
Half Year Report 2014

Report for the six months to June 30, 2014



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.

Our cover

Talking to customers: At Zurich, we're using direct customer feedback and market analysis to reshape our business.



For more information about Zurich, please visit:

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Message from the Chairman and Chief Executive Officer

Dear Shareholder,

In the six months to June 30, 2014, we reported business operating profit (BOP)¹ of USD 2.6 billion, an increase of 15 percent compared with the same period in 2013. Net income attributable to shareholders increased by 14 percent to USD 2.1 billion compared with the previous year. Against the backdrop of a slowly-improving global economy, we have made clear progress on the execution of our 2014–2016 strategy and delivery against our targets.



Tom de Swaan and Martin Senn

General Insurance has made good progress on turning around or exiting underperforming businesses, and improving the accident year combined ratio. Global Life continues to focus on its priority markets while taking steps to improve its in-force business. We have seen further positive trends at the Farmers Exchanges,² with improved customer satisfaction and agent retention.

Our strong cash generation reflects the continued stability of our business. We project that full-year cash remittances will be in excess of USD 3.5 billion, ahead of 2013. After deducting for the 2013 dividend of CHF 17.00 per registered share, shareholders' equity was USD 33.7 billion, an increase of USD 1.2 billion compared with December 31, 2013.

Implementing our 2014–2016 strategy

While we are still in the early stages of our three-year plan, we are on track against our 2014–2016 targets. Much of the groundwork for future investment in priority markets in each of our customer segments has been done. For example, we have established consistent customer segmentation across Global Corporate and Corporate Life & Pensions, offering composite non-life and life insurance solutions to large corporate customers. We are well on track to meet our plan of 100 new common customers across these businesses by year-end.

We have also made progress in the businesses we are managing for value. In July we announced the sale of our Russian general insurance retail business and exit from Zurich-branded aggregator distribution in the UK.

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

² The Farmers Exchanges are owned by their policyholders. Farmers Group, Inc., a wholly owned subsidiary of the Group, provides certain non-claims administrative and management services to the Farmers Exchanges as attorney-in-fact and receives fees for its services.

Our plans include making Zurich less complex and achieving continuing annual savings of approximately USD 250 million in running costs by the end of 2015. We have largely completed the streamlining of the organizational structure, which affects around 670 positions globally. The process is designed to reduce complexity and cost while enhancing agility.

As part of our initiatives to enhance investment returns, Investment Management has completed the objective of deploying additional risk capital. We have also already invested or committed to invest USD 1 billion in illiquid assets so far this year, while maintaining our disciplined investment approach.

Investing for returns and social benefits

Corporate responsibility is an important part of our strategy and includes responsible investing. This year we announced that we would double our commitment to invest in 'green bonds' up to a maximum of USD 2 billion, provided the market continues to develop in a positive fashion. These bonds, pioneered by organizations including the World Bank and the European Investment Bank, are used to fund projects around the world to help mitigate climate change and assist communities to adapt to its consequences.

We also published our first progress report on implementing the United Nations-supported Principles for Responsible Investment (PRI) in May. The Principles provide a framework for a more stable, sustainable financial system. Including these factors alongside traditional financial metrics will help us to achieve superior risk-adjusted long-term financial returns.

Leadership appointments

At Zurich's Annual General Meeting (AGM) in April, shareholders elected Christoph Franz to the Board of Directors. Christoph Franz served as Chairman of the Executive Board and CEO of Deutsche Lufthansa AG until the end of May. In 2014, he was also elected Chairman of the Board of Roche. As announced at the time, Rolf Watter and Victor L.L. Chu retired from our Board.

Underscoring the important role our people play in achieving our strategic goals, we have added the role of Chief Human Resources Officer to the Group Executive Committee and appointed Isabelle Welton to this position. Isabelle Welton previously served as Group Chief of Staff. She joined Zurich in 2013 from IBM, where she held several senior leadership positions, including Country General Manager for Switzerland.

Global growth continuing

Despite volatile growth in many regions during the first half of the year, the global recovery remains intact. Our strategy will equip us to meet the challenges of a changing and more competitive environment. Our strong cash and capital positions provide us with a robust platform to execute our strategy. We are pleased with the progress we have made and thank you and all our stakeholders for your continued support.



Tom de Swaan
Chairman of the Board of Directors



Martin Senn
Chief Executive Officer

Operating and financial review

The Operating and financial review is the management analysis of the business performance of Zurich Insurance Group Ltd and its subsidiaries (collectively the Group) for the six months ended June 30, 2014, compared with the same period of 2013. It also explains key aspects of the Group's financial position as of June 30, 2014 compared with December 31, 2013.

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The information contained within the Operating and financial review is unaudited and is based on the consolidated results of the Group for the six months ended June 30, 2014 and 2013 and the financial position as of June 30, 2014 and December 31, 2013. All amounts are shown in U.S. dollars and rounded to the nearest million unless otherwise stated, with the consequence that the rounded amounts may not add up to the rounded total in all cases. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts. This document should be read in conjunction with the Annual Report 2013 of the Group and, in particular, with its unaudited Consolidated financial statements for the six months ended June 30, 2014.

In addition to the figures stated in accordance with the International Financial Reporting Standards (IFRS), the Group uses business operating profit (BOP), new business measures and other performance indicators to enhance the understanding of its results. Details of these additional measures are set out in the separately published Glossary. These should be viewed as complementary to, and not as substitutes for the IFRS figures. For a reconciliation of BOP to net income attributable to shareholders, see note 13 of the unaudited Consolidated financial statements.

From January 1, 2014, the General Insurance business manages Middle East and Africa together with Europe to form a single market-facing business called Europe, Middle East & Africa (EMEA). This change had no impact on total General Insurance or the Group. Comparative figures have been restated to reflect this.

The Group has reviewed the definition of net technical expenses within the General Insurance segment resulting in the reclassification of certain income and expenses between the net non-technical result and net technical expenses. As a result, comparative figures for the total net technical expenses, net underwriting result, net non-technical result (excl. items not included in BOP), expense ratio and combined ratio have been restated to reflect this change.

Financial highlights

in USD millions, for the six months ended June 30, unless otherwise stated	2014	2013	Change ¹
Business operating profit	2,621	2,288	15%
Net income attributable to shareholders	2,109	1,851	14%
General Insurance gross written premiums and policy fees	19,995	19,770	1%
Global Life gross written premiums, policy fees and insurance deposits	14,221	13,029	9%
Farmers Management Services management fees and other related revenues	1,391	1,408	(1%)
Farmers Re gross written premiums and policy fees	1,960	2,034	(4%)
General Insurance business operating profit	1,652	1,369	21%
General Insurance combined ratio	96.1%	98.1%	2.0 pts
Global Life business operating profit	634	659	(4%)
Global Life new business annual premium equivalent (APE) ²	2,373	2,081	14%
Global Life new business margin, after tax (as % of APE) ²	24.6%	29.6%	(5.0 pts)
Global Life new business value, after tax ²	515	547	(6%)
Farmers business operating profit	756	696	9%
Farmers Management Services gross management result	674	670	1%
Farmers Management Services managed gross earned premium margin	7.3%	7.1%	0.2 pts
Average Group investments	211,012	205,726	3%
Net investment result on Group investments	4,369	3,323	31%
Net investment return on Group investments ³	2.1%	1.6%	0.5 pts
Total return on Group investments ³	4.8%	(0.5%)	5.2 pts
Shareholders' equity ⁴	33,699	32,503	4%
Swiss Solvency Test capitalization ratio ⁵	217%	206%	11.0 pts
Diluted earnings per share (in CHF)	12.66	11.70	8%
Book value per share (in CHF) ⁴	201.75	196.14	3%
Return on common shareholders' equity (ROE) ⁶	13.9%	12.7%	1.2 pts
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE) ⁶	12.5%	12.1%	0.4 pts

¹ Parentheses around numbers represent an adverse variance.

² Details of the principles for calculating new business are included in the Embedded value report in the Annual Report 2013. New business value and new business margin are calculated after the effect of non-controlling interests whereas APE is presented before non-controlling interests.

³ Calculated on average Group investments.

⁴ As of June 30, 2014 and December 31, 2013, respectively.

⁵ Ratios as of January 1, 2014 and July 1, 2013, respectively. The Swiss Solvency Test (SST) ratio is calculated based on the Group's internal model, and both are subject to the review and approval of the Group's regulator, the Swiss Financial Market Supervisory Authority (FINMA). The ratio is filed with FINMA bi-annually.

⁶ Shareholders' equity adjusted for net unrealized gains/(losses) on available-for-sale investments and cash flow hedges.

Operating and financial review *continued*

Performance overview

The Group delivered overall business operating profit of USD 2.6 billion, an increase of USD 333 million or 15 percent compared with the same period of 2013. This performance was achieved by focusing on priority markets while maintaining the Group's disciplined approach to products, underwriting and pricing. General Insurance and Farmers benefited from an improvement in the underlying loss experience as well as a lower level of catastrophe and weather-related losses. Global Life continued to focus on its priority markets increasing its new business premiums and taking steps to improve its in-force business.

The Group's capital and solvency positions remain strong. Solvency measured on an economic basis as determined under the Swiss Solvency Test was 217 percent as of January 1, 2014, an increase of 11 percentage points compared with July 1, 2013. Shareholders' equity has increased since December 31, 2013 by USD 1.2 billion to USD 33.7 billion from the positive effects of net income and net unrealized gains on investments, and after deducting the total cost of USD 2.8 billion for the dividend of CHF 17.00 per share approved by shareholders at the Annual General Meeting on April 2, 2014.

Business operating profit increased by USD 333 million to USD 2.6 billion, or by 15 percent in U.S. dollar terms and 16 percent on a local currency basis.

- **General Insurance** business operating profit increased by USD 283 million to USD 1.7 billion, or by 21 percent in U.S. dollar terms and 19 percent on a local currency basis, driven by a substantially improved net underwriting result. The net underwriting result reflected the improvement in the underlying loss experience and the absence of major catastrophe and weather-related losses.
- **Global Life** business operating profit decreased by USD 25 million to USD 634 million, or by 4 percent in U.S. dollar terms and 1 percent on a local currency basis. Increases in Latin America and Europe, where most of the markets improved compared with the same period of 2013, were more than offset by impacts in North America related to one-off costs.
- **Farmers** business operating profit increased by USD 60 million to USD 756 million compared with the same period of 2013 primarily due to an improved net underwriting result in **Farmers Re. Farmers Management Services** increased its business operating profit by USD 15 million, or by 2 percent, with lower management and other related expenses more than compensating for lower management fees and other related revenues, as well as from a gain on the sale of a property.
- **Other Operating Businesses** reported a business operating loss of USD 452 million, unchanged compared with the same period of 2013. Lower interest expenses on debt and an increase in investment income in Holding and financing were offset by several non-recurring items in the Headquarters result.
- **Non-Core Businesses** reported a business operating profit of USD 31 million compared with USD 17 million in 2013. This improvement resulted from positive reserve movements.

Business volumes for the core business segments, comprising gross written premiums, policy fees, insurance deposits and management fees, increased by USD 1.3 billion to USD 37.6 billion, or by 4 percent in U.S. dollar terms and 3 percent on a local currency basis.

- **General Insurance** gross written premiums and policy fees increased by USD 225 million to USD 20.0 billion, or by 1 percent in both U.S. dollar terms and on a local currency basis, led by growth in the Group's priority markets, partly offset by other markets where the Group is taking action to improve profitability.
- **Global Life** gross written premiums, policy fees and insurance deposits increased by USD 1.2 billion to USD 14.2 billion, or by 9 percent in U.S. dollar terms and 8 percent on a local currency basis. Growth in gross written premiums and policy fees arose mainly in North America and Europe. Insurance deposits increased in North America, Latin America and especially in Europe, driven by growth of Corporate Savings business.
- **Farmers Management Services** management fees and other related revenues of USD 1.4 billion decreased by USD 17 million, or by 1 percent, reflecting lower premiums earned in the Farmers Exchanges, which are owned by their policyholders. Farmers Group, Inc., a wholly owned subsidiary of the Group, provides certain non-claims administrative and management services to the Farmers Exchanges as attorney-in-fact and receives fees for its services. **Farmers Re** gross written premiums decreased by 4 percent to USD 2.0 billion, reflecting reduced participations 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.

The **net investment result on Group investments** increased by USD 1.0 billion or by 31 percent to USD 4.4 billion. **Net investment income**, predominantly included in the core businesses, increased by 1 percent to USD 3.2 billion, but was flat in local currency terms. **Net capital gains on investments and impairments** included in the net investment result increased by USD 1.0 billion to USD 1.2 billion primarily as a result of active management and positive revaluation of debt securities booked at fair value through profit or loss and from derivative financial instruments used for hedging underlying business or investment risks.

Overall, the net effect of currency fluctuations on the results for the six months 2014 has been relatively small with the strengthening of European currencies against the U.S. dollar, in particular the British pound, being broadly offset by the weakening of Latin American currencies, partly reflecting high inflation rates in that region.

Net income attributable to shareholders increased by USD 258 million to USD 2.1 billion, or by 14 percent, mainly as a result of the increased business operating profit and higher net capital gains after allocations to policyholders partially offset by an increase in income tax expense attributable to shareholders. The **shareholders' effective tax rate** increased to 27.5 percent compared with 22.9 percent for the same period of 2013 and 24.9 percent for the year ended December 31, 2013. The tax rate for the six months is based on the expected rate for the full year 2014. The increase of 4.6 percentage points, compared with the same period of 2013, reflect changes in the profit mix and several one-off costs including the anticipated loss related to the sale of the Group's retail business in Russia, none of which will attract tax relief.

ROE increased by 1.2 percentage points to 13.9 percent, mainly driven by the increase in net income attributable to shareholders. **BOPAT ROE** of 12.5 percent increased by 0.4 percentage points compared with the same period of 2013, mainly as a result of the increased business operating profit partially offset by the increase of the shareholders' effective tax rate. **Diluted earnings per share** increased by 8 percent to CHF 12.66 compared with CHF 11.70 for the same period of 2013.

