

Zurich Insurance Group



Half Year Report 2013

Report for the six months to June 30, 2013

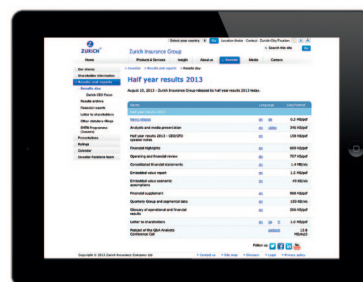


About Zurich

Zurich is a leading multi-line insurance provider with a global network of subsidiaries and offices. With about 60,000 employees, we deliver a wide range of general insurance and life insurance products and services for individuals, small businesses, and mid-sized and large companies, including multinational corporations, in more than 170 countries.

Our cover

Street scene in São Paulo, Brazil, where Zurich is helping to meet demand for insurance from a growing middle class and thriving business sector.



For more information about Zurich, please visit:

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Message from the Chairman and CEO

Dear Shareholder,

We reported a business operating profit¹ (BOP) of USD 2.3 billion, a decrease of 9 percent² from last year, and net income attributable to shareholders³ (NIAS) of USD 1.9 billion, a decrease of 17 percent, for the six months ended June 30, 2013. In the three months ended June 30, 2013, BOP was USD 937 million, a decrease of 18 percent from the same period in 2012, and NIAS was USD 789 million, a decrease of 27 percent.

These headline figures mask the positive developments that we have seen in our business over the first six months of the year, including an improved underlying underwriting performance⁴ in our General Insurance business and good growth in both our General Insurance and Global Life segments. These achievements were counterbalanced by the impact of natural catastrophes and weather-related events, including devastating floods in Europe and tornadoes in the U.S., as well as the continuing effect of low interest rates on our investment income.

We recorded good growth in our businesses in Latin America, Asia-Pacific and some mature markets, notably in North America. General Insurance's gross written premiums and policy fees in Latin America grew by 29 percent on a local currency basis, mainly due to a strong performance in Mexico and Brazil, while Asia-Pacific saw an increase of 9 percent, with growth in both Australia and Hong Kong. In Global Life, new business value⁵ increased in local currency by 54 percent, driven by a strong performance in all regions.

Our investment performance continues to be negatively affected by low interest rates. These rates determine the yields on the bonds in which we invest. During the first six months, our total net investment income decreased by 8 percent compared with the same period in 2012. The extent of this decline also reflects our disciplined investment approach as we continue to focus on maintaining the strength of our balance sheet rather than taking on excessive risk in the pursuit of higher investment returns.

We continued to deliver strong cash flows and solvency levels. Solvency measured on an economic basis as determined under the Swiss Solvency Test was 185 percent as of January 1, 2013.⁶ After deducting for the 2012 dividend, shareholders' equity at USD 30.9 billion was lower than the comparable figure at year-end 2012. But our equity base remains strong.

General Insurance BOP decreased by USD 267 million, or 16 percent, to USD 1.4 billion. Improvements in the underlying loss ratio⁷ and the expense ratio were more than offset by increases in losses from catastrophes and severe weather-related events.



Dr. Josef Ackermann and Martin Senn

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

² All percentage changes refer to U.S. dollar values unless otherwise stated.

³ Net income attributable to shareholders is the profit remaining after the deduction of all income taxes and profits attributable to minority shareholders.

⁴ Underlying underwriting performance excludes major catastrophes, large losses and prior year development of loss reserves.

⁵ Before the effect of non-controlling interests.

⁶ Ratio as of January 1, 2013 is calculated based on the Group's internal model.

The filing of the ratio as of January 1, 2013 is subject to review by the Swiss Financial Market Supervisory Authority (FINMA) as is the final approval of the Group's internal model.

⁷ Underlying loss ratio excludes major catastrophes, large losses and prior year development of loss reserves.

Global Life BOP was unchanged at USD 659 million. We have been able to maintain an unchanged BOP despite the lower investment income thanks to the growth of our protection products and improved expense margin. The business continues its focus on growth in target markets, emphasizing protection and fee-based products, and leveraging its global bank distribution network and its relationships with corporate customers.

Farmers BOP increased by USD 99 million, or by 17 percent, to USD 696 million, driven by an improved underwriting result in Farmers Re. This increase was partially offset by lower business operating profit in Farmers Management Services, mainly due to lower revenues.

We continue to make progress on the strategy we set in 2010, which we translated at the time into very ambitious targets for 2013 at the Group level and for each of our business segments. We remain focused on pursuing this strategy and are on track to achieve some of these targets, such as those set for Global Life and expense savings, while others, such as in General Insurance and in Farmers, remain more challenging.

Serving customers and communities

We constantly strive to improve customer service and are always delighted to receive external recognition. Among the awards we received in 2013 were the General Insurer of the Year Award at the British Insurance Awards 2013 and Insurer of the Year in Australia's Brokers on Insurers Survey. Zurich Japan received the top 'IID' award for customer satisfaction in auto insurance, and in the Middle East, Zurich International Life retained its title of Life Insurer of the Year at the 2013 MENA Insurance Awards.

In a quarter that was marked by catastrophes and severe weather events, we are grateful to our employees who go beyond their daily jobs to make a real difference. This includes our people in Latin America, who provided direct assistance to victims of floods in Buenos Aires and La Plata,

Argentina in April. In June, Zurich employees helped residents in Passau, Germany, to clear away mud left by severe floods in that city. In the U.S., we continued to build on the alliance we have formed with the St. Bernard Project since hurricane Katrina hit New Orleans in 2005. Our colleagues at Farmers are lending their support to a project to rebuild some of the 8,000 homes destroyed by tornadoes in Joplin, Missouri, in 2011, while employees of Zurich North America helped to restore homes damaged by storm Sandy in Staten Island, New York, at the end of last year.

Recent floods in many parts of the world show how vital it is to make communities more flood resilient. Mexico has been selected as the first country to be part of a five-year flood resilience program through an alliance with the International Federation of Red Cross and Red Crescent Societies (IFRC). The initial focus will be on the flood-prone region of Tabasco.

Looking ahead

Global economic growth was uneven in the first six months of 2013. U.S. growth was subdued, while parts of Europe remained in recession and China's economy slowed. The outlook for the U.S. economy now appears more positive and Europe is showing signs of recovery. Economic growth in Latin America is expected to strengthen in 2013, supported by stronger external demand. In China, the government is responding to the slowdown with targeted measures to rebalance the economy away from exports towards consumption. This should support long-term growth. China's economy, along with the economies of other exporting nations, is expected to benefit from recovery in developed countries.

The progress we have made on our strategy towards our 2013 targets relies on the outstanding efforts of all our people around the world. We would like to thank them, along with our customers and shareholders, for their continuing support.



Dr. Josef Ackermann
Chairman of the Board of Directors



Martin Senn
Chief Executive Officer

Operating and financial review

The Operating and financial review is the management analysis of the business performance of Zurich Insurance Group Ltd and its subsidiaries, collectively the Group, for the six months ended June 30, 2013, compared with the same period of 2012. It also explains key aspects of the Group's financial position as of June 30, 2013 compared with December 31, 2012.

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The information contained within the Operating and financial review is unaudited and presents the consolidated results of the Group for the six months ended June 30, 2013 and 2012 and the financial position as of June 30, 2013 and December 31, 2012. All amounts are shown in U.S. dollars and rounded to the nearest million unless otherwise stated, with the consequence that the rounded amounts may not add up to the rounded total in all cases. All ratios and variances are calculated using the underlying amount rather than the rounded amount. This document should be read in conjunction with the Annual Report 2012 of the Group and with its unaudited Consolidated financial statements for the six months to June 30, 2013. Certain comparative figures have been restated, as set out in note 1 of the unaudited Consolidated financial statements.

In addition to the figures stated according to the International Financial Reporting Standards (IFRS), the Group uses business operating profit (BOP), new business measures and other performance indicators to enhance the understanding of its results. Details of these additional measures are set out in the separately published Glossary. These should be viewed as complementary to, and not as substitutes for the IFRS figures. For a reconciliation of BOP to net income attributable to shareholders see note 16 of the unaudited Consolidated financial statements.

