Annual Report 2014

Zurich Insurance Company Group

About Zurich

Zurich is a leading multi-line insurer that serves its customers in global and local markets. With about 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.

Contents

Operating and financial review

The Operating and financial review is the management analysis of the business performance of Zurich Insurance Company Ltd and its subsidiaries (collectively the 'Zurich Insurance Company Group' or 'ZIC Group') for the year ended December 31, 2014, compared with 2013.

Contents

The information contained within the Operating and financial review is unaudited and is based on the consolidated results of the ZIC Group for the years ended December 31, 2014 and 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 2014 of the ZIC Group and, in particular, with its Consolidated financial statements for the year ended December 31, 2014.

In addition to the figures stated in accordance with International Financial Reporting Standards (IFRS), the ZIC 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 table 27.2 in note 27 of the Consolidated financial statements.

From January 1, 2014, the General Insurance business has managed 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 ZIC Group. Comparative figures have been re-presented to reflect this change.

The ZIC 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 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 years ended December 31, unless otherwise stated	2014	2013	Change[1]
Business operating profit	**4,646**	4,763	(2%)
Net income attributable to shareholders	**3,932**	4,127	(5%)
General Insurance gross written premiums and policy fees	**36,333**	36,438	–
Global Life gross written premiums, policy fees and insurance deposits	**31,883**	27,095	18%
Farmers Management Services management fees and other related revenues	**2,791**	2,810	(1%)
Farmers Re gross written premiums and policy fees	**3,428**	4,045	(15%)
General Insurance business operating profit	**2,894**	2,859	1%
General Insurance combined ratio	**97.3%**	98.0%	0.7 pts
Global Life business operating profit	**1,266**	1,262	–
Farmers business operating profit	**1,508**	1,450	4%
Farmers Management Services gross management result	**1,335**	1,353	(1%)
Farmers Management Services managed gross earned premium margin	**7.2%**	7.2%	(0.0 pts)
Average Group investments	**206,404**	208,426	(1%)
Net investment result on Group investments	**9,239**	7,504	23%
Net investment return on Group investments[2]	**4.5%**	3.6%	0.9 pts
Total return on Group investments[2]	**8.6%**	1.4%	7.2 pts
Shareholders' equity[3]	**33,721**	31,851	6%

[1] Parentheses around numbers represent an adverse variance.
[2] Calculated on average Group investments.
[3] As of December 31, 2014 and December 31, 2013, respectively.

Operating and financial review *continued*

Performance overview

The ZIC Group delivered overall business operating profit of USD 4.6 billion, a decrease of USD 117 million or 2 percent compared with 2013. All three core businesses increased business operating profits by focusing on their primary markets and maintaining their disciplined approach to products, underwriting and pricing. Both General Insurance and Farmers benefited from an improvement in underlying loss experience as well as from a lower level of catastrophe and weather-related losses. Global Life focused on its priority markets, as well as improving management of its in-force business. Overall development of loss reserves established in prior years was lower than in 2013 and affected both the General Insurance business and Non-Core Businesses.

Shareholders' equity increased from December 31, 2013 by USD 1.9 billion to USD 33.7 billion. This was driven by the positive effects of net income and net unrealized gains on investments, partly offset by the currency translation effect of the strong U.S. dollar as of December 31, 2014, and after deducting the total cost of USD 2.8 billion for the dividend paid in April 2014.

Business operating profit decreased by USD 117 million to USD 4.6 billion, or by 2 percent.

- **General Insurance** business operating profit increased by USD 34 million to USD 2.9 billion, or by 1 percent, driven by an improved net underwriting result. This was partly offset by higher non-technical expenses as well as a lower investment result. The net underwriting result reflected an improvement in the underlying loss experience and the absence of major catastrophe and weather-related losses, partly offset by lower levels of favorable loss development on reserves established in prior years, as well as the cost of ongoing growth initiatives included in increased technical expenses.
- **Global Life** business operating profit of USD 1.3 billion was broadly flat, increasing by USD 4 million. The ongoing focus on fee-based and protection business has resulted in overall improvements in loadings and fees and in the underlying technical margin, excluding the effect of management actions. These improvements were largely offset by the negative effect of a portfolio transfer in North America and an increase in operating costs, mainly driven by investments in Global Life's priority markets and impairment of software intangible assets.
- **Farmers** business operating profit increased by USD 58 million to USD 1.5 billion, or by 4 percent. This was due to improved underwriting results in **Farmers Re**, which benefited from improved results on its assumed reinsurance business from the Farmers Exchanges. The Farmers Exchanges are owned by their policyholders. Farmers Group Inc., a wholly owned subsidiary of the Zurich Insurance Group, provides certain non-claims administrative and management services to the Farmers Exchanges as attorney-in-fact and receives fees for its services. **Farmers Management Services** business operating profit slightly declined by USD 7 million to USD 1.3 billion, as lower management fees and other related revenues as well as decreased investment income were partly offset by gains in other income.
- **Other Operating Businesses** reported a business operating loss of USD 934 million, compared with a loss of USD 988 million in 2013. Lower interest expenses on debt and an increase in investment income in Holding and Financing were offset by higher Headquarters costs with 2013 Headquarters costs benefiting from one-off positive effects.
- **Non-Core Businesses** reported a business operating loss of USD 88 million compared with a profit of USD 180 million in 2013, mainly due to an increase of reserves related to long-tail general insurance business in run-off in 2014 and the recognition of a profit from the reinsurance of a UK general insurance run-off portfolio in 2013.

Business volumes for the core business segments, comprising gross written premiums, policy fees, insurance deposits and management fees, increased by USD 4.0 billion to USD 74.4 billion, or by 6 percent.

- **General Insurance** gross written premiums and policy fees decreased by USD 106 million to USD 36.3 billion. Underlying growth on a local currency basis in the ZIC Group's priority markets was partly offset by a non-renewal of a fronted portfolio in North America.
- **Global Life** gross written premiums, policy fees and insurance deposits increased by USD 4.8 billion to USD 31.9 billion, or by 18 percent. Improvements occurred predominantly in Europe, driven by growth in Corporate Life and Pensions and individual savings business within Bank Distribution.
- **Farmers Management Services** management fees and other related revenues decreased by USD 19 million to USD 2.8 billion, or by 1 percent, due to lower premiums earned in the Farmers Exchanges. **Farmers Re** gross written premiums and policy fees decreased by USD 617 million to USD 3.4 billion, or by 15 percent, due to the reductions in reinsurance assumed from the Farmers Exchanges.

The **net investment result on Group investments** of USD 9.2 billion increased by USD 1.7 billion or by 23 percent and represents a net investment return on average Group investments of 4.5 percent compared with 3.6 percent in 2013. **Net investment income**, predominantly included in the core business results, was marginally lower. **Net capital gains on investments and impairments** included in the net investment result increased by USD 1.8 billion to USD 3.1 billion. The increase primarily resulted from re-balancing activities due to the deployment of additional risk capital, as well as an increase in the valuation of debt securities booked at fair value through profit or loss and a gain compared with a loss in 2013 from the valuation of derivative financial instruments used for hedging underlying business investment risks. Total return on average Group investments improved to 8.6 percent from 1.4 percent in 2013, benefiting from the increase in the net investment result, as well as from an increase of USD 8.5 billion in gross unrealized gains not flowing through net income compared with losses of USD 4.7 billion in 2013.

Net income attributable to shareholders decreased by USD 195 million to USD 3.9 billion primarily due to several non-recurring costs relating to the restructuring or disposal of business operations as well as an increase in income tax expense attributable to shareholders, which more than offset the increase in net capital gains on investments. The **shareholders' effective tax rate** increased to 26.7 percent for the year ended December 31, 2014 compared with 24.3 percent for 2013. The increase of 2.4 percentage points reflects changes in the relative levels of profit by country and several one-off costs, including the loss related to the sale of the ZIC Group's General Insurance retail business in Russia, which do not attract tax relief.

Operating and financial review *continued*

General Insurance

in USD millions, for the years ended December 31	**2014**	2013	Change
Gross written premiums and policy fees	36,333	36,438	–
Net earned premiums and policy fees	30,023	29,769	1%
Insurance benefits and losses, net of reinsurance	20,048	20,321	(1%)
Net underwriting result	812	605	34%
Net investment result	2,288	2,384	(4%)
Net non-technical result (excl. items not included in BOP)	(112)	(57)	(95%)
Non-controlling interests	95	72	31%
Business operating profit	**2,894**	**2,859**	**1%**
Loss ratio	66.8%	68.3%	1.5 pts
Expense ratio	30.5%	29.7%	(0.8 pts)
Combined ratio	**97.3%**	**98.0%**	**0.7 pts**

in USD millions, for the years ended December 31	**Business operating profit (BOP)**		**Combined ratio**	
	2014	2013	**2014**	2013
Global Corporate	767	879	96.2%	94.3%
North America Commercial	923	972	96.5%	97.0%
Europe, Middle East & Africa (EMEA)	1,154	956	96.0%	98.1%
International Markets	40	169	104.6%	102.3%
GI Global Functions including Group Reinsurance	8	(116)	nm	nm
Total	**2,894**	**2,859**	**97.3%**	**98.0%**

Business operating profit increased by USD 34 million to USD 2.9 billion, or by 1 percent. This was driven by an improvement in the net underwriting result of USD 207 million to USD 812 million, partly offset by higher non-technical expenses as well as a lower net investment result from lower hedge fund gains in North America and lower yields in EMEA. The net non-technical result in 2013 included the one-off benefit from the sale of own-use real estate in Taiwan.

Gross written premiums and policy fees decreased by USD 106 million to USD 36.3 billion. Global Corporate and International Markets achieved growth on a local currency basis. Growth in Global Corporate resulted from favorable new business production across all regions as well as rate increases. In International Markets, gross written premiums increased on a local currency basis mainly in Latin America, driven by inflation as well as new distribution agreements in Brazil. In North America Commercial, gross written premiums decreased due to the non-renewal of a fronted portfolio. Adjusting for the non-renewal, North America Commercial increased by 2 percent compared with 2013. EMEA was broadly flat. The rate environment remained positive in all regions with overall rates increasing by 2 percent.

The **net underwriting result** increased by USD 207 million to USD 812 million, reflected in the 0.7 percentage points improvement in the combined ratio to 97.3 percent. The loss ratio improved by 1.5 percentage points reflecting improved underlying loss experience across most of the businesses, as well as lower levels of catastrophe and weather-related losses compared with 2013. These improvements were partly offset by lower levels of favorable development of loss reserves established in prior years. The expense ratio deteriorated by 0.8 percentage points compared with 2013. This resulted from higher commissions due to changes in both product and geographic mix for which higher levels of commissions apply, and higher expenses reflecting investments in growth initiatives.

Global Life

in USD millions, for the years ended December 31	2014	2013	Change
Insurance deposits	17,289	13,180	31%
Gross written premiums and policy fees	14,594	13,916	5%
Net investment income on Group investments	3,815	3,895	(2%)
Insurance benefits and losses, net of reinsurance	(10,685)	(9,167)	(17%)
Business operating profit	**1,266**	**1,262**	–
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts (net reserves)[1]	221,926	226,166	(2%)
Assets under management[1, 2]	265,515	267,210	(1%)
Net policyholder flows[3]	5,470	(2,694)	nm

1 As of December 31, 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. In 2013, net policyholder flows did not include inflows for certain short-duration contracts. Adjusting for this effect, net policyholder flows for 2013 would have been a net outflow of USD 688 million instead of USD 2.7 billion. See table 8.5 in the Consolidated financial statements.

Business operating profit was broadly flat increasing by USD 4 million to USD 1.3 billion. Improvements on a local currency basis in most regions were offset by the negative effects in North America of both the transfer of an annuity portfolio to Non-Core Businesses associated with Global Life's in-force management strategy and impairments of software intangible assets.

Ongoing focus on fee-based and protection business has resulted in improvements in loadings and fees and in the underlying technical margin. Loadings and fees increased, driven mainly by higher volumes in North America and Zurich Santander and higher fees in Asia-Pacific and Middle East (APME), predominantly due to an increase in unit-linked assets under management. The investment margin decreased. Higher investment yields in Latin America helped to offset by the impact of persistently low yields in other regions, although the positive impact of higher Latin America yields was reduced through foreign currency translation. The underlying technical margin improved largely due to North America, Zurich Santander and Europe. However, this improvement was more than offset by one-off impacts from the reassessment of reserves prior to the transfer of an annuity portfolio in North America and from a change in the law in Germany affecting policyholders' participations in the technical margin.

Operating and funding costs increased, including the effect of investments in Global Life's priority markets, impairment of software intangible assets and policyholder tax impacts. Acquisition costs increased reflecting higher volumes of business primarily in Europe and North America. In addition, a change in the expense allocation methodology between operating and acquisition costs resulted in an increase in operating costs and a decrease in acquisition costs compared with 2013. The impact of deferrals improved the result mainly due to the negative effect of one-off items in 2013.

Insurance deposits increased by USD 4.1 billion to USD 17.3 billion, or by 31 percent. Europe experienced strong growth predominantly driven by higher sales of Corporate Life and Pensions products in the UK and Ireland. This growth was partly offset by the reduction in insurance deposits included in Bank Distribution following the withdrawal from new business for certain private banking products in Luxembourg and the UK.

Gross written premiums and policy fees increased by USD 678 million to USD 14.6 billion, or by 5 percent. Growth in Europe, predominantly driven by sales of individual savings products in Spain and Germany, was partly offset by a reduction in Latin America, where 2013 included the effect of a large corporate contract in Chile.

Operating and financial review *continued*

Net reserves decreased by 2 percent. On a local currency basis, an increase primarily reflected favorable market movements on the underlying assets and positive net inflows. However, weaker currencies against the U.S. dollar more than offset this positive impact. **Assets under management** decreased by 1 percent. An increase on a local currency basis compared with 2013 was driven by favorable market movements and positive net inflows, which was more than offset by the effect of the weakening of currencies against the U.S. dollar. **Net policyholder flows** were positive with a net inflow of USD 5.5 billion, as North America, Latin America and Europe all experienced improved net inflows. This compared with a net outflow of USD 2.7 billion in 2013, mainly due to net outflows from private banking products in the UK.

Farmers

Farmers business operating profit increased by USD 58 million to USD 1.5 billion compared with 2013. This was due to an improved net underwriting result in Farmers Re partly offset by slightly reduced management fees and other related revenues in Farmers Management Services.

Farmers Management Services

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

in USD millions, for the years ended December 31	2014	2013	Change
Management fees and other related revenues	2,791	2,810	(1%)
Management and other related expenses	(1,455)	(1,457)	–
Gross management result	1,335	1,353	(1%)
Other net income/(expenses)	(15)	(26)	40%
Business operating profit	**1,320**	**1,327**	**(1%)**
Managed gross earned premium margin	7.2%	7.2%	–

Business operating profit decreased by USD 7 million to USD 1.3 billion primarily due to slightly reduced management fees and other related revenues.

Management fees and other related revenues of USD 2.8 billion decreased by USD 19 million, or by 1 percent, reflecting lower premiums earned in the Farmers Exchanges. **Management and other related expenses** of USD 1.5 billion remained broadly flat. Other net expenses decreased by USD 11 million, or by 40 percent.

The **managed gross earned premium margin** of 7.2 percent remained unchanged.

Operating and financial review *continued*

Farmers Re

in USD millions, for the years ended December 31	2014	2013	Change
Gross written premiums and policy fees	3,428	4,045	(15%)
Net underwriting result	66	(9)	nm
Business operating profit	**188**	**124**	**52%**
Loss ratio	67.0%	68.9%	1.9 pts
Expense ratio	31.3%	31.3%	0.0 pts
Combined ratio	**98.3%**	**100.2%**	**1.9 pts**

Business operating profit increased by USD 64 million to USD 188 million, primarily due to an improvement in the net underwriting result.

Gross written premiums and policy fees decreased by USD 617 million, or by 15 percent, to USD 3.4 billion as a result of lower participation in reinsurance agreements with the Farmers Exchanges. The changes in the reinsurance agreements comprised a reduction in the All Lines quota share reinsurance agreement from 18.5 percent to 18.0 percent, effective December 31, 2013 and a further reduction from 18.0 percent to 10.0 percent effective December 31, 2014, subject to the approval of the California Department of Insurance. 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 75 million to USD 66 million as a result of lower catastrophe and underlying losses assumed from the Farmers Exchanges reflected in the 1.9 percentage points reduction in the **loss ratio**. The **expense ratio**, based on ceded reinsurance commission rates payable to Farmers Exchanges, was unchanged.

Farmers Exchanges

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. Farmers Group, Inc., a wholly owned subsidiary of the Zurich Insurance Group, provides certain non-claims administrative and management services to the Farmers Exchanges as attorney-in-fact and receives fees for its services.

in USD millions, for the years ended December 31	2014	2013	Change
Gross written premiums	18,635	18,643	–
Gross earned premiums	18,545	18,757	(1%)

Gross written premiums in the Farmers Exchanges remained broadly flat in 2014 following the 2 percent decline in 2013. In 2014, increases in Business Insurance sold through exclusive agents, non-standard Auto, Homeowners, and Specialty were offset by decreases in Business Insurance sold through independent agents, Farmers Auto and Direct Auto.

Gross earned premiums in the Farmers Exchanges decreased by USD 211 million to USD 18.5 billion, or by 1 percent, reflecting the effect of continuing pricing and underwriting actions to improve profitability flowing through gross earned premiums.

Other Operating Businesses

in USD millions, for the years ended December 31	2014	2013	Change
Business operating profit:			
Holding and Financing	(652)	(792)	18%
Headquarters	(282)	(196)	(44%)
Total business operating profit	**(934)**	**(988)**	**6%**

Holding and Financing business operating loss decreased by USD 140 million to USD 652 million, primarily driven by lower interest expenses on debt refinanced in 2013 and 2014, higher investment income due to an increased invested asset portfolio and favorable foreign exchange impacts.

Headquarters reported a business operating loss of USD 282 million compared with a loss of USD 196 million in 2013. The increased costs were driven by several non-recurring items in both 2014 and 2013, including lower long-term performance related remuneration costs in 2013.

Non-Core Businesses

in USD millions, for the years ended December 31	2014	2013	Change
Business operating profit:			
Centrally managed businesses	(70)	134	nm
Other run-off	(17)	46	nm
Total business operating profit	**(88)**	**180**	**nm**

Centrally managed businesses, which comprises run-off portfolios managed with the intention of proactively reducing risk and releasing capital, reported a business operating loss of USD 70 million. The deterioration of USD 204 million primarily arose from an increase of reserves relating to long-tail general insurance business in run-off in 2014 and the recognition of a profit from the reinsurance of a UK general insurance run-off portfolio in 2013.

Other run-off, which largely comprises U.S. life insurance and annuity portfolios, reported a business operating loss of USD 17 million. The deterioration of USD 63 million arose primarily from the effect of increases in loss reserves held for future liabilities established in prior years.

Risk review

The risk review is an integral part of the consolidated financial statements. Risks and capital are managed at the Zurich Insurance Group, segment, region and business unit level according to our risk and capital management framework. The principles of the Zurich Insurance Group's enterprise risk and capital management described in the "Risk and capital management" section are equally applicable to the Zurich Insurance Company Ltd (ZIC) and its consolidated subsidiaries (collectively the "ZIC Group"). There is no material difference in how risk and capital are managed at the Zurich Insurance Group and the ZIC Group. The figures presented are prepared on a ZIC Group-basis.

Contents

Risk and capital management

Mission and objectives of risk management

The mission of risk management at Zurich Insurance Group is to promptly identify, measure, manage, report and monitor risks that affect whether, and how, strategic, operational and financial objectives are achieved. This includes adjusting the risk profile in line with the Zurich Insurance Group's stated risk tolerance to respond to new threats and opportunities, and to optimize returns.

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

- Protect the capital base by monitoring that risks are not taken beyond the Zurich Insurance Group's risk tolerance
- Enhance value creation and contribute to an optimal risk-return profile by providing the basis for an efficient capital deployment
- Support decision-making processes by providing consistent, reliable and timely risk information
- Protect Zurich Insurance Group's reputation and brand by promoting a sound culture of risk awareness and disciplined and informed risk taking

Risk management framework

The risk management framework is based on a governance process that sets forth clear responsibilities for taking, managing, monitoring and reporting risks.

The Zurich Risk Policy is the Zurich Insurance Group's main risk governance document; it specifies the Zurich Insurance Group's risk tolerance, risk limits and authorities, reporting requirements, procedures to approve any exceptions and procedures for referring risk issues to senior management and the Board of Directors. Limits are specified per risk type. In 2014, the Zurich Risk Policy was updated in several areas, including life insurance risk, general insurance underwriting risk, information risk, credit risk in treasury transactions and asset/liability risk. Ongoing assessments verify that requirements are met.

The Zurich Insurance Group regularly reports on its risk profile at local and Zurich Insurance Group levels. The Zurich Insurance Group has procedures to refer risk issues to senior management and the Board of Directors in a timely way. To foster transparency about risk, the Board receives quarterly risk reports and additional updates. In 2014, reporting was enhanced by including in-depth risk insights into topics such as operational risk and corporate responsibility.

The Zurich Insurance Group assesses risks systematically and from a strategic perspective through its proprietary Total Risk Profiling™ (TRP) process, which allows Zurich Insurance Group to identify and evaluate the probability and severity of a risk scenario. The Zurich Insurance Group then develops, implements and monitors improvements. The TRP process is integral to how Zurich Insurance Group deals with change, and is particularly suited to evaluating strategic risks as well as risks to Zurich Insurance Group's reputation. At Zurich Insurance Group level this process is conducted annually, reviewed regularly and tied to the planning process.

In addition to this qualitative approach, the Zurich Insurance Group regularly measures and quantifies material risks to which it is exposed. Zurich Insurance Group's policy is to maintain capital consistent with an "AA" financial strength rating for the Zurich Insurance Group. The Zurich Insurance Group translates that goal into a quantified risk tolerance. The Zurich Economic Capital Model (Z-ECM) provides a key input into the Zurich Insurance Group's strategic planning process as it allows an assessment as to whether the Zurich Insurance Group's risk profile is in line with the Zurich Insurance Group's risk tolerance. Z-ECM forms the basis for optimizing the Zurich Insurance Group's risk-return profile by providing consistent risk measurement across the Zurich Insurance Group.

Based on the Zurich Insurance Group's remuneration rules, the Board of Directors designs and structures remuneration arrangements to ensure they do not encourage inappropriate risk taking. The Zurich Insurance Group Chief Risk Officer consults with the other assurance, control and governance functions to provide the Zurich Insurance Group CEO with a review of risk factors to consider in the annual variable-compensation process. In consultation with these functions, the Zurich Insurance Group CRO provides an individual assessment of Zurich Insurance Group key risk takers as part of their annual individual performance assessment.

Risk review *continued*

Zurich Insurance Group Risk Management organization

The Zurich Insurance Group Chief Risk Officer leads the Zurich Insurance Group Risk Management function, which develops methods and processes for identifying, measuring, managing, monitoring and reporting risks throughout the Zurich Insurance Group. The Zurich Insurance Group Chief Risk Officer is responsible for oversight of risks across the Zurich Insurance Group, regularly reporting risk matters to the Zurich Insurance Group CEO, senior management committees and the Risk Committee of the Board.

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

At Zurich Insurance Group level, the risk analytics department and risk and control department comprise the two centers of expertise. The risk analytics department makes quantitative assessments of insurance, financial market and asset/liability, credit and operational risks and is the Zurich Insurance Group's center of excellence for risk quantification, modeling and model validation. The risk and control department includes operational risk management, risk reporting, risk governance and tools and methodologies. The risk management network consists of the Chief Risk Officers (CROs) of the Zurich Insurance Group's segments and regions, and the Local Risk Officers (LROs) of the business units and functions and their staff. The risk officers are part of the management teams in their respective businesses and are thus embedded in the business. The LROs also report to the segment or regional CROs, who in turn report to the Zurich Insurance Group's Chief Risk Officer.

The Zurich Insurance Group also has audit committees at the major business level. The committees are responsible for overseeing risk management and control functions including monitoring adherence to policies and periodic risk reporting. At the local level, these oversight activities are conducted through risk and control committees or quarterly meetings between senior executives and the local heads of governance functions.

Objectives of capital management

The Zurich Insurance Group manages its capital to maximize long term shareholder value while maintaining financial strength within its 'AA' target range and meeting regulatory, solvency and rating agency requirements. In particular, the Zurich Insurance Group endeavors to manage its capital so that the Zurich Insurance Group and all its regulated entities meet relevant regulatory capital adequacy requirements.

Zurich Insurance Group strives to simplify its legal entity structure to reduce complexity and increase fungibility of capital. The Zurich Insurance Group pools risk, capital and liquidity centrally as much as possible.

Capital management framework

The Zurich Insurance Group's capital management framework forms the basis for actively managing capital within Zurich Insurance Group. The Zurich Insurance Group uses a number of different capital models, taking into account economic, regulatory, and rating agency constraints. The Zurich Insurance Group's capital and solvency position is monitored and regularly reported.

Zurich Insurance Group's policy is to allocate capital to businesses earning the highest risk-adjusted returns and pools risks and capital as much as possible to operationalize its risk diversification.

The Zurich Insurance Group's executive management determines the capital management strategy and sets the principles, standards and policies to execute the strategy. Zurich Insurance Group Treasury and Capital Management executes the strategy.

Capital management program

The Zurich Insurance Group's capital management program comprises various actions to optimize shareholders' total return and to meet capital needs, while enabling Zurich Insurance Group to take advantage of growth opportunities. Such actions include dividends, capital repayments, share buy-backs, issuances of shares, issuance of senior and hybrid debt, securitization and purchase of reinsurance.

The Zurich Insurance Group seeks to maintain a balance between higher returns for shareholders on equity held, and the security a sound capital position provides. Dividends, share buy-backs, and issuances and redemption of debt have a significant influence on capital levels. In 2014, the Zurich Insurance Group paid a dividend out of the capital contribution reserve, and replaced maturing senior debt and callable hybrid debt with new senior and hybrid debt.

The Swiss Code of Obligations stipulates the dividends may only be paid out of freely distributable reserves or retained earnings. Apart from what is specified by the Code, Zurich Insurance Company Ltd faces no legal restrictions on dividends it may pay to its shareholders. As of December 31, 2014, the amount of the general legal reserve exceeded 20 percent of the paid-in share capital.

The ability of the ZIC Group's subsidiaries to pay dividends may be restricted or – while dividend payments as such may be legally permitted – may be indirectly influenced by minimum capital and solvency requirements imposed by insurance and other regulators in the countries in which the subsidiaries operate. Other limitations, such as foreign exchange control restrictions, exist in some countries.

For details on issuances and redemptions of debt, see notes 19 and 20 of the consolidated financial statements.

Risk review *continued*

Analysis of capital adequacy

Insurance financial strength rating

The Zurich Insurance Group has active relationships with three global rating agencies: Standard & Poor's, Moody's and A.M. Best. The Insurance Financial Strength Rating (IFSR) of the Zurich Insurance Group's main operating entity is an important element of Zurich Insurance Group's competitive position. The Zurich Insurance Group's credit ratings derived from the financial strength ratings also affect the cost of capital.

The Zurich Insurance Group maintained its strong rating level in 2014. As of December 31, 2014 the IFSR of Zurich Insurance Company Ltd, the main operating entity of the ZIC Group, was 'AA–' by Standard and Poor's, 'Aa3' by Moody's and 'A+ (superior)' by A.M. Best. While Moody's and AM Best have their rating outlooks as "stable," S&P revised its outlook for Zurich Insurance Group and all its core entities to "positive" on October 1, 2014. The outlook revision reflects S&P's growing confidence in the relative credit strength of ZIC compared with similarly rated peers. This follows S&P's review of the Zurich Insurance Group's non-life reserves and internal economic capital model.

Regulatory capital adequacy

The Zurich Insurance Group endeavors to manage its capital so that all of its regulated entities meet local regulatory capital requirements at all times.

In each country in which the Zurich Insurance Group operates, the local regulator specifies the minimum amount and type of capital that each of the regulated entities must hold in addition to their liabilities. Besides the minimum capital required to comply with the solvency requirements, the Zurich Insurance Group aims to hold an adequate buffer to ensure regulated subsidiaries meet local capital requirements. The Zurich Insurance Group is subject to different capital requirements depending on the countries in which it operates.

Zurich Insurance Group pools risk and capital as much as possible at a Zurich Insurance Group level, creating diversification benefits for the Zurich Insurance Group. This also allows the Zurich Insurance Group to take into account the benefits that arise in regions where these benefits are recognized under the capital adequacy regime, e.g., in the U.S., Ireland, and Switzerland.

Regulatory requirements in Switzerland

Under the Swiss Solvency Test (SST), groups, conglomerates and reinsurers are required to use company-specific internal models to calculate risk-bearing and target capital. Internal models must be approved by the Swiss Financial Market Supervisory Authority (FINMA). The model approval process continues with FINMA, which approved the use of Zurich Insurance Group's internal model for 2014 on a provisional basis, without prejudicing the final approval. Zurich Insurance Group has filed an SST ratio with FINMA in excess of the regulatory requirements, both as of January 1, 2014 and as of July 1, 2014 (subject to FINMA approval).

Regulatory requirements in the European Economic Area

In countries of the EEA, insurance entities are required to maintain minimum solvency margins according to the existing Solvency I legislation. Solvency I capital is calculated as a fixed percentage of premiums, claims, reserves and net amounts at risk. The same minimum capital requirements are applicable for insurance entities operating in Switzerland. In certain European countries, both EU and non-EU, further requirements have been imposed by regulators.

The directive on Solvency II was adopted on November 25, 2009. The complete framework will be introduced on January 1, 2016. Solvency II is designed to be more risk-sensitive and sophisticated in its approach than Solvency I. Solvency II capital requirements also take into account all material risks and how these interact. Under Solvency II, every insurance and reinsurance entity will be required to conduct its own risk and solvency assessment, including taking into account specific risk profiles. Under disclosure provisions, companies will have to publicly report their solvency and financial condition.

Zurich Insurance Group is fully engaged in order to meet Solvency II requirements when they enter into force. It intends to use its internal model, which aligns the Solvency II approach with that used for Z-ECM, for Zurich Insurance plc (Ireland) while other subsidiaries will use the Solvency II standard formula. The Zurich Insurance Group is in the pre-application process to gain regulatory approval for the internal model from the Central Bank of Ireland.

Regulatory requirements in the U.S.

In the U.S., required capital is determined to be 'company action level risk-based capital' calculated using the National Association of Insurance Commissioners' risk-based capital model. This method, which builds on regulatory accounts, measures the minimum amount of capital for an insurance company to support its overall business operations by taking into account its size and risk profile.

Regulatory requirements in Asia-Pacific, Latin America and Middle East and Africa

Every country has a capital standard for insurance companies. Some jurisdictions, including Japan, Mexico and South Africa, are reviewing their economic capital requirements, considering similar approaches to Solvency II.

Risk review *continued*

Analysis by risk type

Insurance risk

Insurance risk is the inherent uncertainty regarding the occurrence, amount or timing of insurance liabilities.

The exposure is transferred to Zurich Insurance Group through the underwriting process. Zurich Insurance Group actively seeks to write those risks it understands and that provide a reasonable opportunity to earn an acceptable profit. Zurich Insurance Group manages the customer risks it assumes, and minimizes unintended underwriting risks, through such means as:

- Establishing limits for underwriting authority
- Requiring specific approvals for transactions above established limits or new products
- Using a variety of reserving and modeling methods
- Ceding insurance risk through external proportional or non-proportional reinsurance treaties and facultative single-risk placement. The Zurich Insurance Group centrally manages reinsurance treaties.

General insurance risk

General insurance risk includes the reasonable possibility of significant loss due to uncertainty in the frequency of the occurrence of the insured events as well as in the severity of the resulting claims. The following provides an overview of the Zurich Insurance Group's main lines of business:

- Motor includes automobile physical damage, loss of the insured vehicle and automobile third-party liability insurance.
- Property includes fire risks (for example fire, explosion and business interruption), natural perils (for example earthquake, windstorm and flood), engineering lines (for example boiler explosion, machinery breakdown and construction) and marine (cargo and hull).
- Liability includes general/public and product liability, excess and umbrella liability, professional liability including medical malpractice, and errors and omissions liability.
- Special lines include directors and officers, credit and surety, crime and fidelity, accident and health, and crop.
- Worker injury includes workers compensation and employers liability.

The Zurich Insurance Group's underwriting strategy aims to take advantage of the diversification of general insurance risks across lines of business and geographic regions. The Zurich Insurance Group seeks to optimize shareholder value by achieving its mid-term return on equity target. The Zurich Insurance Group's major processes for underwriting governance – underwriting strategy, authorities, referrals and reviews – are implemented at Zurich Insurance Group and local levels.

Underwriting discipline is a fundamental part of managing insurance risk. The Zurich Insurance Group sets limits on underwriting capacity, and delegates authority to individuals based on their specific expertise. The Zurich Insurance Group sets appropriate pricing guidelines. These guidelines generally include a technical price set in line with common standards to allow a return on risk-based capital in line with the Zurich Insurance Group's target. The ratio of actual premium to technical price is a key performance metric, which is monitored regularly. Technical reviews confirm whether underwriters perform within authorities and adhere to underwriting philosophies and policies. The Zurich Insurance Group has governance procedures to review and approve potential new products to evaluate whether the risks are well understood and justified by the potential rewards.

Actual losses on claims provisions may be higher or lower than anticipated. General insurance reserves are therefore regularly measured, reviewed and monitored. The total loss and loss adjustment expense reserves are based on work performed by qualified and experienced actuaries at local, regional and Zurich Insurance Group levels.

To arrive at their reserve estimates, the actuaries take into consideration, among other things, the latest available facts, historical trends and patterns of loss payments, exposure growth, court decisions, economic conditions, in particular inflation, and public attitudes that may affect the ultimate cost of claim settlement. Inflation is monitored on a country basis; the monitoring process relies on both Zurich Insurance Group's economic view on inflation and specific claims activity, and feeds into actuarial models and Zurich Insurance Group's underwriting processes such as technical price reviews.

In most cases, these actuarial analyses are conducted at least twice a year for on-going business according to agreed timetables. Analyses are performed by product line, type and extent of coverage and year of occurrence. As with any projection, claim reserve estimates are inherently uncertain due to the fact that the ultimate liability for claims will be affected by trends as yet unknown, including future changes in the likelihood of claimants bringing suit, the size of court awards, and claimants' attitudes toward settlement of their claims.

The Zurich Insurance Group closely monitors potential new emerging risk exposures. Zurich Insurance Group has an Emerging Risk Group, with cross-functional expertise from core insurance functions such as underwriting, claims and risk to identify, assess and recommend actions for such risks.

In addition to the specific risks insured, each line of business could expose the Zurich Insurance Group to losses that could arise from natural and man-made catastrophes. The main concentrations of risks arising from such potential catastrophes are regularly reported to senior management. The most important peril regions and risks are U.S. and Caribbean tropical cyclone, Europe windstorm and California earthquake, as well as potential terrorism exposures.

Tables 1.a and 1.b show the ZIC Group's concentration of risk within the General Insurance business by region and line of business based on direct written premiums before reinsurance. General insurance premiums ceded to reinsurers (including retrocessions) amounted to USD 5.5 billion and USD 6.0 billion for the years ended December 31, 2014 and 2013, respectively. Reinsurance programs are managed on a global basis, and therefore, net premium after reinsurance is monitored on an aggregated basis.

Table 1.a

General Insurance – Direct written premiums and policy fees by line of business – current period

in USD millions, for the year ended December 31, 2014	Motor	Property	Liability	Special lines	Worker injury	Total
North America	1,492	3,310	3,529	1,790	2,613	12,734
Europe, Middle East & Africa	6,077	5,026	2,554	2,208	522	16,387
Other regions	2,018	1,477	431	1,148	157	5,230
Total	**9,587**	**9,813**	**6,515**	**5,146**	**3,291**	**34,351**

Table 1.b

General Insurance – Direct written premiums and policy fees by line of business – prior period

in USD millions, for the year ended December 31, 2013	Motor	Property	Liability	Special lines	Worker injury	Total
North America	1,414	3,501	3,454	1,695	2,558	12,621
Europe, Middle East & Africa	6,163	5,003	2,480	2,154	485	16,286
Other regions	2,168	1,591	442	958	174	5,333
Total	**9,746**	**10,095**	**6,376**	**4,806**	**3,217**	**34,240**

Risk review *continued*

Analysis of sensitivities for general insurance risk

Tables 2.a and 2.b show the sensitivity of net income before tax and the sensitivity of net assets, using the ZIC Group effective income tax rate, as a result of adverse development in the net loss ratio by one percentage point. Such an increase could develop either due to the insured events happening more frequently or due to resulting claims becoming more severe, or from a combination of frequency and severity. The sensitivities do not indicate a probability of such an event and do not consider any non-linear effects of reinsurance. Based on the assumptions applied in the sensitivity analysis in tables 2.a and 2.b, each additional percentage point increase in the loss ratio would have a linear impact on net income before tax and net assets. The Zurich Insurance Group also monitors insurance risk by evaluating extreme scenarios, taking into account non-linear effects of reinsurance contracts.

Table 2.a

Insurance risk sensitivity for the General Insurance business – current period

in USD millions, for the year ended December 31, 2014	Global Corporate	North America Commercial	Europe, Middle East & Africa	International Markets
+1% in net loss ratio				
Net income before tax	(63)	(77)	(122)	(38)
Net assets	(47)	(56)	(89)	(28)

Table 2.b

Insurance risk sensitivity for the General Insurance business – prior period

in USD millions, for the year ended December 31, 2013	Global Corporate	North America Commercial	Europe, Middle East & Africa	International Markets
+1% in net loss ratio				
Net income before tax	(61)	(76)	(122)	(38)
Net assets	(46)	(58)	(93)	(29)

Modeling natural catastrophes

While specific catastrophes are unpredictable, modeling helps to determine potential losses should catastrophes occur. The Zurich Insurance Group uses adjusted third-party models to manage its underwriting and accumulations to stay within intended exposure limits and to guide how much reinsurance Zurich Insurance Group buys.

To have a consistent approach and form a global perspective on accumulations, the Zurich Insurance Group models exposures in a center of excellence, which works with local businesses to help improve the overall quality of data. The Zurich Insurance Group models potential losses from property policies in hazard-prone areas with material exposure and from workers' compensation policies covering earthquakes in California. Other non-property-related losses are estimated based on adjustments. Risk modeling mainly addresses climate-induced perils such as windstorms, river floods, tornadoes and hail, and geologically-induced perils such as earthquakes. The Zurich Insurance Group constantly seeks to improve its modeling, fill in gaps in models with additional assessments, and increase the granularity of data collection. It uses internal and external knowledge in modeling accumulations. One such source of external knowledge is the Natural Catastrophe Advisory Council, a group of scientists associated with research organizations such as the U.S. National Center for Atmospheric Research, the U.S. Geological Survey and the Intergovernmental Panel on Climate Change. Zurich Insurance Group further validates modeling results by comparing them with claims experience.

