686)
Net change in trading securities and derivatives	*29*	(175)
Net change in money market investments	*1,905*	341
Sales and maturities		
Debt securities	*109,178*	107,596
Equity securities	*62,766*	64,129
Other	*27,595*	38,438
Purchases		
Debt securities	*(113,511)*	(110,197)
Equity securities	*(62,968)*	(62,801)
Other	*(23,822)*	(38,843)
Proceeds from sale and repurchase agreements	117	(332)
Movements in receivables and payables	(714)	(970)
Net changes in other operational assets and liabilities	85	545
Deferred income tax, net	224	439
Net cash provided by/(used in) operating activities	2,199	2,949

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)	(234)
Cash flows from financing activities		
Dividends paid	(2,899)	(3,034)
Issuance of debt	1,545	1,755
Repayments of debt outstanding	(2,372)	(1,315)
Net cash provided by/(used in) financing activities	(3,726)	(2,594)
Foreign currency translation effects on cash and cash equivalents	(8)	168
Change in cash and cash equivalents	(1,775)	290
Cash and cash equivalents as of January 1	9,810	9,520
Cash and cash equivalents as of December 31	**8,035**	**9,810**
of which:		
– cash and cash equivalents – Group investments	7,053	8,700
– cash and cash equivalents – unit linked	982	1,110
Other supplementary cash flow disclosures		
Other interest income received	6,439	6,893
Dividend income received	1,724	1,826
Other interest expense paid	(1,169)	(1,198)
Income taxes paid	(1,200)	(1,238)

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	5,713	6,860
Cash equivalents	2,322	2,949
Total	**8,035**	**9,810**

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.

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	660	14,767
Total adjustments due to restatement	–	–
Balance as of December 31, 2011, as restated	660	14,767
Dividends to shareholders	–	–
Share-based payment transactions	–	(34)
Change in ownership interest with no loss of control	–	–
Total comprehensive income for the year, 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	660	14,733
Balance as of December 31, 2012, as previously reported	660	14,733
Total adjustments due to restatement	–	–
Balance as of December 31, 2012, as restated	660	14,733
Dividends to shareholders	–	–
Share-based payment transactions	–	(4)
Reclassification from revaluation reserves	–	–
Total comprehensive income for the year, 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	**660**	**14,729**

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
2,622	232	(4,423)	180	17,191	31,229	2,743	33,972
–	–	–	–	15	15	1	16
2,622	232	(4,423)	180	17,207	31,244	2,743	33,987
–	–	–	–	(2,992)	(2,992)	(43)	(3,035)
–	–	–	–	–	(34)	–	(34)
–	–	–	–	(4)	(4)	–	(4)
1,763	6	395	–	3,517	5,682	188	5,870
–	–	–	–	*3,971*	*3,971*		
1,763	–	–	–	–	*1,763*		
–	*6*	–	–	–	*6*		
–	–	*395*	–	–	*395*		
–	–	–	–	–	–		
–	–	–	–	*(455)*	*(455)*		
–	–	–	–	–	–	(216)	(216)
4,386	238	(4,028)	180	17,727	33,896	2,673	36,568
4,386	238	(4,028)	180	17,715	33,885	2,672	36,556
–	–	–	–	12	11	1	12
4,386	238	(4,028)	180	17,727	33,896	2,673	36,568
–	–	–	–	(2,661)	(2,661)	(239)	(2,900)
–	–	–	–	–	(4)	–	(4)
–	–	–	–	6	6	–	6
(2,760)	(133)	(260)	15	3,754	616	165	781
–	–	–	–	*4,127*	*4,127*		
(2,760)	–	–	–	–	*(2,760)*		
–	*(133)*	–	–	–	*(133)*		
–	–	*(260)*	–	–	*(260)*		
–	–	–	*15*	–	*15*		
–	–	–	–	*(373)*	*(373)*		
–	–	–	–	–	–	(22)	(22)
1,626	**106**	**(4,288)**	**195**	**18,825**	**31,851**	**2,576**	**34,428**

Consolidated financial statements *continued*

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

Zurich Insurance Company Ltd, is incorporated in Zurich, Switzerland. The registered office is Mythenquai 2, 8002 Zurich, Switzerland. Zurich Insurance Company Ltd is a wholly owned subsidiary of Zurich Insurance Group Ltd and together with its subsidiaries forms part of the Zurich Insurance Group.

On March 5, 2014, the Board of Directors of Zurich Insurance Company Ltd authorized these Consolidated financial statements for issue. These financial statements will be submitted for approval to the Annual General Meeting of Shareholders to be held on April 2, 2014.

1. Basis of presentation

General information

The Consolidated financial statements of the ZIC 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 ZIC Group's accounting policies for insurance and reinsurance contracts are therefore based on those developed by the ZIC Group before the adoption of IFRS 4 in areas where IFRS 4 did not include specific requirements. Before the time of adoption, the ZIC 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 ZIC Group's accounting policies. In case of business combinations, the ZIC Group may decide to maintain the local statutory treatment if this does not distort the fair presentation of the financial position of the ZIC 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 ZIC Group. The ZIC 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 16 to 53, 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 ZIC 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 77 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 (44) 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 ZIC Group. There was no impact to the ZIC 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 ZIC Group with no impact on the ZIC 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	8,987	–	72	9,059
Net investment income on Group investments	6,674	–	72	6,746
Net capital gains/(losses) and impairments on Group investments	2,313	–	–	2,313
Net investment result on unit-linked investments	10,268	–	(74)	10,193
Net gain/(loss) on divestments of businesses	(34)	–	–	(34)
Other income	1,660	–	–	1,660
Total revenues	70,481	–	(3)	70,478
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	8,617	(9)	2	8,611
Interest expense on debt	571	–	–	571
Interest credited to policyholders and other interest	460	–	69	529
Total benefits, losses and expenses	64,894	(9)	(3)	64,882
Net income before income taxes	5,587	9	–	5,596
Income tax expense	(1,485)	–	–	(1,485)
attributable to policyholders	(194)	–	–	(194)
attributable to shareholders	(1,290)	–	–	(1,291)
Net income after taxes	**4,102**	**9**	**–**	**4,111**
attributable to non-controlling interests	139	–	–	140
attributable to shareholders	3,963	9	–	3,971

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	208,460	–	875	209,335
Cash and cash equivalents	8,699	–	–	8,700
Equity securities	12,698	–	–	12,698
Debt securities	155,255	–	–	155,255
Real estate held for investment	8,561	–	–	8,561
Mortgage loans	9,394	–	–	9,394
Other loans	13,681	–	962	14,643
Investments in associates and joint ventures	172	–	(87)	85
Investments for unit-linked contracts	125,226	–	(1,313)	123,913
Total investments	333,687	–	(438)	333,249
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	2,426	–	–	2,426
Receivables and other assets	18,345	–	3	18,348
Deferred tax assets	1,849	–	–	1,849
Assets held for sale	102	–	–	102
Property and equipment	1,529	–	–	1,529
Goodwill	2,107	–	–	2,107
Other intangible assets	7,447	–	–	7,447
Total assets	**408,948**	**–**	**(436)**	**408,512**
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	3,257	–	7	3,264
Other liabilities	17,440	(18)	251	17,673
Deferred tax liabilities	5,228	6	–	5,234
Senior debt	7,366	–	–	7,366
Subordinated debt	5,861	–	–	5,861
Total liabilities	**372,392**	**(12)**	**(436)**	**371,944**
Equity				
Share capital	660	–	–	660
Additional paid-in capital	14,733	–	–	14,733
Net unrealized gains/(losses) on available-for-sale investments	4,386	–	–	4,386
Cash flow hedges	238	–	–	238
Cumulative translation adjustment	(4,028)	–	–	(4,028)
Revaluation reserve	180	–	–	180
Retained earnings	17,715	12	–	17,727
Shareholders' equity	33,885	11	–	33,896
Non-controlling interests	2,672	–	1	2,673
Total equity	**36,556**	**11**	**1**	**36,568**
Total liabilities and equity	**408,948**	**–**	**(435)**	**408,512**

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 ZIC Group's operations

The following amendments to accounting standards and interpretations of standards relevant to the ZIC Group have been implemented for the financial year beginning January 1, 2013. The impact of adoption on the ZIC 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 ZIC Group

The following standards, amendments and interpretations of existing published standards are not yet effective but are relevant to the ZIC Group's operations. The expected impact of these standards, amendments, and interpretations on the ZIC Group's Consolidated financial statements are disclosed in table 2.2. In addition to the standards and amendments listed in table 2.2 the ZIC 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 ZIC Group's Consolidated financial statements include the assets, liabilities, equity, revenues, expenses and cash flows of Zurich Insurance Company Ltd and its subsidiaries. A subsidiary is an entity which Zurich Insurance Company 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 ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC Group's Consolidated financial statements is not material.

b) Foreign currency translation and transactions

Foreign currency translation

Due to the ZIC Group's economic exposure to the U.S. dollar (USD), the presentation currency of the ZIC Group's consolidated financial statements is USD. Many ZIC 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) Common control business combination

A business combination of entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Business combinations between entities under common control are accounted for by applying the pooling of interest method. The acquirer (entity that receives the net assets or the equity interest) initially recognizes the assets and liabilities transferred at their previous carrying amounts in the accounts of the transferor at the date of transfer. Any difference between the consideration paid and the carrying value of the net assets received is recorded in shareholders' equity. Such business combinations are recorded as if they had taken place at the beginning of the earliest period presented (or the date that the entities were first under common control, if later), for the purpose of including the result of the transferee in the retained earnings of the acquirer.

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

Classification

Contracts issued under which the ZIC Group accepts significant insurance risk and obligations arising from investment contracts with DPF are accounted for as insurance contracts.

The ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC Group's manner of acquiring, servicing and measuring the profitability of its insurance contracts.

Consolidated financial statements *continued*

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

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

Reinsurance
The ZIC 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 ZIC 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 ZIC 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.

e) Liabilities for investment contracts (without DPF)
Investment contracts are those contracts that transfer no significant insurance risk. The ZIC 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 ZIC 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.

f) 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 ZIC Group recognizes regular purchases and sales of financial assets on the trade date, which is the date on which the ZIC 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 ZIC 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.

Consolidated financial statements *continued*

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.

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 ZIC 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 ZIC 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.

g) 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 ZIC 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.

h) 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.

i) Derecognition of financial assets and liabilities

Financial assets are derecognized when the right to receive cash flows from the assets has expired, or when the ZIC 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.

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Securities lending

Certain entities within the ZIC 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 ZIC 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 ZIC Group's balance sheet. Cash received as collateral for loaned securities is recorded as an asset, and a corresponding liability is established.