Financial highlights

in USD millions, for the six months ended June 30, unless otherwise stated	2013	2012 ¹	Change ²
Business operating profit	2,288	2,512	(9%)
Net income attributable to shareholders	1,851	2,227	(17%)
General Insurance gross written premiums and policy fees	19,770	19,153	3%
Global Life gross written premiums, policy fees and insurance deposits	13,029	14,718	(11%)
Farmers Management Services management fees and other related revenues	1,408	1,420	(1%)
Farmers Re gross written premiums and policy fees	2,034	2,211	(8%)
General Insurance business operating profit	1,369	1,636	(16%)
General Insurance combined ratio	95.6%	94.8%	(0.7 pts)
Global Life business operating profit	659	659	–
Global Life new business annual premium equivalent (APE) ³	2,081	1,793	16%
Global Life new business margin, after tax (as % of APE) ³	31.1%	23.6%	7.5 pts
Global Life new business value, after tax ³	647	424	53%
Farmers business operating profit	696	597	17%
Farmers Management Services gross management result	670	684	(2%)
Farmers Management Services managed gross earned premium margin	7.1%	7.4%	(0.2 pts)
Average Group investments	205,726	199,267	3%
Net investment result on Group investments	3,323	4,134	(20%)
Net investment return on Group investments ⁴	1.6%	2.1%	(0.5 pts)
Total return on Group investments ⁴	(0.5%)	3.1%	(3.6 pts)
Shareholders' equity ⁵	30,923	34,505	(10%)
Swiss Solvency Test capitalization ratio ⁶	185%	178%	7 pts
Diluted earnings per share (in CHF)	11.70	14.05	(17%)
Book value per share (in CHF) ⁵	198.24	214.86	(8%)
Return on common shareholders' equity (ROE)	11.3%	14.0%	(2.7 pts)
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)	10.8%	12.2%	(1.4 pts)

¹ June 30, 2012 and December 31, 2012 have been restated as set out in note 1 of the unaudited Consolidated financial statements.

² Parentheses around numbers represent an adverse variance.

³ New business amounts are calculated before the effect of non-controlling interests. June 30, 2012 does not include any contribution from the insurance businesses acquired from Banco Santander S.A. (Zurich Santander) or from the acquisition of Zurich Insurance Malaysia Berhad (ZIMB).

⁴ Not annualized and calculated on average Group investments.

⁵ As of June 30, 2013 and December 31, 2012, respectively.

⁶ Ratios as of January 1, 2013 and July 1, 2012, respectively, are calculated based on the Group's internal model which is subject to the review and approval of the Group's regulator, the Swiss Financial Market Supervisory Authority (FINMA).

Operating and financial review *continued*

Performance overview for the six months to June 30, 2013

The Group delivered a business operating profit of USD 2.3 billion for the six months ended June 30, 2013. The decrease in investment income due to the persisting low yield environment continued to be countered by the Group's focus on pricing and underwriting discipline. The sustained execution of this strategy contributed to the continuing improved underlying underwriting performance. However, this improvement was masked in the six months ended June 30, 2013 by a high level of catastrophe and other severe weather-related losses, including the losses related to floods in Central and Eastern Europe, as well as U.S. tornadoes.

The Group has achieved growth in its target markets where the outlook for economic growth remains positive, as well as in selected mature markets, in both the General Insurance and Global Life businesses.

The Group's capital and solvency positions remain strong. Solvency measured on an economic basis as determined under the Swiss Solvency Test was 185 percent as of January 1, 2013. Shareholders' equity has decreased since December 31, 2012 by USD 3.6 billion to USD 30.9 billion after recording the total cost of USD 2.7 billion for the dividend of CHF 17.00 per share approved by shareholders at the Annual General Meeting on April 4, 2013.

Business operating profit decreased by USD 224 million to USD 2.3 billion, or by 9 percent in U.S. dollar terms and 8 percent on a local currency basis.

- **General Insurance** business operating profit decreased by USD 267 million to USD 1.4 billion, or by 16 percent in both U.S. dollar terms and on a local currency basis. The underlying loss experience continued to improve, as well as the expense ratio which benefitted from savings initiatives, and one-off gains have resulted in a slightly favorable non-technical result. These improvements were more than offset by increases in losses from catastrophe and other severe weather-related events, other large losses and the continued decline in investment income.
- **Global Life** business operating profit remained flat in U.S. dollar terms and increased by 2 percent on a local currency basis, with increases in Zurich Santander and Asia-Pacific and Middle East (APME) being largely offset by reductions in North America and Europe. Improvements in the expense margin and the risk margin as well as the higher contribution from Zurich Santander were largely offset by reductions in the investment margin and a lower level of special operating items than in the first six months of 2012.
- **Farmers** business operating profit increased by USD 99 million to USD 696 million, or by 17 percent, primarily due to an improved underwriting result in Farmers Re. **Farmers Management Services** business operating profit of USD 687 million decreased by USD 20 million, or by 3 percent, mainly driven by lower fees from the Farmers Exchanges, which are owned by their policyholders. Farmers Group, Inc., a wholly owned subsidiary of the Group, provides administrative and management services to the Farmers Exchanges. **Farmers Re** business operating profit improved by USD 119 million to USD 9 million. The improvement compared with the first six months of 2012 was mainly driven by a better underlying loss ratio while weather-related losses stayed significantly above historical levels.
- **Other Operating Businesses** business operating loss of USD 453 million reduced by 4 percent over the same period of 2012, mainly driven by lower net expenses in Headquarters.
- **Non-Core Businesses** reported a business operating profit of USD 17 million compared with USD 93 million in the same period of 2012. The reduction resulted mainly from a 2012 one-off gain in Other run-off.

Business volumes for the core business segments, comprising gross written premiums, policy fees, insurance deposits and management fees, decreased by USD 1.3 billion to USD 36.2 billion, or by 3 percent in U.S. dollar terms and 2 percent on a local currency basis.

- **General Insurance** gross written premiums and policy fees increased by USD 617 million to USD 19.8 billion, or by 3 percent in U.S. dollar terms and 4 percent on a local currency basis. Compared with the same period of 2012, growth was achieved in all businesses except in Europe, where economic pressures continued.
- **Global Life** gross written premiums, policy fees and insurance deposits decreased by USD 1.7 billion to USD 13.0 billion, or by 11 percent in U.S. dollar terms and on a local currency basis. Growth in gross written premiums in the higher margin protection business was more than offset by an expected reduction in insurance deposits in the UK from lower margin single premium Private Banking Client Solutions products.
- **Farmers Management Services** management fees and other related revenues of USD 1.4 billion decreased by USD 12 million, or by 1 percent. An increase in management fees resulting from the 1 percent growth in gross earned premiums in the Farmers Exchanges was more than offset by a decrease in other related revenues as a result of lower levels of new policies. **Farmers Re's** 8 percent decrease to USD 2.0 billion in gross written premiums reflected a reduction of 8 percent in the participation in the quota share reinsurance agreements with the Farmers Exchanges, as well as a 1 percent decrease in gross written premiums in the Farmers Exchanges.

Net income attributable to shareholders decreased by USD 376 million to USD 1.9 billion, or by 17 percent, mainly as a result of the lower business operating profit, as well as lower net capital gains after allocations to policyholders and a one-off foreign exchange cost from the closure of a branch office. The **shareholders' effective tax rate** was 22.9 percent for the six months ended June 30, 2013, compared with 22.4 percent for the same period of 2012 and 24.7 percent for the year ended December 31, 2012.

ROE of 11.3 percent decreased by 2.7 percentage points from 14.0 percent mainly due to the decrease in net income attributable to shareholders. **BOPAT ROE** of 10.8 percent decreased by 1.4 percentage points. **Diluted earnings per share** decreased by 17 percent to CHF 11.70 for the six months ended June 30, 2013, compared with CHF 14.05 for the same period of 2012.