Risks from man-made catastrophes

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

The Zurich Insurance Group reviews and aggregates worker injury and property exposures to identify areas of significant concentration and assesses other lines of business, such as liability and auto, although the potential exposure is not as significant. The data allows underwriters to evaluate how insuring a particular customer's risk might affect Zurich Insurance Group's overall exposure. In North America, Zurich Insurance Group uses a vendor-provided catastrophe model to evaluate potential exposures in every major U.S. city. The Zurich Insurance Group undertakes more detailed and frequent analyses for cities in which Zurich Insurance Group has greater exposure.

The Zurich Insurance Group's analysis has shown that its exposures outside North America are lower, in large part due to government-provided pools; even so, the Zurich Insurance Group assesses the risk for countries with the next-greatest potential net exposure. The Zurich Insurance Group periodically monitors accumulation limits for these and other areas.

Life insurance risk

The risks associated with life insurance include:

- Mortality risk – actual policyholder death experience on life insurance policies is higher than expected.
- Longevity risk – annuitants live longer than expected.
- Morbidity risk – policyholder health-related claims are higher than expected.
- Policyholder behavior risk – policyholders' behavior in discontinuing and reducing contributions or withdrawing benefits prior to the maturity of contracts is worse than expected. Poor persistency rates may lead to fewer policies remaining on the books to defray future fixed expenses and therefore reduce the future positive cash flows from the business written, potentially affecting Zurich Insurance Group's ability to recover deferred acquisition expenses.
- Expense risk – expenses incurred in acquiring and administering policies are higher than expected.
- Market risk – the risk associated with the Zurich Insurance Group's balance sheet positions where the value or cash flow depends on financial markets, which is analyzed in the 'market risk' section.
- Credit risk – the risk associated with a loss or potential loss from counterparties failing to fulfill their financial obligations, which is analyzed in the 'credit risk' section.

A more diversified portfolio of risks is less likely to be affected across the board by a change in any subset of the risks. As a result, the offsetting effects between unit-linked and traditional business reduce some of the risk associated with the Global Life business.

The Zurich Insurance Group has local product development committees and a Zurich Insurance Group-level product approval committee to analyze potential new life products that could significantly increase or change the nature of its risks. The Zurich Insurance Group regularly reviews the continued suitability and the potential risks of existing life products.

The Zurich Insurance Group uses market-consistent embedded value reporting principles, which allow Zurich Insurance Group to increase understanding, and report on, the risk profile of its life products, and how these risks would change under different market conditions. Embedded value is the measure that markets use to value life businesses.

From a risk-management perspective, unit-linked products are designed to reduce much of the market and credit risk associated with the Zurich Insurance Group's traditional business. Risks that are inherent in these products are largely passed on to the policyholder, although a portion of the Zurich Insurance Group's management fees are linked to the value of funds under management, and hence are at risk if fund values decrease. To the extent that there are guarantees built into the product design, unit-linked products carry mortality/morbidity risk and market risk. Contracts may have minimum guaranteed death benefits where the sum at risk depends on the fair value of the underlying investments. For certain contracts these risks are mitigated by explicit mortality and morbidity charges.

Other life insurance liabilities include traditional life insurance products, such as protection and life annuity products. Protection products carry mortality, longevity and morbidity risk, as well as market and credit risk. Epidemics and lifestyle changes are among the most significant factors that could result in earlier or more claims than expected. Disability, defined in terms of the ability to perform an occupation, could be affected by economic conditions. To reduce pricing cross-subsidies, where permitted, premiums are adjusted for factors such as age, gender and smoker status. Policy terms and conditions and disclosure requirements in insurance applications are designed to mitigate the risk arising from non-standard and unpredictable risks that could result in severe financial loss.

In the life annuity business, medical advances and improved social conditions that lead to increased longevity are the most significant insurance risk. Annuitant (beneficiary) mortality assumptions include allowance for future mortality improvements.

The Zurich Insurance Group is also exposed to risks posed by policyholder behavior, and expenses. Policyholder behavior risk is mitigated by designing products that, as closely as possible, match revenue and expenses associated with the contract. Expense risk is reduced by carefully controlling expenses, and through regular expense analysis and allocation exercises.

Risk review *continued*

Liabilities have been recorded for some life insurance contracts that contain guarantees for additional benefits and minimum guarantees; these are primarily in the subsidiary Zurich American Life Insurance Company (ZALICO), which in the past wrote variable annuity contracts that provide policyholders with certain guarantees related to minimum death and income benefits. After 2001, ZALICO stopped issuing new policies with such features. The Zurich Insurance Group has a dynamic hedging strategy to manage its economic exposure and reduce the volatility associated with its closed book of variable annuities products within its U.S. life business. New life products developed with financial guarantees are subject to review and approval by the Zurich Insurance Group-level product approval committee. The ZIC Group is also exposed to risks arising out of bank-owned life insurance contracts sold in the U.S. See heading 'other contracts' in note 7 of the consolidated financial statements for additional information.

The Zurich Insurance Group defines concentration risk in the Global Life business as the risk of exposure to increased losses associated with inadequately diversified portfolios of assets or obligations. Concentration risk for a life insurer may arise with respect to investments in a geographical area, economic sector, or individual issuers, or due to a concentration of business written within a geographical area, of a policy type, or of underlying risks covered.

Zurich Insurance Group is exposed to two main types of concentration risk in its Global Life business:

- From a market risk perspective, interest rate guarantees in Germany and Switzerland expose Zurich Insurance Group to financial losses that may arise as a result of adverse movements in interest rates. The Zurich Insurance Group also wrote a small book of variable annuity business in the U.S. with minimum guaranteed death benefits, but ceased writing new business in 2012. The management of these guarantees is a combination of asset-liability matching and hedging; see the 'market risk' section.
- From an insurance risk perspective, the main factors that would affect concentration risk include mortality risk, morbidity risk, longevity risk, policyholder behavior risk (lapse, anti-selection) and expense risk. Due to diversification across geographical regions, lines of business and even across different insurance risk factors, Zurich is not exposed to significant concentrations of insurance risk.

Table 3 shows the ZIC Group's concentration of risk within the life business by region and line of business based on reserves for life insurance on a net basis. The ZIC Group's exposure to life insurance risks varies significantly by geographic region and line of business and may change over time. See note 8 of the consolidated financial statements for additional information on reserves for insurance contracts.

Reserves, net of reinsurance, by region

Table 3

in USD millions, as of December 31	Unit-linked insurance contracts		Other life insurance liabilities		Total reserves	
	2014	2013	**2014**	2013	**2014**	2013
Global Life						
North America	1,024	730	5,469	5,473	6,492	6,204
Latin America	9,897	9,416	4,917	5,336	14,814	14,751
Europe	44,190	48,939	78,366	82,007	122,556	130,945
of which						
United Kingdom	23,367	26,452	5,119	5,001	28,485	31,453
Germany	13,818	13,437	41,237	43,728	55,055	57,165
Switzerland	737	767	18,427	20,074	19,164	20,841
Ireland	2,897	2,660	2,123	1,971	5,020	4,631
Spain	2,729	4,737	6,418	6,189	9,147	10,926
Italy	279	885	3,138	3,069	3,416	3,955
Rest of Europe	364	–	1,905	1,974	2,269	1,974
Asia-Pacific and Middle East	4,293	3,927	2,788	2,860	7,081	6,787
Other	27	16	376	350	403	366
Subtotal	**59,431**	**63,028**	**91,914**	**96,025**	**151,345**	**159,053**
Other segments	11,970	11,844	4,718	4,076	16,688	15,921
Total	**71,400**	**74,873**	**96,632**	**100,101**	**168,033**	**174,974**

Analysis of sensitivities for life insurance risk

The Zurich Insurance Group reports the Global Life business's sensitivities to changes in economic and operating risk factors in Embedded Value and New Business Value. The operating risk factors include discontinuance rates, expenses, mortality and morbidity. The embedded value methodology adopted by the Zurich Insurance Group is based on a market-consistent approach to explicitly allow for market risks. See the 'embedded value report' of the Zurich Insurance Group for more information on the Global Life business's sensitivities to economic and operating risk factors.

Reinsurance for general insurance and life insurance

The Zurich Insurance Group's objective in purchasing reinsurance is to provide market-leading capacity for customers while protecting the balance sheet and achieving capital efficiency. The Zurich Insurance Group follows a centralized reinsurance treaty purchasing strategy for both General Insurance and Global Life, and bundles programs, where appropriate, to benefit from diversification and economies of scale. For General Insurance, these efforts have led to a decreasing expenditure for treaty reinsurance over the last few years. Reinsurance cessions to captives and co-reinsurer panels on individual Global Corporate accounts have grown in line with growth in the General Insurance captive and Global Corporate business.

Due to its strong balance sheet, Zurich Insurance Group is able to structure and align its reinsurance programs to achieve an optimum risk-return ratio. Zurich Insurance Group manages its central reinsurance purchasing according to these principles. The Zurich Insurance Group is thus able to manage its risks to retain a significant and stable portion of its risk exposure. The cession rate for General Insurance was 15.1 percent and 16.4 percent as of December 31, 2014 and December 31, 2013, respectively. The cession rate for Global Life was 4.6 percent and 5.0 percent as of December 31, 2014 and December 31, 2013, respectively.

The Zurich Insurance Group continues to use traditional reinsurance markets and other alternatives, such as catastrophe bonds, to protect against extreme single events and increased frequency of events. In particular the Zurich Insurance Group is able to use its global reach for catastrophe protection. It has a combination of 'per event' and annual aggregate covers. This protects the Zurich Insurance Group's business by event and region, and also if multiple events occur across regions.

The Zurich Insurance Group uses reinsurance to manage risk related to unusually severe or frequent events, through the main in-force reinsurance covers. The chart below shows cover for natural catastrophe events as of December 31, 2014.

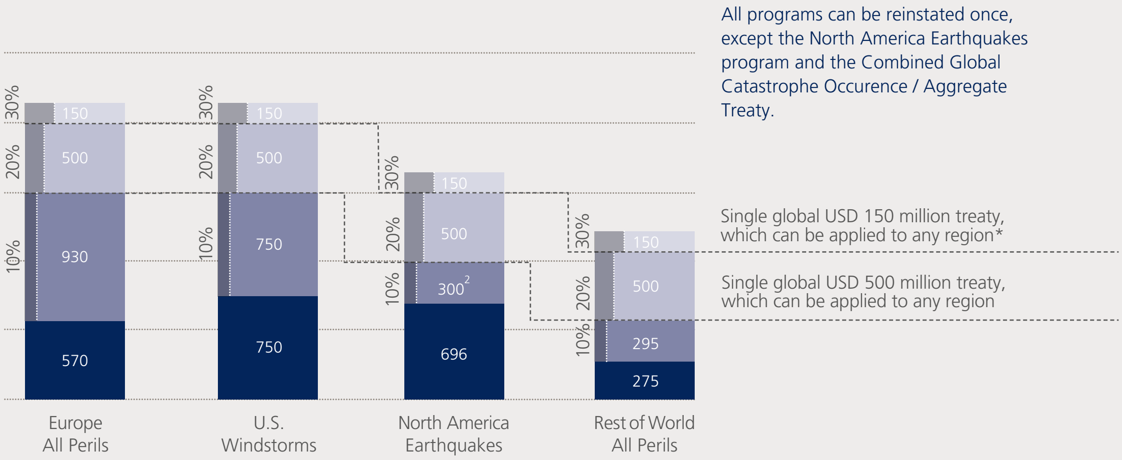
The Zurich Insurance Group participates in the underlying risks through its retention and through its co-participation in the excess layers. The contracts are on a loss-occurrence basis except the aggregate catastrophe cover Lakeside Re III Cat bond and the Global Aggregate Catastrophe cover which operate on an annual aggregate basis. In addition to these covers, the Zurich Insurance Group has per risk programs, some local catastrophe covers and a bilateral risk swap in place. These covers are reviewed continuously and are subject to change going forward. The current catastrophe covers are placed annually: January 1 for the U.S. program and the Global Aggregate Catastrophe cover; April 1 for the European program and the Global Catastrophe treaty, and July 1 for the rest of the world program.

In 2014, the Zurich Insurance Group further fine-tuned its reinsurance covers for natural catastrophe events. While the treaty structures of most catastrophe covers, including the regional retentions, remained stable, Zurich Insurance Group reduced the attachment point of the Global Aggregate Catastrophe treaty to achieve an enhanced earnings protection for higher frequency scenarios within the retention of the regional covers.

Risk review *continued*

Reinsurance for natural catastrophes by region – unusually severe catastrophe events[1]

(in USD millions, as of December 31, 2014)



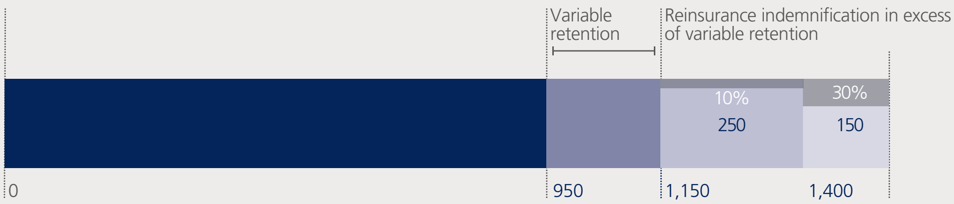
- Losses retained for individual events
- Reinsurance secured under regional catastrophe treaties
- Reinsurance secured under Global Catastrophe Treaty
- Reinsurance secured under Combined Global Catastrophe Occurrence / Aggregate Treaty*
- % of co-participation

* This USD 150 million cover is the same Combined Global Catastrophe Occurrence / Aggregate Treaty presiding over the Global Catastrophe Treaty. This cover can be used only once, either for aggregated losses or for an individual event.

[1] U.S. Catastrophe Treaty and Global Aggregate Catastrophe Treaty renewed on January 1, 2014; Europe Catastrophe Treaty and Global Catastrophe Treaty renewed on April 1, 2014; and International Catastrophe Treaty renewed on July 1, 2014.
[2] Lakeside Re III – Cat Bond.

Reinsurance for natural catastrophes, aggregated – unusually frequent catastrophe events

(in USD millions, as of December 31, 2014)



- All natural catastrophe losses exceeding USD 35 million are aggregated.
- Variable retention up to a maximum of USD 1,150 million, depending on the peril regions hit and the frequency
- Reinsurance secured under Global Aggregate Catastrophe Treaty
- Reinsurance secured under Combined Global Catastrophe Occurrence / Aggregate Treaty*
- % of co-participation

* This USD 150 million cover is the same Combined Global Catastrophe Occurrence / Aggregate Treaty presiding over the Global Catastrophe Treaty. This cover can be used only once, either for aggregated losses or for an individual event.

Market risk

Market risk is the risk associated with the Zurich Insurance Group's balance sheet positions where the value or cash flow depends on financial markets. Risk factors include:

- Equity market prices
- Property market prices
- Interest rates and credit spreads
- Currency exchange rates

The Zurich Insurance Group manages the market risk of assets relative to liabilities on an economic total balance sheet basis. This is done to achieve the maximum risk-adjusted excess return on assets relative to the liability benchmark, while taking into account the Zurich Insurance Group's risk tolerance and local regulatory constraints.

The Zurich Insurance Group has policies and limits to manage market risk and keep its strategic asset allocation in line with its risk capacity. To control risk aggregation and ensure a consistent approach to constructing portfolios and choosing external asset managers, Zurich Insurance Group centrally manages certain asset classes to control aggregation of risk, and provides a consistent approach to constructing portfolios and selecting external asset managers. It diversifies portfolios, investments and asset managers, and regularly measures and manages market risk exposure. The Zurich Insurance Group has set limits on concentration in investments in single issuers and certain asset classes as well by how much asset interest rate sensitivities can deviate from liability interest-rate sensitivities. The Zurich Insurance Group also limits illiquid investments.

The Asset/Liability Management Investment Committee reviews and monitors Zurich Insurance Group strategic asset allocation and tactical boundaries, and monitors Zurich Insurance Group asset/liability exposure. The Zurich Insurance Group oversees the activities of local asset/liability management investment committees and regularly assesses market risks at both Zurich Insurance Group and local business levels. The economic effect of potential extreme market moves is regularly examined and considered when setting the asset allocation.

Risk assessment reviews include the analysis of the management of interest rate risk for each major maturity bucket and adherence to the aggregate positions with risk limits. The Zurich Insurance Group applies processes to manage market risks and to analyze market risk hotspots. Actions to mitigate risk are taken if necessary to manage fluctuations affecting asset/liability mismatch and risk-based capital.

The Zurich Insurance Group uses derivative financial instruments to limit market risks arising from changes in currency exchange rates, interest rates and equity prices, from credit quality of assets and liabilities and commitments to third parties. The Zurich Insurance Group enters into derivative financial instruments mostly for economic hedging purposes and, in limited circumstances, the instruments may also meet the definition of an effective hedge for accounting purposes. The latter include cross-currency interest rate swaps in fair value hedges and cross-currency swaps in cash flow hedges of Zurich Insurance Group's borrowings, in order to mitigate exposure to foreign currency and interest rate risk. In compliance with Swiss insurance regulation, the Zurich Insurance Group's policy prohibits speculative trading in derivatives, meaning a pattern of "in and out" activity without reference to an underlying position. Derivatives are complex financial transactions; therefore, the Zurich Insurance Group addresses the risks arising from derivatives through a stringent policy that requires approval of a derivative program before transactions are initiated, and by subsequent regular monitoring by Zurich Insurance Group Risk Management of open positions and annual reviews of derivative programs.

For more information on the ZIC Group's investment result, including impairments and the treatment of selected financial instruments, see note 6 of the consolidated financial statements. For more information on derivative financial instruments and hedge accounting, see note 7 of the consolidated financial statements.

Risk review *continued*

Risk from equity securities and property

The Zurich Insurance Group is exposed to risks from price fluctuations on equity securities and property which could affect the Zurich Insurance Group's liquidity, reported income, surplus and regulatory capital position. Equity risk exposure includes common stocks, including equity unit trusts, common stock portfolios backing participating-with-profit policyholder contracts, and equities held for employee benefit plans. Exposure to property risk includes direct holdings in property, listed property company shares and funds, as well as property debt securities such as commercial and residential mortgages, commercial and residential mortgage-backed securities and mezzanine debt. Returns on unit-linked contracts, whether classified as insurance or investment contracts, may be exposed to risks from equity and property, but these risks are borne by policyholders. However, the Zurich Insurance Group is indirectly exposed to market movements from unit-linked contracts with respect to both earnings and economic capital. Market movements affect the amount of fee income earned when the fee income level is dependent on the valuation of the asset base. Therefore, the value of in-force business for unit-linked business can be negatively affected by adverse movements in equity and property markets.

The Zurich Insurance Group manages its risks from equity securities and property as part of the overall investment risk management process, and applies limits as expressed in policies and guidelines. Specifically, Zurich Insurance Group limits holdings in equities, real estate and alternative investments.

For additional information on equity securities and investment property, see note 6 of the consolidated financial statements.

Risk from interest rate and credit spread

Interest rate risk is the risk of loss resulting from changes in interest rates, including changes in the shape of yield curves. The Zurich Insurance Group is exposed to interest rate risk including from debt securities, reserves for insurance contracts, liabilities for investment contracts, employee benefit plans and loans and receivables.

Zurich Insurance Group has limits on holdings in real assets and limits on deviations of asset interest rate sensitivities from liability interest rate sensitivities. The Zurich Insurance Group also manages credit spread risk, which describes the sensitivity of the values of assets and liabilities due to changes in the level or the volatility of credit spreads over the risk-free interest rate yield curves.

Returns on unit-linked contracts, whether classified as insurance or investment contracts, are at the risk of the policyholder; however, the Zurich Insurance Group is exposed to fluctuations in interest rates in so far as they affect the amount of fee income earned if the fee income level is dependent on the valuation of the asset base.

During 2014, the Zurich Insurance Group gradually increased investment risk, in particular with equities and corporate bonds.

Analysis of market risk sensitivities

Basis of presentation – General Insurance and rest of the business

The basis of the presentation for tables 4, 5, and 6 is an economic valuation represented by the fair value for ZIC Group investments, IFRS insurance liabilities discounted at risk-free market rates (the Zurich Insurance Group describes risk-free market rates as swap rates) to reflect the present value of insurance liability cash flows and other liabilities, for example own debt. In the sensitivities, own debt does not include subordinated debt, which Zurich Insurance Group considers available to protect policyholders in a worst-case scenario.

Tables 4, 5, and 6 show the estimated economic market risk sensitivities of ZIC Group investments, including investment property, liabilities, including insurance and financial liabilities, and the net impact for General Insurance and the rest of the business. Positive values represent an increase in the balance, and values in parentheses represent a decrease. Mismatches in changes in value of assets relative to liabilities represent an economic risk to the ZIC Group. The net impact – the difference between the impact on ZIC Group investments and liabilities – represents the economic risk related to changes in market risk factors that the ZIC Group faces.

In determining the sensitivities, investments and liabilities are fully re-valued in the given scenarios. Each instrument is re-valued separately taking the relevant product features into account. Non-linear effects, where they exist, are reflected in the model. The sensitivities are shown after tax. They do not include the impact of transactions within the ZIC Group.

Sensitivities for the rest of the business include Farmers, Other Operating Businesses and Non-Core Businesses. In 2013, the analysis for Non-Core Businesess that included business with life insurance characteristics was based on market-consistent embedded value market-risk sensitivities. In 2014, the basis of presentation for this business is the same as for General Insurance and the rest of the business.

Basis of presentation – Global Life

Tables 4, 5, and 6 show the estimated economic sensitivity of the embedded value of the Global Life business to financial market movements. Actions that would be taken by management or policyholders are considered. For contracts with financial options and guarantees, such as some participating business, movements in financial markets can change the nature and value of these benefits. The dynamics of these liabilities are captured so that this exposure is quantified, monitored, managed and where appropriate, mitigated.

Analysis of economic sensitivities for interest rate risk

Table 4 shows the estimated impacts of a 100 basis point increase/decrease in yield curves after consideration of hedges in place, as of December 31, 2014 and 2013, respectively.

Economic interest rate sensitivities

Table 4

In USD millions, as of December 31	**2014**	2013
100 basis points increase in the interest rate yield curves		
General Insurance business		
Net impact after tax	**(221)**	(513)
Global Life business		
Total impact on Embedded Value	**(65)**	(425)
Rest of the business		
Net impact after tax	**(55)**	(180)
100 basis points decrease in the interest rate yield curves		
General Insurance business		
Net impact after tax	**(17)**	437
Global Life business		
Total impact on Embedded Value	**(222)**	437
Rest of the business		
Net impact after tax	**150**	244

Analysis of economic sensitivities for equity risk

Table 5 shows the estimated impacts from a 10 percent decline in stock markets, after consideration of hedges in place, as of December 31, 2014 and 2013, respectively.

Economic equity price sensitivities

Table 5

In USD millions, as of December 31	**2014**	2013
10% decline in stock markets		
General Insurance business		
Net impact after tax	**(546)**	(398)
Global Life business		
Total impact on Embedded Value	**(301)**	(279)
Rest of the business		
Net impact after tax	**(62)**	(86)

Risk review *continued*

Analysis of economic sensitivities for credit spread risk

Table 6 shows the estimated impacts from a 100 basis points increase in corporate credit spreads, as of December 31, 2014 and 2013, respectively. The sensitivities apply to all fixed income instruments, excluding government, supranational and similar debt securities.

Economic credit spread sensitivities

Table 6

In USD millions, as of December 31	**2014**	2013
100 basis points increase in credit spreads		
General Insurance business		
Net impact after tax	**(1,395)**	(1,320)
Global Life business		
Total impact on Embedded Value	**(884)**	(901)
Rest of the business		
Net impact after tax	**(429)**	(289)

Limitations of the analysis for General Insurance and rest of the business:
- The sensitivities show the effects of a change of certain risk factors, while other assumptions remain unchanged.
- The interest rate scenarios assume a parallel shift of all interest rates in the respective currencies. They do not take into account the possibility that interest rate changes might differ by rating class; these are disclosed separately as credit spread risk sensitivities.
- The sensitivity analysis is based on economic net assets, and not on shareholders' equity or net income as set out in the consolidated financial statements.
- The sensitivity analysis is calculated after tax; the ZIC Group effective tax rate is 26.7 percent for 2014 and 24.3 percent for 2013.
- The equity market scenarios assume a concurrent movement of all stock markets.
- The sensitivity analysis does not take into account actions that might be taken to mitigate losses. Actions may involve changing the asset allocation, for example through selling and buying assets.
- The sensitivities do not indicate a probability of such events occurring in the future. They do not necessarily represent the Zurich Insurance Group's view of expected future market changes. In addition to the sensitivities, management uses stress scenarios to assess the impact of more severe market movements on the Zurich Insurance Group's financial condition.

Limitations of the analysis for Global Life:
- The sensitivities show the effects of a change in certain risk factors, while other assumptions remain unchanged, except where they are directly affected by the revised conditions.
- The market risk scenarios assume a concurrent movement of all stock markets and an unrelated parallel shift of all interest rates in different currencies.
- The assumptions on policyholder behavior, such as lapsing of policies, included in the sensitivity analysis for Global Life may be different from actual behavior. Therefore, the actual impact may deviate from the analysis.

Currency risk

Currency risk is the risk of loss resulting from changes in exchange rates. The Zurich Insurance Group operates internationally and therefore is exposed to the financial impact arising from changes in the exchange rates of various currencies. The Zurich Insurance Group's presentation currency is the U.S. dollar, but its assets, liabilities, income and expenses are denominated in many currencies, with significant amounts in the euro, Swiss franc and British pound, as well as the U.S. dollar.

On local balance sheets a currency mismatch may cause a balance sheet's net asset value to fluctuate, through either income or directly through equity. The Zurich Insurance Group manages this risk by matching foreign currency positions on local balance sheets within prescribed limits. Residual local mismatches are reported centrally to make use of the netting effect across the Zurich Insurance Group. Zurich Insurance Group hedges these residual local mismatches within an established limit through a central balance sheet. The monetary currency risk exposure on local balance sheets is considered immaterial.

Differences arise when functional currencies are translated into the Zurich Insurance Group's presentation currency, the U.S. dollar. The Zurich Insurance Group applies net investment hedge accounting to protect against the impact that changes in certain exchange rates might have on selected net investments. The Zurich Insurance Group takes no speculative positions on foreign currency market movements. Using constant exchange rates from one year to the next, the ZIC Group's 2014 net income attributable to shareholders would have been higher by USD 21 million (applying 2013 exchange rates to the 2014 result). In 2013, the result would have been lower by USD 5 million (applying 2012 exchange rates to the 2013 results).

Table 7 shows the total IFRS equity's sensitivity to changes in exchange rates for the main functional currencies to which the ZIC Group is exposed. Positive values represent an increase in the value of the ZIC Group's total equity.

See notes 1, 3 and 7 of the consolidated financial statements for additional information on foreign currency translation and transactions.

Table 7

Sensitivity of the ZIC Group's total IFRS equity to exchange rate fluctuations

in USD millions, as of December 31	**2014**	2013
10% increase in		
EUR/USD rate	825	915
GBP/USD rate	279	283
CHF/USD rate	(262)	(427)
Other currencies/USD rates	730	760

The sensitivities show the effects of a change of the exchange rates only, while other assumptions remain unchanged. The sensitivity analysis does not take into account management actions that might be taken to mitigate such changes. The sensitivities do not indicate a probability of such events occurring in the future. They do not necessarily represent Zurich Insurance Group's view of expected future market changes. While table 7 shows the effect of a 10 percent increase in currency exchange rates, a decrease of 10 percent would have the converse effect.

Risk review *continued*

Credit risk

Credit risk is the risk associated with a loss or potential loss from counterparties failing to fulfill their financial obligations. The Zurich Insurance Group's exposure to credit risk is derived from the following main categories of assets:

- Cash and cash equivalents
- Debt securities
- Reinsurance assets
- Mortgage loans
- Other loans
- Receivables
- Derivatives

The Zurich Insurance Group's objective in managing credit risk exposures is to maintain them within parameters that reflect the Zurich Insurance Group's strategic objectives and risk tolerance. Sources of credit risk are assessed and monitored, and the Zurich Insurance Group has policies to manage the specific risks within the various subcategories of credit risk. To assess counterparty credit risk, the Zurich Insurance Group uses the ratings assigned by external rating agencies, qualified third parties, such as asset managers, and internal rating assessments. If there is a discrepancy among external rating agencies, the Zurich Insurance Group applies the lowest ratings unless other indicators justify alternative internal credit ratings.

The Zurich Insurance Group regularly tests and analyzes credit risk scenarios and prepares possible contingency measures that may be implemented, if the credit risk environment worsens.

The Zurich Insurance Group actively uses collateral to mitigate credit risks. Nevertheless, underlying credit risks are managed independently from the collateral. The Zurich Insurance Group has limits and quality criteria to identify acceptable letter-of-credit providers. Letters of credit enable Zurich Insurance Group to limit the risks embedded in reinsurance captives, deductibles, trade credit and surety.

Credit risk concentration

The Zurich Insurance Group limits and regularly monitors credit exposures to individual and related counterparties. The Zurich Insurance Group's exposure to counterparties' parent companies and subsidiaries is aggregated to include reinsurance assets, investments, certain insurance products and derivatives. There is no unapproved material exposure in excess of the Zurich Insurance Group's limits for counterparty aggregation as of December 31, 2014 or December 31, 2013.

On-balance sheet exposures are the main source of credit risk. Off-balance sheet exposures are related primarily to collateral used to protect underlying credit exposures on the balance sheet. The ZIC Group also has off-balance sheet exposures related to undrawn loan commitments of USD 2 million and USD 8 million as of December 31, 2014 and 2013, respectively. See note 23 of the consolidated financial statements for undrawn loan commitments.

Credit risk related to cash and cash equivalents

To reduce concentration, settlement and operational risks, the Zurich Insurance Group limits the amount of cash that can be deposited with a single counterparty. The Zurich Insurance Group also maintains an authorized list of acceptable cash counterparties.

Cash and cash equivalents amounted to USD 7.4 billion as of December 31, 2014 and USD 7.1 billion as of December 31, 2013. The risk-weighted average rating of the overall cash portfolio remained stable at "BBB+" from December 31, 2013 to December 31, 2014. 59 percent of the total was with the ten largest global banks, whose average rating increased from "A–" to "A" from December 31, 2013 to December 31, 2014.

Credit risk related to debt securities

The ZIC Group is exposed to credit risk from third-party counterparties where it holds securities issued by those entities.

Debt securities by rating of issuer

Table 8

as of December 31	2014		2013	
	USD millions	**% of total**	USD millions	% of total
Rating				
AAA	30,309	19.7%	37,010	23.7%
AA	58,007	37.8%	57,908	37.0%
A	27,529	17.9%	26,992	17.3%
BBB	33,962	22.1%	31,170	19.9%
BB and below	2,356	1.5%	2,360	1.5%
Unrated	1,439	1.0%	939	0.6%
Total	**153,602**	**100.0%**	**156,379**	**100.0%**

Table 8 shows the credit risk exposure on debt securities, by issuer credit rating. As of December 31, 2014, 97.5 percent of the ZIC Group's debt securities is investment grade and 19.7 percent is rated "AAA." The downgrades of several Eurozone governments and related entities caused breaches of internal rating category limits, which were managed as circumstances allowed. As of December 31, 2013, 97.9 percent of debt securities was investment grade and 23.7 percent was rated "AAA." The Zurich Insurance Group's investment policy prohibits non-investment-grade investments, unless specifically authorized. Where the Zurich Insurance Group identifies investments expected to be downgraded, it implements appropriate actions.

The risk-weighted average issuer credit rating of the ZIC Group's debt securities portfolio was "BBB+" in 2014 and 2013.

As of December 31, 2014, the largest concentration in the ZIC Group's debt securities portfolio was in governments, supranationals and similar at 46.4 percent. In all other categories, a total of USD 35.9 billion or 44 percent is secured. As of December 31, 2013, 48.4 percent of the ZIC Group's debt portfolio was invested in governments, supranationals and similar. In all other categories, a total of USD 37.9 billion or 47 percent was secured.

In addition to debt exposure, the ZIC Group had sovereign loan exposure of USD 3.6 billion and USD 4.2 billion to Germany as of December 31, 2014 and 2013, respectively.

The second-largest concentration in the ZIC Group's debt securities portfolio is in financial institutions (including banks), at 21.0 percent, of which 40.8 percent is secured. In response to the European government-debt crisis, the Zurich Insurance Group identified and selectively reduced unsecured and subordinated credit exposure issued by banks with weak credit profiles, including banks supported by weaker governments.

The third-largest concentration in the ZIC Group's debt securities portfolio is in structured finance securities (mortgage-backed securities (MBS)/asset-backed securities (ABS) and similar). Although credit risks of the underlying securities are diverse in nature, the Zurich Insurance Group also considers macro impacts that may affect structured finance sub-categories (e.g., auto or credit card ABS) in its credit assessments. Structured finance exposures are assessed on a look-through basis prior to acquisition and not merely on the strength of prevailing credit ratings or credit profiles.

Credit risk related to reinsurance assets

The Zurich Insurance Group's Corporate Reinsurance Security Committee manages the credit quality of cessions and reinsurance assets. The Zurich Insurance Group typically cedes new business to authorized reinsurers with a minimum rating of "A–." 56 percent and 59 percent of the business ceded to reinsurers that fall below "A–" or are not rated is collateralized, as of December 31, 2014 and 2013 respectively. Of the business ceded to reinsurers that fall below "A–" or are not rated, 50 percent and 55 percent were ceded to captive insurance companies, in 2014 and 2013, respectively.

Reinsurance assets include reinsurance recoverables (the reinsurers' share of reserves for insurance contracts) of USD 16.6 billion and USD 18.1 billion as of December 31, 2014 and 2013, respectively and receivables arising from ceded reinsurance, gross of allowances for impairment, of USD 0.9 billion and USD 1.1 billion as of December 31, 2014 and 2013, respectively. Reserves for potentially uncollectible reinsurance assets amounted to USD 135 million as of December 31, 2014 and USD 174 million as of December 31, 2013. The Zurich Insurance Group's policy on impairment charges takes into account both specific charges for known situations (e.g., financial distress or litigation) and a general, prudent provision for unanticipated impairments.

Risk review *continued*

Reinsurance assets in table 9 are shown before taking into account collateral such as cash or bank letters of credit and deposits received under ceded reinsurance contracts. Except for an immaterial amount, letters of credit are from banks rated "A–". Compared with December 31, 2013, collateral decreased by USD 1.9 billion to USD 5.7 billion.

Table 9 shows reinsurance premiums ceded and reinsurance assets split by rating.

Table 9

Reinsurance premiums ceded and reinsurance assets by rating of reinsurer and captive

as of December 31	2014				2013			
	Premiums ceded		Reinsurance assets		Premiums ceded		Reinsurance assets	
	USD millions	% of total	USD millions	% of total	USD millions	% of total	USD millions	% of total
Rating								
AAA	63	1.0%	36	0.2%	88	1.3%	38	0.2%
AA	1,435	23.5%	5,314	30.6%	1,484	22.6%	7,672	40.3%
A	1,813	29.7%	7,264	41.8%	2,152	32.8%	6,681	35.1%
BBB	1,132	18.6%	1,968	11.3%	1,071	16.3%	2,058	10.8%
BB	375	6.1%	671	3.9%	387	5.9%	656	3.4%
B	55	0.9%	117	0.7%	51	0.8%	33	0.2%
Unrated	1,228	20.1%	2,017	11.6%	1,313	20.2%	1,890	9.9%
Total[1]	**6,101**	**100.0%**	**17,387**	**100.0%**	**6,546**	**100%**	**19,027**	**100.0%**

[1] The value of the collateral received amounts to USD 5.7 billion and USD 7.6 billion as of December 31, 2014 and 2013, respectively.

Credit risk related to mortgage loans

The mortgage business is affected by local property market conditions and local legislation. Investment portfolio allocations made to mortgages take these factors into consideration, and are in line with the framework of the strategic asset allocation defined by the Zurich Insurance Group, and adapted and approved by local investment committees. Conservative lending criteria (i.e., maximum mortgage-loan to property-value ratios) and diversification of loans across many single borrowers, particularly in Germany and in Switzerland, help reduce potential loss. Furthermore, business units are required to clearly state criteria for determining borrower and collateral quality in their local mortgage policies. The Zurich Insurance Group sets requirements for local policies, and monitoring and reporting standards. The Zurich Insurance Group closely monitors performance of portfolios with respect to impairments and losses.

The ZIC Group's largest mortgage loan portfolios are in Germany (USD 3.1 billion) and in Switzerland (USD 3.5 billion); these are predominantly secured against residential property. In Switzerland, the underlying properties backing individual loans are revalued every 10 years. In Germany, the property valuation is not generally reassessed after the mortgage loan is granted. A less-frequent, or no revaluation of the underlying property means that reported loan-to-value (LTV) ratios will be higher (lower) than they would be if property prices had risen (fallen) since their valuation. For more details, see table 11.a and 11.b.

Credit risk related to other loans

The credit risk arising from other loans is assessed and monitored together with the fixed income securities portfolio. 53.7 percent of the reported loans are to governments, supranationals and similar, of which 94.4 percent are to the German Central Government or the German Federal States. Table 10 shows the composition of the loan portfolio by rating class. As of December 31, 2014, a total of USD 6.0 billion or 55.5 percent of loans are secured. As of December 31, 2013, a total of USD 7.9 billion or 66.7 percent of loans were secured.

Other loans by rating of issuer

Table 10

as of December 31	2014		2013	
	USD millions	% of total	USD millions	% of total
Rating				
AAA	4,998	42.6%	6,185	48.7%
AA	1,741	14.8%	2,216	17.4%
A	2,262	19.3%	2,257	17.8%
BBB and below	1,577	13.4%	1,167	9.2%
Unrated	1,153	9.9%	887	7.0%
Total	**11,731**	**100.0%**	**12,712**	**100.0%**

Credit risk related to receivables

The ZIC Group's largest credit-risk exposure to receivables is related to third-party agents, brokers and other intermediaries, and arises where premiums are collected from customers to be paid to the ZIC Group, or to pay claims to customers on behalf of the ZIC Group. The Zurich Insurance Group has policies and standards to manage and monitor credit risk related to intermediaries. The Zurich Insurance Group requires intermediaries to maintain segregated cash accounts for policyholder money. The Zurich Insurance Group also requires that intermediaries satisfy minimum requirements of capitalization, reputation and experience, and provide short-dated business credit terms.

Receivables that are past due but not impaired should be regarded as unsecured, but some of these receivable positions may be offset by collateral. The Zurich Insurance Group reports internally on Zurich Insurance Group past-due receivable balances and strives to keep the balance of past-due positions as low as possible, while taking into account customer satisfaction.

Receivables from ceded reinsurance are part of reinsurance assets and are managed accordingly. See note 16 of the consolidated financial statements for additional information on receivables.

Credit risk related to derivatives

The positive replacement value of outstanding derivatives represents a credit risk to the Zurich Insurance Group. These instruments include interest-rate, currency, total-return and equity swaps, forward contracts and purchased options. A potential exposure also arises from possible changes in replacement values. The Zurich Insurance Group regularly monitors credit risk exposures arising from derivative transactions. Outstanding positions with external counterparties are managed through an approval process embedded in derivative programs.