Repurchase and reverse repurchase transactions

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

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

Under a reverse repurchase agreement, the securities received are not recognized on the balance sheet, as long as the risk and rewards of ownership have not been transferred to the ZIC 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 ZIC 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.

j) 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.

k) 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 ZIC 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 ZIC Group to generate future revenues based on the ZIC Group's relationship with the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc. (FGI), a wholly owned subsidiary of the ZIC Group. In determining that these relationships have an indefinite useful life, the ZIC 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.

l) Provisions, contingent liabilities, commitments and financial guarantees

Provisions, contingent liabilities, commitments and financial guarantees are recognized when the ZIC 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.

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

m) 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 ZIC Group recognizes these fees on a straight-line basis over the estimated life of the contract.

The ZIC 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

Share based compensation plans include plans under which shares of Zurich Insurance Group Ltd (the ultimate parent of the ZIC Group), based on the performance of the businesses, are awarded by Zurich Insurance Group Ltd, the ultimate parent, which is not part of ZIC Group, directly to employees of entities within the ZIC Group.

Under the ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC 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.

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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 ZIC Group is required to establish reserves for payment of losses and loss adjustment expenses that arise from the ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC Group relies upon historical information and statistical models, based on product line, type and extent of coverage, to estimate its IBNR liability. The ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC Group's actuaries. Additionally, the ZIC Group's Corporate Center actuaries perform periodic reserve reviews of the ZIC 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 ZIC 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 ZIC Group is exposed to longevity risk.

- Under certain contracts, the ZIC 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 ZIC 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 ZIC 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 ZIC 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.

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.

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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 ZIC 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 ZIC 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.

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 ZIC Group provides defined benefit plans and other post-employment plans. In assessing the ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC Group also ceased to exist.

Divestments and loss of control

The ZIC 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 ZIC 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	61	(11)	(4)	32	57
Equity securities	1,734	1,780	12,567	8,924	14,301	10,703
Debt securities	5,082	5,394	65	2,552	5,146	7,946
Real estate held for investment	757	816	272	(331)	1,030	485
Mortgage loans	329	350	(7)	(8)	322	342
Other loans	822	914	298	17	1,119	932
Investments in associates and joint ventures	11	12	1	1	12	13
Derivative financial instruments[1]	–	–	(820)	(465)	(820)	(465)
Investment result, gross	8,778	9,327	12,364	10,686	21,141	20,013
Investment expenses	(832)	(761)	–	–	(832)	(761)
Investment result, net	**7,946**	**8,566**	**12,364**	**10,686**	**20,309**	**19,252**

[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	45	–	1	33	45
Equity securities	244	331	1,504	570	1,748	900
Debt securities	4,790	5,095	188	1,968	4,978	7,062
Real estate held for investment	486	506	186	12	671	517
Mortgage loans	329	350	(7)	(8)	322	342
Other loans	593	662	211	79	804	741
Investments in associates and joint ventures	11	12	1	1	12	13
Derivative financial instruments[1]	–	–	(806)	(308)	(806)	(308)
Investment result, gross, for Group investments	6,485	6,999	1,276	2,313	7,762	9,312
Investment expenses for Group investments	(257)	(253)	–	–	(257)	(253)
Investment result, net, for Group investments	**6,228**	**6,746**	**1,276**	**2,313**	**7,504**	**9,059**

[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 87 million and USD 116 million, including impairment charges on mortgage loans and other loans of USD 27 million and USD 21 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:	1,136	327	573	1,628	1,709	1,956
Realized capital gains on Group investments	1,299	575	1,008	2,120	2,306	2,696
Realized capital losses on Group investments	(105)	(166)	(433)	(480)	(538)	(645)
Impairments on Group investments	(58)	(82)	(2)	(12)	(60)	(95)
Total net capital gains/(losses) and impairments	**12,567**	**8,924**	**65**	**2,552**	**12,631**	**11,476**

Consolidated financial statements *continued*

Table 6.3a

Details of total investments by category

as of December 31	2013		2012	
	USD millions	**% of total**	USD millions	% of total
Cash and cash equivalents	8,035	2.4	9,810	2.9
Equity securities:				
Fair value through profit or loss	115,379	33.8	103,023	30.9
Available-for-sale	10,141	3.0	9,153	2.7
Total equity securities	125,520	36.7	112,177	33.7
Debt securities:				
Fair value through profit or loss	18,725	5.5	20,630	6.2
Available-for-sale	144,645	42.3	141,258	42.4
Held-to-maturity	4,613	1.3	5,012	1.5
Total debt securities	167,983	49.1	166,900	50.1
Real estate held for investment	12,406	3.6	11,962	3.6
Mortgage loans	8,933	2.6	9,394	2.8
Other loans	18,778	5.5	22,921	6.9
Investments in associates and joint ventures	129	0.0	85	0.0
Total investments	**341,783**	**100.0**	**333,249**	**100.0**

Table 6.3b

Details of Group investments by category

as of December 31	2013		2012	
	USD millions	**% of total**	USD millions	% of total
Cash and cash equivalents	7,053	3.4	8,700	4.2
Equity securities:				
Fair value through profit or loss	3,425	1.7	3,545	1.7
Available-for-sale	10,141	4.9	9,153	4.4
Total equity securities	13,566	6.5	12,698	6.1
Debt securities:				
Fair value through profit or loss	7,121	3.4	8,985	4.3
Available-for-sale	144,645	69.7	141,258	67.5
Held-to-maturity	4,613	2.2	5,012	2.4
Total debt securities	156,379	75.4	155,255	74.2
Real estate held for investment	8,745	4.2	8,561	4.1
Mortgage loans	8,933	4.3	9,394	4.5
Other loans	12,712	6.1	14,643	7.0
Investments in associates and joint ventures	129	0.1	85	0.0
Total Group investments	**207,516**	**100.0**	**209,335**	**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 ZIC 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 ZIC 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 ZIC 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 ZIC 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	9,666	9,733	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	125,392	121,777	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**	**144,645**	**141,258**	**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	5,191	4,992	1,443	1,841	(379)	(450)	6,255	6,383
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	**8,811**	**7,594**	**1,878**	**2,259**	**(548)**	**(700)**	**10,141**	**9,153**
Debt securities								
Swiss federal and cantonal governments	4,093	3,925	210	466	(81)	(3)	4,222	4,388
United Kingdom government	7,227	7,227	186	496	(118)	(8)	7,295	7,715
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	55,793	4,055	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	**140,214**	**132,579**	**6,994**	**10,567**	**(2,564)**	**(1,888)**	**144,645**	**141,258**

[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	1,330	1,560
Debt securities: available-for-sale	4,431	8,679
Other	130	300
Gross unrealized gains/(losses) on Group investments	5,891	10,539
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	(13)	(41)
Total[1]	**1,731**	**4,624**

[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 ZIC 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 ZIC 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)	5,286	348	(45)
Swaptions[1]	512	3,966	4,037	8,515	177	(234)	9,408	242	(104)
Exchange traded									
Futures	408	–	–	408	1	–	8	–	–
Total interest rate contracts	**1,871**	**4,939**	**6,877**	**13,687**	**353**	**(413)**	**14,702**	**590**	**(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	1,368	–	–	1,368	1	(35)	2,126	–	(20)
Exchange traded									
Puts	10	–	–	10	–	–	49	1	–
Futures	519	–	–	519	–	(22)	503	1	(3)
Total equity contracts	**3,716**	**556**	**2,331**	**6,603**	**101**	**(120)**	**12,575**	**223**	**(144)**
Foreign exchange contracts:									
OTC									
Cross currency swaps	–	–	–	–	–	–	444	–	(45)
Forwards	17,820	–	–	17,820	67	(110)	13,791	48	(84)
Total foreign exchange contracts	**17,820**	**–**	**–**	**17,820**	**67**	**(110)**	**14,234**	**48**	**(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	23,407	5,495	9,668	38,570	521	(646)	41,671	861	(433)
Total unit-linked derivative financial instruments	1,885	225	–	2,110	45	(4)	2,113	62	(5)
Total	**25,291**	**5,721**	**9,668**	**40,681**	**566**	**(650)**	**43,784**	**923**	**(438)**

[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 ZIC 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 ZIC 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 ZIC 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 ZIC Group against changes in interest rate exposure and foreign currency exposure of Swiss franc, euro and U.S. dollar-denominated debt issued by the ZIC Group.

Information on debt issuances designated as hedged items in fair value hedge relationships is set out in note 20.

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

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

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

Gains/(losses) arising from fair value hedges

Table 7.3

in USD millions, as of December 31	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 ZIC 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 ZIC 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 ZIC 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 ZIC 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	1,111	(216)	(809)	(9)	77
Unit-linked derivatives	45	(1)	(24)	–	20
Total derivative assets	**1,156**	**(217)**	**(833)**	**(9)**	**97**
Liabilities					
Group derivatives	(693)	216	375	7	(96)
Unit-linked derivatives	(4)	1	–	–	(3)
Total derivative liabilities	**(698)**	**217**	**375**	**7**	**(99)**

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	1,692	(276)	(1,094)	(13)	309
Unit-linked derivatives	62	–	(47)	–	15
Total derivative assets	**1,754**	**(276)**	**(1,141)**	**(13)**	**324**
Liabilities					
Group derivatives	(475)	276	72	15	(112)
Unit-linked derivatives	(5)	–	–	–	(5)
Total derivative liabilities	**(480)**	**276**	**72**	**15**	**(117)**

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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 ZIC 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 ZIC 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.

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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 ZIC 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 ZIC Group's general insurance portfolio to RiverStone Insurance (UK) Limited.

The ZIC Group has considered asbestos and environmental, including latent injury, claims and claims expenses in establishing the reserves for losses and loss adjustment expenses. The ZIC 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 ZIC 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 ZIC 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.

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Table 8.5

Development of future life policyholders' benefits

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).

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 ZIC 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 ZIC Group contain benefit features for which the amount and timing of declaration and payment are at the discretion of the ZIC 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 2013	Gross 2012	Ceded 2013	Ceded 2012	Net 2013	Net 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 2013	Gross 2012	Ceded 2013	Ceded 2012	Net 2013	Net 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 2013	Gross 2012	Ceded 2013	Ceded 2012	Net 2013	Net 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 2013	Gross 2012	Ceded 2013	Ceded 2012	Net 2013	Net 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 ZIC 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 ZIC 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).

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13. Expenses

Table 13 shows expenses by functional area and by type of expense.

Expenses

Table 13

in USD millions, for the years ended December 31	2013	2012
Administrative and other operating expense	8,769	8,611
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	**11,639**	**11,474**
of which:		
Personnel and other related expenses	6,001	6,002
Amortization and impairments of intangible assets	1,011	873
Depreciation and impairments of property and equipment	186	210
Building and infrastructure expenses	577	610
Brand and marketing expenses	473	438
Life recurring commission	380	365
Asset and other non-income taxes	143	124
IT expenses	1,180	1,162
Restructuring costs	42	208
External professional services expenses	885	971
Foreign currency translation	28	(2)
Other	734	512
Total	**11,639**	**11,474**

[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 ZIC 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.