Operating and financial review *continued*

General Insurance

in USD millions, for the six months ended June 30	2013	2012	Change
Gross written premiums and policy fees	19,770	19,153	3%
Net earned premiums and policy fees	14,464	14,218	2%
Insurance benefits and losses, net of reinsurance	(9,914)	(9,602)	(3%)
Net underwriting result	640	733	(13%)
Net investment income	1,127	1,323	(15%)
Net non-technical result (excl. items not included in BOP)	(407)	(423)	4%
Business operating profit	1,369	1,636	(16%)
Loss ratio	68.5%	67.5%	(1.0 pts)
Expense ratio	27.0%	27.3%	0.3 pts
Combined ratio	95.6%	94.8%	(0.7 pts)

in USD millions, for the six months ended June 30	Business operating profit (BOP)		Combined ratio	
	2013	2012	2013	2012
Global Corporate	479	499	90.0%	90.5%
North America Commercial	365	517	97.7%	95.3%
Europe	429	520	95.3%	95.2%
International Markets	101	62	100.3%	99.3%
GI Global Functions including Group Reinsurance	(5)	38	nm	nm
Total	1,369	1,636	95.6%	94.8%

Business operating profit decreased by USD 267 million to USD 1.4 billion, or by 16 percent in both U.S. dollar terms and on a local currency basis. The business delivered a solid result for the first six months of 2013 despite the continued lower investment income as a result of persistent low investment yields. The non-technical result included a profit on the sale of own-use real estate. These improvements were masked by catastrophe and other severe weather-related events in Europe and the U.S.

Gross written premiums and policy fees increased by USD 617 million to USD 19.8 billion, or by 3 percent in U.S. dollar terms and 4 percent on a local currency basis. Growth was achieved in all businesses in the first six months of 2013 except in Europe, where economic pressures in key markets as well as focused underwriting actions resulted in a decrease in gross written premiums. Premium growth was particularly strong in Global Corporate in Europe, and in both North America Commercial and Global Corporate in North America where improving economic conditions and the market environment continued to support rate increases. Premiums in International Markets have increased as these businesses execute growth strategies.

The **net underwriting result** decreased by USD 93 million to USD 640 million, reflected in the deterioration of 0.7 percentage points in the combined ratio to 95.6 percent. Underlying loss experience continued to improve, however, this was more than offset by the increased cost of both catastrophe and other severe weather-related losses as well as higher costs from large losses. Other underwriting expenses improved as the business successfully continued to focus on achieving savings in mature markets while investing in targeted growth areas. The commission ratio was higher compared with the same period of 2012, as the business mix continued to shift toward products, markets and distribution channels where higher commissions are applied.

Global Corporate

in USD millions, for the six months ended June 30	2013	2012	Change
Gross written premiums and policy fees	5,192 ¹	4,720	10%
Net underwriting result	291	258	13%
Business operating profit	479	499	(4%)
Loss ratio	71.5%	70.5%	(1.0 pts)
Expense ratio	18.5%	20.0%	1.5 pts
Combined ratio	90.0%	90.5%	0.5 pts

¹ including internal business transfers from North America Commercial

Business operating profit decreased by USD 19 million to USD 479 million as a result of lower investment income reflecting persistent low investment yields that were partially offset by increased hedge fund gains in the U.S. and an improved underwriting result.

Gross written premiums and policy fees increased by USD 471 million to USD 5.2 billion, or by 10 percent in both U.S. dollar and local currency terms. Internal business transfers from North America Commercial accounted for approximately 2 percent of the growth. Strong renewals and growth in new business were achieved in both Europe and North America despite the continued focus on achieving rate increases and profitable underwriting. Rates increased by 5 percent in the first six months of 2013, driven by motor, workers' compensation and liability in the U.S.

The **net underwriting result** increased by USD 34 million to a profit of USD 291 million, reflected in the 0.5 percentage points improvement in the combined ratio to 90.0 percent. This improvement was driven by lower expenses reflected in the reduction of 1.5 percentage points in the expense ratio of which 0.8 percentage points arose from other underwriting expenses as a result of continued focus on expense management. The loss ratio deteriorated by 1.0 percentage points as a result of losses related to the flood catastrophes in Europe and other severe weather-related events in North America.

Operating and financial review *continued*

North America Commercial

in USD millions, for the six months ended June 30	2013	2012	Change
Gross written premiums and policy fees	5,318 ¹	5,069	5%
Net underwriting result	82	169	(52%)
Business operating profit	365	517	(29%)
Loss ratio	70.1%	66.3%	(3.8 pts)
Expense ratio	27.7%	29.0%	1.4 pts
Combined ratio	97.7%	95.3%	(2.4 pts)

¹ after internal business transfers to Global Corporate

Business operating profit decreased by USD 152 million to USD 365 million, or by 29 percent driven by both a lower net underwriting result and lower investment income resulting from the impact of persistent low investment yields, partially offset by increased gains from hedge fund investments and lower non-technical expenses.

Gross written premiums and policy fees increased by USD 249 million to USD 5.3 billion, or by 5 percent. Underlying growth was 7 percent after adjusting for internal business transfers to Global Corporate begun in 2012. Premium growth arose from the continued improvement in economic and market conditions in North America and the successful execution of growth initiatives targeting the construction, real estate, healthcare and technology industries as well as special lines products and the captive and auto warranty business. Growth in property lines was particularly strong, fueled by strategic initiatives and rate increases of almost 4 percent. The rate environment remained favorable in other major lines including workers' compensation and liability, where focus remained on profitable underwriting. Overall, rate increases of 5 percent were achieved across the portfolio during the first six months of 2013.

The **net underwriting result** decreased by USD 87 million to USD 82 million, as reflected in the deterioration of 2.4 percentage points in the combined ratio to 97.7 percent. The underlying loss ratio continued to show improvement compared with the same period of 2012 reflecting the benefit of sustained rate increases in the liability and workers' compensation lines as well as the impact of claims and underwriting initiatives. This improvement was offset by an increase in severe weather-related losses that were higher than last year and by adverse development of loss reserves established in prior years. A substantial portion of this unfavorable development was related to business that has been discontinued or where no new business has been written, following significant portfolio reshaping efforts over the last several years. The expense ratio improved by 1.4 percentage points reflecting the benefits of efficiency and savings initiatives in lower other underwriting expenses, partially offset by an increase in commissions following a shift towards higher commission business.

Europe

in USD millions, for the six months ended June 30	2013	2012	Change
Gross written premiums and policy fees	6,659	6,924	(4%)
Net underwriting result	267	285	(6%)
Business operating profit	429	520	(18%)
Loss ratio	69.0%	68.9%	(0.1 pts)
Expense ratio	26.3%	26.3%	–
Combined ratio	95.3%	95.2%	(0.1 pts)

Business operating profit decreased by USD 91 million to USD 429 million, or by 18 percent in U.S. dollar terms and 17 percent on a local currency basis. The decrease was driven by lower investment income due to reductions in the asset base and persistent low investment yields. Non-technical expenses were higher than in the same period of 2012. The underwriting result decreased by USD 17 million despite the flood catastrophes in Central and Eastern Europe.

Gross written premiums and policy fees decreased by USD 265 million to USD 6.7 billion, or by 4 percent in both U.S. dollar terms and on a local currency basis. The lower volume was driven by reduced business levels as a result of continued focus on profitability through portfolio re-shaping in the challenging economic environment in most European countries. Overall, average rate increases of 3 percent were achieved in the first six months of 2013.

The **net underwriting result** decreased by USD 17 million to USD 267 million, reflected in the deterioration in the combined ratio of 0.1 percentage points. The loss ratio deteriorated by 0.1 percentage points following the flood catastrophes in Central and Eastern Europe, offset by an improvement in the underlying loss ratio, a slightly lower level of large losses including other weather-related losses compared with the same period of 2012, and the release of loss reserves established in prior years.

Operating and financial review *continued*

International Markets

in USD millions, for the six months ended June 30	2013	2012	Change
Gross written premiums and policy fees	2,888	2,653	9%
Net underwriting result	(6)	14	nm
Business operating profit	101	62	63%
Loss ratio	61.6%	62.1%	0.5 pts
Expense ratio	38.7%	37.2%	(1.5 pts)
Combined ratio	100.3%	99.3%	(1.0 pts)

Business operating profit increased by USD 39 million, or by 63 percent in U.S. dollar terms and 66 percent on a local currency basis, to USD 101 million, driven by one-off gains included in non-technical income including the benefit from the sale of own-use real estate in Taiwan and gains on foreign currency in Latin America, as well as slightly higher investment income, which together more than offset the deterioration in the net underwriting result.