Operating and financial review *continued*

General Insurance

in USD millions, for the six months ended June 30	2014	2013	Change
Gross written premiums and policy fees	19,995	19,770	1%
Net earned premiums and policy fees	14,990	14,464	4%
Insurance benefits and losses, net of reinsurance	9,909	9,914	–
Net underwriting result	588	279	nm
Net investment result	1,173	1,182	(1%)
Net non-technical result (excl. items not included in BOP)	(59)	(46)	(29%)
Non-controlling interests	50	46	8%
Business operating profit	1,652	1,369	21%
Loss ratio	66.1%	68.5%	2.4 pts
Expense ratio	30.0%	29.5%	(0.4 pts)
Combined ratio	96.1%	98.1%	2.0 pts

in USD millions, for the six months ended June 30	Business operating profit (BOP)		Combined ratio	
	2014	2013	2014	2013
Global Corporate	401	479	95.8%	92.2%
North America Commercial	469	365	96.3%	99.6%
Europe, Middle East & Africa (EMEA)	679	407	94.7%	99.0%
International Markets	97	122	99.9%	101.5%
GI Global Functions including Group Reinsurance	6	(5)	nm	nm
Total	1,652	1,369	96.1%	98.1%

Business operating profit increased by USD 283 million to USD 1.7 billion, or by 21 percent in U.S. dollar terms and 19 percent on a local currency basis primarily due to the improvement in the underwriting result of USD 309 million to USD 588 million.

Gross written premiums and policy fees increased by USD 225 million to USD 20.0 billion, or by 1 percent in both U.S. dollar terms and on a local currency basis. On a local currency basis, growth was achieved in Global Corporate while EMEA was flat. In North America Commercial, gross written premiums decreased due to the non-renewal of a fronted portfolio. Adjusting for this, North America Commercial increased by 3 percent compared with the same period in 2013. In International Markets, gross written premiums decreased mainly in Latin America. The rate environment remained positive in all regions and overall rates increased by 2.5 percent.

The **net underwriting result** increased by USD 309 million to USD 588 million, reflected in the 2.0 percentage points improvement in the combined ratio to 96.1 percent. The loss ratio improved by 2.4 percentage points reflecting the benefit of improved underlying loss experience across most of the businesses as well as reduced levels of catastrophe and weather-related losses compared with the same period in 2013. These benefits were partially offset by lower levels of favorable development of loss reserves established in prior years. The expense ratio deteriorated by 0.4 percentage points compared with the same period in 2013. This arose from higher management expenses, which was partly due to a change in cost allocations in certain European countries and investments in growth.

Global Corporate

in USD millions, for the six months ended June 30	2014	2013	Change
Gross written premiums and policy fees	5,426	5,192	5%
Net underwriting result	131	227	(42%)
Business operating profit	401	479	(16%)
Loss ratio	74.0%	71.5%	(2.4 pts)
Expense ratio	21.9%	20.7%	(1.2 pts)
Combined ratio	95.8%	92.2%	(3.6 pts)

Business operating profit decreased by USD 78 million to USD 401 million due to a deterioration in the underwriting result. This was partly offset by an increase in the net investment result, due to higher invested assets and hedge fund gains in the U.S.

Gross written premiums and policy fees increased by USD 234 million to USD 5.4 billion, or by 5 percent in U.S. dollar terms and 4 percent on a local currency basis. New business production in North America and Asia Pacific, as well as rate increases across Global Corporate, contributed to the increase. The rate environment remained positive in all major lines of business and overall rates increased by 2.4 percent.

The **net underwriting result** decreased by USD 96 million to USD 131 million, reflected in the deterioration of 3.6 percentage points in the combined ratio to 95.8 percent. The deterioration in the loss ratio of 2.4 percentage points was mainly due to adverse development of loss reserves established in prior years. This was partly offset by improvements in underlying losses across the business, and the absence of major catastrophe and weather-related events, in contrast to 2013 which was impacted by the losses from flooding in Europe as well as other severe weather-related losses in North America. The expense ratio deteriorated by 1.2 percentage points as a result of the one-off impact of a change in premium tax costs in North America and higher management expenses.

Operating and financial review *continued*

North America Commercial

in USD millions, for the six months ended June 30	2014	2013	Change
Gross written premiums and policy fees	5,229	5,318	(2%)
Net underwriting result	135	14	nm
Business operating profit	469	365	28%
Loss ratio	65.5%	70.1%	4.6 pts
Expense ratio	30.8%	29.5%	(1.3 pts)
Combined ratio	96.3%	99.6%	3.3 pts

Business operating profit increased by USD 104 million to USD 469 million, or by 28 percent, driven by an increase in the underwriting result. This was partly offset by a decrease in net investment income due to lower invested assets and yields.

Gross written premiums and policy fees decreased by USD 89 million to USD 5.2 billion, or by 2 percent. Underlying growth was 3 percent after adjusting for a fronted portfolio that was not renewed. This underlying premium growth reflected the continued benefit of the successful execution of growth initiatives targeting the construction, real estate, and healthcare industry groups. These initiatives also positively impacted specialty lines products as well as the captive and auto warranty businesses. The rate environment remained positive in all major lines of business and overall rates increased by 2.9 percent.

The **net underwriting result** increased by USD 121 million to USD 135 million, which was reflected in the improvement of 3.3 percentage points in the combined ratio to 96.3 percent. The underlying loss ratio improved compared with the same period of 2013 reflecting favorable impacts of sustained rate increases as well as from claims and underwriting initiatives. The net underwriting result also benefited from stable development of reserves established in prior years compared with unfavorable development in the same period in 2013. The unfavorable development in 2013 was substantially due to lines of business that were discontinued or closed to new business. The expense ratio deteriorated by 1.3 percentage points, mainly as a result of higher and partially non-recurring management expenses, as well as an increase in commissions due to growth in lines of business with higher than average commissions.

Europe, Middle East & Africa

in USD millions, for the six months ended June 30	2014	2013	Change
Gross written premiums and policy fees	7,305	7,037	4%
Net underwriting result	328	59	nm
Business operating profit	679	407	67%
Loss ratio	64.6%	69.2%	4.6 pts
Expense ratio	30.1%	29.8%	(0.3 pts)
Combined ratio	94.7%	99.0%	4.3 pts

Business operating profit increased by USD 272 million to USD 679 million, or by 67 percent in U.S. dollar terms and 57 percent on a local currency basis. This improvement was due to the increase in the net underwriting result.

Gross written premiums and policy fees increased by USD 268 million to USD 7.3 billion, or by 4 percent in U.S. dollar terms but remained flat on a local currency basis. On a local currency basis, there was solid growth in the UK, Germany and in the personal lines business in Switzerland but this was offset by decreases in premium in markets where the focus has been on improving profitability and in Italy where the personal motor market continued to decline. Average rate increases of 2.1 percent were achieved during the first six months of 2014.

The **net underwriting result** increased by USD 269 million to USD 328 million, which was reflected in the improvement in the combined ratio of 4.3 percentage points to 94.7 percent. The improvement in the loss ratio of 4.6 percentage points arose from continued improvements in underlying losses, particularly in Germany, Italy, the UK and Switzerland, as a result of sustained underwriting actions. The net underwriting result also benefited from reduced weather-related losses compared with the same period of 2013, when there was significant flooding in Europe. These improvements were partly offset by lower levels of favorable development of reserves established in prior years. The expense ratio deteriorated by 0.3 percentage points reflecting increased expenses in Germany, due to a change in cost allocations, and investments in growth partially offset by a one-off pension curtailment gain in Switzerland.

Operating and financial review *continued*

International Markets

in USD millions, for the six months ended June 30	2014	2013	Change
Gross written premiums and policy fees ¹	2,160	2,510	(14%)
Net underwriting result	1	(29)	nm
Business operating profit	97	122	(21%)
Loss ratio	59.2%	59.6%	0.4 pts
Expense ratio	40.7%	41.9%	1.1 pts
Combined ratio	99.9%	101.5%	1.6 pts

¹ From January 2014, gross written premiums and policy fees relating to Latin American corporate business have been included in Global Corporate. 2013 figures have not been restated.

Business operating profit decreased by USD 25 million to USD 97 million, or by 21 percent in U.S. dollar terms but increased by 10 percent on a local currency basis. The underwriting result improved by USD 30 million partly offset by a reduction in the positive contribution from the non-technical result which in 2014 included non-recurring charges in Latin America and, in the same period of 2013, a one-off gain from the sale of an own-use property in Taiwan.

Gross written premiums and policy fees decreased by USD 350 million to USD 2.2 billion, or by 14 percent in U.S. dollar terms and by 1 percent on a local currency basis. On a local currency basis, gross written premiums decreased in Latin America by 3 percent. This decrease arose due to the change in the reporting of the Latin American corporate business and in Brazil, due to the impact of underwriting actions in the personal motor portfolio, partly offset by growth in Argentina and Venezuela. Overall, Latin America achieved average rate increases of 5.5 percent. Asia Pacific premiums increased by 4 percent on a local currency basis, reflecting growth in Japan, Hong Kong and Malaysia, partly offset by lower premiums in Australia. Overall Asia Pacific achieved average rate increases of 2.3 percent.

The **net underwriting result** improved by USD 30 million, reflected in the 1.6 percentage points improvement in the combined ratio to 99.9 percent. The loss ratio improved by 0.4 percentage points mainly as a result of lower catastrophe and weather-related losses compared with the same period in 2013, which included the losses from flooding in Queensland, Australia. The underlying loss ratio deteriorated in Australia and in Latin America, primarily in personal lines business in Brazil, where there is focus on underwriting actions. Favorable changes in the development of loss reserves established in prior years were slightly lower than in the same period of 2013. The expense ratio improved by 1.1 percentage points compared with the same period of 2013 partly due to the impact of non-recurring charges in Latin America in 2013, reduced commission costs resulting from changes in business mix, and the impact of higher premium volumes.

Global Life

in USD millions, for the six months ended June 30	2014	2013	Change
Insurance deposits	7,082	6,098	16%
Gross written premiums and policy fees	7,139	6,931	3%
Net investment income on Group investments	1,981	1,990	–
Insurance benefits and losses, net of reinsurance	(5,069)	(4,493)	(13%)
Business operating profit	634	659	(4%)
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts (net reserves) ¹	235,407	226,166	4%
Assets under management ^{1, 2}	279,687	267,202	5%
Net policyholder flows ³	889	(1,203)	nm

¹ As of June 30, 2014 and December 31, 2013, respectively.

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 deposits, less policyholder benefits.

New business – highlights¹

in USD millions, for the six months ended June 30	2014	2013	Change
New business annual premium equivalent (APE)	2,373	2,081	14%
New business margin, after tax	24.6%	29.6%	(5.0 pts)
New business value, after tax	515	547	(6%)

¹ Details of the principles for calculating new business are included in the Embedded value report in the Annual Report 2013. New business value and new business margin are calculated after the effect of non-controlling interests whereas APE is presented before non-controlling interests.

Source of earnings

in USD millions, for the six months ended June 30	2014	2013
Loadings and fees	2,078	2,009
Investment margin	296	275
Technical margin	567	609
Operating and funding costs	(899)	(873)
Acquisition costs	(1,572)	(1,583)
Impact of deferrals	163	221
Business operating profit	634	659

Operating and financial review *continued*

Business operating profit decreased by USD 25 million to USD 634 million, or by 4 percent in U.S. dollar terms and 1 percent on a local currency basis. Increases in Latin America and Europe, where most of the markets improved compared with the same period of 2013, were more than offset by a negative impact in North America related to the transfer of an annuity portfolio to Non-Core Businesses as well as asset impairments associated with Global Life's in-force management strategy, and a reduction in Asia-Pacific and Middle East (APME) which included a one-off benefit from deferred intangibles in the same period of 2013.

Loadings and fees increased by USD 69 million, the majority of which arose from higher volumes in Zurich Santander and higher fees in Europe and APME, predominantly driven by unit-linked assets under management. The investment margin increased by USD 21 million with increased investment yields in Latin America, albeit reduced by the effects of foreign currency translation, being partly offset by the impact of persistently low yields in other regions. The underlying technical margin improved by USD 58 million more than offset by one-off impacts of USD 56 million from the transfer of the annuity portfolio in North America and USD 44 million from a law change in Germany. The underlying improvement was largely driven by North America, Zurich Santander and Europe.

Operating and funding costs increased by 3 percent with the effect of an impairment of software assets being offset by policyholder tax impacts, particularly in the UK. Acquisition costs remained broadly flat and the overall decrease in the impact of deferrals largely resulted from market and other movements which affected deferred intangibles.

Insurance deposits increased by USD 984 million to USD 7.1 billion, or by 16 percent in U.S. dollar terms and 14 percent on a local currency basis. North America, Latin America and Europe all experienced strong growth with a 24 percent increase in Europe driven by single premium Corporate Savings products. There was a significant reduction in insurance deposits in private banking business included in Bank Distribution following the withdrawal from new business in certain markets.

Gross written premiums and policy fees increased by USD 207 million to USD 7.1 billion, or by 3 percent in both U.S. dollar terms and on a local currency basis. Continued strong growth in protection sales in North America and Europe, predominantly in Spain, have driven this increase partly offset by a reduction in Latin America due to a change in timing of some large contract renewals.

Net reserves increased by 4 percent in U.S. dollar terms and 3 percent on a local currency basis compared with December 31, 2013 primarily reflecting increased values of unit-linked assets. **Assets under management** increased by 5 percent in U.S. dollar terms and 4 percent on a local currency basis compared with December 31, 2013 driven by favorable market movements in Europe and favorable foreign currency translation in Europe and Brazil.

Net policyholder flows were a net inflow of USD 889 million compared with a net outflow of USD 1.2 billion in the same period of 2013, which was driven by net outflows from private banking products included in Bank Distribution. North America, Latin America and Europe all experienced improved net inflows.