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	502	517	645	3,043
Less: accumulated depreciation/impairments	(7)	(378)	(344)	(439)	(346)	(1,513)
Net carrying value as of January 1, 2013	313	682	158	78	299	1,529
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	254	391	426	1,484
Gross carrying value as of December 31, 2013	**354**	**1,020**	**403**	**461**	**739**	**2,978**

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 January 1, 2012	325	1,057	571	556	694	3,203
Less: accumulated depreciation/impairments	–	(348)	(419)	(461)	(395)	(1,624)
Net carrying value January 1, 2012	325	709	151	94	299	1,578
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)	(43)	(84)	(210)
Foreign currency translation effects	7	15	1	–	3	26
Net carrying value as of December 31, 2012	**313**	**682**	**158**	**78**	**299**	**1,529**
Plus: accumulated depreciation/impairments	7	378	344	439	346	1,513
Gross carrying value as of December 31, 2012	**320**	**1,060**	**502**	**517**	**645**	**3,043**

The fire insurance value of the ZIC Group's own-use property and equipment totaled USD 2,912 million and USD 3,029 million as of December 31, 2013 and 2012, respectively.

Consolidated financial statements *continued*

16. Goodwill and other intangible assets

Intangible assets – current period

Table 16.1

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	4,410	219	15,219
Less: accumulated amortization/impairments	(132)	(2,047)	(620)	–	(2,741)	(125)	(5,665)
Net carrying value as of January 1, 2013	2,107	844	3,815	1,025	1,670	94	9,554
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	–	3,072	145	6,556
Gross carrying value as of December 31, 2013	**2,190**	**2,918**	**4,364**	**1,025**	**4,713**	**226**	**15,436**

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 ZIC 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 ZIC 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.

Intangible assets by segment – current period

Table 16.2

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**

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	4,203	190	14,990
Less: accumulated amortization/impairments	(126)	(1,640)	(430)	–	(2,587)	(86)	(4,870)
Net carrying value as of January 1, 2012	2,060	1,184	4,132	1,025	1,615	104	10,120
Additions and transfers	22	–	36	–	482	–	539
Divestments and transfers	(1)	–	(137)	–	(4)	–	(143)
Amortization	–	(205)	(213)	–	(391)	(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**	**9,554**
Plus: accumulated amortization/impairments	132	2,047	620	–	2,741	125	5,665
Gross carrying value as of December 31, 2012	**2,239**	**2,890**	**4,435**	**1,025**	**4,410**	**219**	**15,219**

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 ZIC 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
Net carrying value as of December 31, 2012	**2,107**	**844**	**3,815**	**1,025**	**1,670**	**94**	**9,554**

Consolidated financial statements *continued*

17. Receivables and other assets

Receivables and other assets

Table 17

in USD millions, as of December 31	2013	2012
Financial assets		
Derivative assets	1,156	1,754
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	2,243	1,977
Allowance for impairments[1]	(297)	(327)
Other assets[2]	768	135
Non-financial assets		
Current tax receivables	1,073	1,186
Accrued premiums	731	688
Prepaid expenses	313	267
Prepaid insurance benefits	344	333
Other assets	377	340
Total receivables and other assets	**18,455**	**18,348**

[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	698	480
Amounts due to policyholders	923	761
Amounts due to insurance companies, agents & 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	1,032	1,276
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	109
Other liabilities	4,747	4,765
Other non-financial liabilities		
Current tax payables	1,232	1,101
Restructuring provisions	188	296
Premium prepayments and other advances	973	916
Other liabilities	758	622
Total other liabilities	**18,131**	**17,673**

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		2012	
	Carrying value[2]	**Undiscounted cash flows[3]**	Carrying value[2]	Undiscounted cash flows[3]
< 1 year	9,275	9,322	9,405	9,448
1 to 2 years	96	161	79	105
2 to 3 years	67	114	59	91
3 to 4 years	97	146	81	126
4 to 5 years	76	116	148	213
> 5 years	1,703	2,434	1,566	2,159
Total	**11,314**	**12,293**	**11,338**	**12,141**

[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	296	254
Provisions made during the period	62	173
Increase of provisions set up in prior years	34	43
Provisions used during the period	(154)	(170)
Provisions reversed during the period	(54)	(6)
Foreign currency translation effects	5	5
As of December 31	**188**	**296**

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 ZIC 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.

Consolidated financial statements *continued*

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	1,044
Deferred	223	442
Total income tax expense	**1,697**	**1,485**

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	1,412	1,291
Total income tax expense	**1,697**	**1,485**

The ZIC 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		6,103		5,596
less: income tax (expense)/benefit attributable to policyholders		(285)		(194)
Net income before income taxes attributable to shareholders		5,818		5,402
Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%	1,280	22.0%	1,188
Increase/(reduction) in taxes resulting from:				
Tax rate differential in foreign jurisdictions		*143*		227
Tax exempt and lower taxed income		*(107)*		(132)
Non-deductible expenses		*78*		85
Tax losses previously unrecognized or no longer recognized		*32*		(14)
Prior year adjustments and other		*(15)*		(63)
Actual income tax expense attributable to shareholders	24.3%	1,412	23.9%	1,291
plus: income tax expense/(benefit) attributable to policyholders		285		194
Actual income tax expense	**27.8%**	**1,697**	**26.5%**	**1,485**

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.

Current tax receivables and payables

Table 19.4

in USD millions, as of December 31	**2013**	2012
Current tax receivables	1,073	1,186
Current tax payables	(1,232)	(1,101)
Net current tax receivables/(payables)	**(159)**	**85**

Deferred tax assets and liabilities

Table 19.5

in USD millions, as of December 31	**2013**	2012
Deferred tax assets	2,018	1,849
Deferred tax liabilities	(5,098)	(5,234)
Net deferred tax liabilities	**(3,080)**	**(3,385)**

Development of net deferred tax liabilities

Table 19.6

in USD millions	**2013**	2012
As of January 1	(3,385)	(2,518)
Net change recognized in the income statement	(223)	(442)
Net change recognized in equity	552	(407)
Net changes due to acquisitions/(divestments)	–	44
Foreign currency translation effects	(25)	(62)
As of December 31	**(3,080)**	**(3,385)**

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	(2,495)	(3,065)
Net deferred tax liabilities	**(3,080)**	**(3,385)**

Consolidated financial statements *continued*

Table 19.8

Deferred tax assets/(liabilities) analysis by source

in USD millions, as of December 31	2013 Assets	2013 Liabilities	2012 Assets	2012 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	366	(438)	251	(501)
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	616	(96)	775	(89)
Tax loss carryforwards	498	–	420	–
Gross deferred tax assets/(liabilities) before valuation allowance	3,711	(1,615)	3,440	(1,539)
Valuation allowance	(78)	–	(52)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,633	(1,615)	3,388	(1,539)
Deferred tax assets	**2,018**		**1,849**	
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	(123)	116	(84)
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	(8,864)	4,121	(9,214)
Valuation allowance	(18)	–	(12)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,766	(8,864)	4,109	(9,214)
Deferred tax liabilities		**(5,098)**		**(5,234)**
Net deferred tax liabilities		**(3,080)**		**(3,385)**

[1] Includes reserves for unit-linked contracts.

The ZIC 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 200 million and USD 6 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.

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	170
5 to 20 years	344	1,208
> 20 years or with no time limitation	1,383	986
Subtotal	1,797	2,364
For which deferred tax assets have not been recognized, expiring		
5 to 20 years	126	169
> 20 years or with no time limitation	129	168
Subtotal	265	337
Total	**2,062**	**2,701**

The tax rates applicable to tax losses for which a deferred tax asset has not been recognized are 27.3 percent and 28.9 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.

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20. Senior and subordinated debt

Senior and subordinated debt

Table 20.1

in USD millions, as of		2013	2012
Senior debt			
Zurich Insurance Company Ltd	3.75% CHF 500 million notes, due September 2013[6]	–	545
	2.25% CHF 500 million notes, due July 2017[6]	559	543
	2.375% CHF 525 million notes, due November 2018[6]	585	568
	1.50% CHF 400 million notes, due June 2019[5,6,7]	443	440
	1.125% CHF 400 million notes, due September 2019[5,6,7]	450	–
	2.875% CHF 250 million notes, due July 2021[6]	277	269
	3.375% EUR 500 million notes, due June 2022[5,6,7]	687	682
	1.875% CHF 100 million notes, due September 2023[5,6,7]	112	–
	Various debt instruments payable within 1 year with Zurich Insurance Group Ltd[3]	292	706
Zurich Finance (Luxembourg) S.A.	3.25% USD 750 million notes, due September 2013[5,6,7]	–	757
Zurich Finance (USA), Inc.	Euro Commercial Paper Notes, due less than 1 year	400	400
	4.50% EUR 1 billion notes, due September 2014[1,6,7]	1,384	1,333
	6.50% EUR 600 million notes, due October 2015[2,6,7]	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		6,337	7,366
Subordinated debt			
Zurich Insurance Company Ltd	12.0% EUR 143 million perpetual capital notes, 1st callable July 2014[6]	197	188
	4.25% CHF 700 million perpetual notes, first callable May 2016[6]	780	756
	8.25% USD 500 million perpetual capital notes, first callable January 2018[6]	496	495
	4.625% CHF 500 million perpetual notes, first callable May 2018[6]	555	539
	7.5% EUR 425 million notes, due July 2039, first callable July 2019[6]	582	557
	4.25% EUR 1 billion notes, due October 2043, first callable October 2023[6]	1,360	–
Zurich Finance (UK) plc	6.625% GBP 450 million perpetual notes, first callable October 2022[4,6]	737	723
Zurich Finance (USA), Inc.	5.75% EUR 500 million notes, due October 2023, first callable October 2013[6]	–	652
	4.5% EUR 269 million notes, due June 2025, first callable June 2015[5,6,7]	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		**12,678**	**13,227**

[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] Loans with Zurich Insurance Group which are not part of ZIC Group
[4] 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 ZIC Group will issue a replacement debt instrument with terms and provisions that will be as or more equity-like than the replaced notes.
[5] These bonds are part of qualifying fair value hedges (100 percent).
[6] Issued under the Zurich Insurance Group's Euro Medium Term Note Programme (EMTN Programme).
[7] The ZIC 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.

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

i) Senior debt

Senior debt amounted to USD 6,337 million and USD 7,366 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. In addition, there was a USD 414 million net call account decrease with Zurich Insurance Group Ltd, which is not part of the ZIC Group. 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 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 ZIC Group which, in case of liquidation of the ZIC Group, rank junior to all present and future senior indebtedness and certain other obligations of the ZIC 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 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.