Gross written premiums and policy fees increased by USD 235 million to USD 2.9 billion, or by 9 percent in U.S. dollar terms and 16 percent on a local currency basis. Growth in Latin America of 29 percent on a local currency basis was mainly attributable to growth in Mexico and Brazil. Asia-Pacific achieved an increase of 9 percent on a local currency basis with growth in both Australia and Hong Kong. Premium volume in Middle East and Africa declined by 1 percent on a local currency basis as the region continued to focus on improving profitability.

The **net underwriting result** deteriorated by USD 20 million as reflected in the 1.0 percentage points deterioration in the combined ratio to 100.3 percent. The loss ratio improved by 0.5 percentage points to 61.6 percent mainly as a result of lower large losses in Latin America than in the same period of 2012. The expense ratio deteriorated compared with the same period of 2012 driven by higher and partially non-recurring other underwriting expenses in Latin America as well as higher commissions across Latin America and Asia Pacific.

Global Life

in USD millions, for the six months ended June 30	2013	2012	Change
Insurance deposits	6,098	8,039	(24%)
Gross written premiums and policy fees	6,931	6,679	4%
Net investment income on Group investments	1,990	2,009	(1%)
Insurance benefits and losses, net of reinsurance	(4,493)	(4,623)	3%
Business operating profit	659	659	-
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts (net reserves) ¹	209,185	213,982	(2%)
Assets under management ^{1,2}	247,398	253,509	(2%)
Net policyholder flows ³	(1,203)	913	nm

¹ As of June 30, 2013 and December 31, 2012, 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 insurance deposits, less policyholder benefits.

	2013	2012	Change
New business – highlights^{1,2}			
New business annual premium equivalent (APE)	2,081	1,793	16%
Present value of new business premiums (PVNBP)	18,083	15,863	14%
New business margin, after tax (as % of APE)	31.1%	23.6%	7.5 pts
New business margin, after tax (as % of PVNBP)	3.6%	2.7%	0.9 pts
New business value, after tax	647	424	53%

¹ New business amounts are calculated on embedded value principles before the effect of non-controlling interests, details of which are included in the Embedded value report.

² New business amounts for the first six months of 2012 do not include Zurich Santander or Zurich Insurance Malaysia Berhad (ZIMB).

Profit by source¹

in USD millions, for the six months ended June 30	New business		Business in-force		Total	
	2013	2012	2013	2012	2013	2012
Net expense margin	(613)	(720)	696	739	83	19
Net risk margin			398	373	398	373
Net investment margin			192	265	192	265
Other profit margins			138	17	138	17
BOP before deferrals	(613)	(720)	1,425	1,395	812	674
Impact of acquisition deferrals	500	611	(414)	(495)	86	116
BOP before interest, depreciation and amortization	(113)	(109)	1,011	900	898	790
Interest, depreciation and amortization			(129)	(139)	(129)	(139)
Non-controlling interests			(135)	(49)	(135)	(49)
BOP before special operating items	(113)	(109)	747	712	634	603
Special operating items			26	56	26	56
Business operating profit	(113)	(109)	772	768	659	659

¹ See Glossary for an explanation of profit by source.

Operating and financial review *continued*

Business operating profit remained flat in U.S. dollar terms and increased by 2 percent on a local currency basis, with increases in Zurich Santander and APME being largely offset by decreases in North America and Europe.

The flat result reflected improvements from the increased net contribution from Zurich Santander and improvements in the expense and risk margins, offset by a reduction in the investment margin and a lower level of positive special operating items.

The net expense margin improved overall by USD 64 million, with new business benefiting from lower acquisition expenses. The net expense margin for business in-force benefited from targeted expense savings in Europe and higher fund based fees, although these positive impacts were more than offset by higher multi-year commissions on the growing protection portfolio, a reduction in premium-based fees as a result of lower levels of business in Germany and the cost of investments to support business growth in Latin America and APME. The net risk margin improved by USD 25 million, resulting from the underlying growth in protection business and positive development of reserves established in prior years, partly offset by adverse claims experience. Persistent low investment yields continued to affect the investment margin, particularly in Germany and North America, which were the largest drivers of the decrease in the net investment margin of USD 73 million.

Other profit margins improved by USD 121 million, contributing USD 138 million to business operating profit. Of this, USD 218 million related to Zurich Santander, before the effect of non-controlling interests, representing an increase of USD 146 million compared with the same period of 2012. Non-controlling interests increased by USD 86 million, primarily as a result of the higher contribution from Zurich Santander. After non-controlling interests, the net contribution to business operating profit from Zurich Santander was USD 95 million, compared with USD 31 million in the same period of 2012, and included a gain from the revaluation of the liability for future earn-out payments and a positive one-off effect from the purchase price settlement. The impact of acquisition deferrals declined by USD 30 million, as a result of lower new business expenses partly offset by lower net amortization on business in-force, while special operating items made a lower positive contribution of USD 30 million.

Insurance deposits decreased by USD 1.9 billion to USD 6.1 billion, or by 24 percent in both U.S. dollar terms and on a local currency basis compared with the same period of 2012. This decrease occurred predominantly in the UK, driven by lower levels of lower margin single premium products in Private Banking Clients Solutions, following the implementation of new regulation on intermediary commission payments.

Gross written premiums and policy fees increased by USD 252 million to USD 6.9 billion, or by 4 percent in U.S. dollar terms and 5 percent on a local currency basis compared with the same period of 2012, benefiting from increased volumes of protection business, particularly in Latin America.

Net reserves decreased by USD 4.8 billion, or by 2 percent in U.S. dollar terms but increased by 2 percent on a local currency basis compared with December 31, 2012. **Assets under management** decreased by 2 percent in U.S. dollar terms but increased by 2 percent on a local currency basis compared with December 31, 2012. The increase on a local currency basis was driven by unit-linked asset growth in all regions, particularly as a result of increases in equity markets in Europe, with total assets under management for unit-linked portfolios increasing by 3 percent, partly offset by a 1 percent decrease following reductions in non-unit linked portfolios in Europe. **Net policyholder flows** showed a net outflow of USD 1.2 billion compared with a net inflow of USD 913 million in the same period of 2012, as a result of lower net inflows from insurance deposits.

NBV, APE, NBM and BOP by region

in USD millions, for the six months ended June 30

	New business value, after tax (NBV)		New business annual premium equivalent (APE)		New business margin, after tax (as % of APE) (NBM)		Business operating profit (BOP)	
	2013	2012	2013	2012	2013	2012	2013	2012
North America	59	50	81	62	72.5%	81.0%	84	113
Latin America ¹	189	37	582	154	32.4%	23.9%	122	56
<i>of which:</i>								
<i>Zurich Santander</i>	140	–	404	–	34.7%	–	95	31
Europe	254	214	1,045	1,260	24.3%	17.0%	392	423
<i>United Kingdom</i>	94	98	389	596	24.2%	16.5%	93	161
<i>Germany</i>	13	19	167	224	8.0%	8.3%	81	91
<i>Switzerland</i>	35	7	147	120	23.7%	6.2%	131	133
<i>Ireland</i>	34	31	198	163	17.1%	19.2%	26	9
<i>Spain</i>	65	46	65	79	100.3%	57.8%	21	(1)
<i>Rest of Europe</i>	13	12	80	78	16.5%	15.8%	40	29
Asia-Pacific and Middle East ¹	85	60	271	241	31.3%	24.9%	72	64
Other	61	63	102	76	60.0%	83.0%	(11)	3
Total	647	424	2,081	1,793	31.1%	23.6%	659	659

NBV and APE by pillar¹

in USD millions, for the six months ended June 30

	New business value (NBV), after tax		New business annual premium equivalent (APE)		New business margin, after tax (as % of APE)	
	2013	2012	2013	2012	2013	2012
Bank Distribution	221	72	658	246	33.6%	29.1%
IFA/Brokers	131	105	470	477	28.0%	22.0%
Agents	94	63	214	198	44.1%	31.8%
Total Retail pillars	447	239	1,341	922	33.3%	26.0%
Corporate Life & Pensions	171	137	625	637	27.4%	21.5%
Private Banking Client Solutions	3	13	81	168	3.6%	8.0%
Direct and Central Initiatives	26	34	35	66	75.4%	51.3%
Total	647	424	2,081	1,793	31.1%	23.6%

¹ New business amounts are calculated before the effect of non-controlling interests and do not include Zurich Santander or ZIMB for the first six months of 2012.