NBV, APE, NBM and BOP by region

in USD millions, for the six months ended June 30

	New business value, after tax (NBV) ¹		New business annual premium equivalent (APE) ¹		New business margin, after tax (as % of APE) (NBM) ¹		Business operating profit (BOP)	
	2014	2013	2014	2013	2014	2013	2014	2013
	North America	62	59	104	81	59.5%	72.5%	37
Latin America	86	119	613	582	21.6%	31.2%	128	122
<i>of which:</i>								
<i>Zurich Santander</i>	56	72	434	404	25.5%	34.7%	93	95
Europe	251	224	1,373	1,045	19.1%	22.1%	452	392
<i>United Kingdom</i>	86	94	578	389	14.9%	24.2%	110	93
<i>Germany</i>	27	13	166	167	16.6%	8.1%	106	81
<i>Switzerland</i>	43	35	157	147	27.5%	23.7%	139	131
<i>Ireland</i>	34	34	236	198	14.5%	17.1%	35	26
<i>Spain</i>	44	35	132	65	60.6%	89.0%	22	21
<i>Italy</i>	12	11	84	67	14.6%	16.1%	23	18
<i>Rest of Europe</i>	3	2	20	13	17.1%	18.6%	17	22
APME	79	84	241	271	33.0%	31.3%	56	72
Other	38	61	42	102	89.8%	60.0%	(39)	(11)
Total	515	547	2,373	2,081	24.6%	29.6%	634	659

NBV and APE by pillar

in USD millions, for the six months ended June 30

	New business value, after tax (NBV) ¹		New business annual premium equivalent (APE) ¹		New business margin, after tax (as % of APE) ¹	
	2014	2013	2014	2013	2014	2013
	Bank Distribution	148	152	825	789	26.9%
Other Retail	205	240	731	674	28.1%	35.8%
Corporate Life and Pensions	162	155	817	618	19.8%	25.1%
Total	515	547	2,373	2,081	24.6%	29.6%

¹ Details of the principles for calculating new business are included in the Embedded value report in the Annual Report 2013. New business value and new business margin are calculated after the effect of non-controlling interests whereas APE is presented before non-controlling interests.

Global Life continued to benefit from its acquisitions and investment in organic growth in priority markets, leveraging global bank distribution and corporate life relationships as well as maintaining focus on protection and unit-linked products.

New business value decreased by USD 32 million to USD 515 million, or by 6 percent in both U.S. dollar terms and on a local currency basis despite an increase in APE. The decrease was primarily driven by reduced new business margins due to assumption changes and methodology updates introduced in 2014.

APE increased by USD 291 million to USD 2.4 billion, or by 14 percent in both U.S. dollar terms and on a local currency basis. North America, Latin America and Europe all increased by more than 20 percent on a local currency basis offset by decreases in APME and Other following the withdrawal from the tied agent channel in Hong Kong and the private banking business included in Bank Distribution in Luxembourg.

New business margin decreased by 5.0 percentage points to 24.6 percent compared with the same period of 2013 primarily driven by Europe, North America and Latin America. In the first six months of 2013, the UK new business margin benefited from exceptional volumes of protection business with relatively high margins. In 2014, the volumes of this business returned to normal levels. In North America and Zurich Santander the lower margins were impacted primarily by updated assumptions. In addition a revision to the expense allocation methodology also contributed to the overall decrease of new business margin.

Operating and financial review *continued*

In North America, IFA/Brokers continued to gain traction leading to an overall growth in APE of 28 percent and an increase in new business value of 5 percent. Higher volumes of lower margin IFA/Brokers products resulted in a lower, but still very strong, new business margin of 59.5 percent.

In Latin America, strong volume growth was more than offset by assumption and methodology updates which reduced new business margins, particularly in Zurich Santander.

In Europe, the overall increase of USD 27 million in new business value was primarily driven by Germany, Spain and Switzerland. Margins improved in Germany as a result of changes in product mix and updates to assumptions. Volume and margin improvements in Switzerland also contributed to the increase. The UK benefited from growth in lower margin Corporate Savings business during the period, but this positive impact was offset by lower levels of high margin protection business resulting in reduced new business value.

In APME, Australia experienced strong growth in new business value with both volume and margin improvements in protection business. This was more than offset by lower volumes in the Middle East and the decision to close the agency channel in Hong Kong.

In Bank Distribution, new business value decreased by USD 4 million to USD 148 million, or by 2 percent in U.S. dollar terms but increased 2 percent on a local currency basis. Strong volume growth in Zurich Santander and Spain was more than offset by a reduction in new business margin from updated assumptions and the adverse effect of foreign currency translation in Zurich Santander.

In Other Retail, new business value decreased by USD 35 million to USD 205 million, or by 14 percent in U.S. dollar terms and 15 percent on a local currency basis, as a result of decreased volumes of individual protection business in both Latin America and Europe. Latin America was impacted by new business margin reductions and adverse foreign currency translation, whereas Europe had benefited in the first six months of 2013 from an exceptionally strong result in new business value from protection business.

In Corporate Life and Pensions, new business value increased by USD 7 million to USD 162 million, or by 4 percent in U.S. dollar terms, but remained flat on a local currency basis, benefiting from higher margins particularly in Europe partly offset by a decrease from Other due to lower margins and volumes.

Farmers

Farmers business operating profit increased by USD 60 million to USD 756 million compared with the same period of 2013 primarily due to an improved net underwriting result in Farmers Re. Farmers Management Services increased its business operating profit by USD 15 million, or by 2 percent, with lower management and other related expenses more than compensating for lower management fees and other related revenues as well as from a gain on the sale of a property.

Farmers Management Services

in USD millions, for the six months ended June 30	2014	2013	Change
Management fees and other related revenues	1,391	1,408	(1%)
Management and other related expenses	(717)	(738)	3%
Gross management result	674	670	1%
Other net income	28	18	58%
Business operating profit	702	687	2%
Managed gross earned premium margin	7.3%	7.1%	0.2%

Business operating profit increased by USD 15 million to USD 702 million, primarily due to a decrease in management and other related expenses compensating for lower management fees and other related revenues as well as an increase in other net income.

Management fees and other related revenues of USD 1.4 billion decreased by USD 17 million, or by 1 percent, reflecting lower premiums earned in the Farmers Exchanges, which are owned by their policyholders. Farmers Group, Inc., a wholly owned subsidiary of the Group, provides certain non-claims administrative and management services to the Farmers Exchanges as attorney-in-fact and receives fees for its services. **Management and other related expenses** of USD 717 million decreased by USD 22 million mainly as a result of lower labor costs and a gain from employment benefits. **Other net income** of USD 28 million increased by USD 10 million partially due to a gain on the sale of the Farmers headquarters complex partially offset by a lower investment result.

The **managed gross earned premium margin** increased to 7.3 percent compared with 7.1 percent for the same period of 2013.

Operating and financial review *continued*

Farmers Re

in USD millions, for the six months ended June 30	2014	2013	Change
Gross written premiums and policy fees	1,960	2,034	(4%)
Net underwriting result	(11)	(58)	81%
Business operating profit	53	9	nm
Loss ratio	69.2%	71.5%	2.3 pts
Expense ratio	31.3%	31.3%	0.0 pts
Combined ratio	100.6%	102.8%	2.3 pts

Business operating profit increased by USD 44 million to USD 53 million, primarily due to an improvement in the net underwriting result.

Gross written premiums and policy fees decreased by USD 74 million, or by 4 percent, to USD 2.0 billion as a result of the lower participation in reinsurance agreements with the Farmers Exchanges as well as the 2 percent decrease in the gross written premiums in the Farmers Exchanges. The participation in the All Lines quota share reinsurance agreement was reduced from 18.5 percent to 18.0 percent, effective December 31, 2013. The participation in the Auto Physical Damage quota share reinsurance agreement was reduced from USD 925 million of ceded premium in 2013 to USD 900 million in 2014.

The **net underwriting result** improved by USD 47 million to a loss of USD 11 million reflected in the improvement of 2.3 percentage points in the **loss ratio** as a result of lower catastrophe and underlying losses. The **expense ratio**, based on ceded reinsurance commission rates payable to Farmers Exchanges, was unchanged.

Farmers Exchanges

Farmers Group, Inc., a wholly owned subsidiary of the Group, provides certain non-claims administrative and management services to the Farmers Exchanges as attorney-in-fact and receives fees for its services. Financial information about the Farmers Exchanges, which are owned by their policyholders, is proprietary to the Farmers Exchanges, but is provided to support an understanding of the performance of Farmers Group, Inc. and Farmers Re.

in USD millions, for the six months ended June 30	2014	2013	Change
Gross written premiums	9,335	9,477	(2%)
Gross earned premiums	9,216	9,401	(2%)

Gross written premiums in the Farmers Exchanges decreased by USD 142 million to USD 9.3 billion, or by 2 percent. This decrease was driven by lower Business Insurance sold through independent agents, Farmers Auto and Direct Auto reflecting pricing and underwriting actions as well as the effect of lower marketing expenditure. Other major lines of business, including Business Insurance sold through exclusive agents, non-standard Auto, Homeowners and Specialty increased compared with the same period of 2013.

Gross earned premiums in the Farmers Exchanges decreased by USD 186 million to USD 9.2 billion, or by 2 percent.

Other Operating Businesses

in USD millions, for the six months ended June 30	2014	2013	Change
Business operating profit:			
Holding and financing	(358)	(407)	12%
Headquarters	(93)	(46)	nm
Total business operating profit	(452)	(453)	-

Holding and financing business operating loss decreased by USD 49 million to USD 358 million, primarily driven by lower interest expenses on debt due to favorable refinancing conditions as well as increased investment income.

Headquarters reported a business operating loss of USD 93 million compared with a loss of USD 46 million in the same period of 2013. This deterioration was driven by several non-recurring items.

Non-Core Businesses

in USD millions, for the six months ended June 30	2014	2013	Change
Business operating profit:			
Centrally managed businesses	3	5	(43%)
Other run-off	28	11	nm
Total business operating profit	31	17	86%

Centrally managed businesses, which comprise run-off portfolios managed with the intention of proactively reducing risk and releasing capital, reported a business operating profit of USD 3 million resulting from underlying movements in the portfolios under management.

Other run-off, which largely comprises U.S. life insurance and annuity portfolios, reported a business operating profit of USD 28 million. The USD 17 million improvement compared with the same period of 2013 was due to positive reserve movements primarily as a result of increased market volatility.

Consolidated financial statements (unaudited)

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Consolidated income statements (unaudited)

in USD millions	Notes	2014	2013	2014	2013
		for the three months ended June 30	for the three months ended June 30	for the six months ended June 30	for the six months ended June 30
Revenues					
Gross written premiums		13,136	12,783	27,874	27,654
Policy fees		707	643	1,439	1,277
Gross written premiums and policy fees		13,843	13,426	29,314	28,932
Less premiums ceded to reinsurers		(1,678)	(1,890)	(3,283)	(3,613)
Net written premiums and policy fees		12,165	11,536	26,030	25,319
Net change in reserves for unearned premiums		(269)	(148)	(1,989)	(2,223)
Net earned premiums and policy fees		11,896	11,388	24,042	23,095
Farmers management fees and other related revenues		699	706	1,391	1,408
Net investment result on Group investments	3	2,176	1,629	4,369	3,323
Net investment income on Group investments		1,681	1,614	3,217	3,187
Net capital gains/(losses) and impairments on Group investments		495	15	1,152	135
Net investment result on unit-linked investments		2,938	(784)	4,405	5,636
Net gain/(loss) on divestments of businesses		(13)	–	(13)	–
Other income		475	338	849	846
Total revenues		18,171	13,277	35,043	34,307
Benefits, losses and expenses					
Insurance benefits and losses, gross of reinsurance		8,925	8,735	18,155	17,386
Less ceded insurance benefits and losses		(745)	(962)	(1,409)	(1,617)
Insurance benefits and losses, net of reinsurance		8,181	7,772	16,746	15,769
Policyholder dividends and participation in profits, net of reinsurance	5	3,419	(323)	5,318	6,318
Underwriting and policy acquisition costs, net of reinsurance		2,513	2,410	5,080	4,792
Administrative and other operating expense		2,403	2,125	4,281	4,087
Interest expense on debt		139	146	277	290
Interest credited to policyholders and other interest		158	138	285	299
Total benefits, losses and expenses		16,812	12,269	31,988	31,555
Net income before income taxes		1,359	1,008	3,055	2,752
Income tax expense	9	(466)	(157)	(824)	(744)
attributable to policyholders	9	(42)	96	21	(147)
attributable to shareholders	9	(425)	(253)	(846)	(596)
Net income after taxes		893	851	2,231	2,008
attributable to non-controlling interests		56	62	122	157
attributable to shareholders		837	789	2,109	1,851
in USD					
Basic earnings per share		5.65	5.35	14.27	12.57
Diluted earnings per share		5.64	5.33	14.21	12.50
in CHF					
Basic earnings per share		5.09	5.01	12.71	11.77
Diluted earnings per share		5.07	4.99	12.66	11.70

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

Consolidated financial statements (unaudited) *continued*

Consolidated statements of comprehensive income (unaudited)

in USD millions, for the six months ended June 30

	Net income attributable to shareholders	Net unrealized gains/(losses) on available- for-sale investments	Cash flow hedges
2013			
Comprehensive income for the period	1,851	(2,106)	(103)
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		(1,926)	(149)
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(591)	23
Reclassification to retained earnings		–	–
Deferred income tax (before foreign currency translation effects)		512	29
Foreign currency translation effects		(101)	(7)
2014			
Comprehensive income for the period	2,109	1,748	100
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		2,950	118
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(721)	10
Deferred income tax (before foreign currency translation effects)		(485)	(29)
Foreign currency translation effects		3	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	Total comprehensive income attributable to non-controlling interests	Total comprehensive income
	(1,322)	(3,532)	6	(26)	(21)	(3,552)	(1,701)	42	(1,659)
	(1,397)	(3,472)	14	(94)	(80)	(3,552)			
	75	(493)	–	–	–	(493)			
	–	–	(5)	–	(5)	(5)			
	–	541	(3)	(38)	(41)	500			
	–	(108)	–	105	105	(2)			
	(866)	981	21	(176)	(155)	827	2,936	160	3,096
	(880)	2,188	28	(115)	(87)	2,101			
	14	(697)	–	–	–	(697)			
	–	(513)	(7)	(5)	(12)	(525)			
	–	4	–	(56)	(56)	(52)			