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Table 20.2

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.

Table 20.3

Maturity schedule of outstanding debt

in USD millions, as of December 31

	2013		2012	
	Carrying value	**Undiscounted cash flows**	Carrying value	Undiscounted cash flows
< 1 year	2,088	2,704	2,409	3,006
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	**12,678**	**19,715**	**13,227**	**19,406**

Debt maturities reflect original contractual dates without taking early redemption options into account. For call/redemption dates, see table 20.2. The total notional amount of debt due in each period is not materially different from the total carrying value disclosed in table 20.3. 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.

Table 20.4

Interest expense on debt

in USD millions, for the years ended December 31	**2013**	2012
Senior debt	200	222
Subordinated debt	386	348
Total	**587**	**571**

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 ZIC 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 ZIC 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.

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21. Shareholders' equity

Share capital and profit sharing certificates

Table 21

number of shares, as of December 31	2013	2012
Contingent and issued share capital, CHF 10 par value	86,000,000	86,000,000
Issued share capital, CHF 10 par value	82,500,000	82,500,000
Profit sharing certificates (Genussscheine)[1]	2	2

[1] These profit sharing certificates confer on their holder the right to receive a dividend if and to the extent the General Meeting decides. However, they do not confer on their holder any voting rights or rights associated thereto, any rights to subscribe for new shares, or any rights to liquidation proceeds.

a) Issued share capital

As of December 31, 2013 and 2012, Zurich Insurance Company Ltd had an issued share capital of CHF 825,000,000, consisting of 82,500,000 issued and fully paid registered shares of CHF 10 par value each.

b) Contingent share capital

At the General Meeting of Shareholders on June 11, 1997, a contingent capital of CHF 35,000,000, or 3,500,000 shares with a par value of CHF 10 each, was created, of which 2,500,000 shares can be issued in connection with the granting of conversion and/or option rights and 1,000,000 shares can be issued for the purpose of employees' share ownership plans. None of the contingent shares have been issued as of December 31, 2013 and December 31, 2012.

c) Profit sharing certificates

As of December 31, 2013 and 2012, Zurich Insurance Company Ltd had two profit sharing certificates with no par value issued.

d) Additional paid-in capital

On April 25, 2008, a subordinated loan agreement was entered into between Zurich Insurance Company Ltd and Zurich Group Holding, which was assumed by Zurich Insurance Group Ltd as a consequence of its merger of Zurich Group Holding. The remaining loan was CHF 4.8 billion (USD 5.3 billion) and CHF 4.8 billion (USD 5.2 billion) as of December 31, 2013 and 2012, respectively.

The loan is undated and pays interest subject to solvency thresholds and the payment of interest is optional if Zurich Insurance Company Ltd does not declare or pay any dividends or other profit distributions to its shareholders. The loan is classified as an equity instrument under IFRS as it meets the classification criteria as such under IAS 32.

22. Employee benefits

Personnel and other related costs incurred for the years ended December 31, 2013 and 2012, were USD 6,028 million and USD 6,095 million, including wages and salaries of USD 4,778 million and USD 4,846 million, respectively.

The ZIC 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 ZIC 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 ZIC Group's pension and post-employment benefit plans is the responsibility of the Group Pensions Committee, a technical committee to the Board of Zurich Insurance Group Ltd. The Group Pensions Committee provides oversight and guidance over the costs and risks of the ZIC Group's overall benefits policy. This includes oversight of the impact of the ZIC Group's principal defined benefit pension and post retirement benefit plans on the ZIC 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 ZIC 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 ZIC 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 ZIC Group's total defined benefit obligation. The remaining plans in other countries are not individually significant, therefore no separate disclosure is provided.

Certain ZIC 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 ZIC Group's defined benefit pension plans are funded through contributions by the ZIC Group and, in some cases also by employees, to investment vehicles managed by trusts or foundations independent of the ZIC 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 ZIC Group's overall funding policy and local regulation. Independent actuarial valuations for the plans are performed as required. It is the ZIC 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 ZIC 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 ZIC 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.

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The pension assets are invested in diversified portfolios across geographical regions and asset classes to ensure diversified returns, 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 ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC 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.

Tables 22.1a and 22.1b set out the reconciliation of the defined benefit obligation and plan assets for the total of the ZIC Group's post-employment defined benefit plans.

Movement in defined benefit obligation and fair value of assets – current period

Table 22.1a

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)**

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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

As a matter of policy, pension plan investment guidelines do not permit investment in any assets in which the ZIC 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 ZIC Group's post-employment defined benefit obligations and the ZIC 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.

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Tables 22.5a and 22.5b set out the life expectancies used in the valuation of the ZIC Group's major plans. The mortality assumptions in each country have been based on mortality tables in accordance with typical practice in that market.

Mortality tables and life expectancies for major plans – current period

Table 22.5a

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

Mortality tables and life expectancies for major plans – prior period

Table 22.5b

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 ZIC 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.

Maturity profile of future benefit payments for major plans

Table 22.6

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

Sensitivity analysis of significant actuarial assumptions

Table 22.7

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 ZIC 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 ZIC 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 ZIC Group's contributions under these plans amounted to USD 142 million and USD 132 million for the years ended December 31, 2013 and 2012, respectively.

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23. Share-based compensation and cash incentive plans

The ZIC 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 business and to encourage employee share ownership. Share-based compensation plans include plans under which 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, the ultimate parent which is not part of the ZIC Group.

a) Cash incentive plans
Various businesses throughout the ZIC 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 470 million and USD 488 million for the years ended December 31, 2013 and 2012, respectively.

b) Share-based compensation plans for employees and executives
The ZIC 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 ZIC Group.

Employee share plans

Share Incentive Plan for employees in the UK
The ZIC 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 ZIC 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.

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 Zurich Insurance Group over the previous three calendar years. Performance metrics used to determine the level of vesting are the Zurich Insurance 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 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

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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 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.

24. Contingent liabilities, contractual commitments and financial guarantees

The ZIC 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]	3,964	4,412
Future operating lease commitments	876	1,074
Undrawn loan commitments	8	16
Other commitments and contingent liabilities	72	41

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

Commitments under investment agreements

The ZIC 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 ZIC Group on a timely basis.

Guarantees and letters of credit

USD 3,964 million and USD 4,412 million for financial guarantees and letters of credit were outstanding as of December 31, 2013 and 2012, respectively. The ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC Group has entered into various operating leases as lessee for office space and certain computer and other equipment. Lease expenses totaled USD 88 million and USD 99 million for the years ended December 31, 2013 and 2012, respectively.

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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	176	184
2 to 3 years	146	170
3 to 4 years	99	154
4 to 5 years	65	108
> 5 years	198	253
Total	**876**	1,074

Indemnity agreements

The ZIC 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 ZIC Group has recorded provisions of USD 38 million, for losses in excess of USD 289 million.

Other contingent liabilities

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

The ZIC 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 ZIC 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 ZIC 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 ZIC Group's liabilities are usual and standard in the markets in which the underlying agreements were executed.

Legal proceedings and regulatory investigations

The ZIC Group's business is subject to extensive supervision, and is in regular contact with various regulatory authorities. The ZIC 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 ZIC 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.

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 ZIC Group maintains that the Fuller-Austin Case is without merit and intends to continue to defend itself vigorously.

While the ZIC 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 ZIC 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.

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25. Fair value measurement

The ZIC 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 ZIC 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 ZIC 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 ZIC 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.

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.

Table 25.1a

Fair value and carrying value of financial assets and financial liabilities – non unit-linked

in USD millions, as of December 31	Total fair value		Total carrying value	
	2013	2012	**2013**	2012
Available-for-sale securities				
Equity securities	10,141	9,153	10,141	9,153
Debt securities	144,645	141,258	144,645	141,258
Total available-for-sale securities	154,786	150,411	154,786	150,411
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	1,111	1,692	1,111	1,692
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	9,462	10,173	8,933	9,394
Other loans	14,288	17,115	12,712	14,643
Total financial assets	**195,492**	**197,750**	**192,829**	**193,767**
Derivative liabilities	(693)	(475)	(693)	(475)
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	(6,632)	(7,887)	(6,337)	(7,366)
Subordinated debt	(6,821)	(6,379)	(6,342)	(5,861)
Total financial liabilities held at amortized cost	(20,858)	(21,469)	(20,323)	(20,435)
Total financial liabilities	**(21,551)**	**(21,944)**	**(21,016)**	**(20,910)**

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Table 25.1b

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

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 ZIC 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 ZIC 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.

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	8,803	338	1,000	10,141
Debt securities	122	141,749	2,775	144,645
Total available-for-sale securities	8,925	142,087	3,774	154,786
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	1,043	66	1,111
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	**9,998**	**152,221**	**13,315**	**175,534**
Derivative liabilities	(22)	(629)	(42)	(693)
Reserves for insurance contracts fair value option[2]	–	–	(3,306)	(3,306)
Total	**(22)**	**(629)**	**(3,349)**	**(4,000)**

[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 ZIC 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 ZIC 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 ZIC 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

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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 ZIC 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 ZIC 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 ZIC 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.

Table 25.3a

Development of assets and liabilities classified within level 3 – non unit-linked

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	140	(80)	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	(75)	38	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	1	(1)	106
As of December 31, 2013	**1,000**	**2,775**	**2,175**	**219**	**66**	**(42)**	**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 ZIC 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.

Table 25.3b

Development of reserves for insurance contracts fair value option classified within level 3

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**

Consolidated financial statements *continued*

Development assets and liabilities classified within level 3 – unit-linked

Table 25.3c

in USD millions	Fair value through profit or loss securities		
	Equity securities	Debt securities	Real estate held for investment
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 ZIC 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 ZIC 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 ZIC Group has valued USD 23 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 ZIC 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 ZIC 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 ZIC 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.

Sensitivity analysis of level 3 investments to changes in key assumptions

Table 25.4

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

Inter-relationship analysis of level 3 investments to changes in key assumptions

Table 25.5

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 ZIC 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.

Consolidated financial statements *continued*

26. Related party transactions

In the normal course of business, the ZIC Group enters into various transactions with related companies, including various reinsurance and cost-sharing arrangements. These transactions are not considered material to the ZIC 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	50	57
Other income	16	19
Insurance benefits and losses, net of reinsurance	(7)	(9)
Underwriting and policy acquisition costs, net of reinsurance	–	(1)
Administrative and other operating expense	(2)	(17)
Interest expense on debt	(1)	(1)
as of December 31	**2013**	2012
Other loans[1]	938	1,275
Deposits made under assumed reinsurance contracts	1	4
Accrued investment income	–	13
Receivables and other assets	12	13
Reserves for insurance contracts	(9)	(11)
Accrued liabilities	2	2
Other liabilities[2]	(759)	(228)
Senior debt[3]	(292)	(706)

[1] Includes loans with Zurich Insurance Group Ltd of USD 524 million as of both December 31, 2013 and 2012.
[2] Includes other liabilities with Zurich Insurance Group Ltd of USD 756 million as of December 31, 2013.
[3] Includes debt received from Zurich Insurance Group Ltd of USD 292 million and USD 706 million as of December 31, 2013 and 2012, respectively.