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

New business value increased by USD 224 million to USD 647 million, or by 53 percent in U.S. dollar terms and 54 percent on a local currency basis. This was driven by strong performance in all regions, led by growth in protection business, as well as by the first time inclusion of Zurich Santander, which contributed USD 140 million of the increase.

APE increased by USD 288 million to USD 2.1 billion, or by 16 percent in U.S. dollar terms and 17 percent on a local currency basis, also benefiting from the first time inclusion of USD 404 million for Zurich Santander. APE increased in all regions except Europe, where the first six months of 2013 were affected by the new regulation in the UK resulting in lower volumes of Private Banking Client Solutions business compared with the same period of 2012.

Operating and financial review *continued*

New business margin increased by 7.5 percentage points to 31.1 percent, primarily due to the effects of changes in product mix with strong volume growth of higher margin protection business in all regions, including Zurich Santander, and lower volumes of lower margin savings business in Europe.

In Europe, the overall increase of USD 40 million in new business value was primarily driven by Switzerland and Spain. Changes in product mix and management actions in Switzerland reduced exposure to interest rate guarantees and this, together with strong volume growth in corporate business, led to higher margins and an increase in new business value. New business value grew in Spain following volume and margin increases in protection business.

In North America, the expansion strategy focused on growth in the IFA/Broker and Corporate Life & Pensions pillars continued to gain traction. This, together with solid performance in the Agents pillar, led to an overall APE growth of 32 percent and an increase in new business value of 18 percent, which was partially affected by changes in business mix resulting in lower new business margin, which remained at a high level of 72.5 percent.

In **Retail pillars**, new business value overall increased by USD 207 million to USD 447 million, or by 87 percent in U.S. dollar terms and 88 percent on a local currency basis. The strong growth in Retail pillars came from all regions, with the largest increase occurring in Bank Distribution as a result of the first-time inclusion of Zurich Santander, which generated exceptionally strong protection business volumes in Brazil during the first six months of 2013.

In **Corporate Life & Pensions**, new business value increased by USD 35 million to USD 171 million, benefiting particularly from higher margin corporate protection business in Europe. Overall APE was largely flat with the growth in the protection business offset by lower volumes of lower margin corporate pension business in the UK.

Farmers

Farmers business operating profit increased by USD 99 million to USD 696 million, or by 17 percent, driven by an improved underwriting result in Farmers Re compared with the same period of 2012. This increase was partially offset by lower business operating profit in Farmers Management Services, due primarily to lower revenues.

Farmers Management Services

in USD millions, for the six months ended June 30	2013	2012	Change
Management fees and other related revenues	1,408	1,420	(1%)
Management and other related expenses	(738)	(736)	–
Gross management result	670	684	(2%)
Other net income	18	23	(24%)
Business operating profit	687	707	(3%)
Managed gross earned premium margin	7.1%	7.4%	(0.2%)

Business operating profit of USD 687 million decreased by USD 20 million, or by 3 percent, primarily due to a decrease in management fees and other related revenues.

Management fees and other related revenues of USD 1.4 billion decreased by USD 12 million, or by 1 percent. An increase in management fees reflecting the 1 percent growth in gross earned premiums in the Farmers Exchanges was more than offset by a decrease in other related revenues arising from lower levels of new business policies. Farmers Exchanges are owned by their policyholders and receive administrative and management services from Farmers Group, Inc., a wholly owned subsidiary of the Group. **Management and other related expenses** of USD 738 million remained flat when compared with the same period of 2012. **Other net income and expenses** of USD 18 million decreased by USD 5 million due in part to lower investment yields as well as reduced real estate investment income compared with the same period of 2012.

The **gross management result** of USD 670 million decreased by USD 15 million, while the **managed gross earned premium margin** decreased to 7.1 percent for the first six months of 2013 compared with 7.4 percent in the same period of 2012.

Operating and financial review *continued*

Farmers Re

in USD millions, for the six months ended June 30	2013	2012	Change
Gross written premiums and policy fees	2,034	2,211	(8%)
Net underwriting result	(58)	(179)	67%
Business operating profit	9	(110)	nm
Loss ratio	71.5%	76.9%	5.4 pts
Expense ratio	31.3%	31.3%	(0.1 pts)
Combined ratio	102.8%	108.2%	5.3 pts

Business operating profit of USD 9 million improved by USD 119 million driven mainly by a lower underlying loss ratio.

Gross written premiums and policy fees decreased by USD 177 million, or by 8 percent, to USD 2.0 billion due mainly to changes in the quota share reinsurance agreements, as well as the 1 percent decrease in gross written premiums in the Farmers Exchanges. These changes were a reduction in the All Lines quota share reinsurance agreement with the Farmers Exchanges (All Lines agreement) from 20.0 percent to 18.5 percent effective December 31, 2012 and a reduction in the Auto Physical Damage quota share reinsurance agreement with the Farmers Exchanges (APD agreement) from USD 1.0 billion per calendar year to USD 925 million per calendar year effective January 1, 2013.

The **net underwriting result** improved by USD 121 million to a loss of USD 58 million. This improvement was mainly a result of lower assumed non-weather related losses from the Farmers Exchanges in 2013 demonstrating the impact of the rate and underwriting actions taken during 2012 and 2013.

The **loss ratio** improved by 5.4 percentage points compared with the same period of 2012. This change was largely driven by a reduced underlying loss ratio reflecting improving profitability of the Farmers Exchanges. Weather-related losses, including losses from the two severe tornadoes which hit the Oklahoma City Metropolitan Area, were significantly above historical levels, but slightly lower than in the same period of 2012. The **expense ratio** remained broadly flat.

Farmers Exchanges

Farmers Exchanges

in USD millions, for the six months ended June 30	2013	2012	Change
Gross written premiums	9,477	9,546	(1%)
Gross earned premiums	9,401	9,287	1%

Gross written premiums in the Farmers Exchanges, declined by USD 69 million to USD 9.5 billion, or by 1 percent. Farmers Exchanges are owned by their policyholders and receive administrative and management services from Farmers Group, Inc., a wholly owned subsidiary of the Group. This decline was mainly due to decreases in non-standard auto and business insurance as a result of the ongoing rate and underwriting actions started in 2012 to improve profitability.

Gross earned premiums in the Farmers Exchanges increased by USD 115 million to USD 9.4 billion, or by 1 percent, mainly in the standard auto, home, and specialty lines of businesses. Partially offsetting these gains were decreases in non-standard auto and business insurance resulting from the ongoing rate and underwriting actions started in 2012 to improve profitability, which have slowed growth but improved profitability in the Farmers Exchanges.

Other Operating Businesses

in USD millions, for the six months ended June 30	2013	2012	Change
Business operating profit:			
Holding and financing	(407)	(378)	(8%)
Headquarters	(46)	(94)	51%
Total business operating profit	(453)	(472)	4%

Other operating businesses reported an improvement in its business operating result of USD 19 million during the first six months of 2013. **Holding and financing** business operating loss increased by USD 29 million to USD 407 million, driven primarily by a net increase in the cost of intercompany financing. **Headquarters'** business operating loss reduced to USD 46 million, USD 48 million lower than in the same period of 2012 due to favorable timing of both Headquarters' recharges and media and brand expenses.

Non-Core Businesses

in USD millions, for the six months ended June 30	2013	2012	Change
Business operating profit:			
Centrally managed businesses	5	5	(2%)
Other run-off	11	88	(87%)
Total business operating profit	17	93	(82%)

Centrally managed businesses, which comprise run-off portfolios that are managed with the intention to pro-actively reduce risk and release capital, reported a business operating profit of USD 5 million, which was in line with the same period of 2012.

Other run-off, which largely comprises U.S. life insurance and annuity portfolios, reported a business operating profit of USD 11 million. The USD 77 million reduction compared with the same period of 2012 was driven by a one-off gain in 2012 from the reassessment of liabilities on certain life run-off policies as well as less positive reserve movements related to market volatility.