Consolidated financial statements (unaudited) *continued*

in USD millions, for the three months ended June 30

	Net income attributable to shareholders	Net unrealized gains/(losses) on available- for-sale investments	Cash flow hedges
2013			
Comprehensive income for the period	789	(1,765)	(69)
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		(1,930)	(63)
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(288)	(27)
Deferred income tax (before foreign currency translation effects)		445	20
Foreign currency translation effects		8	1
2014			
Comprehensive income for the period	837	972	19
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		1,546	37
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(361)	11
Deferred income tax (before foreign currency translation effects)		(217)	(28)
Foreign currency translation effects		4	(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	Total comprehensive income attributable to non-controlling interests	Total comprehensive income
	(905)	(2,740)	11	39	50	(2,690)	(1,900)	(31)	(1,931)
	(982)	(2,976)	14	80	94	(2,882)			
	77	(238)	–	–	–	(238)			
	–	465	(3)	(32)	(36)	429			
	–	10	–	(8)	(8)	1			
	(886)	105	22	(135)	(113)	(7)	830	75	904
	(897)	686	28	(73)	(45)	641			
	11	(339)	–	–	–	(339)			
	–	(244)	(6)	(20)	(26)	(270)			
	–	3	–	(42)	(42)	(39)			

Consolidated financial statements (unaudited) *continued*

Consolidated balance sheets (unaudited)

Assets	in USD millions, as of	Notes	06/30/14	12/31/13
	Investments			
	Total Group investments	3	214,743	207,280
	Cash and cash equivalents		8,227	7,181
	Equity securities		16,124	13,183
	Debt securities		160,785	156,456
	Real estate held for investment		8,904	8,745
	Mortgage loans		9,197	9,798
	Other loans		11,432	11,789
	Investments in associates and joint ventures		74	129
	Investments for unit-linked contracts		140,331	134,267
	Total investments		355,074	341,547
	Reinsurers' share of reserves for insurance contracts	4	17,735	17,978
	Deposits made under assumed reinsurance contracts		2,656	2,645
	Deferred policy acquisition costs	6	19,082	18,724
	Deferred origination costs	6	705	724
	Accrued investment income		2,076	2,321
	Receivables and other assets		22,603	18,499
	Deferred tax assets		1,880	2,020
	Assets held for sale ¹		140	223
	Property and equipment		1,413	1,494
	Goodwill	7	1,805	1,852
	Other intangible assets	7	7,039	7,028
	Total assets		432,207	415,053

¹ June 30, 2014 and December 31, 2013 included assets relating to a subsidiary of Centre Group Holdings Limited amounting to USD 103 million and USD 100 million, respectively (see note 2). June 30, 2014 and December 31, 2013 included land and buildings formerly classified as real estate held for investment amounting to USD 37 million and USD 123 million, respectively.

Liabilities
and equity

in USD millions, as of	Notes	06/30/14	12/31/13
Liabilities			
Reserve for premium refunds		611	571
Liabilities for investment contracts		70,980	67,113
Deposits received under ceded reinsurance contracts		1,079	1,245
Deferred front-end fees		5,866	5,791
Reserves for insurance contracts	4	274,029	265,440
Obligations to repurchase securities		1,653	1,685
Accrued liabilities		3,295	3,023
Other liabilities		20,687	17,904
Deferred tax liabilities		5,377	5,110
Liabilities held for sale ¹		48	49
Senior debt	10	6,048	6,044
Subordinated debt	10	6,582	6,342
Total liabilities		396,254	380,319
Equity			
Share capital		11	11
Additional paid-in capital		4,680	6,395
Net unrealized gains/(losses) on available-for-sale investments		3,478	1,730
Cash flow hedges		205	106
Cumulative foreign currency translation adjustment		(4,874)	(4,008)
Revaluation reserve		216	195
Retained earnings		29,984	28,075
Shareholders' equity		33,699	32,503
Non-controlling interests		2,254	2,231
Total equity		35,953	34,734
Total liabilities and equity		432,207	415,053

¹ June 30, 2014 and December 31, 2013 included liabilities relating to a subsidiary of Centre Group Holdings Limited amounting to USD 48 million and 49 million, respectively (see note 2).

Consolidated financial statements (unaudited) *continued*

Consolidated statements of cash flows (unaudited)

in USD millions, for the six months ended June 30	2014	2013
Cash flows from operating activities		
Net income attributable to shareholders	2,109	1,851
Adjustments for:		
Net (gain)/loss on divestments of businesses	13	–
(Income)/expense from equity method accounted investments	(8)	(5)
Depreciation, amortization and impairments of fixed and intangible assets	514	474
Other non-cash items	(187)	225
Underwriting activities:	6,626	4,843
<i>Reserves for insurance contracts, gross</i>	<i>4,271</i>	<i>1,415</i>
<i>Reinsurers' share of reserves for insurance contracts</i>	<i>295</i>	<i>515</i>
<i>Liabilities for investment contracts</i>	<i>2,610</i>	<i>3,680</i>
<i>Deferred policy acquisition costs</i>	<i>(405)</i>	<i>(582)</i>
<i>Deferred origination costs</i>	<i>32</i>	<i>24</i>
<i>Deposits made under assumed reinsurance contracts</i>	<i>(10)</i>	<i>23</i>
<i>Deposits received under ceded reinsurance contracts</i>	<i>(167)</i>	<i>(233)</i>
Investments:	(3,898)	(4,277)
<i>Net capital (gains)/losses on total investments and impairments</i>	<i>(4,609)</i>	<i>(4,867)</i>
<i>Net change in derivatives</i>	<i>(134)</i>	<i>(45)</i>
<i>Net change in money market investments</i>	<i>303</i>	<i>570</i>
<i>Sales and maturities</i>		
<i>Debt securities</i>	<i>57,970</i>	<i>55,005</i>
<i>Equity securities</i>	<i>32,060</i>	<i>26,591</i>
<i>Other</i>	<i>3,387</i>	<i>5,756</i>
<i>Purchases</i>		
<i>Debt securities</i>	<i>(53,889)</i>	<i>(59,513)</i>
<i>Equity securities</i>	<i>(36,693)</i>	<i>(24,966)</i>
<i>Other</i>	<i>(2,292)</i>	<i>(2,810)</i>
Proceeds from sale and repurchase agreements	(83)	(50)
Movements in receivables and payables	242	(406)
Net changes in other operational assets and liabilities	(379)	(748)
Deferred income tax, net	(119)	(37)
Net cash provided by/(used in) operating activities	4,831	1,871

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

in USD millions, for the six months ended June 30		2014	2013
Cash flows from investing activities			
Disposals of tangible and intangible assets		34	32
Additions of tangible and intangible assets		(540)	(276)
(Acquisitions)/Disposals of equity method accounted investments, net		94	–
Divestments of companies, net of cash balances		55	–
Net cash provided by/(used in) investing activities		(356)	(245)
Cash flows from financing activities			
Dividends paid		(2,862)	(2,747)
Issuance of share capital		73	39
Net movement in treasury shares		16	12
Other acquisitions and divestments related cash flows		(413)	–
Issuance of debt		224	917
Repayment of debt		(54)	–
Net cash provided by/(used in) financing activities		(3,017)	(1,779)
Foreign currency translation effects on cash and cash equivalents		27	(331)
Change in cash and cash equivalents		1,485	(484)
Cash and cash equivalents as of January 1		8,162	10,208
Cash and cash equivalents as of June 30		9,647	9,724
of which:			
– cash and cash equivalents – Group investments		8,227	8,432
– cash and cash equivalents – unit linked		1,420	1,292
Other supplementary cash flow disclosures			
Other interest income received		3,399	3,380
Dividend income received		1,052	890
Other interest expense paid		(523)	(517)
Income taxes paid		(653)	(757)

in USD millions, as of June 30		2014	2013
Cash and cash equivalents	Cash and cash equivalents comprise the following:		
	Cash at bank and in hand	7,072	6,459
	Cash equivalents	2,575	3,265
	Total	9,647	9,724

As of June 30, 2014 and 2013, cash and cash equivalents held to meet local regulatory requirements were USD 769 million and USD 1,443 million, respectively.

Consolidated financial statements (unaudited) *continued*

Consolidated statements of changes in equity (unaudited)

in USD millions

	Share capital	Additional paid-in capital
Balance as of December 31, 2012	11	8,172
Issuance of share capital ¹	–	142
Dividends to shareholders ²	–	(1,933)
Share-based payment transactions	–	(108)
Treasury share transactions ⁴	–	7
Reclassification from revaluation reserves	–	–
Total comprehensive income for the period, net of tax	–	–
<i>Net income</i>	–	–
<i>Net unrealized gains/(losses) on available-for-sale investments</i>	–	–
<i>Cash flow hedges</i>	–	–
<i>Cumulative foreign currency translation adjustment</i>	–	–
<i>Revaluation reserve</i>	–	–
<i>Net actuarial gains/(losses) on pension plans</i>	–	–
Net changes in capitalization of non-controlling interests	–	–
Balance as of June 30, 2013	11	6,281
Balance as of December 31, 2013	11	6,395
Issuance of share capital ¹	–	146
Dividends to shareholders ³	–	(1,815)
Share-based payment transactions	–	(47)
Treasury share transactions ⁴	–	1
Change in ownership interests with no loss of control	–	–
Total comprehensive income for the period, net of tax	–	–
<i>Net income</i>	–	–
<i>Net unrealized gains/(losses) on available-for-sale investments</i>	–	–
<i>Cash flow hedges</i>	–	–
<i>Cumulative foreign currency translation adjustment</i>	–	–
<i>Revaluation reserve</i>	–	–
<i>Net actuarial gains/(losses) on pension plans</i>	–	–
Net changes in capitalization of non-controlling interests	–	–
Balance as of June 30, 2014	11	4,680

¹ The number of common shares issued as of June 30, 2014 was 149,425,570 (June 30, 2013: 148,861,970, December 31, 2013: 148,903,222, December 31, 2012: 148,300,123).

² As approved by the Annual General Meeting on April 4, 2013, the dividend of CHF 17 per share was paid out of the capital contribution reserve. The difference of USD 718 million between the dividend at transaction day exchange rates amounting to USD 2,651 million and the dividend at historical exchange rates amounting to USD 1,933 million is reflected in the cumulative foreign currency translation adjustment.

³ As approved by the Annual General Meeting on April 2, 2014, the dividend of CHF 17 per share was paid out of the capital contribution reserve. The difference of USD 1,022 million between the dividend at transaction day exchange rates amounting to USD 2,837 million and the dividend at historical exchange rates amounting to USD 1,815 million is reflected in the cumulative foreign currency translation adjustment.

⁴ The number of treasury shares deducted from equity as of June 30, 2014 amounted to 1,302,434 (June 30, 2013: 1,326,726, December 31, 2013: 1,320,652, December 31, 2012: 1,348,395).

	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
	4,523	238	(3,022)	180	24,403	34,505	2,369	36,874
	-	-	-	-	-	142	-	142
	-	-	-	-	-	(1,933)	(96)	(2,029)
	-	-	-	-	-	(108)	-	(108)
	-	-	-	-	5	12	-	12
	-	-	-	-	5	5	-	5
	(2,106)	(103)	(1,322)	6	1,825	(1,701)	42	(1,659)
	-	-	-	-	1,851	1,851		
	(2,106)	-	-	-	-	(2,106)		
	-	(103)	-	-	-	(103)		
	-	-	(1,322)	-	-	(1,322)		
	-	-	-	6	-	6		
	-	-	-	-	(26)	(26)		
	-	-	-	-	-	-	1	1
	2,417	136	(4,345)	186	26,237	30,923	2,316	33,238
	1,730	106	(4,008)	195	28,075	32,503	2,231	34,734
	-	-	-	-	-	146	-	146
	-	-	-	-	-	(1,815)	(25)	(1,840)
	-	-	-	-	-	(47)	-	(47)
	-	-	-	-	14	15	-	15
	-	-	-	-	(38)	(38)	-	(38)
	1,748	100	(866)	21	1,933	2,936	160	3,096
	-	-	-	-	2,109	2,109		
	1,748	-	-	-	-	1,748		
	-	100	-	-	-	100		
	-	-	(866)	-	-	(866)		
	-	-	-	21	-	21		
	-	-	-	-	(176)	(176)		
	-	-	-	-	-	-	(112)	(112)
	3,478	205	(4,874)	216	29,984	33,699	2,254	35,953

Consolidated financial statements (unaudited) *continued*

Zurich Insurance Group Ltd and its subsidiaries (collectively the Group) is a provider of insurance products and related services. The Group operates mainly in Europe, North America, Latin America and Asia Pacific through subsidiaries, as well as branch and representative offices.

Zurich Insurance Group Ltd, a Swiss corporation, is the holding company of the Group and is listed on the SIX Swiss Exchange. Zurich Insurance Group Ltd was incorporated on April 26, 2000, in Zurich, Switzerland. It is recorded in the Commercial Register of the Canton of Zurich under its registered address at Mythenquai 2, 8002 Zurich.

1. Basis of presentation

General information

The unaudited Consolidated financial statements for the six months to June 30, 2014 of the Group have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting". The accounting policies used to prepare the unaudited Consolidated financial statements comply with International Financial Reporting Standards (IFRS), and are consistent with those set out in the notes to the Consolidated financial statements in the Annual Report 2013 of the Group.

The accounting policies applied by the reportable segments are the same as those applied by the Group. The Group accounts for inter-segment revenues and transfers as if the transactions were with third parties at current market prices. Dividends, realized capital gains and losses as well as gains and losses on the transfer of net assets, are eliminated within the segment, whereas all other intercompany gains and losses are eliminated at Group level. In the unaudited Consolidated financial statements inter-segment revenues and transfers are eliminated.

The unaudited Consolidated financial statements for the six months to June 30, 2014 should be read in conjunction with the Group's Annual Report 2013.

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

All amounts in the unaudited Consolidated financial statements, unless otherwise stated, are shown in U.S. dollars, 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 64 million and USD (5) million for the six months ended June 30, 2014 and 2013, respectively. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD 45 million and USD (41) million for the six months ended June 30, 2014 and 2013, respectively.