On April 25, 2008 a subordinated loan agreement was entered into between Zurich Insurance Company Ltd and Zurich Group Holding, which was assumed by Zurich Insurance Group Ltd as a consequence of its merger of Zurich Group Holding. The remaining loan was CHF 4.8 billion (USD 5.3 billion) and CHF 4.8 billion (USD 5.2 billion) as of December 31, 2013 and 2012, respectively (see note 21).

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 of the Zurich Insurance Group.

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 Zurich Insurance 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 of the Zurich Insurance Group. 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 of the Zurich Insurance Group" 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.

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 ZIC Group. The finances and operations of the Farmers Exchanges are governed by independent Boards of Governors. In addition, the ZIC 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 ZIC 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.

Surplus Notes

Table 27

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 ZIC Group pursues a customer-centric strategy and is managed on a matrix basis, reflecting both businesses and geography. The ZIC Group's operating segments have been identified on the basis of the businesses operated by the ZIC Group and how these are strategically managed to offer different products and services to specific customer groups. Segment information is presented accordingly. The ZIC 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 ZIC Group. This segment also includes all reinsurance assumed from the Farmers Exchanges by the ZIC 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 ZIC Group considers General Insurance, Global Life and Farmers to be its core business segments.

Other Operating Businesses predominantly consist of the ZIC 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 ZIC Group does not consider core to its operations and that are therefore mostly managed to achieve a beneficial run-off. Non-core businesses are mainly situated in the U.S., Bermuda and the UK.

The ZIC 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 ZIC 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 ZIC 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 ZIC 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	*(391)*	*(508)*	*(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	242	143
Business operating profit	**2,859**	**2,112**	**1,262**	**1,341**

[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 ZIC Group's Spanish operations for the years ended December 31, 2013 and 2012, respectively (see note 3).

	Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	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	(376)	400	(564)	(613)	6,356	7,726
	107	124	315	396	258	332	(564)	(613)	6,228	6,746
	–	–	–	–	(634)	68	–	–	128	980
	–	–	–	–	73	565	–	–	12,805	10,193
	80	101	710	911	140	105	(1,167)	(1,497)	1,748	1,660
	7,095	7,489	1,080	1,373	341	1,524	(1,731)	(2,110)	70,996	69,179
	(32)	*(37)*	*(895)*	*(1,142)*	*(51)*	*(56)*	*1,731*	*2,110*	*–*	*–*
	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	973	1,138	103	108	(1,104)	(1,466)	7,573	7,528
	–	–	3	4	81	108	(23)	(3)	500	529
	(12)	3	(82)	(42)	–	–	–	–	(457)	(265)
	5,440	5,931	944	1,156	149	1,292	(1,137)	(1,478)	64,086	63,157
	1,655	**1,558**	**135**	**217**	**191**	**232**	**(594)**	**(632)**	**6,910**	**6,022**
	48	53	10	15	–	–	–	–	186	210
	91	100	121	79	–	–	–	–	1,011	873
	1	3	1,009	1,007	12	30	(594)	(632)	587	571
	1,516	1,402	(1,004)	(883)	179	201	–	–	5,127	4,368
	66	66	(16)	(21)	–	1	–	–	364	241
	1,450	**1,335**	**(988)**	**(862)**	**180**	**200**	**–**	**–**	**4,763**	**4,127**

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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**	**1,262**	**1,341**
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	242	143
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
	1,450	**1,335**	**(988)**	**(862)**	**180**	**200**	**4,763**	**4,127**
	6	18	650	(128)	12	41	1,149	1,333
	–	–	(1)	1	–	–	(1)	(34)
	(12)	(1)	(2)	(11)	–	–	(42)	(209)
	–	–	14	23	–	–	–	–
	–	–	–	–	–	–	(209)	–
	–	–	–	–	–	–	(16)	–
	–	5	(93)[2]	(55)	–	–	(191)	(56)
	66	66	(16)	(21)	–	1	364	241
	1,510	1,423	(436)	(1,053)	192	243	5,818	5,401
	–	–	–	–	–	–	285	194
	1,510	**1,423**	**(436)**	**(1,053)**	**192**	**243**	**6,103**	**5,596**
							(1,697)	(1,485)
							(285)	(194)
							(1,412)	(1,291)
							4,406	**4,111**
							279	140
							4,127	3,971

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	113,871	113,311
Cash and cash equivalents	10,125	10,795	3,181	3,096
Equity securities	6,733	5,716	5,140	4,473
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	236,294	225,347
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**	**265,501**	**254,065**
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	14,558	13,912	17,147	17,447
Total liabilities	**103,920**	**103,846**	**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	18,199	18,834	9,181	11,275	(27,873)	(27,522)	207,516	209,335
418	377	9,013	8,545	1,558	2,136	(17,242)	(16,249)	7,053	8,700
91	96	1,473	2,037	130	376	–	–	13,566	12,698
1,190	1,274	5,925	4,707	4,935	5,911	(1,794)	(1,819)	156,379	155,255
76	101	–	43	272	256	–	–	8,745	8,561
–	–	–	–	–	–	–	–	8,933	9,394
1,995	2,033	1,733	3,493	2,284	2,595	(8,837)	(9,455)	12,712	14,643
–	–	55	9	2	1	–	–	129	85
–	–	–	–	11,844	11,877	–	–	134,267	123,913
3,769	3,881	18,199	18,834	21,025	23,152	(27,873)	(27,522)	341,783	333,249
–	–	–	–	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	–	–	–	–	7,028	7,447
985	1,071	1,665	1,718	1,262	1,254	(2,186)	(2,102)	24,509	24,253
9,640	**9,834**	**20,133**	**20,852**	**25,464**	**28,643**	**(30,171)**	**(29,798)**	**415,242**	**408,512**
–	–	–	–	–	–	–	–	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	24,020	24,581	1,668	1,838	(27,089)	(26,181)	6,337	7,366
–	–	6,268	5,788	23	23	(149)	(901)	6,342	5,861
1,175	1,318	2,511	2,060	3,015	3,853	(2,823)	(2,542)	35,583	36,047
4,167	**4,373**	**32,834**	**32,465**	**24,122**	**27,017**	**(30,172)**	**(29,798)**	**380,814**	**371,944**
								31,851	33,896
								2,576	2,673
								34,428	36,568
								415,242	**408,512**
169	120	81	150	–	–	–	–	751	751

Consolidated financial statements *continued*

General Insurance – Revenues by region

Table 28.4

in USD millions, for the years ended December 31	Gross written premiums and policy fees from external customers		of which Global Corporate	
	2013	2012	**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 28.5

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*

Table 28.6

Global Life – Revenues by region

in USD millions, for the years ended December 31	Gross written premiums and policy fees from external customers		Life insurance deposits	
	2013	2012	**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 28.7

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*

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 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

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 Life Insurance Company Ltd[6]	Zurich	Other Operating Businesses	100	100	CHF	60.0
Zurich Investment Management AG	Zurich	Other Operating Businesses	100	100	CHF	10.0
Taiwan						
Zurich Insurance (Taiwan) Ltd.	Taipei	General Insurance	99.73	99.73	TWD	2,000.0
Turkey						
Zurich Sigorta A.S.	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

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)	
United States of America						
Farmers Group, Inc.[7]	Reno, NV	Farmers	87.90	95.38	USD	0.001
Farmers New World Life Insurance Company[7]	Mercer Island, WA	Global Life	87.90	95.38	USD	6.6
Farmers Reinsurance Company[7]	Los Angeles, CA	Farmers	87.90	95.38	USD	58.8
Farmers Services LLC[8]	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[8]	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.[9]	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 ZIC 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 ZIC 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 ZIC 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 Global Life segment, whereas the headquarter's activities are included in Other Operating Businesses.
7 The ownership percentages in Farmers Group, Inc. and its fully owned subsidiaries have been calculated based on the participation rights of ZIC Group in a situation of liquidation, dissolution or winding up of Farmers Group, Inc.
8 These entities are LLCs and have no share capital.
9 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 ZIC Group's business is subject to extensive regulatory supervision, and companies in the ZIC Group are subject to numerous legal restrictions and regulations. These restrictions may refer to minimum capital requirements or the ability of the ZIC 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 ZIC Group's capital restrictions, see the capital management section in the Risk review, which forms an integral part of the Consolidated financial statements.

Table 29.2 shows the summarized financial information for each subsidiary that has non-controlling interests that are material to the ZIC 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.

Report of the statutory auditor

Report of the Statutory Auditor

To the General Meeting of Zurich Insurance Company Ltd

Report of the statutory auditor on the Consolidated financial statements

As statutory auditor, we have audited the Consolidated financial statements of Zurich Insurance Company Ltd, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity, and notes (pages 16 to 53 and 55 to 163), 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	Stephen O'Hearn
Audit expert	Global relationship partner
Auditor in charge	

Zurich, March 5, 2014

Financial statements – statutory accounts

Board of Directors and auditors, as of December 31, 2013

Board of Directors and auditors

	Residence	Expiration of current term of office
Board of Directors		
Tom de Swaan, Chairman	Amsterdam, Netherlands	2014
Fred Kindle, Vice Chairman	London, United Kingdom	2014
Susan Bies	Landrum, SC, USA	2016
Alison Carnwath	Devon, United Kingdom	2014
Victor L. L. Chu	Hong Kong, China	2014
Rafael del Pino	Madrid, Spain	2014
Thomas Escher	Uitikon, Switzerland	2015
Monica Mächler	Pfäffikon, SZ, Switzerland	2016
Don Nicolaisen	Aiken, SC, USA	2015
Rolf Watter	Thalwil, Switzerland	2014
Adrian Peyer, Corporate Secretary		
Auditors		
PricewaterhouseCoopers AG		

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

Principal activity and review of the year

Zurich Insurance Company Ltd (ZIC or the Company) was incorporated on November 1, 1872, and is the principal operating insurance company of the Zurich Insurance Group (the Group). As well as being an insurance company, it also acts as the holding company for all subsidiaries and other affiliates of the Group except for the Group's banking business.

The results of ZIC include the direct non-life business in Switzerland and its branches mainly located in Canada, Japan and Hong Kong as well as assumed reinsurance business from its subsidiaries.

In May 2013, ZIC received approval from China's insurance regulator, CIRC, to upgrade its Beijing branch to a wholly-owned subsidiary, and the intention is to expand the China business through this new subsidiary.