Operating and financial review *continued*

Investment position and performance

Details of total investments by category	in USD millions, as of	Group investments		Unit-linked investments	
		06/30/13	12/31/12 ¹	06/30/13	12/31/12 ¹
Cash and cash equivalents		8,432	9,098	1,292	1,110
Equity securities:		10,942	12,341	98,984	99,478
Common stocks, including equity unit trusts		8,456	9,388	78,706	77,996
Unit trusts (debt securities, real estate and short-term investments)		1,984	2,418	20,278	21,482
Common stock portfolios backing participating with-profit policyholder contracts		502	534	–	–
Debt securities		152,302	155,594	11,549	11,646
Real estate held for investment		8,082	8,561	3,119	3,401
Mortgage loans		9,738	10,519	–	–
Other loans		12,275	13,385	6,729	8,279
Investments in associates and joint ventures		98	85	–	–
Total		201,869	209,582	121,673	123,913

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

Group investments have decreased by USD 7.7 billion to USD 201.9 billion, or by 4 percent in U.S. dollar terms since December 31, 2012 largely due to the U.S. dollar strengthening against the main European currencies. On a local currency basis, total Group investments have decreased by USD 2.8 billion, or by 1 percent, driven primarily by the effects of rising yields on the value of the debt securities.

Unit-linked investments decreased by USD 2.2 billion to USD 121.7 billion, or by 2 percent in U.S. dollar terms but increased 3 percent on a local currency basis since December 31, 2012, driven by increases in equity markets mainly in Europe.

The Group's strategy, focused on asset and liability management, remains disciplined. The Group continues to reduce risks that it believes are not rewarded, such as foreign currency, interest rate and concentration risks. The quality of the Group's investment portfolio remains high with investment-grade securities comprising 99 percent of the Group's debt securities.

Performance of Group investments	in USD millions, for the six months ended June 30		
	2013	2012	Change
Net investment income ¹	3,187	3,476	(8%)
Net capital gains/(losses) on investments and impairments	135	658	(79%)
of which: net capital gains/(losses) on investments and impairments attributable to shareholders	(207)	497	nm
Net investment result on Group investments ¹	3,323	4,134	(20%)
Net investment return on Group investments²	1.6%	2.1%	(0.5 pts)
Movements in net unrealized gains/(losses) on investments included in total equity	(4,255)	2,123	nm
Total investment result on Group investments¹	(932)	6,256	nm
Average Group investments	205,726	199,267	3%
Total return on Group investments²	(0.5%)	3.1%	(3.6 pts)

¹ After deducting investment expenses of USD 122 million and USD 119 million for the six months ended June 30, 2013 and 2012.

² Not annualized and calculated on average Group investments.

Total **net investment income** decreased by 8 percent in both U.S. dollar terms and on a local currency basis to USD 3.2 billion compared with USD 3.5 billion in the same period of 2012, reflecting persistent low investment yields on debt securities.

Total **net capital gains on investments and impairments** were USD 135 million compared with USD 658 million in the same period of 2012. The decline was driven by derivative losses and negative revaluations of securities booked at fair value through profit and loss, partially offset by higher active realizations.

Asset revaluations on investments booked at fair value through profit and loss resulted in losses of USD 580 million, compared with gains of USD 271 million in the same period of 2012. The deterioration was due to losses from derivatives used for hedging underlying business or investment risks, and to negative revaluations of debt securities booked at fair value through profit and loss.

Net capital gains from active management were USD 804 million, an increase of USD 319 million compared with the same period of 2012, largely resulting from sales of equity securities and other investments. These net capital gains were to a significant extent allocated to policyholders.

Impairments of USD 88 million were USD 9 million lower compared with the same period of 2012, reflecting improvements in equity markets.

Net investment return on Group investments was 1.6 percent, 0.5 percentage points lower than in the same period of 2012, as a result of both a decrease in the net investment result and an increase in average Group investments.

Net unrealized gains/(losses) on investments included in total equity have decreased by USD 4.3 billion since December 31, 2012, mainly due to a reduction in net unrealized gains on debt securities of USD 4.0 billion. This was a result of the significant rise in yields on government securities and the widening of credit spreads, especially in the U.S. Net unrealized gains on equity securities have declined by USD 123 million since December 31, 2012, as the positive effects of rising equity markets were offset by a reduction in the market value of the Group's share in New China Life Insurance Co., Ltd.

Total return, net of investment expenses on average Group investments was negative 0.5 percent, compared with positive 3.1 percent in the same period of 2012, primarily reflecting the reduction in net unrealized gains in the six months ended June 30, 2013 compared with an increase in the same period of 2012.

Debt securities, which are invested to match the Group's insurance liability profiles, returned negative 1.0 percent. Equity securities and other investments returned positive 3.7 percent and 0.8 percent, respectively.

Operating and financial review *continued*

Performance of unit-linked investments	in USD millions, for the six months ended June 30		
	2013	2012	Change
Net investment income	904	928	(3%)
Net capital (losses)/gains on investments and impairments	4,732	3,036	56%
Net investment result, net of investment expenses ¹	5,636	3,964	42%
Average investments	122,793	113,198	8%
Total return on unit-linked investments²	4.6%	3.5%	1.1 pts

¹ After deducting investment expenses of USD 256 million and USD 247 million for the six months ended June 30, 2013 and 2012.

² Not annualized and calculated on average Group investments.

Total return on unit-linked investments delivered 4.6 percent compared with 3.5 percent in the same period of 2012. The improvement in the total return was due to net capital gains of 4.7 billion compared with USD 3.0 billion in the same period of 2012, particularly reflecting strong equity markets in Europe. Net investment income decreased by USD 24 million, reflecting the persistent low investment yields from fixed interest securities.

Insurance and investment contract liabilities

Reserves for losses and loss adjustment expenses

The majority of the Group's reserves for losses and loss adjustment expenses are attributable to General Insurance. The remaining reserves mostly relate to Farmers Re and to Non-Core Businesses.

in USD millions	Total Group		of which General Insurance	
	2013	2012	2013	2012
As of January 1				
Gross reserves for losses and loss adjustment expenses	69,986	67,762	66,542	64,311
Reinsurers' share	(12,601)	(12,421)	(11,308)	(11,195)
Net reserves for losses and loss adjustment expenses	57,385	55,341	55,234	53,116
Net losses and loss adjustment expenses incurred	11,404	11,316	9,915	9,605
Current year	11,722	11,690	10,246	9,980
Prior years	(318)	(374)	(331)	(374)
Net losses and loss adjustment expenses paid	(11,799)	(11,326)	(10,328)	(9,719)
Current year	(3,475)	(3,588)	(2,606)	(2,616)
Prior years	(8,325)	(7,737)	(7,722)	(7,103)
Acquisitions/(divestments) and transfers	–	–	(65)	78
Foreign currency translation effects	(1,355)	(245)	(1,333)	(244)
As of June 30				
Net reserves for losses and loss adjustment expenses	55,634	55,087	53,424	52,837
Reinsurers' share	(11,613)	(12,130)	(10,833)	(11,002)
Gross reserves for losses and loss adjustment expenses	67,248	67,217	64,257	63,838

As of June 30, 2013, the **net reserves for losses and loss adjustment expenses** for the total Group decreased by USD 1.8 billion to USD 55.6 billion compared with December 31, 2012, of which USD 1.4 billion related to the effects of foreign currency translation. Favorable reserve developments arising from reserves established in prior years amounted to USD 318 million for the first six months of 2013, primarily due to favorable releases from large claims and motor liability.

The decrease of USD 254 million during the first six months of 2012 in net reserves for losses and loss adjustment expenses was mostly driven by a reduction of USD 245 million related to the effects of foreign currency translation.

Operating and financial review *continued*

Reserves for life insurance contracts and liabilities for investment contracts

The majority of the Group's reserves for life insurance contracts and liabilities for investment contracts are attributable to Global Life. Life insurance reserves in other segments relate predominantly to businesses that are in run-off or are centrally managed, and are included only in this first table.

Group reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts	in USD millions		Other segments		Total Group	
	Global Life					
	2013	2012 ¹	2013	2012	2013	2012 ¹
Net reserves as of January 1	213,982 ¹	195,302	16,789	18,027	230,771 ¹	213,329
Movements in net reserves	(4,797)	2,157	(672)	(6)	(5,469)	2,151
Net reserves as of June 30	209,185	197,458	16,117	18,022	225,302	215,480

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

The following provides further detail on the development and composition of reserves and liabilities in the **Global Life** business.