Table 1.1

Principal exchange rates	USD per foreign currency unit	Consolidated balance sheets		Consolidated income statements and cash flows	
		06/30/14	12/31/13	06/30/14	06/30/13
		Euro	1.3691	1.3778	1.3710
Swiss franc	1.1276	1.1228	1.1226	1.0683	
British pound	1.7105	1.6568	1.6686	1.5448	

Implementation of new accounting standards

Table 1.2 shows new accounting standards or amendments to and interpretations of standards relevant to the Group that have been implemented for the financial year beginning January 1, 2014, with no material impact on the Group's financial position or performance.

Standard/ Interpretation		Effective date
New Standards		
IFRIC 21	Levies	January 1, 2014
Amended Standards		
IAS 32	Offsetting Financial Assets and Financial Liabilities	January 1, 2014
IAS 39	Novation of Derivatives and Continuation of Hedge Accounting	January 1, 2014

The Group has not early-adopted the standards shown in table 1.3.

Standard/ Interpretation		Effective date
New Standards		
IFRS 9	Financial Instruments ¹	January 1, 2018
IFRS 15	Revenue from Contracts with Customers	January 1, 2017
Amended Standards		
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	January 1, 2016
IAS 16/IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	January 1, 2016

¹ 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.

Restatements and reclassifications

The Group has reviewed the classification of certain life insurance products, which resulted in the reclassification of a product for an amount of USD 52 million. The reclassification was prospectively recognized in 2014 with no impact on the Group's consolidated balance sheet or income statement. As a result of this change there was a reduction in future life policyholders' benefits, and an increase in reserves for unit-linked contracts. The reduction in future life policyholders' benefits is set out in note 4.

The Group transferred certain liabilities between Reserves for losses and loss adjustment expenses and future life policyholders' benefits for an amount of USD 48 million. The reclassification was prospectively recognized in 2014 as the reclassification has no impact on the Group's consolidated balance sheet or income statement. The reclassifications between reserves for losses and loss adjustment expenses and future life policyholders' benefits are set out in note 4.

The Group has revised the consolidated statement of cash flows to present certain short term purchases and sales net, which were previously presented as gross purchases and gross sales. This resulted in no changes to net cash provided by operating activities. Prior periods have been revised to reflect this change. Further, the Group identified that cash disbursements for certain intangible assets amounting to USD 188 million for the six months ended June 30, 2013 had been erroneously classified within operating activities. These have been reclassified to investing activities.

Consolidated financial statements (unaudited) *continued*

2. Acquisitions and divestments

Transactions in 2014

Acquisitions

On May 20, 2014, the Group signed an agreement with Banco de Sabadell S.A. (Banco Sabadell) in Spain to extend the existing cooperation entered into during 2008. This involved the signing of an agreement to acquire effectively a 50.0 percent stake in Mediterráneo Seguros Diversos, S.A. (MSD), a non-life insurance company incorporated in Spain. The upfront purchase price for the 50.0 percent stake, including an exclusive long-term non-life distribution agreement, amounts to approximately USD 55 million, payable on closing, and is subject to a post-closing price adjustment. Further, uncapped earn-out payments based on future volume and profitability were agreed. Subject to approval by the relevant authorities and other conditions being fulfilled, the acquisition is expected to close in the fourth quarter of 2014.

On May 28, 2014, the Group increased its shareholding in Deutscher Herold AG to 100 percent. This increase was a result of the non-controlling shareholder exercising its put option right over 15.17 percent and the Group exercising its call option right over 5.0 percent. The total consideration amounted to USD 413 million, of which USD 311 million for 15.17 percent were previously recorded on the balance sheet as a put option liability.

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 103 million (initially USD 100 million) and total liabilities of USD 48 million (initially USD 49 million), was classified as held for sale.

3. Investments

Group investments are those for which the Group bears part or all of the investment risk. They also include investments related to investment contracts with discretionary participation features.

Net investment result for Group investments	in USD millions, for the six months ended June 30		Net capital gains/(losses) on investments and impairments		Net investment result		of which impairments	
	Net investment income							
	2014	2013	2014	2013	2014	2013	2014	2013
Cash and cash equivalents	18	17	–	–	19	16	–	–
Equity securities	189	162	362	390	551	553	(9)	(44)
Debt securities	2,401	2,410	664	15	3,065	2,425	2	1
Real estate held for investment	252	240	(5)	37	248	277	–	–
Mortgage loans	173	193	(11)	(44)	162	149	(11)	(44)
Other loans	307	282	62	165	368	447	–	–
Investments in associates and joint ventures	8	5	37	1	44	6	(2)	–
Derivative financial instruments ¹	–	–	44	(429)	44	(429)	–	–
Investment result, gross, for Group investments	3,348	3,310	1,152	135	4,500	3,445	(20)	(88)
Investment expenses for Group investments	(132)	(122)	–	–	(132)	(122)	–	–
Investment result, net, for Group investments	3,217	3,187	1,152	135	4,369	3,323	(20)	(88)

¹ Net capital losses on derivatives attributable to cash flow hedge ineffectiveness amounted to USD 2 million and USD 4 million for the six months ended June 30, 2014 and 2013, respectively.

Rental operating expenses for real estate held for investment included in investment expenses for Group investments amounted to USD 49 million and USD 55 million for the six months ended June 30, 2014 and 2013, respectively.

Details of Group investments by category	as of	06/30/14		12/31/13	
		USD millions	% of total	USD millions	% of total
Cash and cash equivalents		8,227	3.8	7,181	3.5
Equity securities:					
Fair value through profit or loss		3,679	1.7	3,425	1.7
Available-for-sale		12,445	5.8	9,758	4.7
Total equity securities		16,124	7.5	13,183	6.4
Debt securities:					
Fair value through profit or loss		7,455	3.5	7,121	3.4
Available-for-sale		148,815	69.3	144,723	69.8
Held-to-maturity		4,516	2.1	4,613	2.2
Total debt securities		160,785	74.9	156,456	75.5
Real estate held for investment		8,904	4.1	8,745	4.2
Mortgage loans		9,197	4.3	9,798	4.7
Other loans		11,432	5.3	11,789	5.7
Investments in associates and joint ventures		74	0.0	129	0.1
Total Group investments		214,743	100.0	207,280	100.0

Consolidated financial statements (unaudited) *continued*

Investments (including cash and cash equivalents) with a carrying value of USD 6,212 million and USD 5,853 million were held to meet local regulatory requirements as of June 30, 2014 and December 31, 2013, respectively.

Table 3.3

Net unrealized gains/(losses) on Group investments included in equity	in USD millions, as of	Total	
		06/30/14	12/31/13
Equity securities: available-for-sale		1,608	1,427
Debt securities: available-for-sale		9,808	4,431
Other		250	130
Gross unrealized gains/(losses) on Group investments		11,665	5,988
Less amount of unrealized gains/(losses) on investments attributable to:			
Life policyholder dividends and other policyholder liabilities		(5,916)	(2,948)
Life deferred acquisition costs and present value of future profits		(765)	(460)
Deferred income taxes		(1,266)	(738)
Non-controlling interests		(36)	(6)
Total¹		3,683	1,835

¹ Net unrealized gains/(losses) included net gains arising on cash flow hedges of USD 205 million and USD 106 million as of June 30, 2014 and December 31, 2013, respectively.

Securities under security lending and repurchase agreements

As of June 30, 2014 and December 31, 2013, respectively, investments included USD 9,418 million and USD 9,947 million of loaned securities. These loaned securities were mainly debt securities. Liabilities for cash collateral received for securities lending comprised USD 408 million and USD 332 million as of June 30, 2014 and December 31, 2013, respectively. Non-cash collateral received for loaned securities comprised mainly equity and debt securities, and amounted to USD 9,761 million and USD 10,474 million as of June 30, 2014 and December 31, 2013, respectively. The Group has the right to sell or repledge the majority of the collateral in the absence of default by the owner of the collateral.

As of June 30, 2014 and December 31, 2013, respectively, debt securities with a carrying value of USD 1,657 million and USD 1,694 million have been sold to financial institutions under repurchase agreements. These securities continue to be recognized as investments in the Group's consolidated balance sheets. Obligations to repurchase these securities amounted to USD 1,653 million and USD 1,685 million as of June 30, 2014 and December 31, 2013, respectively.

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

As of June 30, 2014 and December 31, 2013, respectively, securities with a carrying value of USD 521 million and USD 681 million have been purchased from financial institutions under short-term reverse sale and repurchase agreements. Receivables under these agreements have been recognized in the Group's consolidated balance sheets and amounted to USD 513 million and USD 678 million as of June 30, 2014 and December 31, 2013, respectively.

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

Table 4.1

Reserves for insurance contracts	in USD millions, as of					
	Gross		Ceded		Net	
	06/30/14	12/31/13	06/30/14	12/31/13	06/30/14	12/31/13
Reserves for losses and loss adjustment expenses	68,314	68,312	(10,435)	(10,993)	57,879	57,319
Reserves for unearned premiums	19,873	17,616	(2,843)	(2,576)	17,030	15,040
Future life policyholders' benefits	85,429	84,476	(2,572)	(2,501)	82,857	81,975
Policyholders' contract deposits and other funds	22,964	20,162	(2,012)	(2,036)	20,952	18,126
Reserves for unit-linked contracts	77,449	74,873	–	–	77,449	74,873
Total reserves for insurance contracts¹	274,029	265,440	(17,863)	(18,107)	256,166	247,333

¹ The total reserves for insurance contracts ceded are gross of allowances for uncollectible amounts of USD 128 million and USD 129 million as of June 30, 2014 and December 31, 2013, respectively.

Table 4.2

Development of reserves for losses and loss adjustment expenses	in USD millions					
	Gross		Ceded		Net	
	2014	2013	2014	2013	2014	2013
As of January 1	68,312	69,986	(10,993)	(12,601)	57,319	57,385
Losses and loss adjustment expenses incurred:						
Current year	12,722	13,308	(1,353)	(1,586)	11,369	11,722
Prior years	(322)	(485)	249	167	(73)	(318)
Total incurred	12,400	12,822	(1,104)	(1,419)	11,296	11,404
Losses and loss adjustment expenses paid:						
Current year	(3,686)	(3,706)	209	231	(3,477)	(3,475)
Prior years	(9,012)	(10,331)	1,464	2,006	(7,548)	(8,325)
Total paid	(12,698)	(14,037)	1,673	2,238	(11,025)	(11,799)
Acquisitions/(divestments) and transfers ¹	49	–	2	–	51	–
Foreign currency translation effects	251	(1,524)	(13)	168	238	(1,355)
As of June 30	68,314	67,248	(10,435)	(11,613)	57,879	55,634

¹ The 2014 net movement includes USD 48 million reclassified from future life policyholders' benefits (see note 1).

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

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

The increase of USD 560 million during the first six months of 2014 in net reserves for losses and loss adjustment expenses is mostly driven by an increase in foreign currency translation effects of USD 238 million. Favorable reserve development arising from reserves established in prior years amounted to USD 73 million for the first six months of 2014, in part due to favorable releases in Switzerland and UK partly offset by increases in Global Corporate.

The decrease of USD 1,751 million during the first six months of 2013 in net reserves for losses and loss adjustment expenses is mostly driven by the foreign currency translation effects of USD 1,355 million. Favorable reserve development emerging from reserves established in prior years amounted to USD 318 million for the first six months of 2013, primarily due to favorable releases from large claims and motor liability.

Consolidated financial statements (unaudited) *continued*

Table 4.3

Development of future life policyholders' benefits	in USD millions	Gross		Ceded		Net	
		2014	2013	2014	2013	2014	2013
		As of January 1	84,476	83,807	(2,501)	(2,507)	81,975
Premiums ²	5,735	4,463	(300)	(267)	5,435	4,196	
Claims	(4,994)	(4,478)	246	211	(4,748)	(4,267)	
Fee income and other expenses ²	(2,005)	(1,047)	74	64	(1,930)	(983)	
Interest and bonuses credited to policyholders	1,623	987	(64)	7	1,559	994	
Changes in assumptions	76	(182)	(2)	11	74	(171)	
Acquisitions/(divestments) and transfers ¹	(100)	–	–	–	(100)	–	
(Decreases)/increases recorded in other comprehensive income	480	(165)	–	–	480	(165)	
Foreign currency translation effects	137	(1,968)	(25)	63	112	(1,906)	
As of June 30	85,429	81,418	(2,572)	(2,420)	82,857	78,998	

¹ The 2014 net movement relates to USD (52) million reclassified to reserves for unit-linked contracts and USD (48) million reclassified to reserves for losses and loss adjustment expenses (see note 1).

² In 2013, premiums were shown net of the change in reserves for unearned premiums. In 2014, premiums represent premiums received, while the amortization of unearned premiums (USD 1.1 billion) is included within fee income and other expenses.

Table 4.4

Policyholders' contract deposits and other funds gross	in USD millions, as of	06/30/14	12/31/13
		Universal life and other contracts	13,124
Policyholder dividends		9,840	7,329
Total		22,964	20,162

Table 4.5

Development of policyholders' contract deposits and other funds	in USD millions	Gross		Ceded		Net	
		2014	2013	2014	2013	2014	2013
		As of January 1	20,162	20,024	(2,036)	(2,106)	18,126
Premiums	751	698	(25)	(33)	727	665	
Claims	(705)	(678)	89	122	(616)	(557)	
Fee income and other expenses	(161)	(151)	(2)	(4)	(163)	(156)	
Interest and bonuses credited to policyholders	758	804	(38)	(39)	720	765	
(Decrease)/increase recorded in other comprehensive income	2,190	(1,006)	–	–	2,190	(1,006)	
Foreign currency translation effects	(32)	(269)	–	–	(32)	(269)	
As of June 30	22,964	19,421	(2,012)	(2,062)	20,952	17,359	

5. Policyholder dividends and participation in profits

Table 5			
in USD millions, for the six months ended June 30			
		2014	2013
Policyholder dividends and participation in profits	Change in policyholders' contract deposits and other funds	803	730
	Change in reserves for unit-linked products	2,457	2,540
	Change in liabilities for investment contracts – unit-linked	1,983	3,129
	Change in liabilities for investment contracts – other	127	99
	Change in unit-linked liabilities related to UK capital gains tax	(52)	(181)
	Total policyholder dividends and participation in profits		5,318

Consolidated financial statements (unaudited) *continued*

6. Deferred policy acquisition costs and deferred origination costs

Table 6.1

Development of deferred policy acquisition costs	in USD millions		General Insurance		Global Life		Other segments ¹		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	As of January 1	3,794	3,543	14,606	14,466	323	337	18,724	18,346	
Acquisition costs deferred	1,788	1,848	1,053	1,152	407	420	3,248	3,420		
Amortization	(1,516)	(1,581)	(917)	(814)	(409)	(425)	(2,842)	(2,820)		
Impairments	–	–	(1)	(19)	–	–	(1)	(19)		
Amortization (charged)/ credited to other comprehensive income	–	–	(268)	183	–	–	(268)	183		
Foreign currency translation effects	25	(109)	196	(600)	–	–	221	(708)		
As of June 30	4,090	3,701	14,670	14,368	321	332	19,082	18,401		

¹ Net of eliminations from inter-segment transactions.