To limit credit risk, derivative financial instruments are typically executed with counterparties rated 'A–' or better by an external rating agency, unless collateral is provided as per Zurich Risk Policy. The Zurich Insurance Group's standard practice is to only transact derivatives with those counterparties for which the Zurich Insurance Group has in place an ISDA Master Agreement, with a Credit Support Annex. This mitigates credit exposures from over-the-counter transactions due to close-out netting and requires the counterparty to post collateral when the derivative position is beyond an agreed threshold. The Zurich Insurance Group further mitigates credit exposures from derivative transactions by using exchange-traded instruments whenever possible.

Analysis of financial assets

Tables 11.a to 11.b provide an analysis, for non unit-linked businesses, of the age of financial assets that are past due but not impaired and of financial assets that are individually determined to be impaired.

Risk review *continued*

Table 11.a

Analysis of financial assets – current period

in USD millions, as of December 31, 2014

	Debt securities	Mortgage loans	Other loans	Receivables and other financial assets	Total
Neither past due nor impaired financial assets	**153,307**	**7,142**	**11,730**	**13,485**	**185,665**
Past due but not impaired financial assets. Past due by:					
1 to 90 days	–	77	–	1,263	1,340
91 to 180 days	–	9	–	289	299
181 to 365 days	–	9	–	236	245
> 365 days	–	13	–	251	264
Past due but not impaired financial assets	**–**	**108**	**–**	**2,038**	**2,147**
Financial assets impaired	**294**	**14**	**20**	**154**	**482**
Gross carrying value	**153,602**	**7,264**	**11,751**	**15,678**	**188,294**
Less: impairment allowance					
Impairment allowances on individually assessed financial assets	–	2	19	80	101
Impairment allowances on collectively assessed financial assets	–	13	–	186	199
Net carrying value	**153,602**	**7,249**	**11,731**	**15,412**	**187,994**

Table 11.b

Analysis of financial assets – prior period

in USD millions, as of December 31, 2013

	Debt securities	Mortgage loans[1]	Other loans	Receivables and other financial assets	Total
Neither past due nor impaired financial assets	**156,103**	**8,787**	**12,710**	**15,021**	**192,622**
Past due but not impaired financial assets. Past due by:					
1 to 90 days	–	95	–	1,477	1,572
91 to 180 days	–	17	–	304	321
181 to 365 days	–	14	–	182	196
> 365 days	–	20	–	285	305
Past due but not impaired financial assets	**–**	**146**	**1**	**2,248**	**2,395**
Financial assets impaired	**275**	**26**	**20**	**162**	**484**
Gross carrying value	**156,379**	**8,959**	**12,731**	**17,432**	**195,500**
Less: impairment allowance					
Impairment allowances on individually assessed financial assets	–	13	19	89	122
Impairment allowances on collectively assessed financial assets	–	13	–	208	221
Net carrying value	**156,379**	**8,933**	**12,712**	**17,134**	**195,158**

Tables 12.a and 12.b show how the allowances for impairments of financial assets in tables 13.a and 13.b developed during the periods ended December 31, 2014 and 2013, respectively.

Table 12.a

Development of allowance for impairments – current period

in USD millions	Mortgage loans	Other loans	Receivables
As of January 1, 2014	26	19	297
Increase/(Decrease) in allowance for impairments	(1)	–	23
Amounts written-off	(9)	–	(26)
Divestments[1]	–	–	(3)
Foreign currency translation effects	(2)	–	(25)
As of December 31, 2014	**15**	**19**	**266**

[1] Due to the sale of the ZIC Group's General Insurance retail business in Russia (see note 5 of the Consolidated financial statements).

Table 12.b

Development of allowance for impairments – prior period

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

Risk review *continued*

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or from external events such as outsourcing, catastrophes, legislation, or external fraud.

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

Within this framework, the Zurich Insurance Group:

- Uses a scenario-based approach to assess, model and quantify the capital required for operational risk for business units under extreme circumstances. This approach allows information to be compared across the Zurich Insurance Group and highlights the main scenarios contributing to the Z-ECM capital required.
- Documents and evaluates loss events exceeding a threshold determined by the Zurich Risk Policy. Remedial action is taken to avoid a recurrence of such operational loss events.
- Conducts operational risk assessments: operational risks are identified for key business areas and are qualitatively assessed. Risks identified and assessed above a certain threshold must be mitigated, and escalated in specific reports at the Zurich Insurance Group level. Plans to make improvements are documented and tracked on an ongoing basis. In the assessments, the Zurich Insurance Group uses such sources of information as the Total Risk Profiling™ process, internal control assessments, and audit findings, as well as scenario modeling and loss event data.

The Zurich Insurance Group has specific processes and systems in place to focus on high priority operational matters such as managing information security and third party suppliers, as well as combating fraud.

Zurich Insurance Group makes sure that cyber risks and threats to data security are mitigated and responded to. Data held by Zurich Insurance Group's business partners is protected through controls that are built into "cloud governance" procedures designed to secure Zurich's data in accordance with regulatory requirements and the Zurich Insurance Group's information security policies.

The Zurich Insurance Group regularly assesses risks associated with strategic suppliers to verify that suppliers remain financially viable and able to deliver services, and that the Zurich Insurance Group is not exposed to geographic and supplier concentration risks.

Preventing, detecting and responding to fraud is embedded in Zurich Insurance Group's business. Both claims and non-claims fraud are included in the common framework for assessing and managing operational risks.

Liquidity risk

Liquidity risk is the risk that the Zurich Insurance Group may not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. Zurich Insurance Group's policy is to maintain adequate liquidity and contingent liquidity to meet its liquidity needs under normal conditions and in times of stress. To achieve this, the Zurich Insurance Group assesses, monitors and manages its liquidity needs on an ongoing basis.

Zurich Insurance Group-wide liquidity management policies and specific guidelines governing how local businesses plan, manage and report their local liquidity and include regular stress tests for all major carriers within the Zurich Insurance Group. The stress tests use a standardized set of internally defined stress events, and are designed to provide an overview of the potential drain on liquidity if the Zurich Insurance Group had to recapitalize local balance sheets.

Similar guidelines apply at the Zurich Insurance Group level, and detailed liquidity forecasts are regularly conducted, based on local businesses' input and the Zurich Insurance Group's forecasts. As part of its liquidity management, the Zurich Insurance Group maintains sufficient cash and cash equivalents and high-quality, liquid investment portfolios to meet outflows under expected and stressed conditions. The Zurich Insurance Group also maintains internal liquidity sources that cover the Zurich Insurance Group's potential liquidity needs, including those that might arise in times of stress. The Zurich Insurance Group takes into account the amount, availability and speed at which these sources can be accessed. The Zurich Insurance Group has access to diverse funding sources to cover contingencies, including asset sales, external debt issuance and making use of committed borrowing facilities or letters of credit. The Zurich Insurance Group maintains a range of maturities for external debt securities. A potential source of liquidity risk is actions that could occur as a result of a downgrade of the Zurich Insurance Group's credit rating. This could affect the Zurich Insurance Group's commitments and guarantees, potentially increasing liquidity needs. This risk, and mitigating actions that might be employed, are assessed on an ongoing basis within the Zurich Insurance Group's liquidity framework.

The Zurich Insurance Group limits the percentage of the investment portfolio that is not readily realizable and regularly monitors exposures to take action if necessary to maintain an appropriate level of asset liquidity. During 2014, the Zurich Insurance Group was within its limits for asset liquidity. The fair value hierarchy tables in note 24 of the consolidated financial statements segregate financial assets into three levels, reflecting the basis for how fair value was determined. These tables indicate the high degree of liquidity of the Zurich Insurance Group's investments.

See note 19 of the consolidated financial statements for more information on debt obligation maturities and credit facilities and note 23 of the consolidated financial statements for information on commitments and guarantees. The Zurich Insurance Group's on-going liquidity monitoring includes regular reporting to the executive management and quarterly reporting to the Risk Committee of the Board, covering aspects such as the Zurich Insurance Group's actual and forecast liquidity, possible adverse scenarios that could affect the Zurich Insurance Group's liquidity and possible liquidity needs from the Zurich Insurance Group's main subsidiaries, including under conditions of stress.

Tables 13.a and 13.b provide an analysis of the expected maturity profile of reserves for insurance contracts, net of reinsurance, based on expected cash flows without considering the surrender values as of December 31, 2014 and 2013. Reserves for unit-linked insurance contracts amounting to USD 71.4 billion and USD 74.9 billion as of December 31, 2014 and 2013, respectively, are not included, as policyholders can generally surrender their contracts at any time, at which point the underlying unit-linked assets would be liquidated. Risks from the liquidation of unit-linked assets are largely borne by the policyholders of unit-linked contracts.

Risk review *continued*

Table 13.a

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

in USD millions, as of December 31, 2014	Reserves for losses and loss adjustment expenses	Future life policyholders' benefits	Policyholders' contract deposits and other funds	Total
< 1 year	15,976	8,670	1,661	26,308
1 to 5 years	22,430	19,919	2,045	44,395
5 to 10 years	8,179	14,499	1,963	24,640
10 to 20 years	5,653	14,376	2,679	22,708
> 20 years	2,465	17,747	13,073	33,285
Total	**54,703**	**75,211**	**21,421**	**151,335**

Table 13.b

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

in USD millions, as of December 31, 2013	Reserves for losses and loss adjustment expenses	Future life policyholders' benefits	Policyholders' contract deposits and other funds	Total
< 1 year	17,338	9,017	1,386	27,742
1 to 5 years	23,511	21,918	2,432	47,861
5 to 10 years	8,279	14,966	1,931	25,176
10 to 20 years	5,509	17,083	2,542	25,134
> 20 years	2,681	18,990	9,834	31,506
Total	**57,319**	**81,975**	**18,126**	**157,420**

For additional information on reserves for insurance contracts, see note 8 of the consolidated financial statements.

Tables 14.a and 14.b provide an analysis of investment contract liabilities according to maturity, based on expected cash flows as of December 31, 2014 and 2013. The undiscounted contractual cash flows for investment contract liabilities are USD 71.1 billion and USD 67.4 billion as of December 31, 2014 and December 31, 2013, respectively.

Liabilities for unit-linked investment contracts amounted to USD 63.0 billion and USD 59.5 billion as of December 31, 2014 and 2013, respectively. Because policyholders of unit-linked investment contracts can generally surrender their contracts at any time, leading the underlying assets to be liquidated, risks arising from liquidation of unit-linked assets are borne by the policyholders. Certain non-unit-linked contracts also allow for surrender of the contract by the policyholder at any time. Liabilities for such contracts amounted to USD 851 million and USD 922 million as of December 31, 2014 and 2013, respectively. The Zurich Insurance Group actively manages the Global Life in-force business to improve persistency and retention.

Table 14.a

Expected maturity profile for liabilities for investment contracts – current period

in USD millions, as of December 31, 2014	Liabilities related to unit-linked investment contracts	Liabilities related to investment contracts (amortized cost)	Liabilities related to investment contracts with discretionary participation features	Total
< 1 year	6,842	168	454	7,465
1 to 5 years	6,045	449	1,299	7,792
5 to 10 years	6,561	114	1,309	7,984
10 to 20 years	8,650	101	1,044	9,795
> 20 years	34,867	10	2,899	37,776
Total	**62,964**	**843**	**7,006**	**70,813**

Table 14.b

Expected maturity profile for liabilities for investment contracts – prior period

in USD millions, as of December 31, 2013	Liabilities related to unit-linked investment contracts	Liabilities related to investment contracts (amortized cost)	Liabilities related to investment contracts with discretionary participation features	Total
< 1 year	5,663	182	344	6,189
1 to 5 years	6,853	559	1,330	8,742
5 to 10 years	7,548	151	1,301	8,999
10 to 20 years	10,499	96	1,094	11,690
> 20 years	28,905	43	2,545	31,493
Total	**59,469**	**1,030**	**6,614**	**67,113**

See note 19 of the consolidated financial statements for information on the maturities of total debt issued. For more information on the ZIC Group's other financial liabilities, see note 17 of the consolidated financial statements. See note 6 of the consolidated financial statements for information on the maturity of debt securities for total investments.

The Zurich Insurance Group has committed to contribute capital to subsidiaries and third parties that engage in making investments in direct private equity and private equity funds. Commitments may be called by the counterparty over the term of the investment (generally three to five years) and must be funded by the Zurich Insurance Group on a timely basis. See note 23 of the consolidated financial statements.

Risk review *continued*

Strategic risk and risks to the Zurich Insurance Group's reputation

Strategic risk

Strategic risk corresponds to the unintended risk that can result as a by-product of planning or executing the strategy.

A strategy is a long term plan of action designed to allow the Zurich Insurance Group to achieve its goals and aspirations. Strategic risks can arise from:

- Inadequate assessment of strategic plans
- Ineffective implementation of strategic plans
- Unexpected changes to assumptions underlying strategic plans

Risk considerations are a key element in the strategic decision-making process. The Zurich Insurance Group assesses the implications of strategic decisions on risk-based return measures and risk-based capital to achieve an optimal risk-return profile and take advantage of economically profitable growth opportunities as they arise.

The Zurich Insurance Group works to reduce unintended risks of strategic business decisions through its risk assessment processes and tools, including the Total Risk Profiling™ process. The Zurich Insurance Group Executive Committee regularly assesses key strategic risk scenarios for the Zurich Insurance Group as a whole, including scenarios for emerging risks and their strategic implications.

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

Risks to the Zurich Insurance Group's reputation

Risks include acts or omissions by the Zurich Insurance Group or any of its employees that could damage the Zurich Insurance Group's reputation or lead to a loss of trust among its stakeholders. Every risk type has potential consequences for Zurich Insurance Group's reputation. Effectively managing each type of risk helps reduce threats to Zurich Insurance Group's reputation.

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

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Consolidated financial statements

Contents

Consolidated income statements

in USD millions, for the years ended December 31	Notes	2014	2013
Revenues			
Gross written premiums		52,069	51,965
Policy fees		2,712	2,884
Gross written premiums and policy fees		54,781	54,849
Less premiums ceded to reinsurers		(6,101)	(6,546)
Net written premiums and policy fees		48,680	48,303
Net change in reserves for unearned premiums	11	(359)	(1,025)
Net earned premiums and policy fees		48,321	47,277
Farmers management fees and other related revenues	26	2,791	2,810
Net investment result on Group investments	6	9,239	7,504
Net investment income on Group investments		6,172	6,228
Net capital gains/(losses) and impairments on Group investments		3,067	1,276
Net investment result on unit-linked investments		10,784	12,805
Net gain/(loss) on divestments of businesses		(259)	(1)
Other income		1,714	1,748
Total revenues		72,589	72,144
Benefits, losses and expenses			
Insurance benefits and losses, gross of reinsurance	11	37,452	35,256
Less ceded insurance benefits and losses	11	(3,088)	(3,058)
Insurance benefits and losses, net of reinsurance	11	34,364	32,198
Policyholder dividends and participation in profits, net of reinsurance	11	12,568	13,946
Underwriting and policy acquisition costs, net of reinsurance	11	9,835	10,041
Administrative and other operating expense	13	8,865	8,769
Interest expense on debt		525	587
Interest credited to policyholders and other interest		515	500
Total benefits, losses and expenses		66,672	66,041
Net income before income taxes		5,917	6,103
Income tax expense	18	(1,659)	(1,697)
attributable to policyholders	18	(106)	(285)
attributable to shareholders	18	(1,552)	(1,412)
Net income after taxes		**4,259**	**4,406**
attributable to non-controlling interests		326	279
attributable to shareholders		3,932	4,127

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

Consolidated financial statements *continued*

Consolidated statements of comprehensive income

in USD millions, for the years ended December 31	Net income attributable to shareholders	Net unrealized gains/(losses) on available-for-sale investments	Cash flow hedges
2013			
Comprehensive income for the period	4,127	(2,760)	(133)
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		(1,643)	(87)
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(1,691)	(86)
Reclassification to retained earnings		–	–
Deferred income tax (before foreign currency translation effects)		589	40
Foreign currency translation effects		(16)	1
2014			
Comprehensive income for the period	3,932	2,416	200
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		5,366	132
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(1,948)	163
Deferred income tax (before foreign currency translation effects)		(702)	(65)
Foreign currency translation effects		(299)	(30)

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
	(260)	(3,153)	15	(373)	(358)	(3,511)	616	165	781
	(339)	(2,069)	24	(215)	(190)	(2,259)			
	79	(1,698)	–	–	–	(1,698)			
	–	–	(6)	–	(6)	(6)			
	–	629	(4)	(73)	(77)	552			
	–	(14)	–	(86)	(86)	(100)			
	(1,182)	1,435	24	(398)	(374)	1,061	4,993	84	5,077
	(1,438)	4,060	32	(841)	(809)	3,251			
	256	(1,530)	–	–	–	(1,530)			
	–	(767)	(8)	185	177	(590)			
	–	(329)	–	257	257	(71)			

Consolidated financial statements *continued*

Consolidated balance sheets

Assets

in USD millions, as of December 31	Notes	2014	2013
Investments			
Total Group investments	6	205,292	207,516
Cash and cash equivalents		7,352	7,053
Equity securities		16,504	13,566
Debt securities		153,602	156,379
Investment property		8,784	8,745
Mortgage loans		7,249	8,933
Other loans		11,731	12,712
Investments in associates and joint ventures		70	129
Investments for unit-linked contracts		134,416	134,267
Total investments		339,708	341,783
Reinsurers' share of reserves for insurance contracts	8	16,550	17,978
Deposits made under assumed reinsurance contracts		2,203	2,645
Deferred policy acquisition costs	12	17,750	18,724
Deferred origination costs	12	595	724
Accrued investment income[1]		1,912	2,320
Receivables and other assets	16	16,915	18,455
Deferred tax assets	18	1,559	2,018
Assets held for sale[2]		48	223
Property and equipment	14	1,273	1,494
Goodwill	15	1,661	1,852
Other intangible assets	15	6,754	7,028
Total assets		**406,927**	**415,242**

[1] Accrued investment income on unit-linked investments amounted to USD 133 million and USD 230 million as of December 31, 2014 and December 31, 2013, respectively.
[2] December 31, 2014 included land and buildings formerly classified as investment property amounting to USD 48 million. December 31, 2013 included assets relating to a subsidiary of Centre Group Holdings Limited amounting to USD 100 million (see note 5) and land and buildings formerly classified as investment property amounting to USD 123 million.

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

Liabilities and equity

in USD millions, as of December 31	Notes	2014	2013
Liabilities			
Reserve for premium refunds		606	571
Liabilities for investment contracts	9	70,813	67,113
Deposits received under ceded reinsurance contracts		1,022	1,245
Deferred front-end fees		5,539	5,791
Reserves for insurance contracts	8	253,719	265,440
Obligations to repurchase securities		1,451	1,685
Accrued liabilities		3,053	3,012
Other liabilities	17	18,280	18,131
Deferred tax liabilities	18	5,008	5,098
Liabilities held for sale[1]		–	49
Senior debt	19	5,379	6,337
Subordinated debt	19	5,857	6,342
Total liabilities		**370,726**	**380,814**
Equity			
Share capital	20	660	660
Additional paid-in capital	20	14,790	14,729
Net unrealized gains/(losses) on available-for-sale investments		4,042	1,626
Cash flow hedges		306	106
Cumulative foreign currency translation adjustment		(5,470)	(4,288)
Revaluation reserve		218	195
Retained earnings		19,174	18,825
Shareholders' equity		33,721	31,851
Non-controlling interests		2,481	2,576
Total equity		**36,202**	**34,428**
Total liabilities and equity		**406,927**	**415,242**

[1] December 31, 2013 included liabilities relating to a subsidiary of Centre Group Holdings Limited amounting to USD 49 million (see note 5).

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

Consolidated financial statements *continued*

Consolidated statements of cash flows

in USD millions, for the years ended December 31	**2014**	2013
Cash flows from operating activities		
Net income attributable to shareholders	3,932	4,127
Adjustments for:		
Net (gain)/loss on divestments of businesses	259	1
(Income)/expense from equity method accounted investments	(12)	(11)
Depreciation, amortization and impairments of fixed and intangible assets	1,012	1,197
Other non-cash items	138	770
Underwriting activities:	14,532	8,144
Reserves for insurance contracts, gross	*4,759*	*(727)*
Reinsurers' share of reserves for insurance contracts	*691*	*1,787*
Liabilities for investment contracts	*9,746*	*7,984*
Deferred policy acquisition costs	*(1,014)*	*(578)*
Deferred origination costs	*55*	*62*
Deposits made under assumed reinsurance contracts	*429*	*(58)*
Deposits received under ceded reinsurance contracts	*(134)*	*(327)*
Investments:	(15,696)	(11,192)
Net capital (gains)/losses on total investments and impairments	*(12,080)*	*(12,364)*
Net change in derivatives	*19*	*(62)*
Net change in money market investments	*1,955*	*938*
Sales and maturities		
Debt securities	*108,678*	*109,180*
Equity securities	*57,056*	*49,231*
Other	*7,185*	*11,503*
Purchases		
Debt securities	*(104,404)*	*(113,510)*
Equity securities	*(67,124)*	*(50,185)*
Other	*(6,982)*	*(5,923)*
Net changes in sale and repurchase agreements	(139)	117
Movements in receivables and payables	929	(714)
Net changes in other operational assets and liabilities	1,056	85
Deferred income tax, net	177	224
Net cash provided by/(used in) operating activities	6,188	2,748

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

in USD millions, for the years ended December 31	2014	2013
Cash flows from investing activities		
Disposals of tangible and intangible assets	86	66
Additions to tangible and intangible assets	(1,381)	(831)
(Acquisitions)/disposals of equity method accounted investments, net	95	(24)
Acquisitions of companies, net of cash acquired	(100)	–
Divestments of companies, net of cash divested	67	–
Dividends from equity method accounted investments	1	1
Net cash provided by/(used in) investing activities	(1,232)	(788)
Cash flows from financing activities		
Dividends paid	(3,267)	(2,899)
Other acquisitions and divestments related cash flows	(403)	–
Issuance of debt	1,526	1,545
Repayment of debt	(1,560)	(2,372)
Net cash provided by/(used in) financing activities	(3,705)	(3,726)
Foreign currency translation effects on cash and cash equivalents	(758)	(8)
Change in cash and cash equivalents	493	(1,775)
Cash and cash equivalents as of January 1	8,035	9,810
Cash and cash equivalents as of December 31	**8,528**	**8,035**
of which:		
– Group investments	7,352	7,053
– Unit-linked	1,176	982
Other supplementary cash flow disclosures		
Other interest income received	6,231	6,439
Dividend income received	1,968	1,724
Other interest expense paid	(1,117)	(1,169)
Income taxes paid	(1,379)	(1,200)

Cash and cash equivalents

in USD millions, as of December 31	2014	2013
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	6,557	5,713
Cash equivalents	1,971	2,322
Total	**8,528**	**8,035**

As of December 31, 2014 and 2013, cash and cash equivalents held to meet local regulatory requirements were USD 817 million and USD 1,284 million, respectively.

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

Consolidated financial statements *continued*

Consolidated statements of changes in equity

in USD millions	Share capital	Additional paid-in capital
Balance as of December 31, 2012	660	14,733
Dividends to shareholders	–	–
Share-based payment transactions	–	(4)
Reclassification from revaluation reserves	–	–
Total comprehensive income for the period, net of tax	–	–
Net income	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–
Cash flow hedges	–	–
Cumulative foreign currency translation adjustment	–	–
Revaluation reserve	–	–
Net actuarial gains/(losses) on pension plans	–	–
Net changes in capitalization of non-controlling interests	–	–
Balance as of December 31, 2013	660	14,729
Balance as of December 31, 2013	660	14,729
Dividends to shareholders	–	–
Share-based payment transactions	–	61
Change in ownership interests with no loss of control	–	–
Total comprehensive income for the period, net of tax	–	–
Net income	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–
Cash flow hedges	–	–
Cumulative foreign currency translation adjustment	–	–
Revaluation reserve	–	–
Net actuarial gains/(losses) on pension plans	–	–
Net changes in capitalization of non-controlling interests	–	–
Balance as of December 31, 2014	**660**	**14,790**

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

Net unrealized gains/(losses) on available-for-sale investments	Cash flow hedges	Cumulative foreign currency translation adjustment	Revaluation reserve	Retained earnings	Shareholders' equity	Non-controlling interests	Total equity
4,386	238	(4,028)	180	17,727	33,896	2,673	36,568
–	–	–	–	(2,661)	(2,661)	(239)	(2,900)
–	–	–	–	–	(4)	–	(4)
–	–	–	–	6	6	–	6
(2,760)	(133)	(260)	15	3,754	616	165	781
–	*–*	*–*	*–*	*4,127*	*4,127*		
(2,760)	*–*	*–*	*–*	*–*	*(2,760)*		
–	*(133)*	*–*	*–*	*–*	*(133)*		
–	*–*	*(260)*	*–*	*–*	*(260)*		
–	*–*	*–*	*15*	*–*	*15*		
–	*–*	*–*	*–*	*(373)*	*(373)*		
–	–	–	–	–	–	(22)	(22)
1,626	106	(4,288)	195	18,825	31,851	2,576	34,428
1,626	106	(4,288)	195	18,825	31,851	2,576	34,428
–	–	–	–	(3,147)	(3,147)	(121)	(3,267)
–	–	–	–	–	61	–	61
–	–	–	–	(38)	(38)	–	(38)
2,416	200	(1,182)	24	3,534	4,993	84	5,077
–	*–*	*–*	*–*	*3,932*	*3,932*		
2,416	*–*	*–*	*–*	*–*	*2,416*		
–	*200*	*–*	*–*	*–*	*200*		
–	*–*	*(1,182)*	*–*	*–*	*(1,182)*		
–	*–*	*–*	*24*	*–*	*24*		
–	*–*	*–*	*–*	*(398)*	*(398)*		
–	–	–	–	–	–	(59)	(59)
4,042	**306**	**(5,470)**	**218**	**19,174**	**33,721**	**2,481**	**36,202**

Consolidated financial statements *continued*

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

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

On March 4, 2015 the Board of Directors of Zurich Insurance Company Ltd authorized these Consolidated financial statements for issue. These financial statements will be submitted for approval to the Annual General Meeting of Shareholders to be held on April 1, 2015.

1. Basis of presentation

General information

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

The accounting policies applied by the reportable segments are the same as those applied by the ZIC Group. The ZIC Group accounts for inter-segment revenues and transfers as if the transactions were with third parties at current market prices. 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 ZIC Group level. In the Consolidated financial statements, inter-segment revenues and transfers are eliminated.

Disclosures under IFRS 4 "Insurance Contracts" and IFRS 7 "Financial Instruments: Disclosures" relating to the nature and extent of risks, and capital disclosures under IAS 1 "Presentation of Financial Statements" have been included in the audited sections of the Risk review on pages 13 to 40, and they form an integral part of the Consolidated financial statements.

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

The following balances are generally considered to be non-current: equity securities, investment property, investments in associates and joint ventures, deferred policy acquisition costs on life insurance contracts, deferred tax assets, property and equipment, goodwill, other intangible assets and deferred tax liabilities.

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

Maturity tables have been provided for the following balances: reserves for insurance contracts (tables 15.a and 15.b in the Risk review), liabilities for investment contracts (tables 16.a and 16.b in the Risk review), debt securities (table 6.4), derivative assets and derivative liabilities (tables 7.1 and 7.2), other financial liabilities (table 17.2) and outstanding debt (table 19.3).

All amounts in the 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 90 million and USD 37 million for the years ended December 31, 2014 and 2013, respectively. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD 109 million and USD (44) million for the years ended December 31, 2014 and 2013, respectively.

Table 1.1

Principal exchange rates

USD per foreign currency unit	Consolidated balance sheets		Consolidated income statements and cash flows	
	12/31/14	12/31/13	**12/31/14**	12/31/13
Euro	1.2101	1.3778	1.3288	1.3277
Swiss franc	1.0064	1.1228	1.0939	1.0790
British pound	1.5577	1.6568	1.6473	1.5639
Brazilian real	0.3763	0.4233	0.4260	0.4657

Restatements and reclassifications

The ZIC Group has reviewed the classification of certain life insurance products, which resulted in the reclassification of a product for an amount of USD 50 million. The reclassification was prospectively recognized in 2014 with no impact on the ZIC 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 8.

The ZIC Group transferred certain liabilities between Reserves for losses and loss adjustment expenses and future life policyholders’ benefits for an amount of USD 47 million. The reclassification was prospectively recognized in 2014 as the reclassification has no impact on the ZIC 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 8.

The ZIC Group transferred certain unit-linked liabilities from liabilities for investment contracts to reserves for unit-linked liabilities for an amount of USD 425 million and from deferred origination costs to deferred policy acquisition costs for an amount of USD 19 million. The reclassification was prospectively recognized in 2014 as the reclassification has no impact on the ZIC Group’s consolidated income statement. The reduction in liabilities for investment contracts is set out in note 9 and the transfer from deferred origination costs to deferred policy acquisition costs is set out in note 12.

The ZIC 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 ZIC Group identified that cash disbursements for certain intangible assets amounting to USD 549 million for the year ended December 31, 2013 had been erroneously classified within operating activities. These have been reclassified to investing activities.

Consolidated financial statements *continued*

2. New accounting standards and amendments to published accounting standards

Standards, amendments and interpretations effective or early adopted as of January 1, 2014 and relevant for the ZIC Group's operations

Table 2.1 shows new accounting standards or amendments to and interpretations of standards relevant to the ZIC Group that have been implemented for the financial year beginning January 1, 2014, with no material impact on the ZIC Group's financial position or performance.

Table 2.1

Standard/Interpretation

		Effective date
New Standards/interpretations		
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

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

Table 2.2 shows new accounting standards or amendments to and interpretations of standards relevant to the ZIC Group, which are not yet effective and are not expected to have a material impact on the ZIC Group's financial position or performance, unless stated otherwise. In addition to the standards and amendments listed in table 2.2 the ZIC Group will also have to incorporate amendments resulting from the IASB annual improvements project, which relate primarily to disclosure enhancements.

Table 2.2

Standard/Interpretation

		Effective date
New Standards		
IFRS 9	Financial Instruments[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] Expected to result in a significant portion of financial assets currently classified as available-for-sale being classified as at fair value through profit or loss. Credit allowances for financial assets carried at amortized cost and debt securities measured at fair value, with changes in fair value recognized in other comprehensive income (OCI), are expected to increase due to the introduction of the expected credit loss methodology. Upon implementation of the revised standard IFRS 4 'Insurance Contracts', more assets might be classified as at fair value through profit or loss under the fair value option.

3. Summary of significant accounting policies

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

a) Consolidation principles

The ZIC Group's Consolidated financial statements include the assets, liabilities, equity, revenues, expenses and cash flows of Zurich Insurance Company Ltd and its subsidiaries. A subsidiary is an entity that Zurich Insurance Company Ltd either directly or indirectly controls. The results of subsidiaries acquired are included in the Consolidated financial statements from the date of acquisition. The results of subsidiaries that have been divested during the year are included up to the date control ceased. All significant intercompany balances, profits and transactions are eliminated in full.

Acquisition transactions with non-controlling interests are recorded within equity if there is no change in control.

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

b) Foreign currency translation and transactions

Foreign currency translation

Due to the ZIC Group's economic exposure to the U.S. dollar (USD), the presentation currency of the ZIC Group's Consolidated financial statements is USD. Many ZIC Group companies use a different functional currency, being that of the respective primary economic environment in which these companies operate. Assets and liabilities are translated into the presentation currency at end-of-period exchange rates, while income statements and statements of cash flows are translated at average exchange rates for the period. The resulting foreign currency translation differences are recorded directly in other comprehensive income (OCI) as cumulative foreign currency translation adjustment.

Foreign currency transactions and balances

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

- Foreign currency translation differences that are recognized in OCI in conjunction with the recognition of unrealized gains or losses on available-for-sale investments; and
- Foreign currency translation differences arising on monetary items that form part of net investments in foreign operations are included directly in OCI as cumulative foreign currency translation adjustment.

c) Common control business combination

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

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

Classification

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

Consolidated financial statements *continued*

The ZIC Group also issues products containing embedded options that entitle the policyholder to switch all or part of the current and future invested funds into another product issued by the ZIC Group. Where this results in the reclassification of an investment product to a product that meets the definition of an insurance contract, the previously held reserve and the related deferred origination costs are also reclassified and are accounted for in accordance with the accounting policy to be applied to the new product on a prospective basis. As a consequence, no gain or loss is recognized as a result of the reclassification of a contract from investment to insurance.

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

Premiums

General insurance

Premiums from the sale of short-duration general insurance products are recorded when written and are normally recognized as revenue in relation to the insurance coverage provided. The unearned premium reserve represents the portion of the premiums written relating to the unexpired coverage period.

Life insurance

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

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

Cash flows from certain universal life-type contracts in the ZIC Group's Spanish operations are recognized as gross written premiums and insurance benefits and losses and not as deposits.

Reserves for losses and loss adjustment expenses

Losses and loss adjustment expenses are charged to income as incurred. Reserves for losses and loss adjustment expenses represent estimates of future payments of reported and unreported claims for losses and related expenses, with respect to insured events that have occurred. Any changes in estimates are reflected in the results of operations in the period in which estimates are changed. The ZIC Group does not discount its loss reserves, other than for settled claims with fixed payment terms.

Reserves for life benefits

Future life policyholders' benefits represent the estimated future benefit liability for traditional life insurance policies and include the value of accumulated declared bonuses or dividends that have vested to policyholders.

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

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

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

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

Reserves for unit-linked contracts are based on the fair value of the financial instruments backing those contracts less any fees and assessments charged to the policyholders.

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

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

Deferred acquisition costs (DAC)

Costs that vary with and are directly related to the acquisition of new and renewal business, including for example commissions and certain underwriting and policy issue expenses, are deferred and subsequently amortized over a defined period.

General insurance

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

Life insurance

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

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

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

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

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

Liability adequacy tests

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

General insurance

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

Consolidated financial statements *continued*

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

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

Reinsurance contracts that do not transfer significant insurance risk are accounted for using the deposit method.

A deposit asset or liability is recognized based on the premium paid or received less any explicitly identified premiums or fees to be retained by the ceding company. Interest on deposits is accounted for using the effective interest rate method. Future cash flows are estimated to calculate the effective yield, and revenue and expense are recorded as interest income or expense. Reinsurance deposit assets or liabilities also include funds deposited or held by the ZIC Group, under assumed or ceded reinsurance contracts, respectively, when funds are retained by the reinsured under the terms of the contract.

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

Reinsurance assets are assessed for impairment on a regular basis and impairment losses, if any, are recorded in the same manner as for loans and receivables.

e) Liabilities for investment contracts (without DPF)
Investment contracts are those contracts that do not transfer significant insurance risk. The ZIC Group issues investment contracts without fixed terms (unit-linked) and investment contracts with fixed and guaranteed terms (fixed interest rate).

Unit-linked investment contracts
These represent portfolios maintained to meet the specific investment objectives of policyholders who bear the credit, market and liquidity risks related to the investments. The liabilities are carried at fair value, which is determined by reference to the underlying financial assets. Changes in fair value are recorded in income. The related assets for unit-linked investment contracts are designated at fair value through profit or loss in order to reduce measurement inconsistencies.

The costs of policy administration, investment management, surrender charges and certain policyholder taxes assessed against the policyholders' account balances are included in policy fee revenue.

Investment contracts at amortized cost
Liabilities for investment contracts with fixed and guaranteed terms are measured at amortized cost, using the effective interest rate method. Transaction costs are included in the calculation of the effective yield. As of each reporting date, the ZIC Group re-estimates the expected future cash flows and re-calculates the carrying amount of the financial liability by computing the present value of estimated future cash flows using the original effective interest rate for the financial liability. Any adjustment is immediately recognized in income.

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

f) Investments excluding derivative financial instruments

Investments include financial assets (excluding derivative financial instruments), investments in associates and joint ventures and investment property.

Categories and measurement of investments (excluding derivative financial instruments)

Financial assets are classified as available-for-sale, financial assets at fair value through profit or loss, held-to-maturity investments, or loans and receivables.

The ZIC Group recognizes regular purchases and sales of financial assets on the trade date, which is the date on which the ZIC Group commits to purchase or sell the asset. Financial assets are recognized initially at fair value plus, in the case of a financial asset not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Subsequently, financial assets are measured in accordance with the classification category.

Available-for-sale financial assets

Available-for-sale financial assets are carried at fair value, with changes in fair value recognized in OCI, until the securities are either sold or impaired. The cumulative unrealized gains or losses recorded in OCI are net of cumulative deferred income taxes, certain related life policyholder liabilities and deferred acquisition costs. When available-for-sale financial assets are sold, impaired or otherwise disposed of, the cumulative gains or losses are reclassified from OCI to income as net capital gains/(losses) on investments and impairments.

Financial assets at fair value through profit or loss

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

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

Held-to-maturity investments

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities other than those that meet the definition of loans and receivables, and for which the ZIC Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are carried at amortized cost using the effective interest rate method, less any charges for impairment.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are neither quoted in an active market nor classified in any of the other categories. They are carried at amortized cost using the effective interest rate method, less any charges for impairment.

Other items

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

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

Investment property is initially recorded at cost (including transaction costs) and subsequently measured at fair value with changes in fair value, as well as any realized gain or loss upon disposal, recognized in income.

Consolidated financial statements *continued*

Impairment of financial assets

General

The ZIC Group assesses at each reporting date whether there is objective evidence that loss events have occurred that negatively affect the estimated future cash flows of a financial asset or a group of financial assets.

Available-for-sale financial assets

When there is objective evidence that an available-for-sale debt security is impaired, the cumulative loss that had been recognized in OCI is reclassified to income as an impairment loss. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through income. The amount of reversal is limited so that it does not result in a carrying amount exceeding the amortized cost that would have been calculated at the date of reversal had an impairment loss not been previously recognized. Any further gains are recognized in OCI. Any subsequent losses, to the extent that they do not represent further impairment losses, are also recognized in OCI.

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

Held-to-maturity investments and loans and receivables

Generally, significant financial assets are individually assessed to determine whether objective evidence of impairment exists. If no objective evidence of impairment exists, the asset is included in a group of financial assets with similar credit risk characteristics that are collectively assessed for impairment.

Objective evidence of impairment exists if it is probable that the ZIC Group will not be able to collect principal and/or interest due according to the contractual terms of the instrument. When impairment is determined to have occurred, the carrying amount of held-to-maturity investments and loans and receivables is reduced through the use of an allowance account, and the movement in the impairment allowance is recognized in income as an impairment loss. The impairment allowance is measured as the difference between the carrying amount of the assets and the present value of estimated future cash flows, calculated using the original effective interest rate, for fixed rate financial assets, or current effective interest rate, for variable rate financial assets. If the amount of the impairment loss decreases and the decrease relates objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through income. The amount of reversal is limited so that it does not result in a carrying amount exceeding the amortized cost that would have been calculated at the date of reversal had an impairment loss not been previously recognized.

g) Derivative financial instruments and hedge accounting

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

Derivative financial instruments that qualify for hedge accounting

Derivative financial instruments are used by the ZIC Group to economically hedge risks. In limited circumstances derivative financial instruments are designated as hedging instruments for accounting purposes in:

- Fair value hedges which are hedges of the exposure to changes in the fair value of a recognized asset or liability;
- Cash flow hedges, which are hedges of the exposure to variability in cash flows attributable to a particular risk as associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss; or
- Net investment hedges, which are hedges of a net investment in a foreign operation.