On July 16, 2013, ZIC sold part of its shareholding in New China Life Insurance Company Limited (NCI). The remaining 292.5 million shares in NCI were sold on November 25, 2013.

After the revision of the "Kollektivanlagegesetz", non-life insurance companies are also allowed to hold securities, which are part of the tied assets, in a single investor fund (as of March 1, 2013). ZIC set up such funds and transferred part of its debt and equity securities (CHF 3,575 million) into single investor funds in August 2013 following FINMA's approval.

Under Group's Euro Medium Term Note Programme (EMTN Programme), ZIC issued a 4.25% EUR 1 billion subordinated note in March 2013 and in July 2013 (in two tranches). A CHF 1.125% CHF 400 million and a 1.875% CHF 100 million senior note were issued in September 2013. Also in September 2013, ZIC's senior note of CHF 500 million matured.

At the General Meeting of shareholders on April 4, 2013, a dividend of CHF 2.2 billion was approved and paid out of retained earnings on April 11, 2013.

Financial statements – statutory accounts *continued*

Key figures

in CHF millions, for the years ended or as of December 31, respectively	2013	2012
Gross written premiums and policy fees, direct business	4,408	4,551
Gross written premiums and policy fees, assumed reinsurance	17,205	16,511
Total gross written premiums and policy fees	21,613	21,062
Net written premiums and policy fees	18,707	18,310
Net earned premiums and policy fees	18,522	18,192
Insurance benefits and losses, net of reinsurance	(11,689)	(12,507)
Underwriting and policy acquisition costs, administrative and other operating expense	(5,917)	(5,743)
Underwriting result, net	1,155	(133)
Net investment income	2,765	2,440
Net income after taxes	2,867	2,085
Total investments	72,352	71,047
Insurance reserves, net	34,875	35,962
Shareholder's equity (after proposed appropriation of available earnings)	17,763	17,396

Net income after taxes

Net income after taxes increased by CHF 782 million to CHF 2,867 million or by 37 percent. The underwriting result, net, improved by CHF 1.3 billion from a loss of CHF 133 million in 2012 to a profit of CHF 1.2 billion in 2013. The net investment income increased by CHF 325 million to CHF 2,765 million, mainly due to higher dividend income from investments in subsidiaries and associates which amounted to CHF 1,937 million compared with CHF 1,341 million in 2012. This was offset by lower interest income on debt securities of CHF 204 million, as consequence of the transfer of directly held investments into the single investor funds in August 2013 and due to falling interest rates in the capital market. In 2013, the sale of the NCI shares resulted in a realized gain of CHF 643 million.

Gross written premiums and policy fees

Total gross written premiums and policy fees increased by CHF 551 million or 3 percent to CHF 21,613 million for the year ended December 31, 2013. In local currency, gross written premiums and policy fees increased by 4 percent.

Direct business gross written premiums and policy fees decreased by CHF 143 million or by 3 percent to CHF 4,408 million. Assumed reinsurance gross written premiums and policy fees increased by 4 percent or CHF 694 million to CHF 17,205 million mainly due to growth in reinsurance business from Group companies.

Shareholder's equity

Shareholder's equity increased by CHF 667 million to CHF 20,263 million as of December 31, 2013, from CHF 19,596 million as of December 31, 2012. The increase is the net result of the net income after taxes of CHF 2,867 million and the dividend payment to Zurich Insurance Group Ltd of CHF 2,200 million in 2013.

Income statements

Income statements

in CHF millions, for the years ended December 31	Notes	2013	2012
Revenues			
Gross written premiums and policy fees		21,613	21,062
Less premiums ceded to reinsurers		(2,906)	(2,752)
Net written premiums and policy fees		18,707	18,310
Net change in reserves for unearned premiums		(185)	(118)
Net earned premiums and policy fees		18,522	18,192
Net investment income	4	2,765	2,440
Net realized capital gains/losses, write-ups and write-downs on investments	5	52	499
Other income	6	1,420	1,218
Total revenues		22,758	22,348
Benefits, losses and expenses			
Insurance benefits and losses, net of reinsurance	7	(11,689)	(12,507)
Policyholder dividends and participation in profits, net of reinsurance		(48)	(111)
Underwriting and policy acquisition costs, net of reinsurance		(4,825)	(4,812)
Administrative and other operating expense		(1,092)	(931)
Other expense	8	(1,362)	(1,088)
Interest expense on debt		(694)	(666)
Other interest expense		(25)	(28)
Total benefits, losses and expenses		(19,734)	(20,143)
Net income before taxes		**3,024**	**2,205**
Taxes		(157)	(119)
Net income after taxes		**2,867**	**2,085**

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

Financial statements – statutory accounts *continued*

Balance sheets

Assets

in CHF millions, as of December 31	Notes	2013	2012
Investments			
Cash and cash equivalents		3,567	3,847
Equity securities		2,756	2,387
Debt securities		31,099	29,920
Real estate		1,370	1,360
Mortgage loans		1,240	1,268
Other loans		2,541	2,670
Investments in subsidiaries and associates	9	29,273	28,519
Other investments		506	1,076
Total investments		**72,352**	**71,047**
Other assets			
Deposits made under assumed reinsurance contracts		3,989	3,877
Accrued assets		788	747
Receivables from agents and outstanding premiums		596	305
Receivables from insurance and reinsurance companies		1,204	1,558
Other receivables		1,101	1,130
Furniture and equipment	10	72	59
Intangible assets	11	478	573
Other assets		33	21
Total other assets		**8,261**	**8,270**
Total assets		**80,613**	**79,317**

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

Liabilities and shareholder's equity

in CHF millions, as of December 31	Notes	2013	2012
Short-term liabilities			
Deposits received under ceded reinsurance contracts		487	529
Amounts due to reinsurance and other insurance companies		779	1,021
Prepaid premiums and other creditors		2,429	1,647
Bank overdrafts		68	115
Accrued liabilities		985	987
Other liabilities		873	750
Total short-term liabilities		5,622	5,048
Long-term liabilities			
Provisions	12	695	695
Senior debt	13	10,756	10,839
Subordinated debt	13	8,402	7,175
Total long-term liabilities		19,853	18,710
Insurance reserves, net	14	34,875	35,962
Total liabilities		**60,350**	**59,721**
Shareholder's equity (before appropriation of available earnings)			
Share capital (fully paid)	15	825	825
Profit sharing certificates		p.m.	p.m.
Legal reserves			
General legal reserve		*485*	*485*
Capital contribution reserve		*5,570*	*5,570*
General free reserve		4,272	4,272
Retained earnings:			
Beginning of year		*8,444*	*8,759*
Dividend paid		*(2,200)*	*(2,400)*
Net income after taxes		*2,867*	*2,085*
Retained earnings, end of year		9,111	8,444
Total shareholder's equity (before appropriation of available earnings)		**20,263**	**19,596**
Total liabilities and shareholder's equity		**80,613**	**79,317**

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

Financial statements – statutory accounts *continued*

Notes to the financial statements

1. Basis of presentation

The Company's financial statements are presented in accordance with the Swiss Code of Obligations and relevant insurance supervisory law. The latest changes within the Swiss Code of Obligations effective January 1, 2013, were not yet adopted due to the transitional period.

All amounts in the financial statements, unless otherwise stated, are shown in CHF, rounded to the nearest million with the consequence that the rounded amounts may not add to the rounded total in all cases.

2. Summary of significant accounting policies

a) Investments

Equity securities which are quoted on a stock exchange are carried at the average stock exchange price during the month of December. Material holdings in quoted equity securities held for strategic reasons as well as unquoted equity securities are carried at a maximum of the acquisition cost with a deduction for necessary impairments. The valuation of equity securities held in the single investor funds in Switzerland is similar as for directly held securities.

Debt securities are carried at amortized cost using the effective interest rate method. The valuation of debt securities held in the single investor funds in Switzerland is similar as for directly held securities.

Real estate held for investment and for own use held in Switzerland is carried at acquisition cost less required or permissible impairment. Real estate held for investment and for own use held by branches located outside Switzerland is carried at local statutory values valid in the country where the real estate is located.

Investments in subsidiaries and associates are held at acquisition cost less necessary impairments.

Mortgage and other loans are valued at a maximum of their nominal value less any necessary impairments.

Derivative financial instruments held for economic hedging are carried at fair value.

Realized capital gains/losses on investments occur when the sale price or redemption value is higher or lower than the carrying value at the time of sale. The gain/loss is determined from the difference between carrying value and the sale price.

Write-downs and write-ups on investments include losses arising from a decrease in the fair value below cost or carrying value at the previous year end on equity securities and necessary impairments on debt securities and investments in subsidiaries and associates. Write-ups on quoted equity securities are gains resulting from the difference between the lower book value at the beginning of the year and the higher book value as of end of December. Write-ups also include gains as a result of the reversal of impairments on unquoted equity securities up to the acquisition cost value. Write-downs and write-ups further include the change in valuation of the single investor funds, which also include the investment income of the investments within these funds.

b) Accrued assets

This amount relates primarily to interest income accruals, other prepaid expenses and other accrued income. Accrued investment income within the single investor funds in Switzerland is recorded as write-up on investments.

c) Deposits made under assumed reinsurance contracts

Reinsurance deposits consist of funds deposited with ceding insurers to guarantee contractual liabilities for assumed reinsurance.

d) Insurance reserves

Reserves for losses and loss adjustment expenses represent reserves for reported claims and provisions for losses incurred but not yet reported (IBNR). In addition, equalization reserves are included where these are accepted by the regulator in the country where such reserves are held. The reserves represent estimates of future payments of reported and unreported claims for losses and related expenses with respect to insured events that have occurred. Reserving is a complex process dealing with uncertainty, requiring the use of informed estimates and judgments. Any changes in estimates are reflected in the income statements in the period in which estimates are changed.

Future life policyholders' benefits represent the estimated future benefit liability for life insurance policies and include the value of accumulated declared bonuses or dividends that have vested to policyholders. These liabilities relate to assumed reinsurance contracts. The liabilities are primarily measured using current financial and non-financial assumptions. Certain pension and annuity liabilities are calculated using a net level premium valuation method based on actuarial assumptions including mortality, expenses and investment return including a margin for adverse deviations.

Reserves for unearned premiums represent the portion of the premiums written relating to the unexpired term of insurance coverage as of the balance sheet date. In many insurance contracts, the insurance period for which the insurance company assumes a risk against a premium paid does not correspond to the Company's financial year. Thus, an amount equivalent to the unearned portion of the premium is set up as a reserve at the end of the financial year.