As of June 30, 2014, December 31, 2013 and June 30, 2013, deferred policy acquisition costs relating to non-controlling interests were USD 468 million, USD 614 million and USD 596 million, respectively.

Table 6.2

Development of deferred origination costs	in USD millions	
	2014	2013
As of January 1	724	770
Origination costs deferred	32	34
Amortization	(64)	(58)
Foreign currency translation effects	13	(38)
As of June 30	705	708

7. Goodwill and other intangible assets

Table 7.1

Intangible assets –
current period

in USD millions							
	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other	Total
Gross carrying value as of January 1, 2014	2,190	2,918	4,364	1,025	4,720	226	15,443
Less: accumulated amortization/impairments	(338)	(2,189)	(811)	–	(3,080)	(145)	(6,563)
Net carrying value as of January 1, 2014	1,852	729	3,553	1,025	1,640	81	8,880
Additions and transfers	–	–	206	–	174	–	380
Amortization	–	(14)	(94)	–	(195)	(5)	(308)
Amortization charged to other comprehensive income	–	(38)	–	–	–	–	(38)
Impairments	(59)	–	–	–	(58)	–	(117)
Foreign currency translation effects	12	3	19	–	11	1	47
Net carrying value as of June 30, 2014	1,805	680	3,683	1,025	1,572	77	8,844
Plus: accumulated amortization/impairments	388	2,274	906	–	3,265	149	6,983
Gross carrying value as of June 30, 2014	2,193	2,954	4,589	1,025	4,837	227	15,827

As of June 30, 2014, intangible assets relating to non-controlling interests were USD 149 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1,718 million for distribution agreements and USD 13 million for software.

The Group extended the long-term distribution agreements with Banco de Sabadell S.A. (Banco Sabadell) in Spain to sell life and pension products across Banco Sabadell's extended network, resulting in an addition to distribution agreements of USD 184 million, of which 50 percent was funded by Banco Sabadell. An additional USD 22 million related to new distribution agreements entered into by General Insurance operations in Brazil.

Following a review of a subsidiary in Global Life, the Group reassessed the recoverability of the goodwill and concluded that USD 59 million was impaired.

Following a review, software was identified, primarily in Global Life, which was not utilized as originally expected, resulting in USD 58 million of impairments.

Table 7.2

Intangible assets
by segment –
current period

in USD millions, as of June 30, 2014							
	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other	Total
General Insurance	597	–	690	–	609	68	1,965
Global Life	388	680	2,994	–	406	10	4,477
Farmers	819	–	–	1,025	335	–	2,179
Other Operating Businesses	–	–	–	–	223	–	223
Net carrying value as of June 30, 2014	1,805	680	3,683	1,025	1,572	77	8,844

Consolidated financial statements (unaudited) *continued*

Table 7.3

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, 2013	2,239	2,890	4,435	1,025	4,418	219	15,226
Less: accumulated amortization/impairments	(132)	(2,047)	(620)	–	(2,747)	(125)	(5,671)
Net carrying value as of January 1, 2013	2,107	844	3,815	1,025	1,670	94	9,555
Additions and transfers	–	–	13	–	155	–	168
Divestments and transfers	–	–	–	–	–	–	–
Amortization	–	(68)	(95)	–	(188)	(5)	(355)
Amortization charged to other comprehensive income	–	18	–	–	–	–	18
Impairments	–	–	–	–	(21)	(1)	(22)
Foreign currency translation effects	(61)	(23)	(127)	–	(50)	(5)	(266)
Net carrying value as of June 30, 2013	2,046	771	3,606	1,025	1,566	83	9,098
Plus: accumulated amortization/impairments	125	2,014	758	–	2,847	127	5,871
Gross carrying value as of June 30, 2013	2,170	2,786	4,365	1,025	4,413	209	14,968

As of June 30, 2013, intangible assets relating to non-controlling interests were USD 176 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1,690 million for distribution agreements and USD 10 million for software.

New distribution agreements in Global Life operations in the Middle East and in General Insurance operations in Brazil, to gain access to the mass consumer market, resulted in additions of USD 13 million.

A review of existing IT platforms in General Insurance in Latin America identified software, which was not utilized as originally expected, resulting in a USD 21 million impairment.

Table 7.4

Intangible assets by segment – prior period	in USD millions, as of December 31, 2013						
	Goodwill	PVFP	Distribution agreements	Attorney- in-fact relationships	Software	Other	Total
General Insurance	588	–	683	–	616	70	1,956
Global Life	445	729	2,870	–	413	11	4,468
Farmers	819	–	–	1,025	343	–	2,187
Other Operating Businesses	–	–	–	–	268	–	268
Net carrying value as of December 31, 2013	1,852	729	3,553	1,025	1,640	81	8,880

8. Restructuring provisions

Table 8			
Restructuring provisions	in USD millions		
		2014	2013
	As of January 1	188	297
	Provisions made during the period	45	33
	Increase of provisions set up in prior years	17	2
	Provisions used during the period	(63)	(80)
	Provisions reversed during the period	(4)	(3)
	Foreign currency translation effects	2	(5)
	Other changes	–	–
	As of June 30	184	244

During the six months ended June 30, 2014, restructuring programs with estimated costs of USD 45 million for the current year impacted mainly Other Operating Businesses, Global Life in the UK as well as General Insurance in the UK. This included USD 37 million relating to the Group's strategic initiative for organizational alignment to reduce complexity and cost while enhancing agility. USD 13 million related to net increases of provisions for restructuring which were initiated in prior years.

During the six months ended June 30, 2013, the restructuring programs primarily impacted Global Life in the UK with estimated costs of USD 33 million for restructuring announced in that year. USD 1 million related to net decreases of provisions for restructuring which were initiated in prior years.

Consolidated financial statements (unaudited) *continued*

9. Income taxes

Table 9.1

in USD millions, for the six months ended June 30		2014	2013
Income tax expense – current/deferred split	Current	928	771
	Deferred	(104)	(27)
	Total income tax expense	824	744

Table 9.2

in USD millions, for the six months ended June 30		Rate	2014	Rate	2013
Expected and actual income tax expense	Net income before income taxes		3,055		2,752
	less: income tax (expense)/benefit attributable to policyholders		21		(147)
	Net income before income taxes attributable to shareholders		3,076		2,605
	Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%	677	22.0%	573
	Increase/(reduction) in taxes resulting from:				
	<i>Tax rate differential in foreign jurisdictions</i>		139		61
	<i>Tax exempt and lower taxed income</i>		(22)		(44)
	<i>Non-deductible expenses</i>		37		47
	<i>Tax losses previously unrecognized or no longer recognized</i>		(2)		(1)
	<i>Prior year adjustments and other</i>		16		(39)
	Actual income tax expense attributable to shareholders	27.5%	846	22.9%	596
	plus: income tax expense/(benefit) attributable to policyholders		(21)		147
	Actual income tax expense	27.0%	824	27.0%	744

Table 9.2 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.

The increase in the actual income tax rate attributable to shareholders reflects the anticipated loss relating to the sale of the Group's retail business in Russia, which will not attract tax relief.

10. Senior and subordinated debt

Table 10

Indebtedness	in USD millions, as of	Senior debt		Subordinated debt		Total	
		06/30/14	12/31/13	06/30/14	12/31/13	06/30/14	12/31/13
Operational debt ¹		72	72	28	28	100	100
Financial debt		5,976	5,972	6,554	6,314	12,530	12,286
Total		6,048	6,044	6,582	6,342	12,630	12,386

¹ Relates to non-recourse debt.

None of the debt instruments were in default as of June 30, 2014 or December 31, 2013.

i) Senior debt

No senior debt instruments were issued in the six months ended June 30, 2014. The increase was primarily due to the translation effects of the U.S. dollar against the currencies in which the notes were issued, partially offset by the early repayment of USD 55 million of the 7.5% EUR 152 million loan due December 2035, issued by Zurich Santander Insurance America S.L.

ii) Subordinated debt

The increase was mainly the result of the issue of 2.75% CHF 200 million perpetual capital notes in June 2014 by Zurich Insurance Company Ltd under the Group's Euro Medium Term Note Programme. A further increase was due to the translation effects of the U.S. dollar against the currencies in which the notes were issued.

Consolidated financial statements (unaudited) *continued*

11. Commitments and contingencies, legal proceedings and regulatory investigations

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

Table 11

	in USD millions, as of	06/30/14	12/31/13
Quantifiable commitments and contingencies	Remaining commitments under investment agreements	864	685
	Guarantees and letters of credit ¹	10,610	10,283
	Future operating lease commitments	1,498	884
	Undrawn loan commitments	5	8
	Other commitments and contingent liabilities	72	72

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

Legal proceedings and regulatory investigations

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

An action entitled Fuller-Austin Asbestos Settlement Trust, et al. v. Zurich American Insurance Company (ZAIC), et al., was filed in May 2004 in the Superior Court for San Francisco County, California. Three other similar actions were filed in 2004 and 2005 and have been coordinated with the Fuller-Austin action (collectively, the Fuller-Austin Case). In addition to ZAIC and four of its insurance company subsidiaries, Zurich Insurance Company Ltd and Orange Stone Reinsurance Dublin (Orange Stone) are named as defendants. The plaintiffs, who are historical policyholders of the Home Insurance Company (Home), plead claims for, inter alia, fraudulent transfer, tortious interference, unfair competition, 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 (Phase 1). The Phase 1 trial commenced on November 1, 2010. Closing arguments were heard on February 22 and 23, 2012.

The court issued its Statement of Decision for Phase 1 on December 27, 2013. While the court found that the plaintiffs had established that Home transferred certain assets to one of the defendants in connection with the 1995 recapitalization transaction, it held that the 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 the plaintiffs' fraudulent transfer claims. In addition, the court accepted the defendants' arguments that the findings made by the regulators in approving the recapitalization transaction are binding on the plaintiffs in the Fuller-Austin Case.

On March 6, 2014, the court held a hearing to consider the effect of the initial decision on the plaintiffs' remaining claims. On July 21, 2014, the court issued a Tentative Statement of Decision for Phase 1A. The court ruled that all of the plaintiffs' fraudulent transfer causes of action were barred, and asked the plaintiffs to confirm on the record their concession that their unfair competition claims were also barred. The court allowed the plaintiffs' remaining claims to proceed, but held that the plaintiffs are bound by the insurance regulators' determinations that the 1995 recapitalization was fair and in the best interests of Home's policyholders, including the plaintiffs. The court scheduled a conference to finalize the statement of decision and address next steps in the litigation. The Group maintains that the Fuller-Austin Case is without merit and intends to continue to defend itself vigorously.

While the Group believes that it is not a party to, nor are any of its subsidiaries the subject of, any unresolved current legal proceedings, claims, litigation and investigations that will have a material adverse effect on the Group's consolidated financial condition, proceedings are inherently unpredictable, and it is possible that the outcome of any proceeding could have a material impact on results of operations in the particular reporting period in which it is resolved.

Consolidated financial statements (unaudited) *continued*

12. Fair value of financial assets and financial liabilities

This note excludes financial assets and financial liabilities relating to unit-linked contracts. Table 12.1 compares the fair value of financial assets and financial liabilities with their carrying value. Certain financial instruments are not included within this table 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.

in USD millions, as of	Total fair value		Total carrying value	
	06/30/14	12/31/13	06/30/14	12/31/13
Available-for-sale securities				
Equity securities	12,445	9,758	12,445	9,758
Debt securities	148,815	144,723	148,815	144,723
Total available-for-sale securities	161,260	154,481	161,260	154,481
Fair value through profit or loss securities				
Equity securities	3,679	3,425	3,679	3,425
Debt securities	7,455	7,121	7,455	7,121
Total fair value through profit or loss securities	11,134	10,546	11,134	10,546
Derivative assets	1,178	1,142	1,178	1,142
Held-to-maturity debt securities	5,229	5,172	4,516	4,613
Investments in associates and joint ventures	74	129	74	129
Mortgage loans	9,828	10,326	9,197	9,798
Other loans	13,456	13,365	11,432	11,789
Total financial assets	202,158	195,159	198,790	192,496
Derivative liabilities	(320)	(729)	(320)	(729)
Financial liabilities held at amortized cost				
Liabilities related to investment contracts	(1,154)	(1,163)	(991)	(1,030)
Liabilities related to investment contracts with DPF	(6,541)	(6,241)	(7,220)	(6,614)
Senior debt	(6,316)	(6,340)	(6,048)	(6,044)
Subordinated debt	(7,268)	(6,821)	(6,582)	(6,342)
Total financial liabilities held at amortized cost	(21,279)	(20,565)	(20,840)	(20,030)
Total financial liabilities	(21,599)	(21,294)	(21,161)	(20,759)

Recurring fair value measurements of financial assets and financial liabilities

in USD millions, as of June 30, 2014	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Equity securities	11,110	335	1,000	12,445
Debt securities	848	145,232	2,735	148,815
Total available-for-sale securities	11,958	145,567	3,735	161,260
Fair value through profit or loss securities				
Equity securities	1,091	292	2,297	3,679
Debt securities	1	7,232	221	7,455
Total fair value through profit or loss securities	1,091	7,524	2,518	11,134
Derivative assets	1	1,094	82	1,178
Total	13,050	154,186	6,335	173,571
Derivative liabilities	(8)	(240)	(72)	(320)
Total	(8)	(240)	(72)	(320)

For the six months ended June 30, 2014, no material transfers between level 1 and level 2 occurred.

in USD millions, as of December 31, 2013		Level 1	Level 2	Level 3	Total
Fair value hierarchy – prior period	Available-for-sale securities				
	Equity securities	8,420	338	1,000	9,758
	Debt securities	122	141,827	2,775	144,723
	Total available-for-sale securities	8,542	142,164	3,774	154,481
	Fair value through profit or loss securities				
	Equity securities	1,006	245	2,175	3,425
	Debt securities	66	6,836	219	7,121
	Total fair value through profit or loss securities	1,072	7,080	2,394	10,546
	Derivative assets	1	1,046	95	1,142
	Total	9,615	150,291	6,263	166,168
	Derivative liabilities	(22)	(637)	(70)	(729)
	Total	(22)	(637)	(70)	(729)

For the year ended December 31, 2013, no material transfers between level 1 and level 2 occurred.

in USD millions		Available-for-sale securities		Fair value through profit or loss securities		Derivative assets	Derivative liabilities
		Equity securities	Debt securities	Equity securities	Debt securities		
Development of assets and liabilities classified within level 3 – current period	As of January 1, 2014	1,000	2,775	2,175	219	95	(70)
	Realized gains/(losses) recognized in income ¹	23	12	7	–	–	–
	Unrealized gains/(losses) recognized in income ^{1,2}	(1)	(19)	85	8	(13)	(1)
	Unrealized gains/(losses) recognized in other comprehensive income	31	33	–	–	–	–
	Purchases	67	451	213	13	–	–
	Settlements/sales/redemptions	(125)	(452)	(193)	(29)	–	–
	Transfers into level 3	3	–	–	5	–	–
	Transfers out of level 3	–	(87)	–	–	–	–
	Foreign currency translation effects	3	23	9	5	1	–
	As of June 30, 2014	1,000	2,735	2,297	221	82	(72)

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 six months ended June 30, 2014, the Group transferred USD 87 million of available-for-sale debt securities out of level 3 into level 2. The transfers were mainly the result of lower price volatility and credit rating upgrades of certain asset-backed securities, resulting in an increase of market activity in the instruments.