All hedge relationships are formally documented, including the risk management objectives and strategy for undertaking the hedge. At inception of a hedge and on an ongoing basis, the hedge relationship is formally assessed in order to determine whether the hedging instruments are expected (prospective assessment) and have been (retrospective assessment) highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risk. Where the hedge accounting criteria are fulfilled, the accounting treatment is as follows:

Fair value hedges
The hedged item is remeasured for fair value changes attributable to the risk being hedged and such fair value changes are recognized in the same line item of the consolidated income statement as the offsetting gains or losses from remeasuring the hedging derivatives at fair value through profit or loss.

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

Net investment hedges
Measurement of hedge effectiveness is based on changes in forward rates. Gains and losses on the designated hedging derivative relating to the effective portion of the hedge are recognized in OCI, whereas the ineffective portion is immediately recognized in income. The ZIC Group also designates non-derivative financial instruments as hedging instruments in hedges of certain net investments in foreign operations. Foreign currency re-measurement gains and losses on the designated non-derivative financial instruments are reported in OCI together with the translation gains and losses on the hedged net investment. The accumulated gains and losses in OCI on the hedging instrument are reclassified to income on disposal or partial disposal of the foreign operation.

If the qualifying criteria for the application of hedge accounting are no longer met, the hedge relationship is discontinued prospectively, in which case the hedging instrument and the hedged item are reported independently in accordance with the respective accounting policy.

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

i) Derecognition of financial assets and liabilities
Financial assets are derecognized when the right to receive cash flows from the assets has expired, or when the ZIC Group has transferred the financial asset and substantially all the risks and rewards of ownership.

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

Securities lending, repurchase and reverse repurchase transactions
Certain entities within the ZIC Group participate in securities lending or repurchase arrangements whereby specific securities are transferred to other institutions, primarily banks and brokerage firms, for short periods of time. Under the terms of these agreements, the ZIC Group retains substantially all the risks and rewards of ownership of the transferred securities, and also retains contractual rights to the cash flows therefrom. These securities are therefore not derecognized from the ZIC Group's balance sheet. Cash received as collateral is recorded as an asset, and a corresponding liability is established. Interest expense is charged to income using the effective interest rate method over the life of the agreement.

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

Consolidated financial statements *continued*

j) Property and equipment

Buildings held for own use and equipment are carried at cost less accumulated depreciation and any accumulated impairment loss. These assets are depreciated usually on a straight-line basis to income over the following estimated useful lives:

- Buildings 25 to 50 years;
- Furniture and fixtures five to ten years; and
- Computer equipment three to six years.

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

k) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the cost of acquisition over the fair value of the ZIC Group's share of the net identifiable assets of the acquired entity at the acquisition date.

Goodwill on the acquisition of subsidiaries is capitalized as a separate line and tested for impairment annually, or more frequently if impairment indicators are observed. For the purpose of impairment testing, goodwill is allocated to cash generating units (CGUs) based on the level at which management monitors operations and makes decisions relating to the continuation or disposal of assets and operations. If goodwill has been allocated to a CGU and an operation within that unit is disposed of, the carrying amount of the operation includes attributable goodwill when determining the gain or loss on disposal.

l) Intangible assets

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

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

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

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

Attorney-in-fact relationships (AIF)

The AIF reflects the ability of the ZIC Group to generate future revenues based on the ZIC Group's relationship with the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc. (FGI), a wholly owned subsidiary of the Zurich Insurance Group. In determining that these relationships have an indefinite useful life, the ZIC Group considered the organizational structure of inter-insurance exchanges, under which subscribers exchange contracts with each other and appoint an attorney-in-fact to provide non-claims management services, and the historical AIF between FGI and the Farmers Exchanges. The AIF is tested for impairment at least annually.

Distribution agreements

Distribution agreements may have useful lives extending up to 30 years which are estimated based on the period of time over which they are expected to provide economic benefits, but no longer than the contractual term, after taking into account all economic and legal factors such as stability of the industry, competitive position and the period of control over the assets.

Software

Costs associated with research and maintenance of internally developed computer software are expensed as incurred. Costs incurred during the development phase are capitalized. Software under development is tested for impairment annually.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring the specific software into use.

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

m) Provisions, contingent liabilities, commitments and financial guarantees

Provisions, contingent liabilities, commitments and financial guarantees are recognized when the ZIC Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of such an obligation. Provisions are discounted when the effect of the time value of money is considered material.

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

n) Other revenue recognition

Farmers management fees

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

Other fees and commission income

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

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

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

o) Net investment income

Net investment income includes investment income earned net of investment expenses incurred.

Investment income

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

For Group investments, interest income is recognized using the effective interest method. Dividend income is recognized when the right to receive payment is established, which is usually the ex-dividend date. Rental income from investment property is recognized on a straight-line basis over the lease term.

Investment expenses

Investment expenses consist of costs relating to investment management services and operating expenses for investment property. These expenses are recognized on an accrual basis.

Consolidated financial statements *continued*

p) Employee benefits

Share-based compensation and cash incentive plans

Share based compensation plans include long-term incentive plans that are accounted for as equity-settled share-based compensation plans. Under these plans, shares of Zurich Insurance Group Ltd are awarded directly to employees of entities within the ZIC Group. Zurich Insurance Group Ltd (the ultimate parent of the ZIC Group) is not part of the ZIC Group. The fair value of these incentive plans is determined at the grant date and is recognized as an expense in income over the vesting period, with a corresponding increase recorded in additional paid-in capital.

Subsequently, depending on the underlying performance metrics, the ZIC Group revises its estimates of the number of shares that are expected to be issued and recognizes the impact of the revision, if any, in income with a corresponding adjustment to additional paid-in capital. However, no subsequent adjustment to additional paid-in capital is made after the vesting date.

Retirement benefits

Contributions to defined contribution plans are recorded as an expense in the period in which the economic benefit from the employees' service was received.

Defined benefit plan obligations and contributions are determined annually by qualified actuaries using the projected unit credit method. The ZIC Group's expense relating to these plans is accrued over the employees' service periods based on the actuarially determined cost for the period. Actuarial gains and losses are recognized, in full in the period in which they occur, in OCI. Past service costs, which result from plan amendments and curtailments, are recognized in income on the earlier of the date on which the plan amendment or curtailment occurs (which is the date from which the plan change is effective) and the date on which a constructive obligation arises. Settlement gains or losses are recognized in income when the settlement occurs.

Other post-employment benefits

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

q) Leases

Payments made under operating leases (net of any incentives received from the lessor) are charged to income on a straight-line basis over the period of the lease. A termination penalty, if any, is recognized immediately as expense at the time the termination is made.

r) Income taxes

The ZIC Group provides current tax expense according to the tax laws of each jurisdiction in which it operates. Deferred income taxes are recorded for temporary differences, which are based on the difference between financial statement carrying amounts and income tax bases of assets and liabilities using enacted or substantively enacted tax rates applicable in the respective tax jurisdiction. Deferred tax assets on taxable losses carried forward are recognized to the extent it is probable that they can be utilized against future taxable profits in the respective jurisdictions.

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

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

4. Critical accounting judgments and estimates

The application of certain accounting policies necessitates critical accounting estimates that involve discretionary judgments and the use of assumptions which are susceptible to change due to inherent uncertainties. Because of the uncertainties involved, actual results could differ significantly from the assumptions and estimates made by management. Such critical accounting estimates are of significance to insurance reserves and deferred acquisition costs, the determination of fair value for financial assets and liabilities, impairment charges, deferred taxes and employee benefits.

a) Reserves for insurance contracts and deferred acquisition costs

General Insurance

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

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

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

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

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

The ZIC Group uses a number of accepted actuarial methods to estimate and evaluate the amount of reserves recorded. The nature of the claim being reserved for and the geographic location of the claim influence the techniques used by the ZIC Group's actuaries. Additionally, the ZIC Group's Corporate Center actuaries perform periodic reserve reviews of the ZIC Group's businesses throughout the world. Management considers the results of these reviews and adjusts its reserves for losses and loss adjustment expenses, where necessary.

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Life insurance

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

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

Deferred policy acquisition costs and PVFP are deferred only to the extent that they are recoverable from future policy income which also depends on the above assumptions. Recoverability is tested at contract inception and subsequently on a regular basis with reference to current expectations of future profits or margins.

See note 8 for further information on reserves for insurance contracts and note 12 for deferred policy acquisition costs. Also refer to the insurance risk section of the Risk review.

b) Fair value measurement

In determining the fair values of financial debt instruments and equity instruments traded in exchange and OTC markets, the ZIC Group makes extensive use of independent, reliable and reputable third party pricing providers and only in rare cases places reliance on prices that are derived from internal models.

In addition, the ZIC Group's policy is to ensure that independently sourced prices are developed by making maximum use of current observable market inputs derived from orderly transactions and by employing widely accepted valuation techniques and models. When third party pricing providers are unable to obtain adequate observable information for a particular financial instrument, the fair value is determined either by requesting selective non-binding broker quotes or by using internal valuation models.

Valuations can be subject to significant judgment especially when the fair value is determined based on at least one significant unobservable input parameter; such items are classified within Level 3 of the fair value hierarchy. See notes 6, 7 and 24 for further information regarding the estimate of fair value.

c) Impairment of assets

Financial assets

A financial asset is considered impaired if there is objective evidence of impairment as a result of one or more occurred loss events that have an impact on the estimated future cash flows of the financial asset.

The evaluation of whether an available-for-sale debt security is impaired requires analysis of the credit standing of a particular issuer and involves management judgment. When assessing impairment of available-for-sale debt securities, the ZIC Group places emphasis on issuer specific factors, such as significant financial difficulty, default or delinquency on interest or principal payments. A credit rating downgrade, worsened liquidity or decline in fair value is not by itself considered a loss event, but rather incorporated in the impairment analysis along with other available information.

The ZIC Group determines that there is objective evidence of impairment of an available-for-sale equity security, if at the reporting date:

- Its fair value is below the weighted-average cost by an amount significantly exceeding the volatility threshold determined quarterly for the respective equity market (such as North America, UK, Switzerland, other European countries and Asia-Pacific), or
- Its fair value has been below the weighted-average cost for a prolonged period of 24 consecutive months or longer.

Goodwill and Attorney-in-fact relationships (AIF)

Goodwill is allocated to the cash generating units (CGUs) as outlined in note 3. For the General Insurance segment, CGUs are aggregated predominantly at the segment level. Within the Global Life and Farmers segments, CGUs are identified at either business unit level or individual reporting entity level.

For goodwill impairment testing, the recoverable amount is the higher of its fair value less costs to sell and its value-in-use.

Fair value is determined, considering quoted market prices, current share values in the market place for similar publicly traded entities, and recent sale transactions of similar businesses.

Value-in-use is determined using the present value of estimated future cash flows expected to be generated from the CGU. Cash flow projections are based on financial budgets, which are approved by management, typically covering a three-year period or, if appropriate and adequately justified, a longer period, which may be necessary to more accurately represent the nature of the cash flows used to test the goodwill. Cash flows beyond this period are extrapolated using, amongst others, estimated perpetual growth rates, which reflect the expected inflation of the geographical areas in which the cash flows supporting the goodwill are generated. If cash flows are generated in different geographical areas with different expected inflation rates, weighted averages are used. The discount rates applied reflect the respective risk free interest rate adjusted for the relevant risk factors to the extent they have not already been considered in the underlying cash flows.

The discount rates used in the recoverable amount calculations for developed markets are based on the capital asset pricing model and consider government bond rates which are further adjusted for equity risk premium, appropriate beta and leverage ratio. In emerging markets, discount rates are based on the U.S. dollar discount rate taking into account inflation differential expectations and country risks. All input factors to the discount rates are based on observable market data.

The recoverable amount of the intangible assets with an indefinite life related to the Farmers segment (i.e., attorney-in-fact (AIF) relationships and goodwill) is determined on the basis of value-in-use calculations. These calculations use cash flow projections based on business plans which are approved by management and typically cover a three-year period. The basis for determining the values assigned to the key assumptions are current market trends and earnings projections.

Table 4.1 sets out, as of the date of valuation, the value of goodwill and AIF for the major CGUs, applied discount rates and the perpetual nominal growth rates beyond the projection period which are dependent on country specific growth rate and inflation expectations.

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Table 4.1

Discount and perpetual growth rates for goodwill and AIF for major CGUs

as of the date of valuation	Segment	in USD millions	Discount rates in % 2014	Discount rates in % 2013	Perpetual nominal growth rate in % 2014	Perpetual nominal growth rate in % 2013
Farmers	Farmers	1,845	11.2	11.4	–	–
General Insurance	General Insurance	597	10.8	10.6	1.0	2.2
Global Life Germany	Global Life	286	7.7	8.6	1.7	1.9

Sensitivity tests have been performed on goodwill and AIF, and typically comprised of an analysis for either a decrease in cash flows of up to 30 percent, a decrease in the perpetual growth rate of up to 1.0 percentage point or an increase in the discount rate of up to 3.5 percentage points in order to capture potential future variations in market conditions. Applying the value-in-use methodology, an increase of approximately 1.1 percentage points in the discount rate or a decrease of approximately 1.2 percentage points in the perpetual growth rate of the Global Life Germany CGU would result in the recoverable amount being close to the carrying value. No such reasonably possible changes of key assumptions were identified for the remaining CGUs.

Distribution agreements

The recoverable amount for General Insurance intangible assets relating to distribution agreements is determined on the basis of value-in-use calculations. These calculations use cash flow projections in line with the terms and conditions of the underlying distribution agreements. For Global Life intangible assets relating to distribution agreements, the recoverable amount is determined based on projected cash flows derived from the new business calculation and discount rates consistent with the data used for actuarial valuations.

The discount rates used in the recoverable amount calculations for developed markets are based on a capital asset pricing model and consider government bond rates, which are further adjusted for equity risk premium, appropriate beta and leverage ratio. In emerging markets, discount rates are based on the U.S. dollar discount rate taking into account inflation differential expectations and country risks. All input factors to the discount rates are based on observable market data.

Table 4.2 sets out, as of the date of valuation, the applied discount rates and the perpetual growth rates beyond the projection period which are dependent on country specific growth rate and inflation expectations used for the major distribution agreements.

Table 4.2

Discount and perpetual growth rates by major distribution agreements

as of the date of valuation	in USD millions	Range of discount rates in % 2014	Range of discount rates in % 2013	Perpetual nominal growth rate in % 2014	Perpetual nominal growth rate in % 2013
Banco Sabadell S.A. entities in Spain	1,880	9.3	11.0	2.0	2.0
Banco Santander S.A. entities in Latin America	1,588	12.2–35.7	12.6–42.0	n/a	n/a

For impairment testing purposes, these distribution agreements are assessed as single assets by counterparty.

Sensitivity tests have been performed on distribution agreements and typically comprised of an analysis for either a decrease in cash flows, a decrease in the perpetual growth rate or an increase in the discount rate, applying reasonably possible changes. No reasonably possible changes of key assumptions were identified which would result in the recoverable amount being close to the carrying value.

See notes 3, 6, 14, 15 and 16 for further information on impairment of assets.

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

See note 18 for further information on deferred taxes.

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

See note 21 for further information on employee benefits.

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5. Acquisitions and divestments

Transactions in 2014

Acquisitions

On October 31, 2014, the ZIC Group completed the acquisition of an effective 50.0 percent stake in Mediterráneo Seguros Diversos, S.A. (MSD), a general insurance company incorporated in Spain and thus extended the existing cooperation with Banco Sabadell S.A. (Banco Sabadell) entered into during 2008. The ZIC Group obtained control over MSD by virtue of the existing shareholders' agreement between the ZIC Group and Banco Sabadell.

The initial consideration on a 50.0 percent basis amounted to approximately USD 50 million, subject to a purchase price adjustment. The ZIC Group is still in the process of finalizing the purchase price adjustment. In addition to the initial consideration, an uncapped contingent liability based on the future profitability over the term of the distribution agreement was agreed, for which the fair value was estimated to amount to USD 4 million on a 50.0 percent basis. Based on the preliminary purchase accounting, the fair value of net tangible assets acquired amounted to USD 33 million, identifiable intangible assets relating to the distribution agreement amounted to USD 76 million, net of deferred tax and the non-controlling interest amounted to USD 54 million.

On May 28, 2014, the ZIC Group increased its shareholding in Deutscher Herold AG to 100 percent. This increase was the result of the non-controlling shareholder exercising its put option right over 15.17 percent of the shares and the ZIC Group exercising its call option right over 5.0 percent. The total consideration amounted to USD 366 million, of which USD 275 million for 15.17 percent was previously recorded on the balance sheet as a put option liability.

Divestments

On October 30, 2014, the ZIC Group closed the sale of its General Insurance retail business in Russia to OLMA Group. The contractually agreed sales price amounted to RUB 1 billion (approximately USD 23 million), subject to a purchase price adjustment. The ZIC Group is still in the process of finalizing any purchase price adjustment. A pre-tax loss of USD 247 million has been recorded within net gain/(loss) on divestments of businesses.

Transactions in 2013

Assets/liabilities held for sale

As of December 31, 2013, a subsidiary of Centre Group Holdings Limited, Centre Insurance Company, which is a general insurance and reinsurance company based in the United States of America, with total assets of USD 100 million and total liabilities of USD 49 million, was classified as held for sale. As of September 30 2014, Centre Insurance Company was no longer classified as held for sale as the sale was not completed.

6. Group investments

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

Table 6.1

Net investment result for Group investments

in USD millions, for the years ended December 31	Net investment income		Net capital gains/(losses) and impairments		Net investment result		of which impairments	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
Cash and cash equivalents	56	34	1	–	56	33	–	–
Equity securities	317	244	840	1,504	1,157	1,748	(37)	(58)
Debt securities	4,696	4,790	1,842	188	6,538	4,978	1	(2)
Investment property	501	486	168	186	668	671	–	–
Mortgage loans	281	329	1	(7)	281	322	1	(7)
Other loans	570	593	82	211	653	804	–	(20)
Investments in associates and joint ventures	12	11	36	1	48	12	(2)	(1)
Derivative financial instruments[1]	–	–	97	(806)	97	(806)	–	–
Investment result, gross, for Group investments	6,432	6,485	3,067	1,276	9,499	7,762	(36)	(87)
Investment expenses for Group investments[2]	(260)	(257)	–	–	(260)	(257)	–	–
Investment result, net, for Group investments	6,172	6,228	3,067	1,276	9,239	7,504	(36)	(87)

[1] Net capital losses on derivative financial instruments attributable to cash flow hedge ineffectiveness amounted to USD 29 million and USD 9 million for the years ended December 31, 2014 and 2013, respectively.
[2] Rental operating expenses for investment property included in investment expenses for Group investments amounted to USD 85 million and USD 119 million for the years ended December 31, 2014 and 2013, respectively.

Table 6.2

Details of Group investments by category

as of December 31	**2014**		2013	
	USD millions	**% of total**	USD millions	% of total
Cash and cash equivalents	7,352	3.6	7,053	3.4
Equity securities:				
Fair value through profit or loss	3,619	1.8	3,425	1.7
Available-for-sale	12,885	6.3	10,141	4.9
Total equity securities	16,504	8.0	13,566	6.5
Debt securities:				
Fair value through profit or loss	7,121	3.5	7,121	3.4
Available-for-sale	142,510	69.4	144,645	69.7
Held-to-maturity	3,971	1.9	4,613	2.2
Total debt securities	153,602	74.8	156,379	75.4
Investment property	8,784	4.3	8,745	4.2
Mortgage loans	7,249	3.5	8,933	4.3
Other loans	11,731	5.7	12,712	6.1
Investments in associates and joint ventures	70	0.0	129	0.1
Total Group investments	**205,292**	**100.0**	**207,516**	**100.0**

Investments (including cash and cash equivalents) with a carrying value of USD 6,214 million and USD 5,853 million were held to meet local regulatory requirements as of December 31, 2014 and 2013, respectively.

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Details of debt securities by category

Table 6.3

in USD millions, as of December 31	Held-to-maturity		Available-for-sale		Fair value through profit or loss	
	2014	2013	**2014**	2013	**2014**	2013
Debt securities:						
Government and supra-national bonds	3,665	4,245	60,891	64,003	3,751	3,801
Corporate securities	306	368	62,744	61,380	2,663	2,641
Mortgage and asset-backed securities	–	–	18,868	19,253	706	679
Redeemable preferred stock	–	–	8	9	–	–
Total debt securities	**3,971**	**4,613**	**142,510**	**144,645**	**7,121**	**7,121**

Debt securities maturity schedule

Table 6.4

in USD millions, as of December 31	Held-to-maturity		Available-for-sale		Fair value through profit or loss	
	2014	2013	**2014**	2013	**2014**	2013
Debt securities:						
< 1 year	502	424	10,589	9,666	942	1,041
1 to 5 years	1,338	1,957	40,325	47,123	1,699	1,539
5 to 10 years	836	904	34,829	35,632	1,148	1,256
> 10 years	1,295	1,328	37,900	32,971	2,625	2,606
Subtotal	3,971	4,613	123,642	125,392	6,414	6,442
Mortgage and asset-backed securities:						
< 1 year	–	–	562	612	1	21
1 to 5 years	–	–	3,719	4,781	198	379
5 to 10 years	–	–	3,559	2,054	55	36
> 10 years	–	–	11,028	11,806	452	242
Subtotal	–	–	18,868	19,253	706	679
Total	**3,971**	**4,613**	**142,510**	**144,645**	**7,121**	**7,121**

The analysis in table 6.4 is provided by contractual maturity. Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Investment property

Table 6.5

in USD millions	Total	
	2014	2013
As of January 1	8,745	8,561
Additions and improvements	1,049	611
Disposals	(210)	(706)
Market value revaluation	189	72
Transfer from assets held for own use	70	81
Transfer to assets held for sale	(28)	(87)
Foreign currency translation effects	(1,032)	214
As of December 31	**8,784**	**8,745**

Investment property consists of investments in commercial, residential and mixed-use properties primarily located in Switzerland, Germany and the UK.

Net unrealized gains/(losses) on Group investments included in equity

Table 6.6

in USD millions, as of December 31	Total 2014	Total 2013
Equity securities: available-for-sale	1,559	1,330
Debt securities: available-for-sale	12,510	4,431
Other	372	130
Gross unrealized gains/(losses) on Group investments	14,441	5,891
Less amount of unrealized gains/(losses) on investments attributable to:		
Life policyholder dividends and other policyholder liabilities	(7,628)	(2,948)
Life deferred acquisition costs and present value of future profits	(995)	(460)
Deferred income taxes	(1,421)	(738)
Non-controlling interests	(49)	(13)
Total[1]	**4,348**	**1,731**

[1] Net unrealized gains/(losses) on Group investments include net gains arising on cash flow hedges of USD 306 million and USD 106 million as of December 31, 2014 and 2013, respectively.

Securities lending, repurchase and reverse repurchase agreements

Table 6.7

in USD millions, as of December 31	2014	2013
Securities lending agreements		
Securities lent under securities lending agreements[1]	7,668	9,947
Collateral received for securities lending	8,266	10,806
of which: Cash collateral	229	332
of which: Non cash collateral[2]	8,036	10,474
Liabilities for cash collateral received for securities lending	229	332
Repurchase agreements		
Securities sold under repurchase agreements[3]	1,455	1,694
Obligations to repurchase securities	1,451	1,685
Reverse repurchase agreements		
Securities purchased under reverse repurchase agreements[4]	294	681
Receivables under reverse repurchase agreements	290	678

[1] The ZIC Group's counterparties have the right to sell or repledge, in the absence of default, assets pledged as collateral with a fair value of USD 7,668 million and USD 9,947 million as of December 31, 2014 and December 31, 2013, respectively. The majority of these assets were debt securities.
[2] The ZIC Group had the right to sell or repledge, in the absence of default by its counterparties, securities received as collateral with a fair value of USD 7,344 million and USD 9,725 million as of December 31, 2014 and December 31, 2013, respectively.
[3] The ZIC Group's counterparties have the right to sell or repledge, in the absence of default, assets pledged as collateral with a fair value of USD 1,307 million and USD 1,508 million as of December 31, 2014 and December 31, 2013, respectively. The majority of these assets were debt securities.
[4] The ZIC Group had the right to sell or repledge, in the absence of default by its counterparties, securities received as collateral with a fair value of nil and 187 million as of December 31, 2014 and December 31, 2013, respectively.

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7. Group derivative financial instruments and hedge accounting

The ZIC Group uses derivative financial instruments mainly for economic hedging purposes in order to mitigate risks. Such risks result from changes in interest rates, equity prices and exchange rates. Derivative financial instruments with a positive fair value are reported in other assets (see note 16) and those with a negative fair value are reported in other liabilities (see note 17).

Table 7.1 shows the fair value and notional amounts for instruments which do not qualify for hedge accounting as of December 31, 2014 and 2013. Whilst these notional amounts express the extent of the ZIC Group's involvement in derivative transactions, they are not, however, representative of amounts at risk.

Table 7.1

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

in USD millions, as of December 31	2014						2013		
	Maturity by notional amount			Notional amounts	Positive fair values	Negative fair values	Notional amounts	Positive fair values	Negative fair values
	< 1 year	1 to 5 years	> 5 years						
Interest rate contracts:									
OTC									
Swaps	393	698	3,207	4,297	212	(55)	4,764	175	(178)
Swaptions	363	1,159	1,549	3,071	104	(35)	8,515	177	(234)
Exchange traded									
Futures	453	–	–	453	–	(1)	408	1	–
Total interest rate contracts	**1,209**	**1,857**	**4,755**	**7,821**	**316**	**(91)**	**13,687**	**353**	**(413)**
Equity contracts:									
OTC									
Swaps	49	–	–	49	1	–	52	–	(1)
Options	1,289	1,529	1,357	4,175	111	(71)	6,023	101	(98)
Exchange traded									
Options	16	–	–	16	1	–	10	–	–
Futures	535	–	–	535	–	(17)	519	–	(22)
Total equity contracts	**1,889**	**1,529**	**1,357**	**4,775**	**113**	**(88)**	**6,603**	**101**	**(120)**
Foreign exchange contracts:									
OTC									
Swaps and forwards	15,303	–	–	15,303	111	(104)	17,820	67	(110)
Total foreign exchange contracts	**15,303**	**–**	**–**	**15,303**	**111**	**(104)**	**17,820**	**67**	**(110)**
Other contracts:									
OTC									
Swaps	–	–	60	60	–	(8)	64	–	(3)
Total other contracts	**–**	**–**	**60**	**60**	**–**	**(8)**	**64**	**–**	**(3)**
Total Group derivative financial instruments	**18,401**	**3,385**	**6,172**	**27,958**	**540**	**(291)**	**38,173**	**521**	**(646)**

Interest rate contracts

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

Equity contracts

Equity contracts are entered into, either on a portfolio or on a macro level to protect equity investments against a decline in equity market prices or to manage the risk return profile of equity exposures. The majority of positions are for economic hedging purposes. Short positions are always covered and sometimes used to mitigate hedging costs.

Foreign exchange contracts

Swaps and forward contracts are used to hedge the ZIC Group's foreign currency exposures and to manage balance sheet mismatches.

Other contracts

Other contracts predominantly include stable value products (SVPs) issued to insurance company separate accounts in connection with certain life insurance policies (Bank Owned Life Insurance (BOLI) and Company Owned Life Insurance (COLI)) with an account value of USD 9.0 billion and USD 9.4 billion and market value of the underlying investments of USD 9.2 billion and USD 9.0 billion as of December 31, 2014 and 2013, respectively. The ZIC Group closely monitors the risk of surrender of these life insurance policies and includes the likelihood of surrender as one of the input parameters to determine the fair value of the SVPs which was nil as of December 31, 2014 and 2013.

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

Table 7.2

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

in USD millions, as of December 31	2014						2013		
	Maturity by notional amount			**Notional principal amounts**	**Positive fair values**	**Negative fair values**	**Notional principal amounts**	**Positive fair values**	**Negative fair values**
	< 1 year	1 to 5 years	> 5 years						
Fair value hedges:									
Cross currency interest rate swaps	330	–	–	330	8	–	574	108	–
Cross currency swaps	–	8	63	71	–	(49)	69	–	(39)
Interest rate swaps	–	805	1,612	2,417	143	–	1,699	15	(6)
Total fair value hedges	**330**	**813**	**1,675**	**2,818**	**151**	**(49)**	**2,342**	**122**	**(45)**
Cash flow hedges:									
Interest rate swaptions	–	850	2,103	2,954	499	–	3,296	282	–
Cross currency swaps	793	–	–	793	–	(70)	1,768	166	–
Interest rate swaps	1	66	28	96	18	–	132	20	–
Total cash flow hedges	**794**	**917**	**2,132**	**3,842**	**518**	**(70)**	**5,196**	**468**	**–**
Net investment hedges:									
Forwards	168	–	–	168	–	(4)	275	–	(2)
Total net investment hedges	**168**	**–**	**–**	**168**	**–**	**(4)**	**275**	**–**	**(2)**

Fair value hedges

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

Information on debt issuances designated as hedged items in fair value hedge relationships is set out in note 19.

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

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

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

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Gains/(losses) arising from fair value hedges

Table 7.3

in USD millions, for the years ended December 31	2014	2013
Gains/(losses)		
on hedging instruments[1]	*48*	*(57)*
on hedged items attributable to the hedged risk	*(35)*	*52*

[1] Excluding current interest income, which is recognized as an offset on the same line as the interest expense of the hedged debt.

Cash flow hedges

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

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

Information on debt issuances designated as hedged items in cash flow hedge relationships is set out in note 19.

The net gains/(losses) deferred in other comprehensive income on derivative financial instruments designated as cash flow hedges were USD 109 million and USD (94) million before tax for the years ended December 31, 2014 and 2013, respectively.

The ZIC Group recognized gains of USD 13 million in the consolidated income statement within net investment income on Group investments for both the years ended December 31, 2014 and 2013. The ZIC Group also recognized net gains/(losses) of USD (176) million and USD 73 million within administrative and other operating expense for the years ended December 31, 2014 and 2013, respectively, as an offset to the foreign currency revaluation on the underlying hedged items.

A loss of USD 29 million and USD 9 million for the years ended December 31, 2014 and 2013, respectively, was recognized in net capital gains/(losses) and impairments due to hedge ineffectiveness.

Net investment hedges

The ZIC Group applies net investment hedge accounting in order to protect itself against the effects of changes in exchange rates in its net investments in foreign operations.

A hedge relationship through a foreign exchange forward with a notional amount of USD 168 million and USD 275 million was in place as of December 31, 2014 and 2013, respectively. Net gains/(losses) deferred in other comprehensive income were USD (13) million and USD 4 million before tax for the years ended December 31, 2014 and 2013, respectively.

In 2014, the ZIC Group also designated certain debt issuances as hedging instruments on a non-derivative net investment hedge relationship. As of December 31, 2014, the notional amount of these financial instruments was USD 1.5 billion and net gains/(losses) deferred in other comprehensive income were USD (35) million before tax.

Information on debt issuances designated as hedging instruments in a net investment hedge relationship is set out in note 19.

No ineffectiveness of net investment hedges was recognized in net capital gains/(losses) and impairments for the years ended December 31, 2014 and 2013.

Derivative financial instruments: offsetting of financial assets and liabilities

Table 7.4 shows the net asset and liability position of Group derivative financial instruments subject to enforceable master netting arrangements and collateral agreements. Master netting arrangements are used by the ZIC Group to provide protection against loss in the event of bankruptcy or other circumstances that result in a counterparty being unable to meet its obligations. These arrangements commonly create a right of offset that becomes enforceable and affects the realization or settlement of individual financial assets and financial liabilities only following a specified event of default or other circumstances which would not be expected to arise in the normal course of business.

Table 7.4

Group derivative financial instruments subject to enforceable master netting arrangements and collateral agreements

in USD millions, as of December 31	Derivative assets		Derivative liabilities	
	2014	2013	**2014**	2013
Fair value	1,208	1,111	(413)	(693)
Related amounts not offset	(186)	(216)	186	216
Cash collateral (received)/pledged	(876)	(809)	82	375
Non cash collateral (received)/pledged	(27)	(9)	8	7
Net amount	**119**	**77**	**(138)**	**(96)**

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

Reserves for insurance contracts

Table 8.1

in USD millions, as of December 31	Gross		Ceded		Net	
	2014	2013	**2014**	2013	**2014**	2013
Reserves for losses and loss adjustment expenses	64,472	68,312	(9,770)	(10,993)	54,703	57,319
Reserves for unearned premiums	16,779	17,616	(2,446)	(2,576)	14,333	15,040
Future life policyholders' benefits	77,652	84,476	(2,441)	(2,501)	75,211	81,975
Policyholders' contract deposits and other funds	23,415	20,162	(1,994)	(2,036)	21,421	18,126
Reserves for unit-linked contracts	71,400	74,873	–	–	71,400	74,873
Total reserves for insurance contracts[1]	**253,719**	**265,440**	**(16,650)**	**(18,107)**	**237,069**	**247,333**

[1] Total reserves for insurance contracts ceded are gross of allowances for uncollectible amounts of USD 100 million and USD 129 million as of December 31, 2014 and December 31, 2013, respectively.

Development of reserves for losses and loss adjustment expenses

Table 8.2

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	26,033	26,936	(3,102)	(3,050)	22,931	23,885
Prior years	(673)	(1,187)	614	430	(59)	(757)
Total incurred	25,360	25,749	(2,488)	(2,621)	22,871	23,128
Losses and loss adjustment expenses paid:						
Current year	(9,983)	(10,350)	748	745	(9,235)	(9,605)
Prior years	(15,894)	(17,169)	2,593	3,370	(13,301)	(13,799)
Total paid	(25,877)	(27,519)	3,341	4,115	(22,536)	(23,404)
Acquisitions/(divestments) and transfers[1]	73	(61)	(11)	13	62	(49)
Foreign currency translation effects	(3,395)	157	381	101	(3,013)	258
As of December 31	**64,472**	**68,312**	**(9,770)**	**(10,993)**	**54,703**	**57,319**

[1] The 2014 net movement includes USD 47 million reclassified from future life policyholders' benefits (see note 1), USD 49 million due to the reclassification of a subsidiary of Centre Group Holdings Limited from held for sale (see note 5), USD 6 million due to the acquisition of MSD (see note 5) and USD (40) million due to the sale of the ZIC Group's General Insurance retail business in Russia (see note 5). The 2013 net movement includes USD (49) million due to the reclassification of a subsidiary of Centre Group Holdings Limited to held for sale (see note 5).

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

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

For the year ended December 31, 2014, the decrease of USD 2,616 million in net reserves for losses and loss adjustment expenses was mostly driven by the effect of foreign currency translation of USD 3,013 million. Excluding this effect, reserves for losses and loss adjustment expenses increased by USD 397 million. Underlying favorable reserve development arising from reserves established in prior years amounted to USD 59 million during the year ended December 31, 2014, and mainly relates to the following:

- The personal and commercial business in Europe reported favorable prior year development of USD 218 million, mostly driven by USD 96 million in motor third party liability in Switzerland and USD 75 million in property in the UK;

- In Global Corporate, adverse prior year development of USD 56 million arising in North America, partially offset by favorable development in Europe;
- Adverse prior year development of USD 198 million relating to asbestos and other run-off businesses.

For the year ended December 31, 2013, the decrease of USD 66 million (USD 324 million before the foreign currency translation impact) in net reserves for losses and loss adjustment expenses was mostly driven by payments on crop and storm Sandy losses in North America. Favorable reserve development arising from reserves established in prior years amounted to USD 757 million, and mainly related to the following movements by market-facing business, country and line of business:

- The personal and commercial business in Europe reported favorable prior year development of USD 412 million, mostly driven by USD 326 million in motor liability in Switzerland and a reduction of large property claims of USD 46 million in the UK;
- In Global Corporate, favorable development of USD 355 million was driven by lower estimates of large property claims in Switzerland, the UK and Global Energy and lower estimates for the Thai floods, which occurred in 2012.

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Development of insurance losses, net

Table 8.3

in USD millions, as of December 31	2005	2006	2007	2008	2009	2010	2011	2012	2013	**2014**
Gross reserves for losses and loss adjustment expenses	60,425	64,535	67,890	65,218	68,126	68,274	67,762	69,986	68,312	64,472
Reinsurance recoverable	(14,231)	(13,722)	(13,179)	(12,232)	(12,182)	(12,093)	(12,421)	(12,601)	(10,993)	(9,770)
Initial net reserves for losses and loss adjustment expenses	46,194	50,814	54,712	52,986	55,944	56,180	55,341	57,385	57,319	54,703
Cumulative paid as of December 31:										
One year later	*(11,423)*	*(11,237)*	*(12,551)*	*(13,047)*	*(12,716)*	*(13,092)*	*(13,525)*	*(13,799)*	*(13,301)*	
Two years later	*(18,044)*	*(18,362)*	*(19,660)*	*(19,909)*	*(19,821)*	*(21,073)*	*(21,245)*	*(21,465)*		
Three years later	*(23,077)*	*(23,421)*	*(24,428)*	*(24,693)*	*(25,623)*	*(27,137)*	*(26,871)*			
Four years later	*(26,850)*	*(26,839)*	*(27,735)*	*(28,808)*	*(30,127)*	*(31,375)*				
Five years later	*(29,425)*	*(29,224)*	*(30,690)*	*(32,170)*	*(33,325)*					
Six years later	*(31,189)*	*(31,483)*	*(33,310)*	*(34,596)*						
Seven years later	*(33,030)*	*(33,665)*	*(35,188)*							
Eight years later	*(34,896)*	*(35,215)*								
Nine years later	*(36,162)*									
Cumulative incurred as of December 31:										
One year later	*(218)*	*(1,219)*	*(1,271)*	*(1,059)*	*(1,378)*	*(1,302)*	*(571)*	*(757)*	*(59)*	
Two years later	*(367)*	*(2,171)*	*(2,152)*	*(2,350)*	*(2,565)*	*(1,819)*	*(891)*	*(652)*		
Three years later	*(897)*	*(2,686)*	*(2,844)*	*(3,048)*	*(2,700)*	*(2,028)*	*(677)*			
Four years later	*(945)*	*(3,003)*	*(3,533)*	*(3,176)*	*(2,770)*	*(1,891)*				
Five years later	*(1,044)*	*(3,438)*	*(3,580)*	*(3,235)*	*(2,587)*					
Six years later	*(1,184)*	*(3,279)*	*(3,478)*	*(2,958)*						
Seven years later	*(841)*	*(3,146)*	*(3,215)*							
Eight years later	*(681)*	*(2,845)*								
Nine years later	*(423)*									
Net reserves re-estimated as of December 31:										
One year later	*45,976*	*49,594*	*53,441*	*51,927*	*54,565*	*54,878*	*54,770*	*56,628*	*57,259*	
Two years later	*45,827*	*48,642*	*52,559*	*50,637*	*53,379*	*54,361*	*54,450*	*56,734*		
Three years later	*45,297*	*48,127*	*51,868*	*49,939*	*53,243*	*54,152*	*54,664*			
Four years later	*45,249*	*47,811*	*51,179*	*49,810*	*53,173*	*54,289*				
Five years later	*45,150*	*47,376*	*51,131*	*49,752*	*53,357*					
Six years later	*45,010*	*47,535*	*51,234*	*50,028*						
Seven years later	*45,353*	*47,668*	*51,497*							
Eight years later	*45,513*	*47,969*								
Nine years later	*45,771*									
Cumulative (deficiency)/ redundancy of net reserves	423	2,845	3,215	2,958	2,587	1,891	677	652	59	
Cumulative (deficiency)/ redundancy as a percentage of initial net reserves	0.9%	5.6%	5.9%	5.6%	4.6%	3.4%	1.2%	1.1%	0.1%	
Gross reserves re-estimated as of December 31, 2014	60,440	60,939	63,356	60,877	63,763	65,082	65,984	68,041	67,639	
Cumulative (deficiency)/ redundancy of gross reserves	(15)	3,596	4,535	4,340	4,363	3,192	1,778	1,946	673	
Cumulative (deficiency)/ redundancy as a percentage of initial gross reserves	(0.0%)	5.6%	6.7%	6.7%	6.4%	4.7%	2.6%	2.8%	1.0%	

Table 8.3 presents changes in the historical reserves for losses and loss adjustment expenses, net of reinsurance, that the ZIC Group established in 2005 and subsequent years. Reserves are presented by financial year, not by accident year. The reserves (and the development thereon) are for all accident years in that financial year. The top line of the table shows the estimated gross reserves for unpaid losses and loss adjustment expenses as of each balance sheet date, which represents the estimated amount of future payments for losses incurred in that year and in prior years. The cumulative paid portion of the table presents the cumulative amounts paid through each subsequent year in respect of the reserves established at each year end. Similarly, the cumulative incurred losses section details the sum of the cumulative paid amounts shown in the triangle above and the changes in loss reserves since the end of each financial year. The net reserves re-estimated portion of the table shows the re-estimation of the initially recorded reserve as of each succeeding year end. Reserve development is shown in each column. Changes to estimates are made as more information becomes known about the actual losses for which the initial reserves were established. The cumulative deficiency or redundancy is equal to the initial net reserves less the liability re-estimated as of December 31, 2014. It is the difference between the initial net reserve estimate and the last entry of the diagonal. Conditions and trends that have affected the development of reserves for losses and loss adjustment expenses in the past may or may not necessarily occur in the future, and accordingly, conclusions about future results cannot be derived from the information presented in table 8.3.