Financial statements – statutory accounts *continued*

3. Exchange rates

The presentation currency for ZIC and its branches is Swiss franc. Several ZIC branches operate outside Switzerland with different functional currencies. A functional currency is the currency of the primary economic environment in which the branch operates. Assets and liabilities of those branches with functional currencies other than Swiss franc are translated into the presentation currency at end-of-period exchange rates, except for investments in subsidiaries and associates where historical exchange rates are used. Revenues and expenses are translated using the average exchange rate of the year. The resulting exchange differences are recorded in income.

The table below summarizes the principal exchange rates that have been used for translation purposes.

Principal exchange rates

CHF per foreign currency unit	Balance sheets		Income statements	
	12/31/2013	12/31/2012	**2013**	2012
Canadian dollar	0.84	0.92	0.90	0.94
Euro	1.23	1.21	1.23	1.21
British pound	1.48	1.49	1.45	1.49
US dollar	0.89	0.92	0.93	0.94

4. Net investment income

Net investment income

in CHF millions, for the years ended December 31	**2013**	2012
Cash and cash equivalents	11	17
Equity securities	16	56
Debt securities	610	814
Real estate	83	83
Mortgage loans	30	31
Other loans	87	103
Investments in subsidiaries and associates	1,937	1,341
Other investments	(9)	(6)
Total net investment income[1]	**2,765**	**2,440**

[1] Total net investment income includes investment expenses of CHF 32 million and CHF 31 million for the years ended December 31, 2013 and 2012, respectively, reported within other investments.

Total net investment income increased by CHF 325 million or 13 percent to CHF 2,765 million in 2013. Dividend income from subsidiaries and associates increased by CHF 596 million to CHF 1,937 million in 2013, as the Company's subsidiaries Zurich Holding Ireland Limited and Zurich Investments Life S.p.A. paid dividends of CHF 324 million and CHF 123 million respectively in 2013 (no dividends in 2012) and Farmers Group, Inc.'s dividend payments increased by CHF 94 million. The income on debt securities decreased by CHF 204 million mainly due to the lower interest rate environment and due to the transfer of directly held investments into single investor funds (net investment income is disclosed as write-ups and write-downs on investments).

5. Net realized capital gains/losses, write-ups and write-downs on investments

Net realized capital gains/losses, write-ups/ write-downs on investments

in CHF millions, for the years ended December 31	Realized capital gains		Realized capital losses		Write-ups and write-downs		Totals	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Equity securities	761	112	(13)	(26)	128	62	876	147
Debt securities	247	618	(188)	(116)	89	374	148	876
Real estate	11	6	(2)	(1)	2	–	10	5
Mortgage loans	–	–	–	–	(1)	–	(1)	–
Other loans	17	–	(82)	(1)	–	–	(65)	(1)
Investments in subsidiaries and associates	–	–	–	–	(221)	(402)	(221)	(402)
Other investments	82	50	(778)	(176)	–	–	(696)	(127)
Total net realized capital gains/losses, write-ups and write-downs on investments	**1,119**	**785**	**(1,063)**	**(321)**	**(4)**	**34**	**52**	**499**

Realized capital gains increased by 42 percent to CHF 1,119 million, and realized capital losses increased by CHF 743 million to CHF 1,063 million in 2013. In 2013, realized gains on equity securities increased by CHF 649 million to CHF 761 million mainly due to CHF 643 million of realized gains relating to the sale of NCI shares. The realized gains on debt securities in 2012 were mainly due to a strategic portfolio reallocation. The increase in realized capital losses on other investments from CHF 176 million in 2012 to CHF 778 million in 2013 was mainly due to higher realized capital losses on derivatives.

Write-ups and write-downs decreased by CHF 38 million from a gain of CHF 34 million in 2012 to a loss of CHF 4 million in 2013. The write-downs on subsidiaries of CHF 221 million in 2013 primarily relate to Zurich Insurance Holding (Cyprus) Ltd. In the previous year, the write-downs amounted to CHF 402 million, which mainly included a write-down of CHF 250 million on Zurich Holding Company of America, Inc., and a write-down of CHF 89 million in connection with the merger of ZGI Investments Ltd. Due to the set-up of single investor funds in 2013, interest and dividend income, realized gains and losses and valuation differences on the debt securities and equity securities within the single investor funds in the amount of CHF 92 million respectively CHF 6 million are included in the write-ups and write-downs. An accounting policy change in 2012 resulted in an extraordinary write-up of CHF 371 million on debt securities.

6. Other income

Other income includes interest income on reinsurance deposits as well as other technical and other non-technical income.

7. Insurance benefits and losses

Insurance benefits and losses

in CHF millions, for the years ended December 31	**2013**	2012
Loss payments, annuities and loss adjustment expenses, gross	(13,591)	(13,446)
Reinsurers' share	1,436	1,542
Loss payments, annuities and claims handling expenses, net	(12,155)	(11,904)
Change in reserves for losses and loss adjustment expenses, net	467	(602)
Total insurance benefits and losses, net of reinsurance	**(11,689)**	**(12,507)**

Total insurance benefits and losses decreased by CHF 818 million to CHF 11,689 million compared with CHF 12,507 million in 2012 mainly as a result of the change in reserves for losses and loss adjustment expenses, which includes a release of future life policyholder's benefits of CHF 675 million for two life reinsurance contracts with Group companies.

Financial statements – statutory accounts *continued*

8. Other expense

Other expense includes foreign currency transaction gains and losses, other general expenses, gains/losses on derivatives and amortization and impairments on software. Net results on foreign currency transactions amounted to a gain of CHF 4 million in 2013 compared with a loss of CHF 267 million in 2012. Other general expenses increased by CHF 201 million to CHF 1,034 million compared with 2012. Gains/losses on derivatives amounted to a loss of CHF 119 million compared with a net gain of CHF 200 million in 2012. Amortization/impairments on software increased by CHF 24 million to CHF 213 million.

9. Investments in subsidiaries and associates

The table below shows the significant subsidiaries of ZIC with a carrying value of at least CHF 500 million and/or net income exceeding CHF 100 million. The carrying value of the listed subsidiaries and associates represents 89 percent of the total investments in subsidiaries and associates of CHF 29,273 million.

Significant subsidiaries

as of December 31, 2013	Domicile	Voting rights %	Ownership interest %		Nominal value of common stock (in local currency millions)
Bermuda					
CMSH Limited	Hamilton	100	100	USD	0.3
Zurich International (Bermuda) Ltd.[3]	Hamilton	100	100	USD	9.9
Brazil					
Zurich Minas Brasil Seguros S.A.[3]	Belo Horizonte	100	100	BRL	1,321.4
Cyprus					
Zurich Insurance Holding (Cyprus) Ltd[1]	Nicosia	100	100	RUB	7.4
Germany					
Zürich Beteiligungs-Aktiengesellschaft (Deutschland)	Frankfurt/Main	82.6	82.6	EUR	152.9
Ireland					
Zurich Holding Ireland Limited	Dublin	100	100	EUR	0.1
Zurich Insurance plc[3]	Dublin	4.5	4.5	EUR	8.2
Italy					
Zurich Investments Life S.p.A.	Milan	100	100	EUR	164.0
Switzerland					
Zurich Life Insurance Company Ltd[3]	Zurich	100	100	CHF	60.0
United Kingdom					
Allied Zurich Holdings Limited	Jersey, Channel Islands	100	100	GBP	90.7
Zurich International Life Limited[3]	Isle of Man	100	100	GBP	35.6
United States of America					
Farmers Group, Inc.[2, 4]	Reno, NV	87.9	95.4	USD	0.0
Zurich Holding Company of America, Inc.	Wilmington, DE	99.2	99.2	USD	0.0

1 In 2012 nominal value of common stock was RUB 5.6 million.
2 The ownership percentage in Farmers Group, Inc., has been calculated based on the participation rights of ZIC in a situation of liquidation, dissolution or winding up of Farmers Group, Inc.
3 Regulated insurance companies
4 Farmers Group, Inc. and its subsidiaries provide certain administrative and non-claims management services to the Farmers Exchange, which are owned by their policyholders.

10. Furniture and equipment

Furniture and equipment

in CHF millions, as of December 31	2013	2012
Furniture and equipment	286	325
Accumulated amortisation	(214)	(266)
Total furniture and equipment	**72**	**59**

The increase in furniture and equipment is mainly due to purchase of additional equipment in Switzerland.

11. Intangible assets

Intangible assets

in CHF millions, as of December 31	2013	2012
Brand names and trademarks	98	156
Software	380	417
Total intangible assets	**478**	**573**

The decrease in brand names and trademarks resulted from regular amortization charges in the year.

12. Provisions

This position consists mainly of provisions to cover obligations relating to administrative and sales staff. These provisions were created in view of expected, estimated or perceived expenditures or exposures.

Financial statements – statutory accounts *continued*

13. Debt

a) Senior debt

Senior debt

in CHF millions, as of December 31		2013	2012
Issuances to capital markets under Euro Medium Term Note Programme	3.375% EUR 500 million, due June 2022	614	603
Issuances to capital markets under Euro Medium Term Note Programme	2.375% CHF 525 million, due November 2018	525	525
Issuances to capital markets under Euro Medium Term Note Programme	2.25% CHF 500 million, due July 2017	500	500
Issuances to capital markets under Euro Medium Term Note Programme	1.5% CHF 400 million, due June 2019	400	400
Issuances to capital markets under Euro Medium Term Note Programme	1.125% CHF 400 million, due September 2019	400	–
Issuances to capital markets under Euro Medium Term Note Programme	2.875% CHF 250 million, due July 2021	250	250
Issuances to capital markets under Euro Medium Term Note Programme	1.875% CHF 100 million, due September 2023	100	–
Issuances to capital markets under Euro Medium Term Note Programme	3.75% CHF 500 million, due September 2013	–	500
Senior debt with Zurich Insurance Group	various	7,967	8,061
Total senior debt		**10,756**	10,839

b) Subordinated debt

Subordinated debt

in CHF millions, as of December 31		2013	2012
Zurich Insurance Group Ltd	6.30% CHF 4,832 million perpetual loan	4,832	4,832
Issuances to capital markets under Euro Medium Term Note Programme	4.25% EUR 1 billion notes, first callable on October 2, 2023, due October 2043	1,227	–
Issuances to capital markets under Euro Medium Term Note Programme	4.25% CHF 700 million perpetual notes, first callable on May 26, 2016	700	700
Issuances to capital markets under Euro Medium Term Note Programme	7.5% EUR 425 million notes, first callable on July 24, 2019, due July 2039	521	513
Issuances to capital markets under Euro Medium Term Note Programme	4.625% CHF 500 million perpetual notes, first callable on May 16, 2018	500	500
Issuances to capital markets under Euro Medium Term Note Programme	8.25% USD 500 million perpetual capital notes, first callable on January 18, 2018	445	457
Issuances to capital markets under Euro Medium Term Note Programme	12% EUR 143 million perpetual capital notes, first callable on July 15, 2014	176	173
Total subordinated debt		**8,402**	7,175

14. Insurance reserves gross and ceded

Insurance reserves

in CHF millions, as of December 31	2013	2012
Gross		
Reserves for losses and loss adjustment expenses	30,014	31,011
Reserves for unearned premiums	5,125	5,229
Future life policyholders' benefits	4,786	5,478
Policyholders' contract deposits and other funds	120	5
Reserve for premium refunds and other insurance reserves	419	479
Total insurance reserves, gross	**40,464**	**42,202**
Ceded		
Reserves for losses and loss adjustment expenses	(4,423)	(5,182)
Reserves for unearned premiums	(932)	(964)
Future life policyholders' benefits	(233)	(94)
Total insurance reserves, ceded	**(5,588)**	**(6,240)**
Net		
Reserves for losses and loss adjustment expenses	25,591	25,829
Reserves for unearned premiums	4,193	4,265
Future life policyholders' benefits	4,553	5,384
Policyholders' contract deposits and other funds	120	5
Reserve for premium refunds and other insurance reserves	419	479
Total insurance reserves, net	**34,875**	**35,962**

Total insurance reserves, net, decreased by 3 percent to CHF 34,875 million, mainly due to the release of future life policyholders' benefits of CHF 726 million for two life reinsurance contracts with Group companies.