Consolidated financial statements (unaudited) *continued*

Table 12.3b

Development of assets and liabilities classified within level 3 – prior period	Available-for-sale securities		Fair value through profit or loss securities		Derivative assets	Derivative liabilities
	Equity securities	Debt securities	Equity securities	Debt securities		
in USD millions						
As of January 1, 2013	966	2,789	1,670	246	170	(110)
Realized gains/(losses) recognized in income ¹	16	23	(3)	(1)	–	–
Unrealized gains/(losses) recognized in income ^{1,2}	(1)	(2)	134	2	(11)	(11)
Unrealized gains/(losses) recognized in other comprehensive income	55	(34)	–	–	–	–
Purchases	68	496	743	–	–	–
Settlements/sales/redemptions	(92)	(641)	(641)	(21)	–	–
Transfers into level 3	–	59	–	–	–	–
Transfers out of level 3	–	(5)	–	–	–	–
Foreign currency translation effects	(14)	(57)	(18)	(12)	(1)	–
As of June 30, 2013	999	2,629	1,885	214	157	(121)

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 securities at fair value through profit or loss relate to net capital gains/(losses) and impairments.

For the six months ended June 30, 2013, the Group transferred USD 59 million of available-for-sale debt securities into level 3 from level 2. 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.

Non-recurring fair value measurements of financial assets and financial liabilities

The Group has valued USD 597 million and USD 691 million of mortgage loans at fair value on a non-recurring basis as of June 30, 2014 and December 31, 2013, respectively. These are classified within level 3 as the fair value measurement is based on internal pricing models, using significant unobservable inputs.

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

Within level 3, the Group classified asset-backed securities (ABSs) amounting to USD 2,956 million and USD 2,843 million as of June 30, 2014 and 2013, respectively. These ABSs include non-agency backed securities for which limited observable market activity required the Group's external pricing providers to make internal valuation assumptions. To determine the fair value of these investments, pricing providers use valuation models that are based on an expected present value technique.

Within level 3, the Group also classified investments in private equity funds, certain hedge funds and other securities which are not quoted on an exchange amounting to USD 3,297 million and USD 2,884 million as of June 30, 2014 and 2013, respectively. These investments are valued based on regular reports from the issuing funds, and their fair values are reviewed by a team of in-house investment professionals and may be adjusted based on their understanding of the circumstances of individual investments.

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 tables 12.4a and 12.4b. While these tables illustrate the overall effect of changing the values of 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 tables 12.5a and 12.5b. The correlation is based on the historical correlation matrix derived from the risk factors which are assigned to each of the level 3 exposures (equity and debt securities). The main market drivers are equity markets and rate indicators and the impact of such changes on the other factors. The spread scenario has been added to analyze the impact of an increase of borrowing cost for entities.

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

Table 12.4a

Sensitivity analysis of level 3 investments to changes in key assumptions – current period		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)
as of June 30, 2014					
Key assumptions					
Equity levels		-20%	(659)	+20%	659
Discount rates		+20%	(71)	-20%	72
Spread rates		+20%	(60)	-20%	60
Prepayment rates		-20%	1	+20%	(2)

Table 12.4b

Sensitivity analysis of level 3 investments to changes in key assumptions – prior period		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)
as of June 30, 2013					
Key assumptions					
Equity levels		-20%	(559)	+20%	559
Discount rates		+20%	(65)	-20%	66
Spread rates		+20%	(59)	-20%	59
Prepayment rates		-20%	(2)	+20%	2

Table 12.5a

Inter-relationship analysis of level 3 investments to changes in key assumptions – current period		Key assumptions				Increase/decrease in reported fair value (in USD millions)
		Equity Levels	Discount Rates	Spread rates	Prepayment rates	
as of June 30, 2014						
Scenarios						
Equity levels +10%		+10.0%	-1.5%	-1.5%	-1.5%	278
Equity levels -10%		-10.0%	+1.6%	+1.6%	+1.6%	(278)
Discount rates +10%		0.0%	+10.0%	+15.0%	-2.0%	(76)
Discount rates -10%		0.0%	-10.0%	-7.5%	+2.0%	67
Spread rates +10%		0.0%	+7.0%	+10.0%	+0.2%	(54)

Table 12.5b

Inter-relationship analysis of level 3 investments to changes in key assumptions – prior period		Key assumptions				Increase/decrease in reported fair value (in USD millions)
		Equity Levels	Discount Rates	Spread rates	Prepayment rates	
as of June 30, 2013						
Scenarios						
Equity levels +10%		+10.0%	+1.4%	+1.3%	+1.3%	279
Equity levels -10%		-10.0%	-1.5%	-1.5%	-1.5%	(278)
Discount rates +10%		0.0%	+10.0%	+15.0%	-2.0%	(76)
Discount rates -10%		0.0%	-10.0%	-7.5%	+2.0%	64
Spread rates +10%		+0.1%	+7.0%	+10.0%	+0.2%	(53)

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13. Segment Information

Table 13.1

Business operating profit by business segment

in USD millions, for the six months ended June 30

	General Insurance		Global Life	
	2014	2013	2014	2013
Revenues				
Direct written premiums ¹	19,009	18,702	5,754	5,730
Assumed written premiums	986	1,068	112	52
Gross Written Premiums	19,995	19,770	5,865	5,782
Policy fees	–	–	1,273	1,150
Gross written premiums and policy fees	19,995	19,770	7,139	6,931
Less premiums ceded to reinsurers	(3,009)	(3,314)	(302)	(348)
Net written premiums and policy fees	16,986	16,456	6,837	6,583
Net change in reserves for unearned premiums	(1,996)	(1,993)	(1)	(250)
Net earned premiums and policy fees	14,990	14,464	6,835	6,334
Farmers management fees and other related revenues	–	–	–	–
Net investment result on Group investments	1,173	1,182	2,342	2,240
Net investment income on Group investments	1,113	1,127	1,981	1,990
Net capital gains/(losses) and impairments on Group investments	60	55	361	249
Net investment result on unit-linked investments	–	–	4,118	5,805
Other income	401	437	592	549
Total BOP revenues	16,563	16,082	13,888	14,928
<i>of which: inter-segment revenues</i>	<i>(178)</i>	<i>(184)</i>	<i>(199)</i>	<i>(174)</i>
Benefits, losses and expenses				
Insurance benefits and losses, net ¹	9,909	9,914	5,069	4,493
Losses and loss adjustment expenses, net	9,907	9,915	–	–
Life insurance death and other benefits, net ¹	2	(1)	5,069	4,493
Policyholder dividends and participation in profits, net	1	2	4,944	6,496
Income tax expense/(benefit) attributable to policyholders	–	–	(21)	147
Underwriting and policy acquisition costs, net	2,962	2,790	1,502	1,359
Administrative and other operating expense (excl. depreciation/amortization)	1,845	1,744	1,316	1,210
Interest credited to policyholders and other interest	19	14	208	248
Restructuring provisions and other items not included in BOP	(79)	(15)	(118)	(41)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	14,657	14,448	12,900	13,912
Business operating profit (before interest, depreciation and amortization)	1,906	1,634	988	1,016
Depreciation and impairments of property and equipment	42	43	15	15
Amortization and impairments of intangible assets	103	102	218	196
Interest expense on debt	59	74	9	11
Business operating profit before non-controlling interests	1,702	1,415	745	794
Non-controlling interests	50	46	111	135
Business operating profit	1,652	1,369	634	659

¹ Global Life included approximately USD 383 million and USD 234 million of gross written premiums and future life policyholders' benefits for certain universal life-type contracts in the Group's Spanish operations for the six months ended June 30, 2014 and 2013, respectively (see note 3 of the Consolidated financial statements 2013).

	Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	–	–	–	–	45	57	–	–	24,808	24,489
	1,960	2,034	21	62	50	46	(63)	(95)	3,066	3,166
	1,960	2,034	21	62	95	102	(63)	(95)	27,874	27,654
	–	–	–	–	166	127	–	–	1,439	1,277
	1,960	2,034	21	62	262	230	(63)	(95)	29,314	28,932
	–	–	(26)	(25)	(9)	(22)	63	95	(3,283)	(3,613)
	1,960	2,034	(5)	37	253	208	–	–	26,030	25,319
	9	19	–	–	–	–	–	–	(1,989)	(2,223)
	1,969	2,053	(5)	37	253	208	–	–	24,042	23,095
	1,391	1,408	–	–	–	–	–	–	1,391	1,408
	36	54	163	167	406	(291)	(283)	(304)	3,837	3,047
	36	54	163	167	206	154	(283)	(304)	3,217	3,187
	–	–	–	–	200	(445)	–	–	621	(140)
	–	–	–	–	287	(169)	–	–	4,405	5,636
	56	37	404	381	10	55	(615)	(613)	849	846
	3,452	3,551	562	585	956	(197)	(898)	(917)	34,523	34,031
	(18)	(32)	(476)	(505)	(27)	(22)	898	917	–	–
	1,363	1,468	(9)	32	414	(138)	–	–	16,746	15,769
	1,363	1,468	(1)	–	27	17	–	3	11,296	11,404
	–	–	(8)	32	387	(155)	–	(3)	5,450	4,366
	–	–	–	–	374	(180)	–	–	5,318	6,318
	–	–	–	–	–	–	–	–	(21)	147
	617	644	–	–	3	4	(5)	(5)	5,080	4,792
	649	682	504	525	52	40	(595)	(581)	3,772	3,620
	–	–	2	2	76	47	(19)	(11)	285	299
	3	(6)	(23)	(70)	–	1	–	–	(217)	(131)
	2,632	2,788	475	489	919	(226)	(619)	(597)	30,963	30,814
	820	763	87	95	37	28	(279)	(320)	3,560	3,217
	23	24	3	7	–	–	–	–	85	90
	41	42	62	36	–	–	–	–	425	377
	–	–	481	513	6	11	(279)	(320)	277	290
	756	696	(460)	(461)	32	17	–	–	2,774	2,461
	–	–	(8)	(8)	1	–	–	–	153	173
	756	696	(452)	(453)	31	17	–	–	2,621	2,288

Consolidated financial statements (unaudited) *continued*

Table 13.2

in USD millions, for the six months ended June 30

Reconciliation of
BOP to net income
after income taxes

	General Insurance		Global Life	
	2014	2013	2014	2013
Business operating profit	1,652	1,369	634	659
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	266	252	257	34
Net gain/(loss) on divestments of businesses	–	–	–	–
Restructuring provisions	(9)	(5)	(29)	(21)
Net income/(expense) on intercompany loans	(6)	(6)	(1)	(1)
Impairment of goodwill	–	–	(59)	–
Change in estimate of earn-out liabilities	(19)	–	(14)	–
Other adjustments ¹	(45)	(5)	(15)	(19)
Add back:				
Business operating profit attributable to non-controlling interests	50	46	111	135
Net income before shareholders' taxes	1,888	1,652	884	787
Income tax expense/(benefit) attributable to policyholders	–	–	(21)	147
Net income before income taxes	1,888	1,652	863	935
Income tax expense				
attributable to policyholders				
attributable to shareholders				
Net income after taxes				
attributable to non-controlling interests				
attributable to shareholders				

¹ General Insurance includes real estate transfer tax of USD 41 million relating to the acquisition of non-controlling interests of Deutscher Herold AG for the six months ended June 30, 2014 (see note 2). Other Operating Businesses includes USD 77 million release of non-operational foreign exchange relating to the closure of a branch office for the six months ended June 30, 2013.

	Farmers		Other Operating Businesses		Non-Core Businesses		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	756	696	(452)	(453)	31	17	2,621	2,288
	9	-	-	(14)	-	3	532	276
	-	-	-	-	(13)	-	(13)	-
	1	(6)	(21)	1	-	-	(58)	(32)
	-	-	7	7	-	-	-	-
	-	-	-	-	-	-	(59)	-
	-	-	-	-	-	-	(33)	-
	2	-	(9)	(78)	-	1	(67)	(100)
	-	-	(8)	(8)	1	-	153	173
	768	690	(483)	(546)	19	21	3,076	2,605
	-	-	-	-	-	-	(21)	147
	768	690	(483)	(546)	19	21	3,055	2,752
							(824)	(744)
							21	(147)
							(846)	(596)
							2,231	2,008
							122	157
							2,109	1,851

Consolidated financial statements (unaudited) *continued*

14. Events after the balance sheet date

On July 2, 2014, the Group signed an agreement with OLMA Group (OLMA) under which OLMA will acquire the Group's General Insurance retail business in Russia. Subject to regulatory approvals, the transaction is expected to close in the third quarter 2014. The sales price amounts to RUB 1 billion (about USD 30 million) and is subject to a post-closing price adjustment. The transaction is estimated to generate a loss through net income of about USD 300 million.