Development of reserves for losses and loss adjustment expenses for asbestos

Table 8.4

in USD millions	2014		2013	
	Gross	**Net**	Gross	Net
Asbestos				
As of January 1	3,154	2,768	3,332	2,779
Losses and loss adjustment expenses incurred	93	93	47	53
Losses and loss adjustment expenses paid	(199)	(175)	(267)	(104)
Foreign currency translation effects	(167)	(146)	41	41
As of December 31	**2,882**	**2,540**	**3,154**	**2,768**

The ZIC Group has considered asbestos, including latent injury, claims and claims expenses in establishing the reserves for losses and loss adjustment expenses. The ZIC Group continues to be advised of indemnity claims asserting injuries from asbestos. Coverage and claim settlement issues, such as determination that coverage exists and the definition of an occurrence, together with increased medical diagnostic capabilities and awareness have often caused actual loss development to exhibit more variation than in other lines. Such claims require specialized reserving techniques and the uncertainty of the ultimate cost of these types of claims has tended to be greater than the uncertainty relating to standard lines of business.

Reserves for asbestos claims decreased by USD 272 million gross and USD 228 million net during 2014. The decrease in the gross reserve primarily relates to foreign currency translation effects of USD 167 million and USD 199 million due to payments, partially offset by adverse prior year development of USD 93 million in the UK and North America.

Reserves for asbestos claims decreased by USD 178 million gross and USD 10 million net during 2013. The decrease in the gross reserve primarily related to the transfer of a general insurance portfolio to RiverStone Insurance (UK) Limited, amounting to USD 152 million.

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Table 8.5

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	81,300
Premiums[1]	12,179	8,972	(600)	(580)	11,579	8,392
Claims	(10,575)	(10,334)	437	453	(10,138)	(9,880)
Fee income and other expenses[1]	(3,901)	(1,898)	217	176	(3,683)	(1,722)
Interest and bonuses credited to policyholders	3,259	2,017	(132)	(8)	3,127	2,009
Changes in assumptions	14	(64)	–	9	14	(55)
Acquisitions/(divestments) and transfers[2]	(97)	–	–	–	(97)	–
(Decreases)/increases recorded in other comprehensive income	1,060	(122)	–	–	1,060	(122)
Foreign currency translation effects	(8,763)	2,098	139	(45)	(8,625)	2,053
As of December 31	**77,652**	**84,476**	**(2,441)**	**(2,501)**	**75,211**	**81,975**

[1] In 2013, premiums were shown net of the change in reserves for unearned premiums. In 2014, premiums represent premiums received, while premiums earned on short-duration contracts are presented within fee income and other expenses. Following the same approach, 2013 net premiums would have been USD 10.4 billion and net fee income and other expenses would have been USD (3.7) billion.
[2] The 2014 net movement relates to USD (50) million reclassified to reserves for unit-linked contracts and USD (47) million reclassified to reserves for losses and loss adjustment expenses (see note 1).

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

Future life policyholders' benefits are generally calculated by a net premium valuation. In terms of USD, the weighted average discount rate used in the calculation of future life policyholders' benefits is 3.0 percent and 3.2 percent as of December 31, 2014 and 2013, respectively.

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

The net impact of changes in assumptions on future life policyholders' benefits by type of assumption is shown in table 8.6.

Table 8.6

Effect of changes in assumptions for future life policyholders' benefits

in USD millions, for the years ended December 31	**2014**	2013
Interest rates	111	(134)
Investment return	19	37
Changes in modeling	6	27
Expense	(2)	(5)
Morbidity	1	–
Longevity	(4)	(5)
Lapses	3	22
Other[1]	(119)	2
Net impact of changes in assumptions	**14**	**(55)**

[1] 2014 includes USD (105) million relating to changes in assumptions for terminal bonus reserves in Germany.

Policyholders' contract deposits and other funds gross

Table 8.7

in USD millions, as of December 31	2014	2013
Universal life and other contracts	12,626	12,833
Policyholder dividends	10,789	7,329
Total	**23,415**	**20,162**

Development of policyholders' contract deposits and other funds

Table 8.8

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	17,917
Premiums	1,363	1,371	(55)	(66)	1,308	1,305
Claims	(1,403)	(1,527)	181	228	(1,222)	(1,299)
Fee income and other expenses	(318)	(285)	(7)	(12)	(325)	(297)
Interest and bonuses credited to policyholders	1,593	1,217	(76)	(80)	1,517	1,137
(Decrease)/increase recorded in other comprehensive income	3,925	(1,041)	–	–	3,925	(1,041)
Foreign currency translation effects	(1,907)	403	–	–	(1,907)	403
As of December 31	**23,415**	**20,162**	**(1,994)**	**(2,036)**	**21,421**	**18,126**

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9. Liabilities for investment contracts

Liabilities for investment contracts

Table 9.1

in USD millions, as of December 31	2014	2013
Unit-linked investment contracts	62,964	59,469
Investment contracts (amortized cost)	843	1,030
Investment contracts with DPF	7,006	6,614
Total	**70,813**	**67,113**

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

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

Development of liabilities for investment contracts

Table 9.2

in USD millions	2014	2013
As of January 1	67,113	57,437
Premiums	11,488	8,276
Claims	(6,649)	(6,499)
Fee income and other expenses	(647)	(594)
Interest and bonuses credited to policyholders	5,554	6,800
Acquisitions/(divestments) and transfers[1]	(425)	–
Increase/(decrease) recorded in other comprehensive income	500	94
Foreign currency translation effects	(6,120)	1,598
As of December 31	**70,813**	**67,113**

[1] The 2014 movement relates to USD (425) million reclassified to reserves for unit-linked contracts (see note 1).

10. Equity component relating to contracts with DPF

Certain investment and insurance contracts sold by the ZIC Group contain benefit features for which the amount and timing of declaration and payment are at the discretion of the ZIC Group. Where that discretion has not been exercised, the total amount of undeclared funds surplus is included in equity. Mandated allocations related to unrealized results and earnings are included in policyholder liabilities and, upon declaration, discretionary bonuses are allocated to policyholders. The changes in table 10 represent the increase or decrease in unallocated gains and retained earnings after charging discretionary bonuses to policyholder liabilities.

Development of the equity component relating to contracts with DPF

Table 10

in USD millions	2014	2013
As of January 1	2,338	2,560
Net unrealized gains/(losses) on investments	675	(196)
Current period profit/(loss)	71	(96)
Foreign currency translation effects	(243)	70
As of December 31	**2,840**	**2,338**

11. Gross and ceded insurance revenues and expenses

Insurance benefits and losses

Table 11.1

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2014	2013	**2014**	2013	**2014**	2013
Losses and loss adjustment expenses	25,360	25,749	(2,488)	(2,621)	22,871	23,128
Life insurance death and other benefits	12,093	9,507	(600)	(437)	11,492	9,070
Total insurance benefits and losses	**37,452**	**35,256**	**(3,088)**	**(3,058)**	**34,364**	**32,198**

Policyholder dividends and participation in profits

Table 11.2

in USD millions, for the years ended December 31	**2014**	2013
Change in policyholders' contract deposits and other funds	1,624	1,185
Change in reserves for unit-linked products	5,537	6,290
Change in liabilities for investment contracts – unit-linked	5,325	6,605
Change in liabilities for investment contracts – other	238	218
Change in unit-linked liabilities related to UK capital gains tax	(157)	(352)
Total policyholder dividends and participation in profits	**12,568**	**13,946**

Underwriting and policy acquisition costs

Table 11.3

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2014	2013	**2014**	2013	**2014**	2013
Amortization of deferred acquisition costs	5,991	6,415	(473)	(456)	5,518	5,959
Amortization of deferred origination costs	113	125	–	–	113	125
Commissions and other underwriting and acquisition expenses[1]	4,453	4,323	(249)	(366)	4,204	3,957
Total underwriting and policy acquisition costs	**10,557**	**10,863**	**(721)**	**(822)**	**9,835**	**10,041**

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

Table 11.4

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2014	2013	**2014**	2013	**2014**	2013
Change in reserves for unearned premiums	**351**	**971**	**8**	**54**	**359**	**1,025**

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12. Deferred policy acquisition costs and deferred origination costs

Development of deferred policy acquisition costs

Table 12.1

in USD millions	General Insurance		Global Life		Other segments[1]		Total	
	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	3,623	3,460	2,235	2,243	675	833	6,532	6,537
Amortization	(3,192)	(3,141)	(1,506)	(1,882)	(816)	(847)	(5,514)	(5,871)
Impairments	–	–	(4)	(88)	–	–	(4)	(88)
Amortization (charged)/ credited to other comprehensive income	–	–	(579)	102	–	–	(579)	102
Acquisitions/(divestments) and transfers[2]	(7)	–	19	(313)	–	–	12	(313)
Foreign currency translation effects	(234)	(68)	(1,186)	79	–	–	(1,420)	11
As of December 31	**3,984**	**3,794**	**13,584**	**14,606**	**182**	**323**	**17,750**	**18,724**

[1] Net of eliminations from inter-segment transactions.
[2] The 2014 General Insurance movement includes USD (11) million due to the sale of the ZIC Group's General Insurance retail business in Russia (see note 5) and USD 4 million due to the acquisition of MSD (see note 5). The 2014 Global Life movement relates to USD 19 million transferred from deferred origination costs (see note 1). The 2013 Global Life movement relates to a transfer to deferred front-end fees of USD (438) million and a transfer from receivables and other assets of USD 126 million (see note 1 of the Consolidated financial statements 2013).

As of December 31, 2014 and 2013, deferred policy acquisition costs relating to non-controlling interests were USD 491 million and USD 682 million, respectively.

In 2013, the decision to stop offering life products through tied agents in Hong Kong triggered a reassessment of the recoverability of deferred policy acquisition costs, resulting in a USD 54 million impairment. The net impact on the ZIC Group was USD 30 million, including an impairment of deferred origination costs and the acceleration of the recognition of deferred front-end fees of USD 4 million and USD 27 million, respectively. An additional impairment of USD 34 million resulted from a reassessment of deferred policy acquisition costs in the Global Life business in Germany.

Development of deferred origination costs

Table 12.2

in USD millions	**2014**	2013
As of January 1	724	770
Origination costs deferred	57	63
Amortization	(112)	(121)
Impairments	–	(4)
Acquisitions/(divestments) and transfers[1]	(19)	–
Foreign currency translation effects	(55)	16
As of December 31	**595**	**724**

[1] The 2014 movement relates to USD (19) million transferred to deferred policy acquisition costs (see note 1).

13. Expenses

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

Expenses

Table 13

in USD millions, for the years ended December 31	2014	2013
Administrative and other operating expense	8,865	8,769
Other underwriting and policy acquisition expenses[1,2]	2,439	2,197
Unallocated loss adjustment expenses[3]	1,690	1,725
Other investment expenses for Group investments[4]	160	125
Total[1]	**13,153**	**12,816**
of which:		
Personnel and other related costs[1]	6,115	5,884
Amortization and impairments of intangible assets	840	1,011
Depreciation and impairments of property and equipment	173	186
Building and infrastructure[1]	572	540
Brand and marketing expenses[1]	523	498
Life recurring commission	415	380
Asset and other non-income taxes	88	143
IT expenses[1]	1,485	1,364
Restructuring costs	97	42
External professional services[1]	1,095	971
Foreign currency translation[1]	(29)	41
Other[1]	1,779	1,756
Total[1]	**13,153**	**12,816**

[1] The presentation of 2013 has been modified, showing a change in other underwriting and policy acquisition expenses, with corresponding changes by type of expense. This has no impact on the ZIC Group's consolidated income statement.
[2] Included within commissions and other underwriting and acquisition expenses (see table 11.3).
[3] Included within losses and loss adjustment expenses (see table 11.1).
[4] Excludes expenses arising from investment property within investment expenses for Group investments (see table 6.1).

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14. Property and equipment

Property and equipment – current period

Table 14.1

in USD millions	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other equipment	Total
Gross carrying value as of January 1, 2014	**354**	**1,020**	**403**	**461**	**739**	**2,978**
Less: accumulated depreciation/impairments	(7)	(407)	(254)	(391)	(426)	(1,484)
Net carrying value as of January 1, 2014	**347**	**614**	**149**	**71**	**314**	**1,494**
Additions and improvements	–	19	56	40	174	290
Disposals	(3)	(18)	(19)	–	(28)	(69)
Transfers	(83)	(58)	3	(4)	–	(142)
Depreciation and impairments	–	(28)	(31)	(33)	(80)	(173)
Foreign currency translation effects	(29)	(58)	(10)	(4)	(26)	(126)
Net carrying value as of December 31, 2014	**233**	**471**	**148**	**69**	**353**	**1,273**
Plus: accumulated depreciation/impairments	6	352	233	354	416	1,362
Gross carrying value as of December 31, 2014	**239**	**823**	**381**	**423**	**769**	**2,635**

Property and equipment – prior period

Table 14.2

in USD millions	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other equipment	Total
Gross carrying value January 1, 2013	**320**	**1,060**	**502**	**517**	**645**	**3,043**
Less: accumulated depreciation/impairments	(7)	(378)	(344)	(439)	(346)	(1,513)
Net carrying value January 1, 2013	**313**	**682**	**158**	**78**	**299**	**1,529**
Additions and improvements	54	38	46	31	113	282
Disposals	(5)	(14)	(7)	(2)	(34)	(62)
Transfers	(19)	(63)	(14)	1	14	(81)
Depreciation and impairments	–	(39)	(33)	(35)	(79)	(186)
Foreign currency translation effects	5	11	(2)	(3)	–	12
Net carrying value as of December 31, 2013	**347**	**614**	**149**	**71**	**314**	**1,494**
Plus: accumulated depreciation/impairments	7	407	254	391	426	1,484
Gross carrying value as of December 31, 2013	**354**	**1,020**	**403**	**461**	**739**	**2,978**

The fire insurance value of the ZIC Group's own-use property and equipment totaled USD 2,872 million and USD 2,912 million as of December 31, 2014 and 2013, respectively.

15. Goodwill and other intangible assets

Intangible assets – current period

Table 15.1

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**	**4,713**	**226**	**15,436**
Less: accumulated amortization/impairments	(338)	(2,189)	(811)	–	(3,072)	(145)	(6,556)
Net carrying value as of January 1, 2014	**1,852**	**729**	**3,553**	**1,025**	**1,640**	**81**	**8,880**
Additions and transfers	–	–	722	–	472	1	1,196
Divestments and transfers[1]	–	–	(12)	–	–	(8)	(20)
Amortization	–	(67)	(208)	–	(387)	(11)	(672)
Amortization charged to other comprehensive income	–	(50)	–	–	–	–	(50)
Impairments	(98)	–	(1)	–	(69)	–	(167)
Foreign currency translation effects	(92)	(56)	(477)	–	(114)	(11)	(750)
Net carrying value as of December 31, 2014	**1,661**	**556**	**3,577**	**1,025**	**1,542**	**53**	**8,415**
Plus: accumulated amortization/impairments	117	2,145	903	–	3,039	133	6,338
Gross carrying value as of December 31, 2014	**1,778**	**2,701**	**4,480**	**1,025**	**4,582**	**186**	**14,753**

[1] Distribution agreements relate to cancelations at an agreed price. Other relates to the sale of the ZIC Group's General Insurance retail business in Russia (see note 5).

As of December 31, 2014, intangible assets relating to non-controlling interests were USD 125 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1,531 million for distribution agreements and USD 31 million for software.

The ZIC Group extended the long-term distribution agreements with Banco de Sabadell S.A. (Banco Sabadell) in Spain to sell life, pension and general insurance products across Banco Sabadell's extended network, resulting in an addition to distribution agreements of USD 314 million, of which 50 percent was funded by Banco Sabadell. There was a further addition to distribution agreements of USD 408 million, which mainly related to new distribution agreements entered into by General Insurance operations in Brazil, which includes USD 362 million relating to a distribution agreement with Via Varejo S.A. for the exclusive sale of extended warranty insurance.

Following a review of subsidiaries in Global Life, the ZIC Group reassessed the recoverability of goodwill resulting in USD 98 million of impairments, mainly in the UK, Brazil and Malaysia.

Following a review, software was identified, primarily in Global Life and General Insurance, which was not utilized as originally expected, resulting in USD 69 million of impairments.

Intangible assets by segment – current period

Table 15.2

in USD millions, as of December 31, 2014	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other	Total
General Insurance	533	–	989	–	613	47	2,182
Global Life	309	556	2,588	–	406	6	3,865
Farmers	819	–	–	1,025	328	–	2,173
Other Operating Businesses	–	–	–	–	195	–	195
Net carrying value as of December 31, 2014	**1,661**	**556**	**3,577**	**1,025**	**1,542**	**53**	**8,415**

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Intangible assets – prior period

Table 15.3

in USD millions	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other	Total
Gross carrying value as of January 1, 2013	**2,239**	**2,890**	**4,435**	**1,025**	**4,410**	**219**	**15,219**
Less: accumulated amortization/impairments	(132)	(2,047)	(620)	–	(2,741)	(125)	(5,665)
Net carrying value as of January 1, 2013	**2,107**	**844**	**3,815**	**1,025**	**1,670**	**94**	**9,554**
Additions and transfers	–	–	36	–	433	–	469
Divestments and transfers	–	–	–	–	(2)	–	(3)
Amortization	–	(139)	(188)	–	(399)	(10)	(736)
Amortization charged to other comprehensive income	–	22	–	–	–	–	22
Impairments	(209)	–	–	–	(65)	(2)	(275)
Foreign currency translation effects	(46)	2	(111)	–	4	(1)	(152)
Net carrying value as of December 31, 2013	**1,852**	**729**	**3,553**	**1,025**	**1,640**	**81**	**8,880**
Plus: accumulated amortization/impairments	338	2,189	811	–	3,072	145	6,556
Gross carrying value as of December 31, 2013	**2,190**	**2,918**	**4,364**	**1,025**	**4,713**	**226**	**15,436**

As of December 31, 2013, intangible assets relating to non-controlling interests were USD 172 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1,660 million for distribution agreements and USD 32 million for software.

In 2013, following a review of the Russian retail business, the ZIC Group decided to manage the retail business in Russia on a stand-alone basis and separately from the General Insurance CGU. On this basis, the ZIC Group reassessed the recoverability of the Russian goodwill of USD 209 million and concluded that it was fully impaired.

Additions of USD 36 million related to new distribution agreements entered into by Global Life in the Middle East, and by General Insurance and Global Life in Brazil.

Following the revised Global Life strategy, certain IT assets will no longer be required, and therefore resulted in an impairment of USD 37 million. Additionally, a review of existing IT platforms in General Insurance in Latin America identified software, which was not utilized as originally expected, resulting in a USD 21 million impairment.

Intangible assets by segment – prior period

Table 15.4

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**

16. Receivables and other assets

Receivables and other assets

Table 16

in USD millions, as of December 31	2014	2013
Financial assets		
Group derivative assets	1,208	1,111
Unit-linked derivative assets	19	45
Receivables from policyholders	3,561	3,711
Receivables from insurance companies, agents and intermediaries	5,227	5,506
Receivables arising from ceded reinsurance	872	1,094
Reverse repurchase agreements	290	678
Amounts due from investment brokers	603	758
Other receivables	2,214	2,243
Allowance for impairments[1]	(266)	(297)
Other assets[2]	697	768
Non-financial assets		
Current tax receivables	729	1,073
Accrued premiums	720	731
Prepaid expenses	312	313
Prepaid insurance benefits	327	344
Other assets	401	377
Total receivables and other assets	**16,915**	**18,455**

[1] December 31, 2014 and 2013 includes USD 35 million and USD 45 million, respectively, for receivables arising from ceded reinsurance.
[2] December 31, 2014 and 2013 includes investments managed on a fiduciary and ring-fenced basis on behalf of Banco Santander S.A. amounting to USD 552 million and USD 603 million, respectively, carried at fair value through profit or loss.

Receivables are carried at notional amounts, and are generally settled within one year. The notional and fair value amounts do not vary significantly.

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17. Other liabilities

Other liabilities

Table 17.1

in USD millions, as of December 31	2014	2013
Other financial liabilities		
Group derivative liabilities	413	693
Unit-linked derivative liabilities	15	4
Amounts due to policyholders	714	923
Amounts due to insurance companies, agents and intermediaries	1,322	1,437
Amounts due to reinsurers	1,118	1,226
Liabilities for cash collateral received for securities lending	229	332
Amounts due to investment brokers	1,527	1,032
Collateralized bank financing for structured lease vehicles	766	796
Liabilities for defined benefit plans[1]	4,046	3,665
Other liabilities for employee benefit plans	130	123
Other liabilities	4,123	4,747
Other non-financial liabilities		
Current tax payables	905	1,232
Restructuring provisions	125	188
Premium prepayments and other advances	1,022	973
Other liabilities	1,824	758
Total other liabilities	**18,280**	**18,131**

[1] See note 21

Table 17.2 shows the maturity schedule of other financial liabilities as of December 31, 2014 and 2013.

Maturity schedule – other financial liabilities[1]

Table 17.2

in USD millions, as of December 31	2014		2013	
	Carrying value[2]	**Undiscounted cash flows[3]**	Carrying value[2]	Undiscounted cash flows[3]
< 1 year	9,005	9,067	9,275	9,322
1 to 2 years	102	130	96	161
2 to 3 years	121	175	67	114
3 to 4 years	42	82	97	146
4 to 5 years	401	440	76	116
> 5 years	687	1,230	1,703	2,434
Total	**10,358**	**11,124**	**11,314**	**12,293**

[1] Excluding liabilities for defined benefit plans.
[2] Allocation to the time bands is based on the expected maturity date.
[3] Allocation to the time bands is based on the earliest contractual maturity.

Restructuring provisions

Table 17.3

in USD millions	2014	2013
As of January 1	188	296
Provisions made during the period	104	62
Increase of provisions set up in prior years	17	34
Provisions used during the period	(150)	(154)
Provisions reversed during the period	(24)	(54)
Foreign currency translation effects	(10)	5
As of December 31	**125**	**188**

During the year ended December 31, 2014, restructuring programs with estimated costs of USD 104 million for the current year impacted mainly Other Operating Businesses, Global Life in the UK as well as General Insurance in Ireland and the UK. This included USD 63 million relating to the ZIC Group's strategic initiative for organizational alignment to reduce complexity and cost while enhancing agility. USD (6) million related to net decreases of provisions for restructuring which were initiated in prior years.

During the year ended December 31, 2013, restructuring programs with estimated costs of USD 62 million were announced and primarily impacted General Insurance in Middle East and Africa, Global Life in the UK and Ireland as well as Farmers. USD (20) million related to net decreases of provisions for restructuring which were initiated in prior years. In addition, the ZIC Group recorded USD 37 million of software impairments (see note 15), and USD 30 million for impairments of deferred policy acquisition costs and deferred origination costs, net of deferred front-end fees (see note 12), resulting from restructuring decisions.

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18. Income taxes

Income tax expense – current/deferred split

Table 18.1

in USD millions, for the years ended December 31	2014	2013
Current	1,463	1,474
Deferred	195	223
Total income tax expense	**1,659**	**1,697**

Expected and actual income tax expense

Table 18.2

in USD millions, for the years ended December 31	Rate	2014	Rate	2013
Net income before income taxes		5,917		6,103
less: income tax (expense)/benefit attributable to policyholders		(106)		(285)
Net income before income taxes attributable to shareholders		5,811		5,818
Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%	1,278	22.0%	1,280
Increase/(reduction) in taxes resulting from:				
Tax rate differential in foreign jurisdictions		*234*		*143*
Tax exempt and lower taxed income		*(109)*		*(107)*
Non-deductible expenses		*148*		*78*
Tax losses previously unrecognized or no longer recognized		*85*		*32*
Prior year adjustments and other		*(85)*		*(15)*
Actual income tax expense attributable to shareholders	**26.7%**	**1,552**	**24.3%**	**1,412**
plus: income tax expense/(benefit) attributable to policyholders		106		285
Actual income tax expense	28.0%	1,659	27.8%	1,697

Table 18.2 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 ZIC Group is required to record taxes on policyholder earnings for life insurance policyholders in certain jurisdictions. Accordingly, the income tax expense or benefit attributable to these life insurance policyholder earnings is included in income tax expense. In certain jurisdictions an accrual for future policy fees that will cover the tax charge is included in insurance benefits and losses.

Deferred tax assets/(liabilities) analysis by source

Table 18.3

in USD millions, as of December 31	2014 Assets	2014 Liabilities	2013 Assets	2013 Liabilities
Gross deferred tax				
Deferred acquisition and origination costs	20	(765)	20	(773)
Depreciable and amortizable assets	33	(48)	49	(65)
Life policyholders' benefits and deposits[1]	4	–	32	(13)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	176	(462)	366	(438)
Accruals and deferred income	168	(1)	185	(1)
Reserves for losses and loss adjustment expenses	477	(196)	614	(192)
Reserves for unearned premiums	801	–	728	(37)
Pensions and other employee benefits	632	(6)	604	–
Other assets/liabilities	351	(37)	616	(96)
Tax loss carryforwards	544	–	498	–
Gross deferred tax assets/(liabilities) before valuation allowance	3,205	(1,515)	3,711	(1,615)
Valuation allowance	(131)	–	(78)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,075	(1,515)	3,633	(1,615)
Deferred tax assets	**1,559**		**2,018**	
Gross deferred tax				
Deferred acquisition and origination costs	28	(2,447)	90	(2,560)
Depreciable and amortizable assets	236	(2,215)	373	(2,566)
Life policyholders' benefits and deposits[1]	1,392	(855)	1,229	(940)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	190	(1,367)	172	(888)
Accruals and deferred income	118	(191)	112	(123)
Reserves for losses and loss adjustment expenses	105	(95)	159	(111)
Reserves for unearned premiums	40	(104)	46	(84)
Deferred front-end fees	528	–	551	–
Pensions and other employee benefits	498	(94)	369	(42)
Other assets/liabilities	721	(1,544)	605	(1,549)
Tax loss carryforwards	69	–	77	–
Gross deferred tax assets/(liabilities) before valuation allowance	3,926	(8,912)	3,784	(8,864)
Valuation allowance	(22)	–	(18)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,904	(8,912)	3,766	(8,864)
Deferred tax liabilities		**(5,008)**		**(5,098)**
Net deferred tax liabilities		**(3,449)**		**(3,080)**

[1] Includes reserves for unit-linked contracts

The ZIC Group's deferred tax assets and liabilities are recorded by its tax paying entities throughout the world, which may include several legal entities within each tax jurisdiction. Legal entities are grouped as a single taxpayer only when permitted by local legislation and when deemed appropriate. The first part of table 18.3 includes single taxpayers with a net deferred tax asset position and the second part includes single taxpayers with a net deferred tax liability position.

As of December 31, 2014 and 2013, the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognized amount to approximately USD 5 billion and USD 200 million, respectively. In the remote scenario in which these temporary differences were to reverse simultaneously, the resulting tax liabilities would be very limited due to participation exemption rules.

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Development of net deferred tax liabilities

Table 18.4

in USD millions	2014	2013
As of January 1	(3,080)	(3,385)
Net change recognized in the income statement	(195)	(223)
Net change recognized in equity	(590)	552
Net changes due to acquisitions/(divestments)	(26)	–
Foreign currency translation effects	442	(25)
As of December 31	**(3,449)**	**(3,080)**
attributable to policyholders	(589)	(586)
attributable to shareholders	(2,860)	(2,495)

The net deferred tax liabilities relating to non-controlling interests amounted to USD 465 million and USD 568 million as of December 31, 2014 and 2013, respectively.

Development of deferred income taxes included in equity

Table 18.5

in USD millions	2014	2013
As of January 1	446	(120)
Net unrealized gains/(losses) on available-for-sale investments	(702)	589
Cash flow hedges	(65)	40
Revaluation reserve	(8)	(4)
Net actuarial gains/(losses) on pension plans	185	(73)
Foreign currency translation effects	33	14
As of December 31	**(111)**	**446**

Tax loss carryforwards and tax credits

Table 18.6

in USD millions, as of December 31	2014	2013
For which deferred tax assets have been recognized, expiring		
< 5 years	72	71
5 to 20 years	264	344
> 20 years or with no time limitation	1,218	1,383
Subtotal	1,554	1,797
For which deferred tax assets have not been recognized, expiring		
< 5 years	36	10
5 to 20 years	112	126
> 20 years or with no time limitation	445	129
Subtotal	593	265
Total	**2,146**	**2,062**

The tax rates applicable to tax losses for which a deferred tax asset has not been recognized are 24.6 percent and 27.3 percent for the years 2014 and 2013, respectively.

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

Management assesses the recoverability of the deferred tax asset carrying values based on future years taxable income projections and considers that the carrying values of the deferred tax assets as of December 31, 2014, are recoverable.

19. Senior and subordinated debt

Senior and subordinated debt

Table 19.1

in USD millions, as of December 31		2014	2013
Senior debt			
Zurich Insurance Company Ltd	Floating rate CHF 200 million notes, due June 2016[4]	201	–
	2.25% CHF 500 million notes, due July 2017[4]	501	559
	2.375% CHF 525 million notes, due November 2018[4]	525	585
	1.50% CHF 400 million notes, due June 2019[3,4,5]	414	443
	1.125% CHF 400 million notes, due September 2019[3,4,5]	419	450
	0.625% CHF 250 million notes, due July 2020[3,4,5]	256	–
	2.875% CHF 250 million notes, due July 2021[4]	249	277
	3.375% EUR 500 million notes, due June 2022[3,4,5]	656	687
	1.875% CHF 100 million notes, due September 2023[3,4,5]	110	112
	1.750% EUR 500 million notes, due September 2024[4,5]	609	–
	1.500% CHF 150 million notes, due July 2026[3,4,5]	161	–
	Various debt instruments payable within 1 year with Zurich Insurance Group Ltd[7]	–	292
Zurich Finance (USA), Inc.	Euro Commercial Paper Notes, due in less than 1 year	400	400
	4.50% EUR 1 billion notes, due September 2014	–	1,384
	6.50% EUR 600 million notes, due October 2015[1,4,5]	726	825
Zurich Santander Insurance America S.L.	7.5% EUR 93 million loan, due December 2035	113	210
Other	Various debt instruments	40	113
Senior debt		5,379	6,337
Subordinated debt			
Zurich Insurance Company Ltd	12.0% EUR 143 million perpetual capital notes, first callable July 2014	–	197
	4.25% CHF 700 million perpetual notes, first callable May 2016[4]	702	780
	8.25% USD 500 million perpetual capital notes, first callable January 2018[4,6]	497	496
	4.625% CHF 500 million perpetual notes, first callable May 2018[4]	499	555
	7.5% EUR 425 million notes, due July 2039, first callable July 2019[4]	512	582
	2.75% CHF 200 million perpetual capital notes, first callable September 2021[3,4,5]	206	–
	4.25% EUR 1 billion notes, due October 2043, first callable October 2023[4,6]	1,196	1,360
Zurich Finance (UK) plc	6.625% GBP 450 million perpetual notes, first callable October 2022[2,4]	694	737
Zurich Finance (USA), Inc.	4.5% EUR 269 million notes, due June 2025, first callable June 2015[3,4,5]	330	385
ZFS Finance (USA) Trust II	Series II 6.45% USD 700 million Trust Preferred Securities (ECAPS), due December 2065, first callable June 2016	680	677
ZFS Finance (USA) Trust V	Series V 6.5% USD 1 billion Trust Preferred Securities, due May 2067, first callable May 2017	501	498
Other	Various debt instruments	41	74
Subordinated debt		5,857	6,342
Total senior and subordinated debt		**11,236**	**12,678**

[1] The bond is part of a qualifying cash flow hedge (100 percent).
[2] The holders of these notes benefit from the Replacement Capital Covenant which states that if Series V Fixed/Floating Trust Preferred Securities, issued by ZFS Finance (USA) Trust V, are called before 2047, the ZIC Group will issue a replacement debt instrument with terms and provisions that will be as or more equity-like than the replaced notes.
[3] These bonds are part of qualifying fair value hedges (100 percent).
[4] Issued under the Zurich Insurance Group's Euro Medium Term Note Programme (EMTN Programme).
[5] The ZIC Group applied the cash flow hedge methodology to hedge the foreign currency exposure and deferred the attributable basis spreads in shareholders' equity, whereas the fair value hedge methodology was used to hedge the interest rate exposure with changes in the fair value being recorded through the income statement.
[6] These bonds are part of a qualifying net investment hedge (100 percent).
[7] In 2013, debt instruments payable within 1 year with Zurich Insurance Group Ltd were classified as senior debt. In 2014, they are classified as other liabilities.

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None of the debt instruments listed in table 19.1 were in default as of December 31, 2014 or 2013.

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

Table 19.2

Maturity schedule of outstanding debt

in USD millions, as of December 31	2014		2013	
	Carrying value	**Undiscounted cash flows**	Carrying value	Undiscounted cash flows
< 1 year	1,137	1,608	2,088	2,704
1 to 2 years	201	616	949	1,446
2 to 3 years	516	897	–	458
3 to 4 years	525	888	559	987
4 to 5 years	866	1,187	613	1,024
5 to 10 years	2,595	3,966	2,729	4,529
> 10 years	5,395	7,642	5,741	8,568
Total	**11,236**	**16,803**	**12,678**	**19,715**

Debt maturities reflect original contractual dates without taking early redemption options into account. For call/redemption dates, see table 19.1. The total notional amount of debt due in each period is not materially different from the total carrying value disclosed in table 19.3. Undiscounted cash flows include interest and principal cash flows on debt outstanding as of December 31, 2014 and 2013. All debt is assumed to mature within 20 years of the balance sheet date without refinancing. Floating interest rates are assumed to remain constant as of December 31, 2014 and 2013. The aggregated cash flows are translated into U.S. dollars at end-of-period rates.

Credit facilities

The ZIC Group has access to a multi-currency revolving credit facility of USD 3.2 billion that terminates in 2018. It is guaranteed by Zurich Insurance Company Ltd.

In addition, the ZIC Group has access to three other revolving credit facilities totaling USD 425 million, which will expire in 2019 at the latest. A fourth revolving credit facility of USD 16 million expired in July 2014.

No borrowings were outstanding under any of these facilities as of December 31, 2014 or 2013.

20. Shareholders' equity

Share capital and profit sharing certificates

Table 20

number of shares, as of December 31	2014	2013
Contingent and issued share capital, CHF 10 par value	86,000,000	86,000,000
Issued share capital, CHF 10 par value	82,500,000	82,500,000
Profit sharing certificates (Genussscheine)[1]	2	2

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

a) Contingent share capital
At the General Meeting of Shareholders on June 11, 1997, a contingent capital of CHF 35,000,000, or 3,500,000 shares with a par value of CHF 10 each, was created, of which 2,500,000 shares can be issued in connection with the granting of conversion and/or option rights and 1,000,000 shares can be issued for the purpose of employees' share ownership plans. None of the contingent shares have been issued as of December 31, 2014 and December 31, 2013.

b) Profit sharing certificates
As of December 31, 2014 and 2013, Zurich Insurance Company Ltd had two profit sharing certificates with no par value issued.

c) Additional paid-in capital
On April 25, 2008, a subordinated loan agreement was entered into between Zurich Insurance Company Ltd and Zurich Group Holding, which was assumed by Zurich Insurance Group Ltd as a consequence of its merger with Zurich Group Holding. The remaining loan was CHF 4.8 billion (USD 5.3 billion) as of both December 31, 2014 and 2013.

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

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21. Employee benefits

Personnel and other related costs incurred for the years ended December 31, 2014 and 2013, were USD 6,224 million and USD 5,921 million, including wages and salaries of USD 5,081 million and USD 4,671 million, respectively.

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

Certain of the ZIC Group's operating companies also provide post-employment benefit plans covering medical care and life insurance, mainly in the U.S. Eligibility for these plans is generally based on completion of a specified period of eligible service and reaching a specified age. The plans typically pay a stated percentage of medical expenses subject to deductibles and other factors. The cost of post-employment benefits is accrued during the employees' service periods.

Governance of the ZIC Group's pension and post-employment benefit plans is the responsibility of the Group Pensions Committee. This committee is responsible for developing, reviewing and advising on the ZIC Group governance framework for matters relating to pension and benefit plans, including the relevant policies and processes. The committee provides oversight and guidance over the ZIC Group's principal pension and post-retirement benefit plans for benefit design, funding, investment purposes and accounting. This includes, but is not limited to:

- Oversight of the impact of the ZIC Group's principal defined benefit pension and post retirement benefit plans in terms of cash, expense, and balance sheet accounting impact and capital implications
- Development and maintenance of policies on funding, asset allocation and assumption setting.

The Group Pensions Committee provides a point of focus and co-ordination on the topic of pensions and benefits at ZIC Group level for the supervision and exercise of company powers and obligations in relation to pension and benefit plans.

The ZIC Group's policy on funding and asset allocation is subject to local legal and regulatory requirements and tax efficiency.

a) Defined benefit pension plans

Employees of the ZIC Group's companies are covered by various pension plans, the largest of which are in Switzerland, the UK, the U.S. and Germany, which together comprise over 90 percent of the ZIC Group's total defined benefit obligation. The remaining plans in other countries are not individually significant, therefore no separate disclosure is provided.