Financial statements – statutory accounts *continued*

15. Share capital

Share capital and profit sharing certificates

number of shares, as of December 31	2013	2012
Contingent and issued share capital, CHF 10 par value	86,000,000	86,000,000
Issued share capital, CHF 10 par value	82,500,000	82,500,000
Profit sharing certificates (Genussscheine)[1]	2	2

[1] These profit sharing certificates confer on their holder the right to receive a dividend if and to the extent the General Meeting decides. However, they do not confer on their holder any voting rights or rights associated thereto, any rights to subscribe for new shares, or any rights to liquidations proceeds.

a) Issued share capital

As of December 31, 2013 and 2012, ZIC had issued share capital of CHF 825,000,000, consisting of 82,500,000 issued and fully paid registered shares of CHF 10 par value each.

b) Contingent share capital

At the General Meeting of Shareholders on June 11, 1997, contingent share capital of CHF 35,000,000, or 3,500,000 shares with a par value of CHF 10 each, was created, of which 2,500,000 shares can be issued in connection with the granting of conversion and/or option rights, and 1,000,000 shares can be issued for the purpose of employees' share ownership plans. None of the contingent shares have been issued as of December 31, 2013.

c) Profit sharing certificates

As of December 31, 2013 and 2012, ZIC had issued two profit sharing certificates with no par value.

d) Shareholders

As of December 31, 2013 and 2012, 100 percent of the registered shares of Zurich Insurance Company Ltd were owned by Zurich Insurance Group Ltd.

16. Assets and liabilities relating to companies within the Zurich Insurance Group

Assets and liablities relating to companies within the Zurich Insurance Group

in CHF millions, as of December 31	2013	2012
Assets[1]		
Cash and cash equivalents	1,535	1,566
Equity securities[3, 4]	334	322
Debt securities	13	14
Other loans	2,487	2,481
Investments in subsidiaries and associates[4]	29,273	28,519
Other investments	127	368
Deposits made under assumed reinsurance contracts	1,754	1,628
Accrued assets	347	241
Receivables from agents and outstanding premiums	1	1
Receivables from insurance and reinsurance companies	555	872
Other receivables	523	299
Total assets	36,949	36,310
Liabilities[2]		
Deposits received under ceded reinsurance contracts	3	1
Amounts due to reinsurance and other insurance companies	475	662
Prepaid premiums and other creditors	1,415	369
Accrued liabilities	365	320
Other liabilities	285	449
Provisions	94	–
Senior debt	7,967	8,061
Subordinated debt	4,832	4,832
Insurance reserves, net	25,908	26,742
Total liabilities	41,345	41,436

[1] The amount receivable from Zurich Insurance Group Ltd in 2013 is CHF 53 million compared with CHF 4 million in 2012.
[2] The amount due to Zurich Insurance Group Ltd in 2013 is CHF 5,817 million compared with CHF 5,686 million in 2012 (thereof in 2013 CHF 4,832 million subordinated debt, CHF 466 million other creditors, CHF 311 million senior debt and CHF 207 million accrued liabilities and in 2012 CHF 4,832 million subordinated debt, CHF 646 million senior debt and CHF 207 million accrued liabilities).
[3] ZIC owns Zurich Insurance Group Ltd shares in the amount of CHF 334 million as of December 31, 2013, and CHF 322 million as of December 31, 2012.
[4] Starting 2013, equity securities and investments in subsidiaries and associates are newly disclosed in the above table.

Financial statements – statutory accounts *continued*

17. Supplementary information

Supplementary information

in CHF millions, as of December 31	**2013**	2012
Guarantees, indemnity liabilities and pledges in favor of third parties	17,410	24,025
Pledged assets in respect of securities lending agreements (at book value)	3,115	2,393
Leasing obligations not recorded on the balance sheet	70	48
Security deposits	12,372	12,536
Fire insurance value of real estate, furniture and equipment	2,126	2,165
Personnel expenses (included in underwriting and policy acquisition costs, administrative and expense lines of the income statements)	944	1,091

Guarantees, indemnity liabilities and pledges in favor of third parties include two guarantees of USD 3,000 million (CHF 2,672 million) each in 2013 compared with three guarantees of USD 3,000 million (CHF 2,745 million) in 2012 in favor of subsidiaries to provide funds under certain circumstances. The total maximum exposure under these guarantees amounted to USD 1,067 million (CHF 950 million) as of December 31, 2013, and USD 1,419 million (CHF 1,298 million) as of December 31, 2012.

In addition to the guarantees listed above, the Company has provided unlimited guarantees in support of various subsidiaries belonging to the Zurich Insurance Group.

According to regulatory requirements, as of December 31, 2013 and 2012, 18 percent respectively 20 percent of total investments are attributed to tied assets.

To secure the insurance reserves of the assumed reinsurance business, investments with a value of CHF 12,372 million and CHF 12,536 million as of December 31, 2013 and 2012, respectively, were deposited in favor of ceding companies.

18. Net release of hidden reserves

There has been no material net release of hidden reserves in 2013.

19. Information on the risk assessment process

Refer to the disclosures in the Risk review on pages 15 to 53 of this Annual Report.

Appropriation of available earnings as proposed by the Board of Directors

as of December 31	2013	2012
Dividend-paying registered shares		
Dividend-paying shares	82,500,000	82,500,000

in CHF, as of December 31	2013 (Proposed)	2012 (Approved)
Appropriation of available earnings as proposed by the Board of Directors		
Balance brought forward	6,244,483,839	6,359,114,314
Net income after taxes	2,866,697,921	2,085,369,525
Available earnings	**9,111,181,760**	**8,444,483,839**
Dividend	(2,500,000,000)	(2,200,000,000)
Balance carried forward	**6,611,181,760**	**6,244,483,839**

The Board of Directors proposes to the shareholder at the Annual General Meeting on April 2, 2014, to pay out a dividend of CHF 2,500,000,000 and to carry forward available earnings of CHF 6,611,181,760 as shown in the above table.

As the general reserves (consisting of the general legal reserve and the capital contribution reserve) exceed 100 percent of fully paid-in share capital, no further allocation to the general reserves is required by the Swiss Code of Obligations and article 28a of the Company's articles of incorporation.

On behalf of the Board of Directors of Zurich Insurance Company Ltd

Tom de Swaan

Chairman

Zurich, March 5, 2014

Report of the statutory auditor

Report of the statutory auditor

To the General Meeting of Zurich Insurance Company Ltd, Zurich

Report of the statutory auditor on the Financial statements

As statutory auditor, we have audited the financial statements of Zurich Insurance Company Ltd, which comprise the income statement, balance sheet and notes (pages 169 to 182), 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 183) 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 Audit expert Auditor in charge	Peter Bieri Audit expert

Zurich, March 5, 2014

Key data of Zurich Insurance Company Ltd

Key data of Zurich Insurance Company Ltd

Key data 2004–2013

in CHF millions, for the years ended or as of December 31, respectively	**2013**	2012
Gross written premiums and policy fees, direct business	4,408	4,551
Gross written premiums and policy fees, assumed reinsurance	17,205	16,511
Total gross written premiums and policy fees	21,613	21,062
Net written premiums and policy fees	18,707	18,310
Net earned premiums and policy fees	18,522	18,192
Insurance benefits and losses, net of reinsurance	(11,689)	(12,507)
Underwriting and policy acquisition costs, administrative and other operating expense	(5,917)	(5,743)
Underwriting result, net	1,155	(133)
Net investment income	2,765	2,440
Net income after taxes	2,867	2,085
Dividend	2,500[1]	2,200
Dividend per share, nominal value CHF 10.– (in Swiss francs)	30.30[1]	26.67
Total investments	72,352	71,047
Insurance reserves, net	34,875	35,962
Shareholder's equity (after proposed appropriation of available earnings)	17,763	17,396

[1] Proposed
[2] Restated figures, implementation of new and revised accounting standards in 2005, in particular applying new definitions of insurance contracts.

2011	2010	2009	2008	2007	2006	2005[2]	2004
4,362	4,511	6,625	11,410	12,252	26,770	25,511	23,337
14,903	18,951	18,400	15,195	13,164	333	305	305
19,265	23,462	25,025	26,605	25,415	27,103	25,816	23,642
16,917	21,126	22,497	24,063	22,645	22,695	21,088	19,772
16,329	20,401	21,512	22,869	22,504	22,768	21,371	19,759
(12,202)	(14,231)	(15,663)	(17,172)	(16,395)	(15,631)	(16,061)	(13,858)
(5,205)	(6,120)	(6,376)	(6,331)	(6,392)	(5,848)	(5,242)	(4,929)
(1,169)	(61)	(737)	(714)	(222)	1,247	82	615
3,620	4,287	2,318	3,967	4,173	2,910	2,067	2,268
2,425	4,141	1,790	656	1,401	2,437	969	1,048
2,400	–	–	–	1,900	1,300	–	–
29.09	–	–	–	23.03	15.76	–	–
70,185	68,948	70,962	78,520	73,179	72,013	64,177	55,459
35,677	33,886	38,314	43,729	45,275	42,651	38,856	32,647
17,511	18,986	14,844	11,805	8,929	9,428	8,291	7,322

Disclaimer and cautionary statement

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

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

It should be noted that past performance is not a guide to future performance. Persons requiring advice should consult an independent advisor.

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

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

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Zurich Insurance Company Group

Mythenquai 2
8002 Zurich, Switzerland
Phone +41 (0)44 625 25 25
www.zurich.com

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