Global Life – Development of reserves and liabilities	in USD millions		Unit-linked insurance and investment contracts ²		Other life insurance liabilities ³		Total reserves and liabilities	
	2013	2012 ¹	2013	2012	2013	2012	2013	2012 ¹
As of January 1								
Gross reserves	119,680 ¹	107,646	96,290	89,731	215,970 ¹	197,378		
Reinsurers' share	–	–	(1,988)	(2,076)	(1,988) ¹	(2,076)		
Net reserves	119,680¹	107,646	94,302	87,656	213,982¹	195,302		
Premiums	6,832	8,774	4,723	4,328	11,555	13,102		
Claims	(8,142)	(8,494)	(4,599)	(4,279)	(12,740)	(12,773)		
Fee income and other expenses	(966)	(1,000)	(1,095)	(1,021)	(2,061)	(2,021)		
Interest and bonuses credited to policyholders	5,814	3,816	1,966	1,677	7,780	5,494		
Change in assumptions	–	–	(35)	19	(35)	19		
Increases/(decreases) recorded in other comprehensive income	13	(1)	(1,133)	660	(1,120)	658		
Foreign currency translation effects	(6,007)	(976)	(2,169)	(1,347)	(8,176)	(2,323)		
As of June 30								
Net reserves	117,224	109,765	91,960	87,693	209,185	197,458		
Reinsurers' share	–	–	(1,968)	(1,905)	(1,968)	(1,905)		
Gross reserves	117,224	109,765	93,929	89,599	211,153	199,364		

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

² Includes reserves for unit-linked contracts, the net amounts of which were USD 59 billion and USD 58.2 billion, and liabilities for investment contracts, the net amounts of which were USD 58.2 billion and USD 51.6 billion as of June 30, 2013 and 2012, respectively.

³ Includes reserves for future life policyholders' benefits, the net amounts of which were USD 74.9 billion and USD 72.6 billion and policyholders' contract deposits and other funds, the net amounts of which were USD 17 billion and USD 15.1 billion as of June 30, 2013 and 2012, respectively.

Total reserves and liabilities for insurance and investment contracts, net of reinsurance, decreased by USD 4.8 billion, or by 2 percent in U.S. dollar terms, but increased 2 percent on a local currency basis compared with December 31, 2012.

Global Life –
Reserves and
liabilities, net
of reinsurance,
by region

in USD millions, as of

	Unit-linked insurance and investment contracts		Other life insurance liabilities		Total reserves and liabilities	
	06/30/13	12/31/12 ¹	06/30/13	12/31/12 ¹	06/30/13	12/31/12 ¹
North America	1,057	1,021	5,398	5,307	6,455	6,329
Latin America	10,120	10,709	5,223	5,204	15,342	15,913
Europe	92,199	94,124	78,115	80,468	170,314	174,592
<i>of which:</i>						
<i>United Kingdom</i>	55,550	58,468	4,633	5,200	60,184	63,667
<i>Germany</i>	11,599	11,130	42,163	43,084	53,763	54,214
<i>Switzerland</i>	788	786	19,104	19,741	19,892	20,528
<i>Ireland</i>	13,925	13,215	1,744	1,727	15,669	14,942
<i>Spain</i>	4,664	4,874	5,838	5,981	10,502	10,855
<i>Rest of Europe</i>	5,673	5,651	4,633	4,734	10,306	10,385
Asia-Pacific and Middle East	10,961	11,315	2,920	3,035	13,881	14,350
Other	2,888	2,511	304	284	3,192	2,795
Eliminations	–	–	–	4	–	4
Total	117,224	119,680	91,960	94,302	209,185	213,982

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

Unit-linked insurance and investment contracts, net of reinsurance, decreased by USD 2.5 billion, or by 2 percent in U.S. dollar terms but increased 3 percent on a local currency basis compared with December 31, 2012, driven by growth in unit-linked assets under management.

Other life insurance liabilities, net of reinsurance, decreased by USD 2.3 billion, or by 2 percent in U.S. dollar terms and remained flat on a local currency basis, compared with December 31, 2012.

Operating and financial review *continued*

Capitalization

in USD millions	Shareholders' equity	Non-controlling interests	Total equity
As of December 31, 2012, as previously reported	34,494	2,368	36,862
Total adjustments due to restatement	11	1	12
As of December 31, 2012, as restated	34,505	2,369	36,874
Proceeds from issuance of share capital	142	–	142
Proceeds from treasury share transactions	12	–	12
Dividends	(1,933)	(96)	(2,029)
Share-based payment transactions	(108)	–	(108)
Reclassification from revaluation reserves	5	–	5
Total comprehensive income	(1,701)	42	(1,659)
Net income after taxes	1,851	157	2,008
Net other recognized income and expenses	(3,552)	(115)	(3,668)
Net changes in capitalization and non-controlling interests	–	1	1
As of June 30, 2013	30,923	2,316	33,238

Total equity decreased by USD 3.6 billion to USD 33.2 billion, or by 10 percent since December 31, 2012. This decrease primarily arose from the payment of USD 2.7 billion for the dividend of CHF 17.00 per share, approved by shareholders at the Annual General Meeting on April 4, 2013, which was paid out of the capital contribution reserve. Of this USD 2.7 billion, USD 1.9 billion has been included in dividends while USD 718 million has been included in other comprehensive income as a cumulative foreign currency translation adjustment.

Furthermore, net income after taxes attributable to shareholders of USD 1.9 billion for the six months ended June 30 has been more than offset by net other recognized expenses including net unrealized losses on investments of USD 2.1 billion and other cumulative foreign currency translation adjustment losses of USD 1.3 billion, including the cumulative translation adjustment relating to the dividend.

Under the Swiss Solvency Test (SST) the Group is required to use a company-specific internal model to calculate risk-bearing and target capital and to file SST reports biannually. As of January 1, 2013 the Group filed, on a consolidated basis, an improved SST capitalization ratio of 185 percent compared with 178 percent as of July 1, 2012. The filing as of January 1, 2013 is subject to review by FINMA as is the final approval of the Group's internal model.

The Group also continues to be subject to Solvency I requirements based on the Swiss Insurance Supervision Law. The Solvency I ratio as of June 30, 2013, decreased to 261 percent from 278 percent as of December 31, 2012, primarily due to higher interest rates compared with the rates as of December 31, 2012.

Cash flows

Summary of cash flows

in USD millions, for the six months ended June 30

	2013	Restated 2012
Net cash provided by/(used in) operating activities	1,682	1,940
Net cash used in investing activities	(56)	(160)
Net cash provided by/(used in) financing activities	(1,779)	(2,043)
Foreign currency translation effects on cash and cash equivalents	(331)	(65)
Change in cash and cash equivalents	(484)	(327)
Cash and cash equivalents as of January 1	10,208	9,705
Cash and cash equivalents as of June 30	9,724	9,378

Net **cash and cash equivalents** decreased by USD 484 million in the first six months of 2013 compared with a decrease of USD 327 million in the same period of 2012. Net cash provided by operating activities, which included cash movements in and out of, as well as within total investments, was USD 1.7 billion for the six months ended June 30, 2013 compared with USD 1.9 billion for the same period of 2012. Net cash used in investing activities of USD 56 million compared with USD 160 million in the same period of 2012 related to net sales and purchases of property and equipment. Net cash used in financing activities of USD 1.8 billion primarily arose from the payment of the Group dividend of USD 2.7 billion partially offset by a net issuance of debt of USD 917 million compared with a dividend payment of USD 2.7 billion partially offset by a net issuance of debt of USD 575 million in the same period of 2012.

Cash flow details are set out in the consolidated statements of cash flows in the unaudited Consolidated financial statements.

Operating and financial review *continued*

Currency translation impact

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

As the Group has chosen the U.S. dollar as its presentation currency, differences arise when functional currencies are translated into the Group's presentation currency. The table below shows the effect of foreign currency rates on the translation of selected line items.