Certain ZIC Group companies provide defined benefit pension plans, some of which provide benefits on retirement, death or disability related to employees' service periods and pensionable earnings. Others provide cash balance plans where the participants receive the benefit of the accumulated employer and employee contributions (where paid) together with additional cash credits in line with the rules of the plan. Eligibility for participation in the various plans is either immediate on commencement of employment or based on completion of a specified period of continuous service.

Most of the ZIC Group's defined benefit pension plans are funded through contributions by the ZIC Group and, in some cases also by employees, to investment vehicles managed by trusts or foundations independent of the ZIC Group's finances, or by management committees with fiduciary responsibilities. Where a trust or foundation exists, it is required by law or by articles of association to act in the interests of the fund and of all relevant beneficiaries to the plan, which can also include the sponsoring company, and is responsible for the investment policy with regard to the assets of the fund. The trust/foundation board or committee is usually composed of representatives from both employers and plan members. In these cases, the annual funding requirements are determined in accordance with the ZIC Group's overall funding policy and local regulation. Independent actuarial valuations for the plans are performed as required. It is the ZIC Group's general principle to ensure that the plans are appropriately funded in accordance with local pension regulations in each country.

The pension plans typically expose the company to risks such as interest rate, price inflation, longevity and salary risks. To the extent the pension plans are funded, the assets held mitigate some of the liability risk but introduce investment risk.

The overall investment policy and strategy for the ZIC Group's defined benefit pension plans is to achieve an investment return which, together with contributions, targets having sufficient assets to pay pension benefits as they fall due while also mitigating the various risks of the plans. The actual asset allocation is determined by reference to current and expected economic and market conditions and in consideration of specific asset class risk in the risk profile. The ZIC Group has a governance framework to ensure the trust/foundation board or committee considers how the asset investment strategy correlates with the maturity profile of the plan liabilities and the potential impact on the funding status of the plans, including short-term liquidity requirements. The investment strategies for each pension plan are independently determined by the governance body in each country, with oversight by the Group Pensions Committee. The pension assets are invested in diversified portfolios across geographical regions and asset classes to ensure diversified returns, also taking into account local pension laws. The investment strategies aim to mitigate asset-liability mismatches in the long run.

For post-employment defined benefit plans, total contributions to funded plans and benefits paid directly by the ZIC Group were USD 572 million for 2014 compared with USD 491 million for 2013. The estimated total for 2015 is USD 540 million (actual amount may differ).

Swiss pension plans

The ZIC Group has two major pension plans in Switzerland both of which provide benefits that exceed the minimum benefit requirements under Swiss pension law. The plans provide a lifetime pension to members at the normal retirement age of 65 (age 62 for Executive Staff). Participants can draw retirement benefits early from age 60 (age 58 for Executive Staff). Alternatively, the benefit can be taken as a lump sum payment at retirement. Contributions to the plan are paid by the employees and the employer, both for retirement savings and to finance risk benefits paid out in the event of death and disability. The accumulated balance on the pension account is based on the employee and employer pension contributions and interest accrued. The interest rate credited is defined annually by the plans' Board of Trustees which is responsible for the governance of the plans. The amount of pension payable on retirement is a result of the conversion rate applied on the accumulated balance of the individual participant's pension account at the retirement date. Although the Swiss plans operate like defined contribution plans under local regulations, they are accounted for as defined benefit pension plans under IAS 19 "Employee Benefits", because of the need to accrue interest on the pension accounts and the payment of a lifetime pension at a fixed conversion rate under the plan rules.

Actuarial valuations are completed regularly and if the plans become underfunded under local regulations, options for dealing with this include the ZIC Group paying additional contributions into the plan and/or reducing future benefits. At present, the plans are sufficiently funded, meaning that no additional contributions into the plans are expected to be required in the next year. The investment strategy of the Swiss plans is constrained by Swiss pension law including regulations relating to diversification of plan assets. Under IAS 19, volatility arises in the Swiss pension plan net liability because the fair value of the plan assets is not directly correlated to movements in the value of the plan's defined benefit obligation in the short-term.

Effective January 1, 2014, following plan amendments, the fixed annuity conversion rates have been revised downwards to reflect the migration of the plans' technical basis to a revised interest rate expectation and new mortality tables resulting in a one-off curtailment gain of USD 130 million which has been reflected as a reduction in expenses. This amendment results in a lower defined benefit obligation and therefore future service costs will be affected. This change will be phased in over a period of four years. It is also intended that the plans will be combined into a single legal entity in order to reduce complexity.

UK pension plan

The major UK pension plan is a final salary plan and accrued benefits increase in line with salary increases. Normal retirement age for the plan is 60. The plan is split into distinct sections and the two defined benefit sections are closed to new entrants, who instead can participate in a defined contribution section within the same trust. The notes that follow consider only the defined benefit sections. There is a UK Pension Trustee Board, which is responsible for the governance of the plan. The employer contributions are determined based on regular triennial actuarial valuations which are conducted using assumptions agreed by the Trustee Board and the sponsoring company. A valuation was carried out during 2013 and the results were finalized on August 28, 2014. The local statutory valuation revealed a funding deficit and an asset backed funding arrangement was agreed with the Trustee Board.

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The ongoing funding of the plan is closely monitored by the Trustee Board and a dedicated funding committee is made up of representatives from the Trustee Board and the ZIC Group. The plan rules and UK pension legislation set out maximum levels of inflationary increases applied to plan benefits. The plan assets are invested in diversified classes of assets and a portion are invested in inflation-linked debt securities, to provide a partial hedge against inflation. The Trustees have also implemented an interest rate swap contract which will provide partial protection against volatility in interest rates.

U.S. pension plans
There are two major pension plans in the U.S., the Zurich North America (ZNA) plan and the Farmers Group, Inc. (FGI) pension plan. These are both cash balance pension plans funded entirely by the participating employers. The ZNA plan is entirely cash balance and the FGI pension plan provides benefits on a cash balance pension formula for benefits accruing after January 1, 2009, except with respect to certain grandfathered participants. A final average pay defined benefit formula applied for benefits accrued before 2009, and for the grandfathered participants. For both cash balance plans, an amount is credited to the cash balance plan each quarter, determined by an employee's age, service and their level of earnings up to and above the social security taxable wage base. The minimum annual interest earned on the account balance is 5 percent. The retirement account is available from age 65, or age 55 with five years' service. The benefit can be taken as a monthly annuity or as a lump sum. Both the ZNA plan and the FGI pension plan have fiduciaries as required under local pension laws. The fiduciaries are responsible for the governance of the plans. Actuarial valuations are completed regularly and the ZIC Group has historically elected to make contributions to the plans to maintain a funding ratio of at least 90 percent as valued under local pension regulations. The annual employer contributions are equal to the present value of benefits accrued each year, plus a rolling amortization of any prior underfunding.

German pension plans
There are a number of legacy defined benefit plans in Germany, most of which were set up under works council agreements. In 2007, a contractual trust arrangement was set up to support all pension commitments of the employing companies in Germany. From this time, new contributions to the contractual trust arrangement relate to the pension payment refund of the employer companies. A separate arrangement was also established in 2010 to provide for retirement obligations that were in payment at that time. Consideration is given from time to time based on the fiscal efficiency of adding recent retirees to this arrangement and to adding assets to the contractual trust. There is currently no formal plan to pay any further contributions to the contractual trust arrangement or to transfer recent retirees. These defined benefit plans provide benefits on either a final salary, career average salary or a cash balance basis. These plans are now closed to new entrants, who instead participate in a new cash balance arrangement, which has the characteristics of a defined contribution arrangement with a capital guarantee on members' balances, which mirrors the capital guarantee given in a conventional life insurance arrangement in Germany.

Tables 21.1a and 21.1b set out the reconciliation of the defined benefit obligation and plan assets for the ZIC Group's post-employment defined benefit plans.

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

Table 21.1a

in USD millions	Defined benefit obligation	Fair value of assets	Net defined benefit asset/ (liability)
As of January 1, 2014	**(20,685)**	**17,020**	**(3,666)**
Net post-employment benefit (expense)/income:			
Current service cost	(353)	–	(353)
Interest (expense)/income	(777)	643	(134)
Settlements	9	–	9
Past service (cost)/credit	135	–	135
Net post-employment benefit (expense)/income	**(986)**	**643**	**(343)**
Remeasurement effects included in other comprehensive income:			
Return on plan assets excluding interest income	–	2,260	2,260
Experience gains/(losses)	(45)	–	(45)
Actuarial gains/(losses) arising from changes in demographic assumptions	(210)	–	(210)
Actuarial gains/(losses) arising from changes in financial assumptions	(2,875)	–	(2,875)
Remeasurement effects included in other comprehensive income	**(3,130)**	**2,260**	**(870)**
Employer contributions	–	536	536
Employer contributions paid to meet benefits directly	37	–	37
Plan participants' contributions	(56)	56	–
Payments from the plan	645	(645)	–
Foreign currency translation effects	1,669	(1,410)	260
As of December 31, 2014	**(22,507)**	**18,461**	**(4,046)**

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

Table 21.1b

in USD millions	Defined benefit obligation	Fair value of assets	Net defined benefit asset/ (liability)
As of January 1, 2013	**(19,668)**	**16,268**	**(3,400)**
Net post-employment benefit (expense)/income:			
Current service cost	(370)	–	(370)
Interest (expense)/income	(701)	575	(126)
Past service (cost)/credit	19	–	19
Net post-employment benefit (expense)/income	**(1,052)**	**575**	**(477)**
Remeasurement effects included in other comprehensive income:			
Return on plan assets excluding interest income	–	(31)	(31)
Experience gains/(losses)	101	–	101
Actuarial gains/(losses) arising from changes in demographic assumptions	(70)	–	(70)
Actuarial gains/(losses) arising from changes in financial assumptions	(182)	–	(182)
Remeasurement effects included in other comprehensive income	**(151)**	**(31)**	**(182)**
Employer contributions	–	458	458
Employer contributions paid to meet benefits directly	40	–	40
Plan participants' contributions	(53)	53	–
Payments from the plan	648	(648)	–
Foreign currency translation effects	(450)	344	(105)
As of December 31, 2013	**(20,685)**	**17,020**	**(3,666)**

Net post-employment benefit (expense)/income is recognized in other employee benefits, which is included within administrative and other operating expense.

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Post-employment benefits are long-term by nature. However, short-term variations between long-term actuarial assumptions and actual experience may be positive or negative, resulting in actuarial gains or losses, which are recognized in full in the period in which they occur, and are included within other comprehensive income.

Table 21.2 provides a breakdown of plan assets by asset class.

Fair value of assets held in funded defined benefit pension plans

Table 21.2

in USD millions, as of December 31	2014				2013			
	Quoted in active markets[1]	Other[2]	Total	% of Total	Quoted in active markets[1]	Other[2]	Total	% of Total
Cash and cash equivalents	479	–	479	3%	164	–	164	1%
Equity securities	3,851	56	3,906	21%	3,735	52	3,787	22%
Debt securities	–	12,717	12,717	69%	–	11,656	11,656	68%
Investment property	–	994	994	5%	–	983	983	6%
Mortgage loans	–	357	357	2%	–	424	424	2%
Other assets[3]	–	7	7	–	–	7	7	–
Total	**4,330**	**14,131**	**18,461**	**100%**	**3,898**	**13,122**	**17,020**	**100%**

[1] Level 1 assets (see note 24)
[2] Level 2 and 3 assets (see note 24)
[3] UK annuity policies

As a matter of policy, pension plan investment guidelines do not permit investment in any assets in which the ZIC Group or its subsidiaries have an interest, including shares or other financial instruments issued and own use property. Exceptions to the policy require approval by the Group Pensions Committee.

Tables 21.3a and 21.3b provide a breakdown of the key information included in tables 21.1a and 21.1b for the main countries for the years ended December 31, 2014 and 2013 respectively.

Key information by main country – current period

Table 21.3a

in USD millions, as of December 31, 2014	Switzerland	United Kingdom	United States	Germany	Other	Total
Defined benefit obligation	(5,033)	(11,139)	(3,638)	(1,336)	(1,362)	(22,507)
Fair value of plan assets	4,524	9,162	2,676	1,092	1,007	18,461
Net defined benefit asset/(liability)	**(509)**	**(1,977)**	**(962)**	**(244)**	**(355)**	**(4,046)**
Net post-employment benefit (expense)/income[1]	25	(195)	(111)	(37)	(25)	(343)

[1] Following plan amendments in Switzerland a one-off curtailment gain of USD 130 million has been reflected as a reduction in expenses.

Key information by main country – prior period

Table 21.3b

in USD millions, as of December 31, 2013	Switzerland	United Kingdom	United States	Germany	Other	Total
Defined benefit obligation	(4,935)	(10,250)	(3,047)	(1,277)	(1,177)	(20,685)
Fair value of plan assets	4,501	8,243	2,311	1,017	948	17,020
Net defined benefit asset/(liability)	**(433)**	**(2,007)**	**(736)**	**(260)**	**(229)**	**(3,666)**
Net post-employment benefit (expense)/income	(134)	(150)	(138)	(25)	(30)	(477)

Table 21.4 shows the key financial assumptions used to calculate the ZIC Group's post-employment defined benefit obligations and the ZIC Group's post-employment benefit expenses.

Table 21.4

Key financial assumptions used for major plans

as of December 31	2014				2013			
	Switzerland	United Kingdom	United States	Germany	Switzerland	United Kingdom	United States	Germany
Discount rate[1]	0.9%	3.7%	3.9%	2.0%	2.2%	4.5%	4.8%	3.4%
Inflation rate (CPI)	1.2%	2.4%	2.0%	1.6%	1.4%	2.7%	2.7%	2.0%
Salary increase rate	2.0%	3.4%	4.1%	2.9%	2.0%	3.7%	4.4%	3.3%
Expected future pension increases	0.7%	3.5%	n/a	1.6%	1.0%	3.7%	n/a	2.0%
Interest crediting rate	0.9%	n/a	4.7%	n/a	2.2%	n/a	5.0%	n/a

[1] In the UK part of the liability is linked to the inflation measure of the Retail Price Index (RPI), which is assumed to be 1.0 percent higher than the Consumer Price Index (CPI) as of both December 31, 2014 and 2013.

Tables 21.5a and 21.5b set out the life expectancies used in the valuation of the ZIC Group's major plans. The mortality assumptions in each country have been based on mortality tables in accordance with typical practice in that country.

Table 21.5a

Mortality tables and life expectancies for major plans – current period

in years, as of December 31, 2014		Life expectancy at age 65 for a male currently		Life expectancy at age 65 for a female currently	
		aged 65	aged 45	aged 65	aged 45
Country	Mortality table for major plans				
Switzerland	BVG 2010 Generational	21.39	23.16	23.86	25.59
United Kingdom	PNXA00 with CMI_2012 projection	23.21	24.59	25.31	26.79
United States	RP 2014 with MP-2014 Generational projection	22.24	22.86	24.79	25.43
Germany	Heubeck 2005G	18.85	21.52	22.92	25.46

Table 21.5b

Mortality tables and life expectancies for major plans – prior period

in years, as of December 31, 2013		Life expectancy at age 65 for a male currently		Life expectancy at age 65 for a female currently	
		aged 65	aged 45	aged 65	aged 45
Country	Mortality table for major plans				
Switzerland	BVG 2010 Generational	21.29	23.08	23.76	25.52
United Kingdom	PNXA00 with CMI_2012 projection	23.14	24.54	25.24	26.74
United States	RP 2000 Generational, partially with projection	19.87	20.65	21.95	22.63
Germany	Heubeck 2005G	18.71	21.39	22.79	25.34

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Table 21.6 shows the expected benefits to be paid under the ZIC Group's major plans in the future. It should be noted that actual amounts may vary from expected amounts. Therefore future benefit payments may differ from the amounts shown.

Table 21.6

Maturity profile of future benefit payments for major plans

as of December 31	**2014**				2013			
	Switzerland	**United Kingdom**	**United States**	**Germany**	Switzerland	United Kingdom	United States	Germany
Duration of the defined benefit obligation (in years)	15.7	21.3	14.1	15.3	15.6	20.7	14.1	14.2
Maturity analysis of benefits expected to be paid (in USD millions):								
< 1 year	149	251	163	49	155	248	141	54
1 to 5 years	643	1,182	719	203	661	1,171	631	212
5 to 10 years	923	1,936	1,087	273	978	1,942	964	295

Table 21.7

Sensitivity analysis of significant actuarial assumptions

	Defined benefit obligation[1]	
in USD millions, as of December 31	**2014**	**2013**
Discount rate +50 bps	1,910	1,621
Discount rate –50 bps	(2,161)	(1,855)
Salary increase rate +50 bps	(172)	(149)
Salary decrease rate –50 bps	155	144
Price inflation increase rate +50 bps	(1,430)	(1,001)
Price inflation decrease rate –50 bps	1,254	901
Cash balance interest credit rate +50 bps	(118)	(112)
Cash balance interest credit rate –50 bps	81	109
Mortality 10% increase in life expectancy	(1,617)	(1,498)
Mortality 10% decrease in life expectancy	1,635	1,419

[1] A negative number indicates an increase and a positive number indicates a decrease in the defined benefit obligation.

Table 21.7 sets out the sensitivity of the defined benefit obligation to changes in key actuarial assumptions. The effect on the defined benefit obligation shown allows for an alternative value for each assumption while the other actuarial assumptions remain unchanged. Whilst this table illustrates the overall impact on the defined benefit obligation of the changes shown, the significance of the impact and the range of reasonably possible alternative assumptions may differ between the different plans that comprise the overall defined benefit obligation. In particular, the plans differ in benefit design, currency and average term, meaning that different assumptions have different levels of significance for different plans. The sensitivity analysis is intended to illustrate the inherent uncertainty in the evaluation of the defined benefit obligation under market conditions at the measurement date. Its results cannot be extrapolated due to non-linear effects that changes in the key actuarial assumptions may have on the overall defined benefit obligation. Furthermore, the analysis does not indicate a probability of such changes occurring and it does not necessarily represent the ZIC Group's view of expected future changes in the defined benefit obligation. Any management actions that may be taken to mitigate the inherent risks in the post-employment defined benefit plans are not reflected in this analysis.

b) Defined contribution pension plans

Certain of the ZIC Group's companies sponsor defined contribution pension plans. Eligibility for participation in such plans is either immediate on commencement of employment or based on completion of a specified period of continuous service. The plans provide for voluntary contributions by employees and contributions by the employer which typically range from 2 percent to 10 percent of annual pensionable salary, depending on a number of factors. The ZIC Group's contributions under these plans amounted to USD 140 million and USD 142 million for the years ended December 31, 2014 and 2013, respectively.

22. Share-based compensation and cash incentive plans

The ZIC Group has adopted various share-based compensation and cash incentive plans to attract, retain and motivate executives and employees. The plans are designed to reward employees for their contribution to the performance of the ZIC Group and to encourage employee share ownership. Share-based compensation plans include plans under which shares and options to purchase shares, based on the performance of the businesses, are awarded. Share-based compensation plans are based on the provision of the Zurich Insurance Group Ltd shares, the ultimate parent which is not part of the ZIC Group.

a) Cash incentive plans

Various businesses throughout the ZIC Group operate short-term incentive programs for executives, management and, in some cases, for employees of that business. Awards are made in cash, based on the accomplishment of both organizational and individual performance objectives. The expense recognized for these cash incentive plans amounted to USD 524 million and USD 470 million for the years ended December 31, 2014 and 2013, respectively.

b) Share-based compensation plans for employees and executives

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

Expenses for share-based payments depend on various factors, including achievement of targets, and are subject to the discretion of the Remuneration Committee. The expenses may therefore vary significantly from year to year. The net amount of USD 202 million and USD 50 million for the years ended December 31, 2014 and 2013, respectively, reflects all aspects of share-based compensation, including adjustments made during the year.

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

Employee share plans

Share Incentive Plan for employees in the UK

The ZIC Group established an Inland Revenue approved Share Incentive Plan and launched the Partnership Shares element of this plan in 2003, which enabled participating employees to make monthly purchases of Zurich Insurance Group Ltd shares at the prevailing market price out of their gross earnings. This plan was terminated in 2007. There were 112 and 138 participants in the plan as of December 31, 2014 and 2013, respectively.

The Partnership Share Scheme was launched in March 2013. Participants benefit from making deductions from their gross salary up to a maximum of GBP 1,500 or 10 percent of their year to date earnings. There were 905 and 782 active participants in the plan as of December 31, 2014 and 2013, respectively.

The ZIC Group also operates the profit-sharing element of the Share Incentive Plan (Reward Shares) which was launched in 2004 with annual share allocations being made in May each year subject to business performance. The awards are based on the business operating profit (BOP) after tax for the year, for the business unit of each participating employee. Individual awards are subject to a maximum of 5 percent of a participant's base salary (before any flexible benefit adjustments) with an overall maximum of GBP 3,000. The total number of participating employees in the Reward Share element of the plan as of December 31, 2014 and 2013 was 5,463 and 5,201, respectively.

Share Incentive Plan for employees in Switzerland

Under this plan, employees have the option to acquire sales-restricted shares at a 30 percent discount to the market value. The maximum permitted investment in shares is equivalent to CHF 3,500 per employee per annum. During 2014, 4,764 employees were eligible to participate in the share incentive plan, compared with 4,533 in 2013. For the years ended December 31, 2014 and 2013, 1,574 and 1,506 employees, respectively, purchased shares under the 2013 and 2012 share plans.

The Zurich Insurance Group Long-Term Incentive Plan (LTIP)

Participants in this plan are allocated a target number of performance shares as notional shares of Zurich Insurance Group Ltd in April each year (Target Shares). The number of Target Shares is calculated as a percentage of the annual base salary.

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On February 12, 2014 the Board has given approval to modify the LTIP with effect from January 1, 2014 to make the transition to a "three-year cliff-vesting" and to further align the performance criteria with the strategy. Target Shares allocated in 2015 will vest after a period of three years following the year of the allocation, with the actual level of vesting between 0 percent and 200 percent of the Target Shares allocated, depending on the achievement of pre-defined performance criteria. The performance criteria used to determine the level of vesting are the Zurich Insurance Group's return on shareholders' equity (ROE), the position of its relative total shareholder return (TSR) measured against an international peer group of insurance companies, and the achievement of cash remittance targets. All three pre-defined performance criteria are assessed over a period of three consecutive financial years starting in the year of allocation. One half of the shares that actually vest are sales-restricted for a further three year period. To further align the participants with the interests of the shareholders, effective from January 1, 2014, the Target Shares are credited dividend equivalents ("Dividend Equivalent Target Shares") during the vesting period to compensate for any dividends paid to shareholders. As of December 31, 2014 and 2013 there were 1,256 and 1,138 participants in this plan, respectively.

The transition to the three-year cliff-vesting required a smooth implementation and therefore the new vesting schedule and performance framework is being phased-in. Target Shares allocated in 2014 are assessed for vesting one-third after two years in 2016 and two-thirds after 3 years in 2017. Further, for LTIP participants who joined the plan prior to 2014, additional performance share grants were allocated in 2014 to allow these participants the possibility to maintain their cumulative target earning opportunity during the transition period. Due to potential volatility in any one year, the assessment of cash remittance performance can only be meaningfully assessed over a three-year period. Therefore the cash remittance measure is replaced by the business operating profit (after tax) return on shareholders' equity (BOPAT ROE) for the vesting decisions of the Target Shares allocated before 2015 that are assessed for vesting in 2015 and 2016.

The LTIP in 2013 and prior years included phased annual vesting of allocations in three equal tranches at the end of the first, second and third year after allocation, given the pre-defined performance criteria were met. One half of the vested shares were sales-restricted for a further three year period from each of the respective vesting dates.

Shares allocated during the period

Table 22.1

for the years ended December 31	Number		Fair value at the allocation date (in CHF)	
	2014	2013	**2014**	2013
Shares allocated during the period	973,565	496,342	274	267

The shares allocated during the year are the target allocations made under the Zurich Insurance Group's LTIP. Whether these allocations vest or not will depend on whether the performance criteria are achieved. If the vesting level turns out to be different to the target, the actual expense is adjusted accordingly.

Prior to 2011, for selected senior executives, performance shares and options in shares of Zurich Insurance Group Ltd were allocated. The last share options will expire in 2017. The number of shares allocated under option amount to 780,763 and 1,763,618 as of December 31, 2014 and 2013, respectively. For the years ended December 31, 2014 and 2013, 436,828 and 152,107 share options, respectively, have been exercised.

23. Commitments and contingencies, legal proceedings and regulatory investigations

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

Table 23.1

Quantifiable commitments and contingencies

in USD millions, as of December 31	2014	2013
Remaining commitments under investment agreements	871	685
Guarantees and letters of credit[1]	4,288	3,964
Future operating lease commitments	1,214	876
Undrawn loan commitments	2	8
Other commitments and contingent liabilities[2]	538	72

[1] Guarantee features embedded in life insurance products are not included.
[2] Increase relates to a future lease commitment for a building which has not yet been occupied.

Commitments under investment agreements

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

Guarantees and letters of credit

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

The ZIC Group is active in numerous countries where insurance guarantee funds exist. The design of such funds varies from jurisdiction to jurisdiction. In some, funding is based on premiums written, in others the ZIC Group may be called upon to contribute to such funds in case of a failure of another market participant. In addition, in some jurisdictions the amount of contribution may be limited, for example, to a percentage of the net underwriting reserve net of payments already made.

The ZIC Group carries certain contingencies in the ordinary course of business in connection with the sale of its companies and businesses. These are primarily in the form of indemnification obligations provided to the acquirer in a transaction in which a ZIC Group company is the seller. They vary in scope and duration by counterparty and generally are intended to shift the potential risk of certain unquantifiable and unknown loss contingencies from the acquirer to the seller.

Commitments under lease agreements

The ZIC Group has entered into various non-cancelable operating leases as lessee for office space and certain computer and other equipment. Lease expenses totaled USD 119 million and USD 88 million for the years ended December 31, 2014 and 2013, respectively.

Table 23.2

Future payments under non-cancelable operating leases with terms in excess of one year

in USD millions, as of December 31	2014	2013
< 1 year	263	193
1 to 2 years	236	176
2 to 3 years	153	146
3 to 4 years	113	99
4 to 5 years	101	65
> 5 years	348	198
Total	**1,214**	**876**

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Indemnity agreements

The ZIC Group, through certain of its subsidiaries, has agreed to arrangements that cap Converium's (now Scor Holding (Switzerland) AG) and its successor companies' net exposure for losses arising out of the September 11, 2001 World Trade Center event in New York. As of December 31, 2014 the ZIC Group has recorded provisions of USD 38 million, for losses in excess of USD 289 million.

Other contingent liabilities

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

The ZIC Group has commitments to provide collateral on certain contracts in the event of a financial strength downgrading for Zurich Insurance Company Ltd from the current AA– by Standard & Poor's. Should the rating by Standard & Poor's fall to A+, then the additional collateral based on information available as of December 31, 2014 and 2013 is estimated to amount to approximately nil and USD 88 million, respectively.

In common with other insurance companies in Europe, the ZIC Group is faced with the continued trend towards enhanced consumer protection. Significant uncertainty exists regarding the ultimate cost of these consumer protection trends. The main areas of uncertainty concern court decisions as well as the volume of potential customer complaints related to sales activities and withdrawal rights, and their respective individual assessment.

Pledged assets

The majority of assets pledged to secure the ZIC Group's liabilities relate to debt securities pledged under short-term sale and repurchase agreements. The total amount of pledged financial assets including the securities under short-term sale and repurchase agreements amounted to USD 9,249 million and USD 11,814 million as of December 31, 2014 and 2013, respectively.

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

Legal proceedings and regulatory investigations

The ZIC Group's business is subject to extensive supervision, and the ZIC Group is in regular contact with various regulatory authorities. The ZIC 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 ZIC Group are engaged in the following legal proceedings:

An action entitled Fuller-Austin Asbestos Settlement Trust, et al. v. Zurich American Insurance Company (ZAIC), et al., was filed in May 2004 in the Superior Court for San Francisco County, California. Three other similar actions were filed in 2004 and 2005 and have been coordinated with the Fuller-Austin action (collectively, the Fuller-Austin Case). In addition to ZAIC and four of its insurance company subsidiaries, Zurich Insurance Company Ltd and Orange Stone Reinsurance Dublin (Orange Stone) are named as defendants. The plaintiffs, who are historical policyholders of the Home Insurance Company (Home), plead claims for, inter alia, fraudulent transfer, tortious interference, unfair 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. In early 2015, certain plaintiffs committed to voluntarily dismiss their claims with prejudice in exchange for an agreement that the defendants will not pursue them for litigation costs. The remaining parties have exchanged information concerning possible next steps in the litigation and will next appear before the court on February 26, 2015. The ZIC Group maintains that the Fuller-Austin Case is without merit and intends to continue to defend itself vigorously.

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

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24. Fair value measurement

To measure fair value, the ZIC Group gives the highest priority to quoted and unadjusted prices in active markets. In the absence of quoted prices, fair values are calculated through valuation techniques, making the maximum use of relevant observable market data inputs. Whenever observable parameters are not available, the inputs used to derive the fair value are based on common market assumptions that market participants would use when pricing assets and liabilities. Depending on the observability of prices and inputs to valuation techniques, the ZIC Group classifies instruments measured at fair value within the following three levels (the fair value hierarchy):

Level 1 – includes assets and liabilities for which fair values are determined directly from unadjusted current quoted prices resulting from orderly transactions in active markets for identical assets/liabilities.

Level 2 – includes assets and liabilities for which fair values are determined using significant inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. These inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and other observable market inputs.

Level 3 – includes assets and liabilities for which fair values are determined using valuation techniques with at least one significant input not being based on observable market data. This approach is used only in circumstances when there is little, if any, market activity for a certain instrument, and the ZIC Group is required to develop internal valuation inputs based on the best information available about the assumptions that market participants would use when pricing the asset or liability.

The governance framework and oversight of the ZIC Group standards and procedures regarding the valuation of financial instruments measured at fair value is the responsibility of the Valuation Forum, an independent committee composed of representatives from Group Risk Management, Investment Management and Group Finance. The Valuation Forum ensures the adequacy of valuation models, approves methodologies and sources to derive model input parameters, provides oversight over the selection of third party pricing providers, and on a quarterly basis reviews the classification within the fair value hierarchy of the financial instruments in scope.

The ZIC Group makes extensive use of third party pricing providers to determine the fair values of its available-for-sale and fair value through profit or loss financial instruments, and only in rare cases places reliance on prices that are derived from internal models. Investment accounting, operations and process functions, are independent from those responsible for buying and selling the assets, and are responsible for receiving, challenging and verifying values provided by third party pricing providers to ensure that fair values are reliable, as well as ensuring compliance with applicable accounting and valuation policies. The quality control procedures used depend on the nature and complexity of the invested assets. They include regular reviews of valuation techniques and inputs used by pricing providers (for example, default rates of collateral for asset-backed securities), variance and stale price analysis, and comparisons with fair values of similar instruments and with alternative values obtained from asset managers and brokers.

Table 24.1 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. This table excludes financial assets and financial liabilities relating to unit-linked contracts.

Fair value and carrying value of financial assets and financial liabilities

Table 24.1

in USD millions, as of December 31	Total fair value		Total carrying value	
	2014	2013	**2014**	2013
Available-for-sale securities				
Equity securities	12,885	10,141	12,885	10,141
Debt securities	142,510	144,645	142,510	144,645
Total available-for-sale securities	155,395	154,786	155,395	154,786
Fair value through profit or loss securities				
Equity securities	3,619	3,425	3,619	3,425
Debt securities	7,121	7,121	7,121	7,121
Total fair value through profit or loss securities	10,740	10,546	10,740	10,546
Derivative assets	1,208	1,111	1,208	1,111
Held-to-maturity debt securities	4,747	5,172	3,971	4,613
Investments in associates and joint ventures	70	129	70	129
Mortgage loans	7,876	9,462	7,249	8,933
Other loans	13,841	14,288	11,731	12,712
Total financial assets	**193,878**	**195,492**	**190,365**	**192,829**
Derivative liabilities	(413)	(693)	(413)	(693)
Financial liabilities held at amortized cost				
Liabilities related to investment contracts	(977)	(1,163)	(843)	(1,030)
Liabilities related to investment contracts with DPF	(6,195)	(6,241)	(7,006)	(6,614)
Senior debt	(5,626)	(6,632)	(5,379)	(6,337)
Subordinated debt	(6,483)	(6,821)	(5,857)	(6,342)
Total financial liabilities held at amortized cost	(19,282)	(20,858)	(19,084)	(20,323)
Total financial liabilities	**(19,695)**	**(21,551)**	**(19,498)**	**(21,016)**

All of the ZIC Group's financial assets and financial liabilities are initially recorded at fair value. Subsequently, available-for sale financial assets, fair value through profit or loss financial assets and financial liabilities, and derivative financial instruments are carried at fair value as of the balance sheet date. All other financial instruments are carried at amortized cost and the valuation techniques used to determine their fair value measurement are described below.

Fair values of held-to-maturity debt securities and senior and subordinated debt are obtained from third party pricing providers. The fair value received from these pricing providers may be based on quoted prices in an active market for identical assets, alternative pricing methods such as matrix pricing or an income approach employing discounted cash flow models. Such instruments are categorized within level 2.

Discounted cash flow models are used for mortgage loans and other loans. The discount yields in these models use interest rates that reflect the return a market participant would expect to receive on instruments with similar remaining maturities, cash flow patterns, currencies, credit risk and collateral. Such instruments are categorized within level 3.

Fair values of liabilities related to investment contracts and investment contracts with DPF are determined using discounted cash flow models. Such instruments are categorized within level 3 due to the unobservability of certain inputs used in the valuation.

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Recurring fair value measurements of assets and liabilities

Fair value hierarchy – non unit-linked – current period

Table 24.2a

in USD millions, as of December 31, 2014	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Equity securities	11,697	259	929	12,885
Debt securities	362	139,384	2,764	142,510
Total available-for-sale securities	12,058	139,644	3,693	155,395
Fair value through profit or loss securities				
Equity securities	978	223	2,417	3,619
Debt securities	1	6,934	185	7,121
Total fair value through profit or loss securities	979	7,157	2,603	10,740
Derivative assets	2	852	355	1,208
Investment property	–	1,965	6,818	8,784
Reinsurers' share of reserves for insurance contracts fair value option[1]	–	–	375	375
Total	**13,039**	**149,619**	**13,844**	**176,502**
Derivative liabilities	(18)	(354)	(41)	(413)
Reserves for insurance contracts fair value option[2]	–	–	(3,594)	(3,594)
Total	**(18)**	**(354)**	**(3,635)**	**(4,007)**

[1] Included within reinsurers' share of reserves for insurance contracts
[2] Included within reserves for insurance contracts

Fair value hierarchy – non unit-linked – prior period

Table 24.2b

in USD millions, as of December 31, 2013	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Equity securities	8,803	338	1,000	10,141
Debt securities	122	141,749	2,775	144,645
Total available-for-sale securities	8,925	142,087	3,774	154,786
Fair value through profit or loss securities				
Equity securities	1,006	245	2,175	3,425
Debt securities	66	6,836	219	7,121
Total fair value through profit or loss securities	1,072	7,080	2,394	10,546
Derivative assets	1	1,043	66	1,111
Investment property	–	2,011	6,734	8,745
Reinsurers' share of reserves for insurance contracts fair value option[1]	–	–	346	346
Total	**9,998**	**152,221**	**13,315**	**175,534**
Derivative liabilities	(22)	(629)	(42)	(693)
Reserves for insurance contracts fair value option[2]	–	–	(3,306)	(3,306)
Total	**(22)**	**(629)**	**(3,349)**	**(4,000)**

[1] Included within reinsurers' share of reserves for insurance contracts
[2] Included within reserves for insurance contracts

Fair value hierarchy – unit-linked – current period

Table 24.3a

in USD millions, as of December 31, 2014	Level 1	Level 2	Level 3	Total
Fair value through profit or loss securities				
Equity securities	87,590	30,126	198	117,914
Debt securities	1,026	7,313	67	8,406
Other loans	392	2,427	–	2,819
Total fair value through profit or loss securities	89,008	39,866	265	129,139
Derivative assets	3	16	–	19
Investment property	–	–	4,100	4,100
Total investments for unit-linked contracts[1]	**89,011**	**39,882**	**4,366**	**133,259**
Financial liabilities at FV through profit or loss				
Liabilities related to unit-linked investment contracts	–	(62,964)	–	(62,964)
Derivative liabilities	(1)	(14)	–	(15)
Total	**(1)**	**(62,978)**	**–**	**(62,979)**

[1] Excluding cash and cash equivalents

Fair value hierarchy – unit-linked – prior period

Table 24.3b

in USD millions, as of December 31, 2013	Level 1	Level 2	Level 3	Total
Fair value through profit or loss securities				
Equity securities	85,375	26,514	64	111,954
Debt securities	35	11,486	84	11,605
Other loans	–	6,066	–	6,066
Total fair value through profit or loss securities	85,411	44,066	148	129,624
Derivative assets	1	44	–	45
Investment property	–	–	3,661	3,661
Total investments for unit-linked contracts[1]	**85,412**	**44,109**	**3,809**	**133,330**
Financial liabilities at FV through profit or loss				
Liabilities related to unit-linked investment contracts	–	(59,469)	–	(59,469)
Derivative liabilities	–	(4)	–	(4)
Total	**–**	**(59,473)**	**–**	**(59,473)**

[1] Excluding cash and cash equivalents

Within level 1, the ZIC Group has classified common stocks, exchange traded derivative financial instruments, investments in unit trusts that are actively traded in an exchange market and other highly liquid financial instruments.

Within level 2, the ZIC Group has classified government and corporate bonds, investments in unit trusts, agency mortgage-backed securities (MBS) and 'AAA' rated non-agency MBS and other asset-backed securities (ABS) where valuations are obtained from independent pricing providers. The fair value received from these pricing providers may be based on quoted prices in an active market for similar assets, alternative pricing methods such as matrix pricing or an income approach employing discounted cash flow models. If such quoted prices are not available, then fair values are estimated on the basis of information from external pricing providers or internal pricing models (for example, discounted cash flow models or other recognized valuation techniques).

Over the counter derivative financial instruments are valued using internal models. The fair values are determined using dealer price quotations, discounted cash flow models and option pricing models, which use various inputs including current market and contractual prices for underlying instruments, time to expiry, correlations, yield curves, prepayment rates and volatility of underlying instruments. Such instruments are classified within level 2 as the inputs used in pricing models are generally market observable or derived from market observable data.

Fair values of liabilities related to unit-linked investment contracts are usually determined by reference to the fair value of the underlying assets backing these liabilities. Such instruments are classified within level 2.