On July 8, 2014, Zurich Insurance Company Ltd issued CHF 600 million of senior unsecured notes in three tranches. The transaction consisted of a CHF 150 million bond with a maturity of 12 years and an annual coupon of 1.50%, a CHF 250 million bond with a maturity of 6 years and an annual coupon of 0.625% and a CHF 200 million bond with a maturity of 23 months and a quarterly coupon of 3 month CHF Libor plus 0.16%. These notes were issued under the Group's Euro Medium Term Note Programme.

On July 15, 2014, the Group exercised its option to redeem the 12.0% EUR 143 million perpetual capital notes, which were issued under the Group's Euro Medium Term Note Programme in July 2009, at par plus accrued interest.

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Review report of the auditors

Review report of the auditors

To the Board of Directors of Zurich Insurance Group Ltd

Introduction

We have reviewed the accompanying unaudited Consolidated financial statements (consolidated income statement (unaudited), consolidated statement of comprehensive income (unaudited), consolidated balance sheet (unaudited), consolidated statement of cash flows (unaudited), consolidated statement of changes in equity (unaudited) and related notes on pages 21 to 56) of Zurich Insurance Group Ltd for the period ended June 30, 2014. The Board of Directors is responsible for the preparation and presentation of these unaudited Consolidated financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these unaudited Consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with Swiss Auditing Standard 910 and International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Swiss Auditing Standards and International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the unaudited Consolidated financial statements have not been prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers AG

Mark Humphreys
Audit expert
Auditor in charge

Stephen O'Hearn
Global relationship partner

Zurich, August 6, 2014

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Shareholder information

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Zurich Insurance Group Ltd registered share data

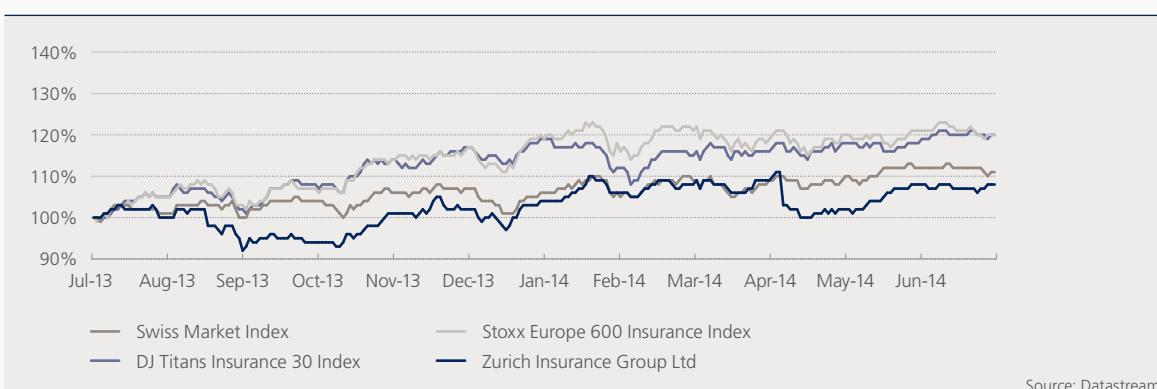
Key indicators	06/30/2014	06/30/2013
Number of shares issued	148,903,222	148,300,123
Number of dividend-bearing shares ¹	148,903,222	148,300,123
Market capitalization (in CHF millions at end of period)	39,802	36,334
Authorized capital, number of shares	10,000,000	10,000,000
Contingent capital, number of shares	12,392,037	12,995,136

¹ Treasury shares are not entitled to dividends.

Per share data	06/30/2014	06/30/2013
in CHF		
Gross dividend	17.00 ¹	17.00
Basic earnings per share	12.71	11.77
Diluted earnings per share	12.66	11.70
Book value per share, as of December 31	201.75	196.14
Nominal value per share	0.10	0.10
Price at end of period	267.30	245.00
Price period high	274.30	270.30
Price period low	247.10	234.50

¹ Gross dividend per registered share; payment date was from April 9, 2014.

Zurich share performance (indexed) over one year, ending June 2014



Shareholder information *continued*

Financial calendar

Results for the nine months to
September 30, 2014
November 6, 2014

Investor update
December 5, 2014

Annual results 2014
February 12, 2015

Annual General Meeting 2015
April 1, 2015

Results for the three months to
March 31, 2015
May 7, 2015

Investor day
May 21, 2015

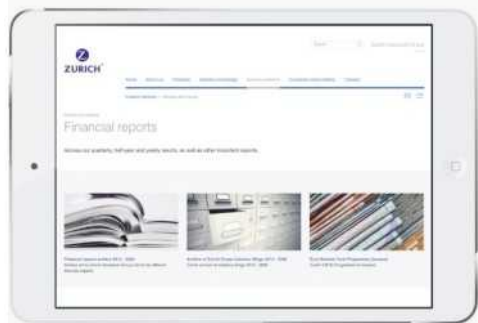
Half year results 2015
August 6, 2015

Results for the nine months to
September 30, 2015
November 5, 2015

Publications

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American Depositary Receipts

Zurich Insurance Group Ltd has an American Depositary Receipt program with The Bank of New York Mellon (BNYM). For information relating to an ADR account, please contact BNY Mellon's Shareowner Services in the USA on +1 888 BNY ADRS or outside the USA on +1 201 680 6825 or by email to shrrelations@bnymellon.com. General information on the company's ADR program can be obtained from The Bank of New York Mellon at www.adrbnymellon.com

Glossary

Group

Book value per share

is a measure that is calculated by dividing common shareholders' equity by the number of shares issued less the number of treasury shares.

Business operating profit (BOP)

is a measure that is the basis on which the Group manages all of its business units. It indicates the underlying performance of the Group's business units, after non-controlling interests, by eliminating the impact of financial market volatility and other non-operational variables. BOP reflects adjustments for shareholders' taxes, net capital gains on investments and impairments (except for the capital markets and property lending/banking operations included in Non-Core Businesses, investments in hedge funds, certain securities held for specific economic hedging purposes, and policyholders' share of investment results for the life businesses) and non-operational foreign exchange movements. Significant items arising from special circumstances, including restructuring charges, charges for litigation outside the ordinary course of business, gains and losses on divestments of businesses, impairments of goodwill and the change in estimates of earn-out liabilities (with the exception of experience adjustments, which remain within BOP) are also excluded from BOP. **Business operating profit before interest, depreciation and amortization (BOPBIDA)** is BOP before interest expense on debt, depreciation of property and equipment and amortization and impairment of goodwill and other intangibles, but including amortization of DAC and DOC. **Adjusted business operating profit** is adjusted for notional investment income on the difference between the average actual International Financial Reporting Standards (IFRS) equity and the average allocated IFRS equity using one global swap rate. Allocated IFRS equity is equal to a segment's share of the Group's total IFRS equity allocated based on the segment's proportion of the Group's total risk-based capital (RBC) at each period end.

Business operating profit (after-tax) return on common shareholders' equity

indicates the level of business operating profit or loss relative to resources provided by common shareholders. It is calculated as business operating profit or loss, annualized on a linear basis and adjusted for preferred shareholder dividends and taxes, divided by the average value of common shareholders' equity, excluding net unrealized gains/(losses) on available-for-sale investments and cash flow hedges, on a simple basis using the value at the beginning and end of the period.

Investments

Total investments in the consolidated balance sheets includes Group investments and investments for unit-linked products. **Group investments** are those for which the Group bears part or all of the investment risk. They also include investments related to investment contracts with discretionary participation features. Average invested assets exclude cash collateral received for securities lending. The Group manages its diversified investments portfolio to optimize benefits for both shareholders and policyholders while ensuring compliance with local regulatory and business requirements under the guidance of the Group's Asset/Liability Management and Investment Committee. **Investments for unit-linked products** include such investments where the policyholder bears the investment risk, and are held for liabilities related to unit-linked investment contracts and reserves for unit-linked insurance contracts. They are managed in accordance with the investment objectives of each unit-linked fund. The investment result for unit-linked products is passed to policyholders through a charge to policyholder dividends and participation in profits.

Return on common shareholders' equity (ROE)

is a measure that indicates the level of profit or loss relative to resources provided by common shareholders. It is calculated as net income after taxes attributable to common shareholders, annualized on a linear basis, divided by the average value of common shareholders' equity, excluding net unrealized gains/(losses) on available-for-sale investments and cash flow hedges, on a simple basis using the value at the beginning and end of the period.

General Insurance

The following General Insurance measures are net of reinsurance.

Net underwriting result

is calculated as the difference between earned premiums and policy fees and the sum of insurance benefits and losses and net technical expenses.

Total net technical expenses

includes underwriting and policy acquisition costs, as well as the technical elements of administrative and other operating expenses, amortization of intangible assets, interest credited to policyholders and other interest, and other income.

Combined ratio

is a performance measure that indicates the level of claims and net technical expenses during the period relative to earned premiums and policy fees. It is calculated as the sum of loss ratio and expense ratio.

Loss ratio

is a performance measure that indicates the level of claims during the period relative to earned premiums and policy fees. It is calculated as insurance benefits and losses, which include paid claims, claims incurred but not reported (IBNR) and claims handling costs, divided by earned premiums and policy fees.

Expense ratio

is a performance measure that indicates the level of technical expenses during the period relative to earned premiums and policy fees. It is calculated as the sum of net technical expenses and policyholder dividends and participation in profits, divided by earned premiums and policy fees.

Net non-technical result

includes the non-technical elements of administrative and other operating expenses, amortization of intangible assets, interest credited to policyholders and other interest, other income, as well as net gains and losses on divestments of businesses and interest expense on debt.

Global Life

Embedded value (EV) principles

is a methodology using a "bottom-up" market consistent approach, which explicitly allows for market risk. In particular, asset and liability cash flows are valued using risk discount rates consistent with those applied to similar cash flows in the capital markets. A liquidity premium, which increases risk discount rates, has been applied to certain lines of business consistent with the CFO Forum principles. Options and guarantees are valued using market consistent models calibrated to observable market prices.

Insurance deposits

are deposits, similar to customer account balances, not recorded as revenues. However, the fees charged on insurance deposits are recorded as revenue within the gross written premiums and policy fees line item within the consolidated income statement. These deposits arise from investment contracts and insurance contracts that are accounted for under deposit accounting. They represent the pure savings part, which is invested.

New business annual premium equivalent (APE)

is calculated as new business annual premiums plus 10 percent of single premiums, before the effect of non-controlling interests. **Present value of new business premiums (PVNBP)** is calculated as the value of new business premiums discounted at the risk-free rate, before the effect of non-controlling interests.

New business value, after tax

is a measure that reflects the value added by new business written during the period, including allowing for frictional costs, time value of options and guarantees, and the cost of non-market risk, and is valued at the point of sale. It is calculated as the present value of the projected after-tax profit from life insurance contracts sold during the period using a valuation methodology consistent with the EV principles, before the effect of non-controlling interests.

Sources of earnings

Sources of earnings (SOE) reporting presents the key drivers of Global Life BOP identifying specific profit sources. This information provides a shareholder's view of earnings, thereby not explicitly identifying the components attributable to policyholders and non-controlling interests.

Loadings and fees include fund and non-fund based fees. The investment margin is the spread between investment result and interest credited to the policyholders, plus the return on free surplus. The technical margin shows the mortality, morbidity, and longevity premiums less benefits to the policyholders together with the reinsurance result.

Operating and funding costs include administrative and operating expenses, interest expense on debt, depreciation and amortization of fixed assets and non-acquisition related intangible assets. Acquisition expenses include commissions and other new business expenses, as well as costs related to business combinations, including amortization of acquisition related intangible assets. The impact of deferrals is the net effect of deferral and amortization of policy acquisition costs and front-end fees, which may be affected by movements in financial markets and changes in assumptions.

Farmers

Gross management result

is a performance measure of Farmers Management Services calculated as management fees and other related revenues minus management and other related expenses, which include amortization and impairments of intangible assets.

Managed gross earned premium margin

is a performance measure calculated as gross operating profit of Farmers Management Services divided by the gross earned premiums of the Farmers Exchanges, which are owned by their policyholders. Farmers Group, Inc, a wholly owned subsidiary of the Group, provides certain non-claims administrative and management services as attorney-in-fact and receives fees for its services.

Disclaimer & Cautionary Statement

Certain statements in this document are forward-looking statements, including, but not limited to, statements that are predictions of or indicate future events, trends, plans or objectives of Zurich Insurance Group Ltd or the Zurich Insurance Group (the Group). Forward-looking statements include statements regarding the Group's targeted profit, return on equity targets, expenses, pricing conditions, dividend policy and underwriting and claims results, as well as statements regarding the Group's understanding of general economic, financial and insurance market conditions and expected developments. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results and plans and objectives of Zurich Insurance Group Ltd or the Group to differ materially from those expressed or implied in the forward-looking statements (or from past results). Factors such as (i) general economic conditions and competitive factors, particularly in key markets; (ii) the risk of 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 Group Ltd and its Group and on whether the targets will be achieved. Zurich Insurance Group 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.

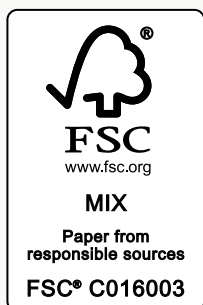
All references to "Farmers Exchanges" mean Farmers Insurance Exchange, Fire Insurance Exchange, Truck Insurance Exchange and their subsidiaries and affiliates. The three Exchanges are California domiciled interinsurance exchanges owned by their policyholders with governance oversight by their Boards 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.
Please also note that interim results are not necessarily indicative of full year results.

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