Within level 3, the ZIC Group has classified:

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- Unlisted stocks, private equity funds and certain hedge funds that are not actively traded. Such instruments are obtained from net asset value information and audited financial statements provided by the issuing hedge funds and private equity funds. Performance of these investments and determination of their fair value are monitored and reviewed closely by the ZIC Group's in-house investment professionals and may be adjusted based on their understanding of the circumstances of individual investments.
- Non-agency MBS and ABS rated below 'AAA' that are valued by independent pricing providers using a variety of valuation techniques which may require use of significant unobservable input parameters such as asset prepayment rate, default rates and credit curves.
- Certain options and long-dated derivative financial instruments with fair values determined using significant unobservable inputs such as historical volatilities, implied volatilities from the counterparty valuations or using extrapolation techniques.
- Certain investment properties for which fair value is based on valuations performed annually by internal valuation specialists and generally on a rotation basis at least once every three years by an independent qualified appraiser. The valuation methods applied are income capitalization, discounted cash flow analysis, and market comparables taking into account the actual letting status and observable market data. The majority of such investments have been categorized within level 3 because the valuation techniques used include significant adjustments to observable data of similar properties. Some of these investments have been categorized within level 2, where there are active and transparent markets and no significant adjustments to the observable data are required.
- Reinsurers' share of reserves and reserves for insurance contracts fair value option. The fair values are determined using discounted cash flow models. The discount factors used are based on derived rates for LIBOR swap forwards, spreads to U.S. Treasuries and spreads to U.S. Corporate A or higher rated bond segments for Financials, Industrials and Utilities. The liability projected cash flows use contractual information for premiums, benefits and agent commissions, administrative expenses under third party administrative service agreements and best estimate parameters for policy decrements. The primary unobservable inputs are the policy decrement assumptions used in projecting cash flows. These include disability claim parameters for incidence and termination (whether for recovery or death) and lapse rates.

The fair value hierarchy is reviewed at the end of each reporting period to determine whether significant transfers between levels have occurred. Transfers between levels mainly arise as a result of changes in market activity and observability of the inputs to the valuation techniques used to determine the fair value of certain instruments.

No material transfers between level 1 and level 2 occurred for the years ended December 31, 2014 and 2013.

Table 24.4a

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

in USD millions	Available-for-sale securities		Fair value through profit or loss securities				
	Equity securities	Debt securities	Equity securities	Debt securities	**Derivative assets**	**Derivative liabilities**	**Investment property**
As of January 1, 2014	1,000	2,775	2,175	219	66	(42)	6,734
Realized gains/(losses) recognized in income[1]	64	13	4	–	–	(33)	1
Unrealized gains/(losses) recognized in income[1,2]	(6)	(29)	283	10	2	16	140
Unrealized gains/(losses) recognized in other comprehensive income	78	16	–	–	–	–	31
Purchases	140	805	382	4	–	(1)	732
Settlements/sales/redemptions	(301)	(649)	(382)	(43)	–	33	(157)
Transfer from assets held for own use	–	–	–	–	–	–	72
Transfer to assets held for sale	–	–	–	–	–	–	(28)
Transfers into level 3	3	9	–	5	313	(16)	–
Transfers out of level 3	–	(108)	–	–	–	–	–
Foreign currency translation effects	(48)	(67)	(44)	(9)	(26)	1	(708)
As of December 31, 2014	**929**	**2,764**	**2,417**	**185**	**355**	**(41)**	**6,818**

[1] Presented as net capital gains/(losses) and impairments on Group investments in the consolidated income statements.
[2] Unrealized gains/(losses) recognized in income for available-for-sale securities relate to impairments. Unrealized gains/(losses) recognized in income for fair value through profit or loss securities relate to net capital gains/(losses) and impairments.

For the year ended December 31, 2014, the ZIC Group transferred derivatives with a market value of USD 297 million out of level 2 into level 3. The transfers resulted from certain significant input parameters used to derive the fair value (such as volatility) becoming unobservable.

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

Table 24.4b

in USD millions	Available-for-sale securities		Fair value through profit or loss securities				
	Equity securities	Debt securities	Equity securities	Debt securities	Derivative assets	Derivative liabilities	Investment property
As of January 1, 2013	966	2,789	1,670	246	140	(80)	6,926
Realized gains/(losses) recognized in income[1]	71	30	(18)	(2)	–	(37)	99
Unrealized gains/(losses) recognized in income[1,2]	(5)	(18)	252	4	(75)	38	26
Unrealized gains/(losses) recognized in other comprehensive income	53	(23)	–	–	–	–	15
Purchases	132	944	694	–	–	–	345
Settlements/sales/redemptions	(240)	(1,001)	(435)	(32)	–	37	(750)
Transfer from assets held for own use	–	–	–	–	–	–	10
Transfer to assets held for sale	–	–	–	–	–	–	(42)
Transfers into level 3	10	57	–	1	–	–	–
Transfers out of level 3	–	(20)	–	–	–	–	–
Foreign currency translation effects	12	17	12	2	1	(1)	106
As of December 31, 2013	**1,000**	**2,775**	**2,175**	**219**	**66**	**(42)**	**6,734**

[1] Presented as net capital gains/(losses) and impairments on Group investments in the consolidated income statements.
[2] Unrealized gains/(losses) recognized in income for available-for-sale securities relate to impairments. Unrealized gains/(losses) recognized in income for fair value through profit or loss securities relate to net capital gains/(losses) and impairments.

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

Table 24.5a

in USD millions	Gross	Ceded	Net
As of January 1, 2014	3,306	(346)	2,960
Premiums	99	(8)	91
Claims	(314)	31	(283)
Fee income and other expenses	(15)	2	(12)
Interest and bonuses credited to policyholders	522	(53)	468
Changes in assumptions	(4)	–	(4)
As of December 31, 2014	**3,594**	**(375)**	**3,219**

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

Table 24.5b

in USD millions	Gross	Ceded	Net
As of January 1, 2013	4,183	(456)	3,728
Premiums	101	(8)	93
Claims	(312)	31	(281)
Fee income and other expenses	3	(1)	2
Interest and bonuses credited to policyholders	(501)	75	(426)
Changes in assumptions	(167)	13	(155)
As of December 31, 2013	**3,306**	**(346)**	**2,960**

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

Table 24.6a

in USD millions	Fair value through profit or loss securities		
	Equity securities	Debt securities	Investment property
As of January 1, 2014	64	84	3,661
Realized gains/(losses) recognized in income[1]	–	3	(46)
Unrealized gains/(losses) recognized in income[1]	2	4	634
Purchases	155	–	181
Sales/redemptions	(17)	(21)	(74)
Transfers into Level 3	1	2	–
Transfers out of Level 3	–	–	–
Foreign currency translation effects	(7)	(5)	(257)
As of December 31, 2014	**198**	**67**	**4,100**

[1] Presented as net investment result on unit-linked investments in the consolidated income statements.

No material transfers between level 2 and level 3 occurred for the year ended December 31, 2014.

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

Table 24.6b

in USD millions	Fair value through profit or loss securities		
	Equity securities	Debt securities	Investment property
As of January 1, 2013	2,663	109	3,401
Realized gains/(losses) recognized in income[1]	35	(1)	(4)
Unrealized gains/(losses) recognized in income[1]	(70)	(4)	90
Purchases	62	2	183
Sales/redemptions	(144)	(24)	(82)
Transfers into Level 3	5	2	–
Transfers out of Level 3	(2,489)	–	–
Foreign currency translation effects	2	–	74
As of December 31, 2013	**64**	**84**	**3,661**

[1] Presented as net investment result on unit-linked investments in the consolidated income statements.

For the year ended December 31, 2013, the ZIC Group transferred USD 2,489 million of fair value through profit or loss equity securities out of level 3 into level 2. The transfers were the result of using observable inputs for the price valuation of the underlying assets of certain mutual funds.

Non-recurring fair value measurements of assets and liabilities

In particular circumstances, the ZIC Group may measure certain assets or liabilities at fair value on a non-recurring basis when an impairment charge is recognized.

The ZIC Group has valued USD 8 million and USD 23 million of mortgage loans at fair value on a non-recurring basis as of December 31, 2014 and 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 ZIC Group classified ABS amounting to USD 2,950 million and USD 2,993 million for Group investments and USD 67 million and USD 84 million for investments for unit-linked contracts as of December 31, 2014 and 2013, respectively.

Within level 3, the ZIC Group also classified investments in private equity funds, certain hedge funds and other securities which are not quoted on an exchange amounting to USD 3,347 million and USD 3,175 million for Group investments and USD 198 million and USD 64 million for investments for unit-linked contracts as of December 31, 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 24.7a and 24.7b. 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 24.8a and 24.8b. The correlation is based on the historical correlation matrix derived from the risk factors which are assigned to each of the level 3 exposures (equity and debt securities). The main market drivers are equity markets and rate indicators and the impact of such changes on the other factors. The spread scenario has been added to analyze the impact of an increase of borrowing cost for entities.

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

Table 24.7a

Sensitivity analysis of level 3 investments to changes in key assumptions – current period

as of December 31, 2014	Less favorable values (relative change)	Decrease in reported fair value (in USD millions)	More favorable values (relative change)	Increase in reported fair value (in USD millions)
Key assumptions				
Equity levels	–20%	(709)	+20%	709
Discount rates	+20%	(71)	–20%	75
Spread rates	+20%	(51)	–20%	53
Prepayment rates	–20%	(1)	+20%	3

Table 24.7b

Sensitivity analysis of level 3 investments to changes in key assumptions – prior period

as of December 31, 2013	Less favorable values (relative change)	Decrease in reported fair value (in USD millions)	More favorable values (relative change)	Increase in reported fair value (in USD millions)
Key assumptions				
Equity levels	–20%	(647)	+20%	647
Discount rates	+20%	(85)	–20%	87
Spread rates	+20%	(70)	–20%	70
Prepayment rates	–20%	(3)	+20%	2

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Table 24.8a

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

as of December 31, 2014	Key assumptions				Increase/decrease in reported fair value (in USD millions)
	Equity Levels	Discount Rates	Spread rates	Prepayment rates	
Scenarios					
Equity levels +10%	+10.0%	+1.3%	+1.3%	+1.3%	338
Equity levels –10%	–10.0%	–1.0%	–1.0%	–1.0%	(340)
Discount rates +10%	+0.2%	+10.0%	+15.0%	–2.0%	(68)
Discount rates –10%	–0.2%	–10.0%	–7.5%	+2.0%	58
Spread rates +10%	+0.2%	+7.0%	+10.0%	+0.2%	(47)

Table 24.8b

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

as of December 31, 2013	Key assumptions				Increase/decrease in reported fair value (in USD millions)
	Equity Levels	Discount Rates	Spread rates	Prepayment rates	
Scenarios					
Equity levels +10%	+10.0%	+1.2%	+1.2%	+1.2%	311
Equity levels –10%	–10.0%	–1.2%	–1.3%	–1.3%	(312)
Discount rates +10%	–1.0%	+10.0%	+12.2%	–2.0%	(69)
Discount rates –10%	+1.0%	–10.0%	–6.9%	+2.0%	60
Spread rates +10%	+0.1%	+7.0%	+10.0%	+0.2%	(68)

Within level 3, the ZIC Group also classified:

- Investment property amounting to USD 6,818 million and 6,734 million for Group investments and USD 4,100 million and USD 3,661 million for investments for unit-linked contracts as of December 31, 2014 and 2013, respectively. A large portion of this portfolio is valued using an internal income capitalization model. The model is asset specific and capitalizes the sustainable investment income of a property with its risk specific cap rate. This cap rate is an "all risk yield" with components such as asset class yield for core assets (lowest risk) plus additional premiums for additional risks, for example second tier location or deterioration risk. All cap rate components (risk premiums) are reviewed and, if necessary, adjusted annually before revaluations are performed. The model takes into consideration external factors such as interest rate, market rent and vacancy rate. The significant unobservable inputs which are outside this model, are estimated rental value, rental growth, long term vacancy rate and discount rate. Significant increases/(decreases) in rental value and rental growth, in isolation, would result in a significantly higher/(lower) fair value measurement. Significant increases/(decreases) in the long term vacancy rate and discount rate, in isolation, would result in a significantly lower/(higher) fair value measurement.
- USD 375 million and USD 346 million for reinsurers' share of reserves fair value option and, USD 3,594 million and USD 3,306 million reserves for insurance contracts fair value option as of December 31, 2014 and 2013, respectively. The significant unobservable inputs used in the fair value measurement are the policy decrement assumptions used in projecting cash flows. Significant increases/(decreases) in claim incidence rates and significant decreases/(increases) in claim termination rates would result in a significantly higher(lower) fair value measurement.

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25. Related party transactions

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

Table 25.1 sets out related party transactions with equity method accounted investments, reflected in the consolidated income statements and consolidated balance sheets.

Related party transactions included in the Consolidated financial statements

Table 25.1

in USD millions for the years ended December 31	**2014**	2013
Net earned premiums and policy fees	1	4
Net investment result on Group investments	54	50
Other income	17	16
Insurance benefits and losses, net of reinsurance	(8)	(7)
Administrative and other operating expense	(62)	(2)
Interest expense on debt	–	(1)
in USD millions for the years ended December 31	**2014**	2013
Other loans[1]	909	938
Deposits made under assumed reinsurance contracts	–	1
Receivables and other assets	5	12
Reserves for insurance contracts	(1)	(9)
Accrued liabilities	2	2
Other liabilities[2]	(1,441)	(759)
Senior debt[3]	–	(292)

[1] Includes loans with Zurich Insurance Group Ltd of USD 524 million as of both December 31, 2014 and 2013.
[2] Includes other liabilities with Zurich Insurance Group Ltd of USD 1,436 million and USD 756 million as of December 31, 2014 and 2013, respectively.
[3] Includes debt received from Zurich Insurance Group Ltd of USD 292 million as of December 31, 2013.

On April 25, 2008 a subordinated loan agreement was entered into between Zurich Insurance Company Ltd and Zurich Group Holding, which was assumed by Zurich Insurance Group Ltd as a consequence of its merger with Zurich Group Holding. The remaining loan was CHF 4.8 billion (USD 5.3 billion) as of both December 31, 2014, and 2013, respectively (see note 20).

Table 25.2 summarizes related party transactions with key personnel reflected in the Consolidated financial statements. Key personnel includes members of the Board of Directors of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd and members of the Group Executive Committee of the Zurich Insurance Group.

Related party transactions – key personnel

Table 25.2

in USD millions, for the years ended December 31	**2014**	2013
Remuneration of key personnel of the ZIC Group		
Cash compensation, current benefits and fees	27	27
Post-employment benefits	4	3
Share-based compensation	15	15
Other remuneration	5	3
Total remuneration of key personnel	**50**	**48**

As of December 31, 2014 and 2013 there were no loans, advances or credits outstanding from members of the Group Executive Committee of the Zurich Insurance Group. Outstanding loans and guarantees granted to members of the Board of Directors amounted to nil and USD 3 million for the years ended December 31, 2014 and 2013, respectively. The terms "members of the Board of Directors" and "members of the Group Executive Committee of the Zurich Insurance Group" in this context include the individual as well as members of their respective households. The figures in table 25.2 include the fees paid to members of the Board of Directors of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd, which were USD 4 million and USD 5 million for the years ended December 31, 2014 and 2013, respectively.

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

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26. Relationship with the Farmers Exchanges

Farmers Group, Inc. and its subsidiaries (FGI) provide certain non-claims administrative and management services to the Farmers Exchanges, which are managed by Farmers Group, Inc. a wholly owned subsidiary of the Zurich Insurance Group. The finances and operations of the Farmers Exchanges are governed by independent Boards of Governors. In addition, the ZIC Group has the following relationships with the Farmers Exchanges.

a) Certificates of contribution issued by the Farmers Exchanges
As of December 31, 2014 and 2013, FGI and other ZIC Group companies held the following certificates of contribution issued by the Farmers Exchanges. Originally these were purchased by FGI in order to supplement the policyholders' surplus of the Farmers Exchanges.

Table 26.1

Surplus Notes

in USD millions, as of December 31	2014	2013
6.15% certificate of contribution, due June 2021	707	707
6.15% certificate of contribution, due June 2021	–	140
6.15% certificate of contribution, due June 2021	–	60
Various other certificates of contribution	23	23
Total	**730**	**930**

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

b) Quota share reinsurance treaties with the Farmers Exchanges
The Farmers Exchanges ceded risk through quota share reinsurance treaties to Farmers Reinsurance Company (Farmers Re Co), a wholly owned subsidiary of FGI, and to Zurich Insurance Company Ltd (ZIC). These treaties can be terminated after 90 days' notice by any of the parties.

The Auto Physical Damage (APD) Quota Share reinsurance agreement (APD agreement) with the Farmers Exchanges provides for annual ceded premiums of USD 1 billion. In addition, Farmers Re Co and ZIC assume a quota share percentage of ultimate net losses sustained by the Farmers Exchanges in their APD lines of business.

Certain of the Farmers Exchanges participate in an All Lines Quota Share reinsurance agreement (All Lines agreement) with Farmers Re Co and ZIC. The All Lines agreement provides for a cession of a quota share of the premiums written and the ultimate net losses sustained in all lines of business written by the Farmers Exchanges after the APD agreement has been applied.

Quota share reinsurance treaties

Table 26.2

in USD millions, for the years ended December 31	APD agreement		All Lines agreement		Total	
	2014[1]	2013[2]	**2014**[3]	2013[4]	**2014**	2013
Net earned premiums and policy fees	900	925	3,056	3,174	3,956	4,099
Insurance benefits and losses, net[5]	(646)	(650)	(2,004)	(2,173)	(2,650)	(2,823)
Total net technical expenses[6]	(262)	(269)	(978)	(1,016)	(1,240)	(1,285)
Net underwriting result	**(8)**	**6**	**74**	**(15)**	**66**	**(9)**

1 Farmers Re Co assumed 10 percent and ZIC assumed 80 percent. The remaining 10 percent was assumed by a third party on the same terms as Farmers Re Co and ZIC.
2 Farmers Re Co assumed 12.5 percent and ZIC assumed 80 percent. The remaining 7.5 percent was assumed by a third party on the same terms as Farmers Re Co and ZIC.
3 From January 1, 2014, Farmers Re Co and ZIC assumed a 2.0 percent and 16.0 percent respective quota share. Another 2.0 percent was assumed by a third party on the same terms as Farmers Re Co and ZIC. Subject to the approval of the California Department of Insurance, effective December 31 2014, Farmers Re Co and ZIC assumed a 1.0 percent and 9.0 percent respective quota share. Another 4.0 percent is assumed by a third party on the same terms as Farmers Re Co and ZIC.
4 From January 1, 2013, Farmers Re Co and ZIC assumed a 2.5 percent and 16.0 percent respective quota share. Another 1.5 percent was assumed by a third party on the same terms as Farmers Re Co and ZIC. Effective December 31 2013, Farmers Re Co and ZIC assumed a 2.0 percent and 16.0 percent respective quota share. Another 2.0 percent was assumed by a third party on the same terms as Farmers Re Co and ZIC.
5 Under the All Lines agreement the Farmers Exchanges catastrophe losses are subject to a maximum of USD 1.2 billion.
6 Under the APD agreement the ceding commission for acquisition expenses range between 27.1 percent and 29.1 percent and the ceding commission for unallocated loss adjustment expenses range between 8 percent and 10 percent, both based on a previous 5 year average experience. Under the All Lines agreement, the Farmers Exchanges receive a ceding commission of 26.7 percent, 8.4 percent (9 percent in 2013) of premiums for unallocated loss adjustment expenses and 5.3 percent of premiums for other expenses.

c) Farmers management fees and other related revenues

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

FGI has historically charged a lower management fee than the amount allowed by policyholders. The range of fees has varied by line of business over time and from year to year. The gross earned premiums of the Farmers Exchanges were USD 18,545 million and USD 18,757 million for the years ended December 31, 2014 and 2013, respectively.

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27. Segment information

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

General Insurance provides a variety of motor, home and commercial products and services for individuals, as well as small and large businesses.

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

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

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

Other Operating Businesses predominantly consist of the ZIC Group´s Holding and Financing and Headquarters activities. Certain alternative investment positions not allocated to business operating segments are included within Holding and Financing.

Non-Core Businesses include insurance and reinsurance businesses that the ZIC Group does not consider core to its operations and that are therefore mostly managed to achieve a beneficial run-off. Non-core businesses are mainly situated in the U.S., Bermuda and the UK.

The ZIC Group also manages two of the three core segments on a secondary level.

General Insurance is managed based on market-facing businesses, including:

- Global Corporate
- North America Commercial
- Europe, Middle East & Africa (EMEA)
- Latin America
- Asia-Pacific

For external reporting purposes Latin America and Asia-Pacific are aggregated into International Markets.

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 ZIC Group.

Global Life is managed on a regional-based structure within a global framework, including:

- North America
- Latin America
- Europe
- Asia-Pacific and Middle East

From January 1, 2015, the Global Life business will change its regional structure by establishing the regions Europe, Middle East & Africa (EMEA) and Asia Pacific. EMEA will include the current European business units, Zurich International Life and Luxembourg. This change has no impact on total Global Life or the ZIC Group.

Business operating profit

The segment information includes the ZIC Group's internal performance measure, business operating profit (BOP). This measure is the basis on which the ZIC Group manages all of its business units. It indicates the underlying performance of the ZIC 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/(losses) and impairments on investments (except for the capital markets 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 in BOP) are also excluded from BOP.

Consolidated financial statements *continued*

Business operating profit by business segment

Table 27.1

in USD millions, for the years ended December 31	General Insurance		Global Life	
	2014	2013	**2014**	2013
Revenues				
Direct written premiums[1]	34,351	34,240	12,001	11,143
Assumed written premiums	1,981	2,198	184	209
Gross Written Premiums	36,333	36,438	12,185	11,352
Policy fees	–	–	2,409	2,564
Gross written premiums and policy fees	36,333	36,438	14,594	13,916
Less premiums ceded to reinsurers	(5,473)	(5,959)	(675)	(693)
Net written premiums and policy fees	30,859	30,479	13,919	13,223
Net change in reserves for unearned premiums	(837)	(710)	(53)	(371)
Net earned premiums and policy fees	30,023	29,769	13,866	12,852
Farmers management fees and other related revenues	–	–	–	–
Net investment result on Group investments	2,288	2,384	4,988	4,489
Net investment income on Group investments	2,199	2,217	3,815	3,895
Net capital gains/(losses) and impairments on Group investments	89	167	1,173	595
Net investment result on unit-linked investments	–	–	10,457	12,731
Other income	799	830	1,207	1,156
Total BOP revenues	33,110	32,983	30,519	31,229
of which: inter-segment revenues	*(361)*	*(391)*	*(450)*	*(362)*
Benefits, losses and expenses				
Insurance benefits and losses, net[1]	20,048	20,321	10,685	9,167
Losses and loss adjustment expenses, net	20,051	20,323	–	–
Life insurance death and other benefits, net[1]	(3)	(1)	10,684	9,167
Policyholder dividends and participation in profits, net	6	6	12,097	13,820
Income tax expense/(benefit) attributable to policyholders	–	–	106	285
Underwriting and policy acquisition costs, net	5,946	5,756	2,654	3,003
Administrative and other operating expense (excl. depreciation/amortization)	3,791	3,604	2,711	2,653
Interest credited to policyholders and other interest	61	19	400	420
Restructuring provisions and other items not included in BOP	(146)	(276)	(174)	(88)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	29,706	29,429	28,478	29,261
Business operating profit (before interest, depreciation and amortization)	**3,404**	**3,554**	**2,042**	**1,968**
Depreciation and impairments of property and equipment	87	90	33	38
Amortization and impairments of intangible assets	213	394	452	405
Interest expense on debt	115	138	46	21
Business operating profit before non-controlling interests	2,988	2,932	1,512	1,504
Non-controlling interests	95	72	246	242
Business operating profit	**2,894**	**2,859**	**1,266**	**1,262**

[1] Global Life included approximately USD 1,551 million and USD 521 million of gross written premiums and future life policyholders' benefits for certain universal life-type contracts in the ZIC Group's Spanish operations for the years ended December 31, 2014 and 2013, respectively (see note 3).

	Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
	–	–	–	–	95	113	–	–	46,448	45,496
	3,428	4,045	45	109	92	102	(110)	(194)	5,621	6,469
	3,428	4,045	45	109	188	215	(110)	(194)	52,069	51,965
	–	–	–	–	303	320	–	–	2,712	2,884
	3,428	4,045	45	109	491	535	(110)	(194)	54,781	54,849
	–	–	(47)	(55)	(16)	(33)	110	194	(6,101)	(6,546)
	3,428	4,045	(2)	54	475	502	–	–	48,680	48,303
	528	54	–	–	3	1	–	–	(359)	(1,025)
	3,956	4,099	(2)	54	478	504	–	–	48,321	47,277
	2,791	2,810	–	–	–	–	–	–	2,791	2,810
	68	107	387	315	725	(376)	(627)	(564)	7,831	6,356
	68	107	387	315	329	258	(627)	(564)	6,172	6,228
	–	–	–	–	396	(634)	–	–	1,659	128
	–	–	–	–	327	73	–	–	10,784	12,805
	99	80	826	710	43	140	(1,261)	(1,167)	1,714	1,748
	6,914	7,095	1,212	1,080	1,573	341	(1,888)	(1,731)	71,440	70,996
	(24)	*(32)*	*(1,006)*	*(895)*	*(47)*	*(51)*	*1,888*	*1,731*	–	–
	2,650	2,823	(7)	49	988	(162)	–	–	34,364	32,198
	2,650	2,823	(1)	–	171	(18)	–	–	22,871	23,128
	–	–	(6)	49	817	(144)	–	–	11,492	9,070
	–	–	–	–	465	121	–	–	12,568	13,946
	–	–	–	–	–	–	–	–	106	285
	1,240	1,285	–	–	6	6	(10)	(10)	9,835	10,041
	1,315	1,343	1,151	973	72	103	(1,188)	(1,104)	7,852	7,573
	–	–	3	3	119	81	(68)	(23)	515	500
	3	(12)	(61)	(82)	–	–	–	–	(378)	(457)
	5,208	5,440	1,087	944	1,650	149	(1,266)	(1,137)	64,863	64,086
	1,706	**1,655**	**125**	**135**	**(76)**	**191**	**(622)**	**(594)**	**6,577**	**6,910**
	46	48	7	10	–	–	–	–	173	186
	86	91	89	121	–	–	–	–	840	1,011
	–	1	976	1,009	11	12	(622)	(594)	525	587
	1,573	1,516	(947)	(1,004)	(87)	179	–	–	5,040	5,127
	65	66	(13)	(16)	–	–	–	–	394	364
	1,508	**1,450**	**(934)**	**(988)**	**(88)**	**180**	**–**	**–**	**4,646**	**4,763**

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Reconciliation of BOP to net income after income taxes

Table 27.2

in USD millions, for the years ended December 31	General Insurance		Global Life	
	2014	2013	**2014**	2013
Business operating profit	**2,894**	**2,859**	**1,266**	**1,262**
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	871	480	485	1
Net gain/(loss) on divestments of businesses[1]	(245)	–	–	–
Restructuring provisions	(36)	8	(29)	(36)
Net income/(expense) on intercompany loans	(16)	(12)	(6)	(2)
Impairments of goodwill	–	(209)	(98)	–
Change in estimates of earn-out liabilities	(19)	(50)	(31)	35
Other adjustments[2]	(75)	(13)	(10)	(84)
Add back:				
Business operating profit attributable to non-controlling interests	95	72	246	242
Net income before shareholders' taxes	3,469	3,135	1,822	1,417
Income tax expense/(benefit) attributable to policyholders	–	–	106	285
Net income before income taxes	**3,469**	**3,135**	**1,929**	**1,702**
Income tax expense				
attributable to policyholders				
attributable to shareholders				
Net income after taxes				
attributable to non-controlling interests				
attributable to shareholders				

[1] General Insurance and Other Operating Businesses relate to the sale of the ZIC Group's General Insurance retail business in Russia (see note 5).
[2] For the year ended December 31, 2014, General Insurance includes property transfer tax of USD 40 million relating to the acquisition of non-controlling interests of Deutscher Herold AG (see note 5). For the year ended December 31, 2013, Global Life includes USD 37 million of software impairments relating to a restructuring program (see notes 16 and 18 of the Consolidated financial statements 2013) and Other Operating Businesses includes USD 75 million of foreign exchange movements relating to operations which were liquidated or substantially liquidated.

	Farmers		Other Operating Businesses		Non-Core Businesses		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
	1,508	**1,450**	**(934)**	**(988)**	**(88)**	**180**	**4,646**	**4,763**
	34	6	14	650	4	12	1,408	1,149
	–	–	(2)	(1)	(13)	–	(259)	(1)
	2	(12)	(34)	(2)	–	–	(97)	(42)
	–	–	22	14	–	–	–	–
	–	–	–	–	–	–	(98)	(209)
	–	–	–	–	–	–	(50)	(16)
	1	–	(48)	(93)	–	–	(132)	(191)
	65	66	(13)	(16)	–	–	394	364
	1,611	1,510	(995)	(436)	(96)	192	5,811	5,818
	–	–	–	–	–	–	106	285
	1,611	**1,510**	**(995)**	**(436)**	**(96)**	**192**	**5,917**	**6,103**
							(1,659)	(1,697)
							(106)	(285)
							(1,552)	(1,412)
							4,259	**4,406**
							326	279
							3,932	4,127

Consolidated financial statements *continued*

Table 27.3

Assets and liabilities by business segment

in USD millions, as of December 31	General Insurance 2014	General Insurance 2013	Global Life 2014	Global Life 2013
Assets				
Total Group Investments	88,545	90,369	111,906	113,871
Cash and cash equivalents	10,169	10,125	3,568	3,181
Equity securities	8,953	6,733	6,416	5,140
Debt securities	61,822	65,408	79,817	80,715
Investment property	3,193	3,159	5,054	5,239
Mortgage loans	1,369	1,470	5,880	7,463
Other loans	3,035	3,467	11,158	12,069
Investments in associates and joint ventures	4	7	13	65
Investments for unit-linked contracts	–	–	122,446	122,423
Total investments	88,545	90,369	234,352	236,294
Reinsurers' share of reserves for insurance contracts	11,664	13,008	1,979	2,068
Deposits made under assumed reinsurance contracts	38	56	73	49
Deferred policy acquisition costs	3,984	3,794	13,584	14,606
Deferred origination costs	–	–	595	724
Goodwill	533	588	309	445
Other intangible assets	1,649	1,369	3,556	4,023
Other assets	15,147	15,492	7,104	7,291
Total assets (after cons. of investments in subsidiaries)	**121,559**	**124,675**	**261,552**	**265,501**
Liabilities				
Liabilities for investment contracts	–	–	70,581	67,113
Reserves for insurance contracts, gross	77,271	82,148	153,334	161,131
Reserves for losses and loss adjustment expenses, gross	61,094	65,629	–	–
Reserves for unearned premiums, gross	16,101	16,409	–	–
Future life policyholders' benefits, gross	45	77	72,783	80,302
Policyholders' contract deposits and other funds, gross	30	33	21,120	17,801
Reserves for unit-linked contracts, gross	–	–	59,431	63,028
Senior debt	1,148	7,021	91	545
Subordinated debt	1,268	193	754	7
Other liabilities	19,852	14,558	17,529	17,147
Total liabilities	**99,539**	**103,920**	**242,289**	**245,943**
Equity				
Shareholders' equity				
Non-controlling interests				
Total equity				
Total liabilities and equity				
Supplementary information				
Additions and capital improvements to property, equipment and intangible assets	781	344	409	157

[1] Farmers includes property, equipment and intangible assets of USD 2,314 million and USD 2,412 million as of December 31, 2014 and 2013, respectively.

Farmers[1] 2014	Farmers[1] 2013	Other Operating Businesses 2014	Other Operating Businesses 2013	Non-Core Businesses 2014	Non-Core Businesses 2013	Eliminations 2014	Eliminations 2013	Total 2014	Total 2013
4,096	3,769	19,901	18,199	9,806	9,181	(28,963)	(27,873)	205,292	207,516
481	418	8,519	9,013	1,370	1,558	(16,755)	(17,242)	7,352	7,053
62	91	974	1,473	99	130	–	–	16,504	13,566
1,163	1,190	6,261	5,925	5,763	4,935	(1,224)	(1,794)	153,602	156,379
74	76	209	–	254	272	–	–	8,784	8,745
–	–	–	–	–	–	–	–	7,249	8,933
2,317	1,995	3,887	1,733	2,318	2,284	(10,984)	(8,837)	11,731	12,712
–	–	51	55	2	2	–	–	70	129
–	–	–	–	11,970	11,844	–	–	134,416	134,267
4,096	3,769	19,901	18,199	21,776	21,025	(28,963)	(27,873)	339,708	341,783
–	–	–	–	3,011	3,013	(103)	(111)	16,550	17,978
1,952	2,376	–	–	142	165	(2)	(2)	2,203	2,645
182	323	–	–	–	–	–	–	17,750	18,724
–	–	–	–	–	–	–	–	595	724
819	819	–	–	–	–	–	–	1,661	1,852
1,354	1,368	195	268	–	–	–	–	6,754	7,028
599	985	1,021	1,665	1,822	1,262	(3,986)	(2,186)	21,706	24,509
9,002	**9,640**	**21,117**	**20,133**	**26,751**	**25,464**	**(33,054)**	**(30,171)**	**406,927**	**415,242**
–	–	–	–	232	–	–	–	70,813	67,113
2,231	2,820	31	35	20,957	19,416	(104)	(111)	253,719	265,440
1,551	1,612	26	27	1,886	1,119	(84)	(75)	64,472	68,312
680	1,208	3	3	14	17	(19)	(21)	16,779	17,616
–	–	2	5	4,823	4,107	–	(14)	77,652	84,476
–	–	–	–	2,265	2,328	(1)	–	23,415	20,162
–	–	–	–	11,970	11,844	–	–	71,400	74,873
–	172	12,733	24,020	514	1,668	(9,107)	(27,089)	5,379	6,337
–	–	6,615	6,268	23	23	(2,803)	(149)	5,857	6,342
1,427	1,175	13,374	2,511	3,815	3,015	(21,039)	(2,823)	34,958	35,583
3,658	**4,167**	**32,752**	**32,834**	**25,541**	**24,122**	**(33,054)**	**(30,172)**	**370,726**	**380,814**
								33,721	31,851
								2,481	2,576
								36,202	34,428
								406,927	**415,242**
144	169	51	81	–	–	–	–	1,384	751

Consolidated financial statements *continued*

General Insurance – Revenues and non-current assets by region

Table 27.4

in USD millions	Gross written premiums and policy fees from external customers – Total, for the years ended December 31 2014	Total 2013	of which Global Corporate, for the years ended December 31 2014	of which Global Corporate 2013	Property, equipment and intangible assets, as of December 31 2014	2013
North America						
United States	12,671	12,736			242	228
Canada	870	904			11	8
Bermuda	9	11			18	21
North America	13,550	13,651	3,661	3,632	272	257
Europe						
United Kingdom	4,199	3,920			258	244
Germany	3,213	3,134			193	224
Switzerland	3,344	3,330			562	609
Italy	1,839	1,896			31	30
Spain	1,408	1,398			378	349
Austria	611	595			20	23
Ireland	363	357			55	59
Portugal	310	326			20	23
France	428	433			1	2
Rest of Europe	959	1,088			187	224
Europe	16,673	16,477	4,565	4,555	1,706	1,787
Latin America						
Argentina	425	422			13	15
Brazil	1,112	1,112			510	221
Chile	316	324			27	29
Mexico	650	685			216	254
Venezuela	291	287			8	14
Rest of Latin America	34	33			1	1
Latin America[1]	2,829	2,864	373	–	775	534
Asia-Pacific						
Australia	1,030	1,163			55	58
Hong Kong	251	246			13	14
Japan	705	702			11	22
Taiwan	127	130			14	14
Malaysia	197	176			2	1
Rest of Asia-Pacific	276	279			3	3
Asia-Pacific	2,586	2,695	583	601	98	113
Middle East	212	191	171	140	51	53
Africa						
South Africa	341	427			11	11
Morocco	139	131			28	32
Africa	480	558	30	37	40	43
Total	**36,330**	**36,436**	**9,384**	**8,965**	**2,941**	**2,787**

[1] Global Corporate previously not separately disclosed.

Global Life – Revenues and non-current assets by region

Table 27.5

in USD millions	Gross written premiums and policy fees from external customers for the years ended December 31		Life insurance deposits for the years ended December 31		Property, equipment and intangible assets as of December 31	
	2014	2013	**2014**	2013	**2014**	2013
North America						
United States	921	858	549	264	138	161
North America	921	858	549	264	138	161
Latin America						
Chile	718	1,102	83	50	326	403
Argentina	131	133	59	50	56	72
Mexico	403	382	3	250	188	232
Venezuela	43	60	–	–	–	–
Brazil	1,427	1,624	2,058	1,586	664	804
Uruguay	7	6	–	–	–	–
Latin America	2,729	3,307	2,203	1,937	1,234	1,510
Europe						
United Kingdom	1,532	1,883	6,557	2,765	338	414
Germany	3,252	2,837	1,874	1,827	596	717
Switzerland	1,594	1,649	167	133	67	76
Ireland[1]	727	729	2,998	2,902	5	4
Spain	1,891	841	51	70	1,632	1,741
Italy	433	426	1,024	684	72	106
Portugal	27	27	122	83	–	–
Austria	188	151	61	55	28	32
Europe	9,644	8,542	12,854	8,520	2,738	3,091
Asia-Pacific and Middle East						
Hong Kong	76	121	37	112	1	6
Taiwan	–	–	3	4	–	–
Indonesia	7	4	–	–	1	3
Australia	353	329	53	75	–	–
Japan	91	81	1	16	15	9
Singapore	6	1	6	5	3	3
Malaysia	185	195	50	49	26	46
Zurich International Life[2]	321	204	1,396	1,372	30	17
Asia-Pacific and Middle East	1,039	935	1,547	1,634	76	84
Other						
Luxembourg[1]	13	9	136	824	2	3
International Group Risk Solutions[3]	187	191	–	–	–	–
Other	200	200	136	824	2	3
Total	**14,532**	**13,842**	**17,289**	**13,180**	**4,188**	**4,849**

[1] Includes business written under freedom of services and freedom of establishment in Europe, and the related assets.
[2] Includes business written through licenses, mainly into Asia-Pacific and Middle East, and the related assets.
[3] Includes business written through licenses into all regions.

Consolidated financial statements *continued*

28. Interest in subsidiaries

Significant subsidiaries are defined as those subsidiaries, which either individually or in aggregate, contribute significantly to gross written premiums, shareholder's equity, total assets or net income attributable to shareholders.

Significant subsidiaries – non-listed

Table 28.1

as of December 31, 2014	Registered office	Segment[1]	Voting rights %	Ownership interest %	Nominal value of share capital (in local currency millions)	
Australia						
Zurich Australia Limited	Sydney	Global Life	100	100	AUD	0.5
Zurich Australian Insurance Limited	Sydney	General Insurance	100	100	AUD	6.6
Austria						
Zürich Versicherungs-Aktiengesellschaft	Vienna	General Insurance/ Global Life	99.98	99.98	EUR	12.0
Bermuda						
Centre Group Holdings Limited	Hamilton	Non-Core Businesses	100	100	USD	0.3
CMSH Limited	Hamilton	Non-Core Businesses	100	100	USD	0.3
Zurich International (Bermuda) Ltd.	Hamilton	General Insurance	100	100	USD	9.9
Brazil						
Zurich Santander Brasil Seguros e Previdência S.A.	Sao Paulo	Global Life	51	51	BRL	1,659.2
Zurich Minas Brasil Seguros S.A.	Belo Horizonte	General Insurance/ Global Life	100	100	BRL	2,289.3
Chile						
Chilena Consolidada Seguros de Vida S.A.	Santiago	Global Life	98.99	98.99	CLP	24,484.0
Zurich Santander Seguros de Vida Chile S.A.	Santiago	Global Life	51	51	CLP	36,252.9
Germany						
Deutscher Herold Aktiengesellschaft	Bonn	Global Life	100	100	EUR	18.4
Zürich Beteiligungs-Aktiengesellschaft (Deutschland)	Frankfurt	General Insurance	100	100	EUR	152.9
Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft	Bonn	Global Life	100	100	EUR	68.5
Zurich GI Management Aktiengesellschaft (Deutschland)	Frankfurt	General Insurance	100	100	EUR	10.0
Ireland						
Zurich Life Assurance plc	Dublin	Global Life	100	100	EUR	17.5
Zurich Insurance plc	Dublin	General Insurance	100	100	EUR	8.2
Zurich Holding Ireland Limited	Dublin	Other Operating Businesses	100	100	EUR	0.1
Italy						
Zurich Investments Life S.p.A.	Milan	Global Life	100	100	EUR	164.0
Luxembourg						
Zurich Eurolife S.A.	Bertrange	Global Life	100	100	EUR	16.5
Malaysia						
Zurich Insurance Malaysia Berhad	Kuala Lumpur	General Insurance/ Global Life	100	100	MYR	579.0
Mexico						
Zurich Santander Seguros México, S.A.	Mexico City	General Insurance/ Global Life	51	51	MXN	190.0

Significant subsidiaries – non-listed (continued)

Table 28.1
as of December 31, 2014

	Registered office	Segment[1]	Voting rights %	Ownership interest %	Nominal value of share capital (in local currency millions)	
Spain						
Bansabadell Pensiones, E.G.F.P, S.A.[2]	Barcelona	Global Life	50	50	EUR	7.8
Bansabadell Seguros Generales, S.A.[2] de Seguros y Reaseguros	Barcelona	General Insurance	50	50	EUR	10.0
Bansabadell Vida S.A. de Seguros[2] y Reaseguros	Barcelona	Global Life	50	50	EUR	43.9
Zurich Latin America Holding S.L. - Sociedad Unipersonal	Barcelona	Other Operating Businesses	100	100	EUR	43.0
Zurich Santander Holding (Spain), S.L.	Madrid	Global Life	51	51	EUR	94.3
Zurich Santander Holding Dos (Spain), S.L.	Madrid	Global Life	51	51	EUR	40.0
Zurich Santander Insurance America, S.L.	Madrid	Global Life	51	51	EUR	177.0
Zurich Vida, Compañía de Seguros y Reaseguros, S.A. - Sociedad Unipersonal	Madrid	Global Life	100	100	EUR	56.4
Switzerland						
Genevoise Real Estate Company Ltd	Geneva	Global Life	100	100	CHF	20.4
Zurich Life Insurance Company Ltd[4]	Zurich	Other Operating Businesses	100	100	CHF	60.0
Zurich Investment Management AG	Zurich	Other Operating Businesses	100	100	CHF	10.0
Taiwan						
Zurich Insurance (Taiwan) Ltd.	Taipei	General Insurance	99.73	99.73	TWD	2,000.0
Turkey						
Zurich Sigorta A.S.	Istanbul	General Insurance	100	100	TRY	168.9
United Kingdom						
Allied Zurich Holdings Limited	Jersey, Channel Islands	Other Operating Businesses	100	100	GBP	90.7
Zurich Assurance Ltd	Cheltenham, England	Global Life	100	100	GBP	236.1
Zurich Employment Services Limited	Cheltenham, England	Global Life	100	100	GBP	96.9
Zurich Financial Services (UKISA) Limited	Cheltenham, England	Other Operating Businesses	100	100	GBP	1,652.1
Zurich Holdings (UK) Limited	Fareham, England	Other Operating Businesses	100	100	GBP	137.3
Zurich International Life Limited	Douglas, Isle of Man	Global Life	100	100	GBP	109.0
Zurich Project Finance (UK) Limited	Cheltenham, England	Other Operating Businesses	100	100	GBP	0.000001
Zurich UK General Services Limited	Fareham, England	Other Operating Businesses	100	100	GBP	130.5

Consolidated financial statements *continued*

Significant subsidiaries – non-listed (continued)

Table 28.1

as of December 31, 2014	Registered office	Segment[1]	Voting rights %	Ownership interest %	Nominal value of share capital (in local currency millions)	
United States of America						
Farmers Group, Inc.[5]	Reno, NV	Farmers	87.90	95.38	USD	0.001
Farmers New World Life Insurance Company[5]	Mercer Island, WA	Global Life	87.90	95.38	USD	6.6
Farmers Reinsurance Company[5]	Los Angeles, CA	Farmers	87.90	95.38	USD	58.8
Farmers Services LLC[6]	Wilmington, DE	Farmers	100	100	USD	–
Zurich American Corporation	Wilmington, DE	Non-Core Businesses	100	100	USD	0.00001
Zurich American Life Insurance Company	Schaumburg, IL	Global Life/ Non-Core Businesses	100	100	USD	2.5
ZFS Finance (USA) LLC V[6]	Wilmington, DE	Other Operating Businesses	100	100	USD	–
Zurich American Insurance Company (and subsidiaries)	New York, NY	General Insurance	100	100	USD	5.0
Zurich Finance (USA), Inc.	Wilmington, DE	Other Operating Businesses	100	100	USD	0.000001
Zurich Holding Company of America, Inc.[7]	Wilmington, DE	Other Operating Businesses	100	100	USD	–

[1] The segments are defined in note 27.
[2] Relates to Bansabadell insurance entities which are controlled by the ZIC Group.
[3] The results of the operating activities are included in the Global Life segment, whereas the headquarter's activities are included in Other Operating Businesses.
[4] The ownership percentages in Farmers Group, Inc. and its fully owned subsidiaries have been calculated based on the participation rights of ZIC Group in a situation of liquidation, dissolution or winding up of Farmers Group, Inc.
[5] These entities are LLCs and have no share capital.
[6] Shares have no nominal value in accordance with the company's articles of incorporation and local legislation.

Significant subsidiaries – listed

Table 28.2

as of December 31, 2014	Registered office	Segment[1]	Voting rights %	Ownership interest %	Nominal value of share capital (in local currency millions)	
South Africa						
Zurich Insurance Company South Africa Limited[2]	Johannesburg	General Insurance	84.05	84.05	ZAR	4.0

[1] The segments are defined in note 27.
[2] Listed on the Johannesburg Stock Exchange. On December 31, 2014, the company had a market capitalization of ZAR 3.2 billion (ISIN Number ZAE000094496).

Due to the nature of the insurance industry, the ZIC Group's business is subject to extensive regulatory supervision, and companies in the ZIC Group are subject to numerous legal restrictions and regulations. These restrictions may refer to minimum capital requirements or the ability of the ZIC Group's subsidiaries to pay dividends imposed by regulators in the countries in which the subsidiaries operate. These are considered industry norms, generally applicable to insurers who operate in the same markets.

For Zurich Santander Insurance America, S.L. and its subsidiaries, and the Bansabadell insurance entities, certain protective rights exist, amongst others around liquidation, material sale of assets, transactions impacting the legal ownership structure, dividend distribution and capital increase, distribution channel partnerships and governance, which are not quantifiable.

For details on the ZIC Group's capital restrictions, see the capital management section in the Risk review, which forms an integral part of the Consolidated financial statements.

Table 28.3 shows the summarized financial information for each subsidiary that has non-controlling interests that are material to the ZIC Group.

Non-controlling interests

Table 28.3

in USD millions, as of December 31	Zurich Santander Insurance America, S.L. and its subsidiaries		Bansabadell insurance entities	
	2014	2013	**2014**	2013
Non-controlling interests percentage	49%	49%	50%	50%
Total Investments	11,486	11,527	6,967	7,749
Other assets	4,052	4,460	2,183	2,750
Insurance and investment contract liabilities[1]	12,136	12,256	6,735	7,944
Other liabilities	1,549	1,752	544	626
Net assets	**1,854**	**1,979**	**1,871**	**1,929**
Non-controlling interests in net assets	**908**	**970**	**936**	**965**
Gross written premiums and policy fees	3,239	2,643	2,127	1,197
Net income after taxes	316	349	138	33
Other comprehensive income	(159)	(328)	(187)	93
Total comprehensive income	**157**	**22**	**(48)**	**126**
Non-controlling interests in total comprehensive income	**77**	**11**	**(24)**	**63**
Dividends paid to non-controlling interests	94	181	23	44

[1] Includes reserves for premium refunds, liabilities for investment contracts, deposits received under ceded reinsurance contracts, deferred front-end fees and reserves for insurance contracts.

Consolidated financial statements *continued*

29. Events after the balance sheet date

On January 15, 2015, the Swiss National Bank ceased to enforce its temporary commitment to maintain the EUR/CHF exchange rate at or above CHF 1.20 to the EUR. As a result, the CHF appreciated against the EUR and other currencies. The ZIC Group presents its Consolidated financial statements and related footnotes in USD. The impacts of the currency movements on shareholders' equity were not material.

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Report of the statutory auditor

Report of the statutory auditor

To the General Meeting of Zurich Insurance Company Ltd

Report of the statutory auditor on the Consolidated financial statements

As statutory auditor, we have audited the Consolidated financial statements of Zurich Insurance Company Ltd, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity, and notes (pages 43 to 141 and the audited sections of the Risk review on pages 13 to 40), for the year ended December 31, 2014.

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

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

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

Opinion
In our opinion, the Consolidated financial statements for the year ended December 31, 2014 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on other legal requirements

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

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

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

PricewaterhouseCoopers AG

Mark Humphreys Audit expert Auditor in charge	Stephen O'Hearn Global relationship partner

Zurich, March 4, 2015

Financial statements – statutory accounts

Board of Directors and auditors, as of December 31, 2014

Board of Directors and auditors

	Residence	Expiration of current term of office
Board of Directors		
Tom de Swaan, Chairman	Amsterdam, Netherlands	2015
Fred Kindle, Vice Chairman	London, United Kingdom	2015
Susan Bies	Landrum, SC, USA	2016
Alison Carnwath	Devon, United Kingdom	2015
Rafael del Pino	Madrid, Spain	2015
Thomas Escher	Uitikon, Switzerland	2015
Monica Mächler	Pfäffikon, SZ, Switzerland	2016
Don Nicolaisen	Aiken, SC, USA	2015
Christoph Franz	Zürich, Switzerland	2015
Adrian Peyer, Corporate Secretary		
Auditors		
PricewaterhouseCoopers AG		

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

Principal activity and review of the year

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

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

ZIC reported a net income after taxes of CHF 3,612 million in 2014, a 26 percent increase compared to 2013. This increase is mainly driven by the implementation of a new accounting policy regarding the deferral of acquisition costs related to ZIC's reinsurance business, resulting in a non-recurring positive impact on the result of CHF 1,153 million. This was partly offset by the recognition of a loss of CHF 524 million due to the sale of the Company's subsidiary Zurich Insurance Holding (Cyprus) Ltd, which hold the Group's General Insurance retail business in Russia, in October 2014 and the set-up of a provision for value fluctuations of investments in the amount of CHF 250 million.

Total gross written premiums and policy fees decreased by CHF 465 million or 2 percent to CHF 21,139 million for the year ended December 31, 2014. In local currency, gross written premiums and policy fees decreased by 1 percent or CHF 189 million.

Direct business gross written premiums and policy fees decreased by CHF 83 million or by 2 percent to CHF 4,316 million. Assumed reinsurance gross written premiums and policy fees decreased by CHF 381 million or 2 percent to CHF 16,824 million mainly due to the participation change in the All Lines Quota Share reinsurance agreement with Farmers Exchanges.

The insurance benefits and losses, net of reinsurance, increased by CHF 990 million to CHF 12,682 million mainly due to the change in reserves for losses and loss adjustment expenses for life reinsurance contracts with Group companies in 2013, which impacted the 2013 result positively. The net investment income decreased by CHF 120 million to CHF 2,622 million, mainly due to lower interest income on debt securities of CHF 80 million as consequence of the transfer of a second tranche of directly held investments into the single investor funds in August 2014 (investment income now disclosed as net realized capital gains/losses, write-ups and write downs on investments) and due to the low interest rates in the capital market.

Shareholder's equity increased by CHF 1,112 million to CHF 21,375 million as of December 31, 2014, from CHF 20,263 million as of December 31, 2013. The increase is the net result of the net income after taxes of CHF 3,612 million and the dividend payment to Zurich Insurance Group Ltd of CHF 2,500 million in 2014, which was approved at the Annual General Meeting of shareholders on April 2, 2014.

Financial statements – statutory accounts *continued*

Income statements

Income statements

in CHF millions, for the years ended December 31	Notes	2014	2013	2013 pro-forma[1]
Revenues				
Gross written premiums and policy fees		21,139	21,613	21,604
Premiums ceded to reinsurers		(2,862)	(2,906)	(2,906)
Net written premiums and policy fees		18,278	18,707	18,698
Net change in reserves for unearned premiums		202	(185)	(185)
Net earned premiums and policy fees		18,480	18,522	18,513
Net investment income	4	2,622	2,765	2,742
Net realized capital gains/losses, write-ups and write-downs on investments	5	694	52	52
Other income	6	1,504	1,420	1,443
Total revenues		23,299	22,758	22,749
Benefits, losses and expenses				
Insurance benefits and losses, net of reinsurance	7	(12,682)	(11,689)	(11,693)
Policyholder dividends and participation in profits, net of reinsurance		(120)	(48)	(48)
Underwriting and policy acquisition costs, net of reinsurance		(3,862)	(4,825)	(4,825)
Administrative and other expense	8	(2,266)	(1,092)	(2,441)
Other expense	8	–	(1,362)	–
Interest expense on debt		(680)	(694)	(694)
Other interest expense		(20)	(25)	(25)
Total benefits, losses and expenses		(19,630)	(19,734)	(19,725)
Net income before taxes		**3,669**	**3,024**	**3,024**
Taxes		(57)	(157)	(157)
Net income after taxes		**3,612**	**2,867**	**2,867**

[1] In 2014, the presentation of the income statement and balance sheet changed. (see note 1.3)

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

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Financial statements – statutory accounts *continued*

Balance sheets

Assets

in CHF millions, as of December 31	Notes	2014	2013	2013 pro-forma[1]
Investments				
Cash and cash equivalents		3,942	3,567	3,567
Equity securities		3,763	2,756	2,756
Debt securities		33,611	31,099	31,099
Real estate		1,636	1,370	1,370
Mortgage loans		1,293	1,240	1,240
Other loans		4,126	2,541	2,541
Investments in subsidiaries and associates	9	29,384	29,273	29,273
Other investments		721	506	506
Total investments		**78,476**	**72,352**	**72,352**
Other assets				
Deposits made under assumed reinsurance contracts		3,957	3,989	3,989
Accrued assets		528	788	788
Deferred acquisition costs, net	10	1,153	–	–
Receivables from policyholders, agents and intermediaries		263	596	266
Receivables from insurance and reinsurance companies		1,237	1,204	1,178
Other receivables		1,168	1,101	1,458
Furniture and equipment	11	142	72	72
Intangible assets	12	357	478	478
Other assets		30	33	33
Total other assets		**8,835**	**8,261**	**8,261**
Total assets		**87,310**	**80,613**	**80,613**

[1] In 2014, the presentation of the income statement and balance sheet changed. (see note 1.3)

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

Liabilities and shareholder's equity

in CHF millions, as of December 31	Notes	2014	2013	2013 pro-forma[1]
Short-term liabilities				
Deposits received under ceded reinsurance contracts		517	487	487
Amounts due to policyholders, agents and intermediaries		107	–	97
Amounts due to insurance and reinsurance companies		699	779	779
Prepaid premiums and other creditors		–	2,429	–
Accrued liabilities		1,399	1,053	1,455
Other liabilities		1,646	873	2,263
Short-term loan liabilities		5,692	–	4,127
Total short-term liabilities		10,061	5,622	9,209
Long-term liabilities				
Provisions	13	1,081	695	695
Senior debt	14	8,467	10,756	7,169
Subordinated debt	14	8,442	8,402	8,402
Total long-term liabilities		17,991	19,853	16,266
Insurance reserves, net	15	37,884	34,875	34,875
Total liabilities		**65,935**	**60,350**	**60,350**
Shareholder's equity (before appropriation of available earnings)				
Share capital (fully paid)	16	825	825	825
Profit sharing certificates		p.m.	p.m.	p.m.
Legal reserves				
General legal reserve		*485*	*485*	*485*
Capital contribution reserve		*5,570*	*5,570*	*5,570*
General free reserve		4,272	4,272	4,272
Retained earnings:				
Beginning of year		*9,111*	*8,444*	*8,444*
Dividend paid		*(2,500)*	*(2,200)*	*(2,200)*
Net income after taxes		*3,612*	*2,867*	*2,867*
Retained earnings, end of year		10,223	9,111	9,111
Total shareholder's equity (before appropriation of available earnings)		**21,375**	**20,263**	**20,263**
Total liabilities and shareholder's equity		**87,310**	**80,613**	**80,613**

[1] In 2014, the presentation of the income statement and balance sheet changed. (see note 1.3)

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

Financial statements – statutory accounts *continued*

Notes to the financial statements

1. Basis of presentation

1.1 General information

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

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

1.2 Change in accounting policies

Effective December 31, 2014, ZIC changed its accounting policy for the recognition of deferred acquisition costs. Acquisition costs related to reinsurance business starting with the underwriting year 2014 are deferred and subsequently amortized over a defined period. No restatement of prior year period was performed. For further details, refer to the Summary of significant accounting principles.

1.3 Reclassifications

The presentation of the balance sheet and the income statement was changed effective January 1, 2014. To allow a comparison, an additional column has been included to present information for the financial year 2013 as if the reclassifications were effective January 1, 2013. All numbers in the notes are presented after reclassifications with additional explanations in the text. The reclassifications had no impact on total assets, total liabilities and net income.

2. Summary of significant accounting policies

a) Investments

Equity securities which are quoted on a stock exchange are carried at the average stock exchange price during the month of December. Unquoted equity securities are carried at the acquisition cost with a deduction for necessary impairments. The valuation of equity securities held in the single investor funds in Switzerland is the same as for directly held securities.

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

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

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

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

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

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

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

a) Deposits made under assumed reinsurance contracts

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

b) Accrued assets

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

c) Deferred acquisition costs, net

Acquisition costs related to reinsurance business are deferred. For general insurance business the deferred costs are subsequently amortized over the period in which the related assumed premiums are earned. For the life business the deferred costs are amortized over the life of the contract based on expected premiums or based on estimated gross margin expected to be realized over the life of the contract, depending on the type of underlying contracts. This policy is applied for the underwriting year 2014 onwards.

d) Insurance reserves

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

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

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

Financial statements – statutory accounts *continued*

3. Exchange rates

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

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

Principal exchange rates

CHF per foreign currency unit	Balance sheets		Income statements	
	12/31/2014	12/31/2013	**2014**	2013
Canadian dollar	0.86	0.84	0.83	0.90
Euro	1.20	1.23	1.21	1.23
British pound	1.55	1.48	1.51	1.45
U.S. dollar	0.99	0.89	0.91	0.93

4. Net investment income

Net investment income

in CHF millions, for the years ended December 31	**2014**	2013
Cash and cash equivalents	10	11
Equity securities	29	16
Debt securities	530	610
Real estate	86	83
Mortgage loans	28	30
Other loans	76	87
Investments in subsidiaries and associates	1,905	1,937
Investment expenses	(44)	(32)
Total net investment income	**2,622**	**2,742**

Total net investment income decreased by CHF 120 million or 4 percent to CHF 2,622 million in 2014. The income on debts securities decreased by CHF 80 million due to the transfer of a second tranche of directly held investments into the single investor funds in August 2014 (net investment income is disclosed as write-ups and write-downs on investments) and due to the lower interest rate environment. Dividend income from subsidiaries and associates decreased by CHF 32 million or 2 percent to CHF 1,905 million in 2014. In 2013, investment expenses prior to reclassifications amounted to CHF (9) million.

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

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

in CHF millions, for the years ended December 31	Realized capital gains		Realized capital losses		Write-ups and write-downs		Totals	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
Equity securities	137	761	(41)	(13)	384	128	479	876
Debt securities	304	247	(115)	(188)	186	89	375	148
Real estate	39	11	(1)	(2)	–	2	38	10
Mortgage loans	–	–	–	–	–	(1)	–	(1)
Other loans	13	17	(21)	(82)	–	–	(8)	(65)
Investments in subsidiaries and associates	2	–	(490)	–	(2)	(221)	(491)	(221)
Other investments	1,155	82	(854)	(778)	–	–	301	(696)
Total net realized capital gains/losses, write-ups and write-downs on investments	**1,649**	**1,119**	**(1,522)**	**(1,063)**	**567**	**(4)**	**694**	**52**

Realized capital gains increased by CHF 530 million to CHF 1,649 million, and realized capital losses increased by CHF 459 million to CHF 1,522 million in 2014. In 2014, realized gains on equity securities decreased by CHF 625 million mainly due to a gain of CHF 643 million on the sale of New China Life Insurance Company Limited shares in 2013. The increase in realized capital losses on investment in subsidiaries and associates of CHF 490 million in 2014 is due to the sale of Zurich Insurance Holding (Cyprus) Ltd, which hold the Group's General Insurance retail business in Russia. The increase in realized capital gains on other investments by CHF 1,073 million to CHF 1,155 million in 2014 was due to higher realized capital gains on derivatives.

Write-ups and write-downs increased by CHF 571 million from a loss of CHF 4 million in 2013 to a gain of CHF 567 million in 2014. In the previous year, the write-downs on investments in subsidiaries and associates amounted to CHF 221 million, which mainly included a write-down of CHF 220 million on Zurich Insurance Holding (Cyprus) Ltd. Interest and dividend income, realized gains and losses and valuation differences on the debt securities and equity securities within the single investor funds of CHF 239 million and CHF 98 million for the year ended December 31, 2014, and 2013, respectively, are included in the write-ups and write-downs instead of in investment income, due to the set-up of single investor funds in August 2013 and the transfer of a second tranche in August 2014.

6. Other income

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

7. Insurance benefits and losses

Insurance benefits and losses

in CHF millions, for the years ended December 31	**2014**	2013
Claims paid, annuities and loss adjustment expenses, gross	(13,224)	(13,591)
Reinsurers' share	1,618	1,436
Claims paid, annuities and claims handling expenses, net	(11,606)	(12,155)
Change in reserves for losses and loss adjustment expenses, net	(1,076)	463
Total insurance benefits and losses, net of reinsurance	**(12,682)**	**(11,693)**

Total insurance benefits and losses increased by CHF 990 million to CHF 12,682 million compared with CHF 11,693 million in 2013, mainly driven by the increase in reserves for losses and loss adjustment expenses for the general insurance and life reinsurance business. In 2013, the change in reserves for losses and loss adjustment expenses included a non-recurring release of future life policyholder's benefits of CHF 675 million for two life reinsurance contracts with other Group companies. In 2013, change in reserves for losses and loss adjustment expenses, net, prior to reclassifications amounted to CHF 467 million.

Financial statements – statutory accounts *continued*

8. Administrative and other expense

Administrative and other expense

in CHF millions, for the years ended December 31	2014	2013
Administration and other general expenses	(1,552)	(1,168)
Personnel expenses	(1,112)	(944)
Foreign currency transaction gains and losses	358	4
Gains and losses on derivatives	238	(119)
Amortization and impairments of software and equipment	(198)	(213)
Total administrative and other expense	**(2,266)**	**(2,441)**

The set-up of a provision for value fluctuations of investments of CHF 250 million in 2014 is included in administration and other general expenses. In 2013, other general expenses prior to reclassifications amounted to CHF 1,034 million.

9. Investments in subsidiaries and associates

The table below shows the significant subsidiaries of ZIC with a carrying value of at least CHF 500 million and/or net income exceeding CHF 100 million. The carrying value of the listed subsidiaries and associates represents 88 percent of the total investments in subsidiaries and associates of CHF 29,384 million.

Significant subsidiaries

as of December 31, 2014	Registered office	Voting rights %	Ownership interest %		Nominal value of common stock (in local currency millions)
Bermuda					
CMSH Limited	Hamilton	100	100	USD	0.3
Zurich International (Bermuda) Ltd.[2]	Hamilton	100	100	USD	9.9
Brazil					
Zurich Minas Brasil Seguros S.A.[2]	Belo Horizonte	100	100	BRL	2,289.2
Germany					
Zürich Beteiligungs-Aktiengesellschaft (Deutschland)	Frankfurt/Main	82.6	82.6	EUR	152.9
Ireland					
Zurich Holding Ireland Limited	Dublin	100	100	EUR	0.1
Zurich Insurance plc[2]	Dublin	4.5	4.5	EUR	8.2
Italy					
Zurich Investments Life S.p.A.	Milan	100	100	EUR	164.0
Switzerland					
Zurich Life Insurance Company Ltd[2]	Zurich	100	100	CHF	60.0
United Kingdom					
Allied Zurich Holdings Limited	Jersey, Channel Islands	100	100	GBP	90.7
Zurich International Life Limited[2]	Isle of Man	100	100	GBP	109.0
United States of America					
Farmers Group, Inc.[1,3]	Reno, NV	87.9	95.4	USD	0.0
Zurich Holding Company of America, Inc.	Wilmington, DE	99.2	99.2	USD	0.0

[1] The ownership percentages in Farmers Group, Inc. and its fully owned subsidiaries have been calculated based on the participation rights of ZIC in a situation of liquidation, dissolution or winding up of Farmers Group, Inc.
[2] Regulated insurance companies
[3] The Farmers Exchanges are owned by their policyholders. Farmers Group, Inc., a wholly-owned subsidiary of the Zurich Insurance Group, provides certain non-claims administrative and management services to the Farmers Exchanges as attorney-in-fact and receives fees for its services.

10. Deferred acquisition costs

Deferred acquisition costs

in CHF millions, as of December 31	2014	2013
Deferred acquisition costs, assumed reinsurance	1,194	–
Deferred acquisition costs, retroceded reinsurance	(41)	–
Total deferred acquisition costs	**1,153**	**–**

11. Furniture and equipment

Furniture and equipment

in CHF millions, as of December 31	2014	2013
Furniture and equipment	375	286
Accumulated amortization	(233)	(214)
Total furniture and equipment	**142**	**72**

The increase in furniture and equipment is mainly due to the capitalization of fixed assets for the new SkyKey location in Zurich, Switzerland.

12. Intangible assets

Intangible assets

in CHF millions, as of December 31	2014	2013
Brand names and trademarks	41	98
Software	316	380
Total intangible assets	**357**	**478**

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

13. Provisions

This position consists mainly of provisions to cover obligations relating to administrative and sales staff as well as a provision for value fluctuations of investments of CHF 250 million. These provisions were established in anticipation of expected, estimated or perceived expenditures or exposures.

Financial statements – statutory accounts *continued*

14. Debt

a) Senior debt

Senior debt

in CHF millions, as of December 31		2014	2013
Issuances to capital markets under Euro Medium Term Note Programme	3.375% EUR 500 million, due June 2022	601	614
	1.75% EUR 500 million, due September 2024	601	–
	2.375% CHF 525 million, due November 2018	525	525
	2.25% CHF 500 million, due July 2017	500	500
	1.5% CHF 400 million, due June 2019	400	400
	1.125% CHF 400 million, due September 2019	400	400
	0.625% CHF 250 million, due July 2020	250	–
	2.875% CHF 250 million, due July 2021	250	250
	Floating rate CHF 200 million, due June 2016	200	–
	1.5% CHF 150 million, due July 2026	150	–
	1.875% CHF 100 million, due September 2023	100	100
Zurich Insurance Group	various	4,490	4,380
Total senior debt		**8,467**	**7,169**

In 2013, the cash-pool liabilities to Zurich Insurance Group of CHF 3,587 million was included in senior debt (reclassified to short-term loan liabilities).

b) Subordinated debt

Subordinated debt

in CHF millions, as of December 31		2014	2013
Zurich Insurance Group Ltd	6.30% CHF 4,832 million perpetual loan	4,832	4,832
Issuances to capital markets under Euro Medium Term Note Programme	4.25% EUR 1 billion notes, first callable on October 2, 2023, due October 2043	1,202	1,227
	4.25% CHF 700 million perpetual notes, first callable on May 26, 2016	700	700
	7.5% EUR 425 million notes, first callable on July 24, 2019, due July 2039	511	521
	4.625% CHF 500 million perpetual notes, first callable on May 16, 2018	500	500
	8.25% USD 500 million perpetual capital notes, first callable on January 18, 2018	497	445
	2.75% CHF 200 million perpetual capital notes, first callable on September 30, 2021	200	–
	12% EUR 143 million perpetual capital notes, first callable on July 15, 2014	–	176
Total subordinated debt		**8,442**	**8,402**

15. Insurance reserves

Insurance reserves

in CHF millions, as of December 31	2014	2013
Gross		
Reserves for losses and loss adjustment expenses	32,370	30,014
Reserves for unearned premiums	5,071	5,125
Future life policyholders' benefits	5,563	4,786
Policyholders' contract deposits and other funds	294	120
Reserve for premium refunds and other insurance reserves	518	419
Total insurance reserves, gross	**43,817**	**40,464**
Ceded		
Reserves for losses and loss adjustment expenses	(4,634)	(4,423)
Reserves for unearned premiums	(1,035)	(932)
Future life policyholders' benefits	(264)	(233)
Total insurance reserves, ceded	**(5,933)**	**(5,588)**
Net		
Reserves for losses and loss adjustment expenses	27,737	25,591
Reserves for unearned premiums	4,036	4,193
Future life policyholders' benefits	5,299	4,553
Policyholders' contract deposits and other funds	294	120
Reserve for premium refunds and other insurance reserves	518	419
Total insurance reserves, net	**37,884**	**34,875**

Total insurance reserves, net, increased by CHF 3,009 million or 9 percent to CHF 37,884 million. In local currency, the insurance reserves, net, would have increased by CHF 1,021 million or 3 percent. This increase was mainly due to the growth in the Group's internal reinsurance business.

Financial statements – statutory accounts *continued*

16. Share capital

Share capital and profit sharing certificates

number of shares, as of December 31	2014	2013
Contingent and issued share capital, CHF 10 par value	86,000,000	86,000,000
Issued share capital, CHF 10 par value	82,500,000	82,500,000
Profit sharing certificates (Genussscheine)[1]	2	2

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

a) Issued share capital

As of December 31, 2014 and 2013, ZIC had issued share capital of CHF 825,000,000, consisting of 82,500,000 issued and fully paid registered shares of CHF 10 par value each.

b) Contingent share capital

At the Annual General Meeting of Shareholders on June 11, 1997, contingent share capital of CHF 35,000,000, or 3,500,000 shares with a par value of CHF 10 each, was created, of which 2,500,000 shares can be issued in connection with the granting of conversion and/or option rights, and 1,000,000 shares can be issued under employees' share ownership plans. None of the contingent shares have been issued as of December 31, 2014.

c) Profit sharing certificates

As of December 31, 2014 and 2013, ZIC had issued two profit sharing certificates with no par value.

d) Shareholders

As of December 31, 2014 and 2013, 100 percent of the registered shares of Zurich Insurance Company Ltd were owned by Zurich Insurance Group Ltd.

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

Assets and liabilities relating to companies within the Zurich Insurance Group

in CHF millions, as of December 31	2014	2013
Assets[1]		
Cash and cash equivalents	1,637	1,535
Equity securities[3]	395	334
Debt securities	13	13
Other loans	3,713	2,487
Investments in subsidiaries and associates	29,384	29,273
Other investments	316	127
Deposits made under assumed reinsurance contracts	1,914	1,754
Accrued assets	163	347
Deferred acquisition costs, net	987	–
Receivables from policyholders, agents and intermediaries	–	1
Receivables from insurance and reinsurance companies	614	555
Other receivables	573	523
Total assets	39,710	36,949
Liabilities[2]		
Deposits received under ceded reinsurance contracts	5	3
Amounts due to insurance and reinsurance companies	407	475
Accrued liabilities	316	365
Other liabilities	257	1,160
Short-term loan liabilities	5,692	4,127
Provisions	119	94
Senior debt	4,490	4,380
Subordinated debt	4,832	4,832
Insurance reserves, net	28,762	25,908
Total liabilities	44,881	41,345

[1] The amount receivable from Zurich Insurance Group Ltd as of December 31, 2014, is CHF 1 million compared with CHF 53 million as of December 31, 2013.
[2] The amount due to Zurich Insurance Group Ltd as of December 31, 2014, is CHF 6,259 million compared with CHF 5,817 million as of December 31, 2013 (thereof in 2014 CHF 4,832 million subordinated debt, CHF 1,217 million short-term loan liabilities, CHF 207 million accrued liabilities and CHF 3 million other liabilities and in 2013 CHF 4,832 million subordinated debt, CHF 311 million short-term loan liabilities (disclosed as senior debt in 2013), CHF 207 million accrued liabilities and CHF 466 million other liabilities).
[3] ZIC owns Zurich Insurance Group Ltd shares with a market value of CHF 395 million as of December 31, 2014, and CHF 334 million as of December 31, 2013.

In 2013, other liabilities and short-term loan liabilities were disclosed as prepaid premiums and other creditors (CHF 1,415 million) and other liabilities (CHF 285 million) and senior debt prior to reclassifications amounted to CHF 7,967 million.

Financial statements – statutory accounts *continued*

18. Supplementary information

Supplementary information

in CHF millions, as of December 31	2014	2013
Guarantees, indemnity liabilities and pledges in favor of third parties	18,216	17,410
Pledged assets in respect of securities lending agreements (at book value)	2,713	3,115
Leasing obligations not recorded on the balance sheet	306	70
Security deposits	14,622	12,372
Fire insurance value of real estate, furniture and equipment	2,575	2,126

Guarantees, indemnity liabilities and pledges in favor of third parties include two guarantees of USD 3,000 million (CHF 2,981 million) in both 2014 and 2013, in favor of subsidiaries to provide funds under certain circumstances. The total maximum exposure under these guarantees amounted to USD 949 million (CHF 943 million) as of December 31, 2014, and USD 1,067 million (CHF 950 million) as of December 31, 2013.

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

According to regulatory requirements, 17 percent and 18 percent of total investments are attributed to tied assets, as of December 31, 2014 and 2013, respectively.

To secure the insurance reserves of the assumed reinsurance business, investments with a value of CHF 14,622 million and CHF 12,372 million as of December 31, 2014 and 2013, respectively, were deposited in favor of ceding companies.

19. Net release of hidden reserves

There has been no material net release of hidden reserves in 2014.

20. Information on the risk assessment process

Refer to the disclosures in the Risk review on pages 12 to 40 of this Annual Report.

21. Subsequent event

On January 15, 2015, the Swiss National Bank ceased to enforce its temporary commitment to maintain the EUR/CHF exchange rate at or above CHF 1.20 to the EUR. As a result, the CHF appreciated against the EUR and the other currencies. The Swiss branches held approximately CHF 8 billion or 75 percent of their investments in foreign currencies for which only partial hedging exists. This change in exchange rates will therefore impact the investment valuation in CHF.

Appropriation of available earnings as proposed by the Board of Directors

number of shares, as of December 31	2014	2013
Dividend-paying registered shares		
Dividend-paying shares	82,500,000	82,500,000

in CHF, as of December 31	2014 (Proposed)	2013 (Approved)
Appropriation of available earnings as proposed by the Board of Directors		
Balance brought forward	6,611,181,760	6,244,483,839
Net income after taxes	3,611,976,020	2,866,697,921
Available earnings	**10,223,157,781**	**9,111,181,760**
Dividend	(2,500,000,000)	(2,500,000,000)
Balance carried forward	**7,723,157,781**	**6,611,181,760**

The Board of Directors proposes to the shareholder at the Annual General Meeting on April 1, 2015, to pay out a dividend of CHF 2,500,000,000 and to carry forward available earnings of CHF 7,723,157,781 as shown in the above table.

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

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

Tom de Swaan

Chairman

Zurich, March 4, 2015

Report of the statutory auditor

Report of the statutory auditor

To the General Meeting of Zurich Insurance Company Ltd, Zurich

Report of the statutory auditor on the Financial statements

As statutory auditor, we have audited the financial statements of Zurich Insurance Company Ltd, which comprise the income statement, balance sheet and notes (pages 146 to 160), for the year ended December 31, 2014.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the Company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

Opinion

In our opinion, the financial statements for the year ended December 31, 2014, comply with Swiss law and the Company's articles of incorporation.

Report on other legal requirements

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

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

We further confirm that the proposed appropriation of available earnings (page 161) complies with Swiss law and the Company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Mark Humphreys	Peter Bieri
Audit expert	Audit expert
Auditor in charge	

Zurich, March 4, 2015

Key data of Zurich Insurance Company Ltd

Key data of Zurich Insurance Company Ltd

Key data 2005–2014[3]

in CHF millions, for the years ended or as of December 31, respectively	2014	2013
Gross written premiums and policy fees, direct business	4,316	4,408
Gross written premiums and policy fees, assumed reinsurance	16,824	17,205
Total gross written premiums and policy fees	21,139	21,613
Net written premiums and policy fees	18,278	18,707
Net earned premiums and policy fees	18,480	18,522
Insurance benefits and losses, net of reinsurance	(12,682)	(11,689)
Underwriting and policy acquisition costs, net of reinsurance	(3,862)	(4,825)
Net investment income	2,622	2,765
Net income after taxes	3,612	2,867
Dividend[1]	2,500	2,500
Dividend per share, nominal value CHF 10.– (in Swiss francs)[1]	30.30	30.30
Total investments	78,476	72,352
Insurance reserves, net	37,884	34,875
Shareholder's equity (after proposed appropriation of available earnings)	18,875	17,763

[1] Proposed
[2] Restated figures, implementation of new and revised accounting standards in 2005, in particular applying new definitions of insurance contracts.
[3] In 2014, the presentation of the income statement and the balance sheet changed (see note 1.3). Disclosures for the years 2005 to 2013 on this table are not adjusted.

	2012	2011	2010	2009	2008	2007	2006	2005[2]
	4,551	4,362	4,511	6,625	11,410	12,252	26,770	25,511
	16,511	14,903	18,951	18,400	15,195	13,164	333	305
	21,062	19,265	23,462	25,025	26,605	25,415	27,103	25,816
	18,310	16,917	21,126	22,497	24,063	22,645	22,695	21,088
	18,192	16,329	20,401	21,512	22,869	22,504	22,768	21,371
	(12,507)	(12,202)	(14,231)	(15,663)	(17,172)	(16,395)	(15,631)	(16,061)
	(4,812)	(4,398)	(5,343)	(5,343)	(4,898)	(4,940)	(4,439)	(3,825)
	2,440	3,620	4,287	2,318	3,967	4,173	2,910	2,067
	2,085	2,425	4,141	1,790	656	1,401	2,437	969
	2,200	2,400	–	–	–	1,900	1,300	–
	26.67	29.09	–	–	–	23.03	15.76	–
	71,047	70,185	68,948	70,962	78,520	73,179	72,013	64,177
	35,962	35,677	33,886	38,314	43,729	45,275	42,651	38,856
	17,396	17,511	18,986	14,844	11,805	8,929	9,428	8,291

Disclaimer and cautionary statement

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

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

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

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

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

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