Selected Group income statement line items	variance over the prior period, for the six months ended June 30, 2013	in USD	
		millions	in %
	Gross written premiums and policy fees	(295)	(1%)
	Insurance benefits and losses, gross of reinsurance	114	1%
	Net income attributable to shareholders	(9)	–
	Business operating profit	(17)	(1%)

The consolidated income statements are translated at average exchange rates. In the first six months of 2013, the U.S. dollar has on average been stronger against the Swiss franc and the British pound, but weaker against the euro compared with the same period of 2012. Additionally, the weakening of the Brazilian real and Japanese yen against the U.S. dollar during the same period had a significant impact on the results. The net impact on the result has been a reduction in U.S. dollar terms, with a decrease in gross written premiums and policy fees partially offset by a decrease in U.S. dollar terms in insurance benefits and losses.

Selected Group balance sheet line items	variance over June 30, 2012, as of June 30, 2013	in USD	
		millions	in %
	Total investments	(10,859)	(3%)
	Reserves for insurance contracts, gross	(7,330)	(3%)
	Cumulative translation adjustment in shareholders' equity ¹	(1,322)	(4%)

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

The consolidated balance sheets are translated at end-of-period rates. The U.S. dollar strengthened against the British pound, euro and the Swiss franc as of June 30, 2013 compared with December 31, 2012, resulting in a decrease in U.S. dollar terms for most balance sheet items.

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Consolidated financial statements (unaudited)

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Consolidated income statements (unaudited)

in USD millions	Notes	Restated		Restated	
		2013	2012	2013	2012
		for the three	for the three	for the six	for the six
		months ended	months ended	months ended	months ended
		June 30	June 30	June 30	June 30
Revenues					
Gross written premiums		12,783	12,376	27,654	26,821
Policy fees		643	790	1,277	1,422
Gross written premiums and policy fees		13,426	13,167	28,932	28,243
Less premiums ceded to reinsurers		(1,890)	(1,629)	(3,613)	(3,340)
Net written premiums and policy fees		11,536	11,537	25,319	24,903
Net change in reserves for unearned premiums		(148)	(331)	(2,223)	(2,119)
Net earned premiums and policy fees		11,388	11,206	23,095	22,784
Farmers management fees and other related revenues		706	710	1,408	1,420
Net investment result on Group investments	3	1,629	2,359	3,323	4,134
Net investment income on Group investments		1,614	1,746	3,187	3,476
Net capital gains/(losses) and impairments on Group investments		15	613	135	658
Net investment result on unit-linked investments	3	(784)	(1,700)	5,636	3,964
Net gain/(loss) on divestments of businesses		–	–	–	1
Other income		338	434	846	794
Total revenues		13,277	13,009	34,307	33,096
Benefits, losses and expenses					
Insurance benefits and losses, gross of reinsurance	6	8,735	8,744	17,386	17,556
Less ceded insurance benefits and losses	6	(962)	(566)	(1,617)	(1,368)
Insurance benefits and losses, net of reinsurance	6	7,772	8,179	15,769	16,188
Policyholder dividends and participation in profits, net of reinsurance	6	(323)	(1,235)	6,318	4,562
Underwriting and policy acquisition costs, net of reinsurance		2,410	2,420	4,792	4,801
Administrative and other operating expense		2,125	2,126	4,087	4,073
Interest expense on debt	11	146	143	290	293
Interest credited to policyholders and other interest		138	136	299	262
Total benefits, losses and expenses		12,269	11,768	31,555	30,179
Net income before income taxes		1,008	1,241	2,752	2,917
Income tax expense	10	(157)	(153)	(744)	(671)
attributable to policyholders	10	96	154	(147)	(22)
attributable to shareholders	10	(253)	(307)	(596)	(649)
Net income after taxes		851	1,088	2,008	2,247
attributable to non-controlling interests		62	1	157	20
attributable to shareholders		789	1,087	1,851	2,227
in USD					
Basic earnings per share	12	5.35	7.41	12.57	15.21
Diluted earnings per share	12	5.33	7.38	12.50	15.13
in CHF					
Basic earnings per share	12	5.01	6.94	11.77	14.12
Diluted earnings per share	12	4.99	6.91	11.70	14.05

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

Consolidated financial statements (unaudited) *continued*

Consolidated statements of comprehensive income (unaudited)

in USD millions, for the six months ended June 30

	Net income attributable to shareholders	Net unrealized gains/(losses) on available- for-sale investments	Cash flow hedges
2012			
Comprehensive income for the period, as restated	2,227	1,026	19
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		1,650	(26)
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(372)	39
Deferred income tax (before foreign currency translation effects)		(239)	10
Foreign currency translation effects		(13)	(3)
2013			
Comprehensive income for the period	1,851	(2,106)	(103)
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		(1,926)	(149)
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(591)	23
Reclassification to retained earnings		–	–
Deferred income tax (before foreign currency translation effects)		512	29
Foreign currency translation effects		(101)	(7)

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

	Cumulative foreign currency translation adjustment	Total other comprehensive income recycled through profit or loss	Revaluation reserve	Net actuarial gains/(losses) on pension plans	Total other comprehensive income not recycled through profit or loss	Total other comprehensive income attributable to shareholders	Total comprehensive income attributable to shareholders	Comprehensive income attributable to non-controlling interests	Total comprehensive income
	(859)	186	–	118	118	304	2,531	(15)	2,516
	(858)	766	–	150	150	916			
	(1)	(335)	–	–	–	(335)			
	–	(229)	–	(33)	(33)	(262)			
	–	(16)	–	2	2	(14)			
	(1,322)	(3,532)	6	(26)	(21)	(3,552)	(1,701)	42	(1,659)
	(1,397)	(3,472)	14	(94)	(80)	(3,552)			
	75	(493)	–	–	–	(493)			
	–	–	(5)	–	(5)	(5)			
	–	541	(3)	(38)	(41)	500			
	–	(108)	–	105	105	(2)			

Consolidated financial statements (unaudited) *continued*

in USD millions, for the three months ended June 30

	Net income attributable to shareholders	Net unrealized gains/(losses) on available- for-sale investments	Cash flow hedges
2012			
Comprehensive income for the period, as restated	1,087	(46)	21
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		204	(61)
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(183)	91
Deferred income tax (before foreign currency translation effects)		15	3
Foreign currency translation effects		(83)	(12)
2013			
Comprehensive income for the period	789	(1,765)	(69)
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		(1,930)	(63)
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(288)	(27)
Deferred income tax (before foreign currency translation effects)		445	20
Foreign currency translation effects		8	1

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

	Cumulative foreign currency translation adjustment	Total other comprehensive income recycled through profit or loss	Revaluation reserve	Net actuarial gains/(losses) on pension plans	Total other comprehensive income not recycled through profit or loss	Total other comprehensive income attributable to shareholders	Total comprehensive income attributable to shareholders	Comprehensive income attributable to non-controlling interests	Total comprehensive income
	(382)	(408)	–	(114)	(114)	(522)	565	(141)	424
	(381)	(238)	–	(238)	(238)	(476)			
	(1)	(93)	–	–	–	(93)			
	–	18	–	66	66	85			
	–	(95)	–	57	57	(38)			
	(905)	(2,740)	11	39	50	(2,690)	(1,900)	(31)	(1,931)
	(982)	(2,976)	14	80	94	(2,882)			
	77	(238)	–	–	–	(238)			
	–	465	(3)	(32)	(36)	429			
	–	10	–	(8)	(8)	1			

Consolidated financial statements (unaudited) *continued*

Consolidated balance sheets (unaudited)

Assets	in USD millions, as of	Notes	Restated		
			06/30/13	12/31/12	01/01/12
Investments					
Total Group investments		3	201,869	209,582	198,549
Cash and cash equivalents			8,432	9,098	8,835
Equity securities			10,942	12,341	13,037
Debt securities			152,302	155,594	144,139
Real estate held for investment			8,082	8,561	8,472
Mortgage loans			9,738	10,519	11,058
Other loans			12,275	13,385	12,928
Investments in associates and joint ventures			98	85	80
Investments for unit-linked contracts		3	121,673	123,913	111,911
Total investments		3	323,542	333,496	310,461
Reinsurers' share of reserves for insurance contracts		4	18,846	19,753	19,592
Deposits made under assumed reinsurance contracts			2,560	2,588	2,711
Deferred policy acquisition costs		7	18,401	18,346	17,420
Deferred origination costs		7	708	770	824
Accrued investment income			2,175	2,414	2,589
Receivables and other assets			19,064	18,425	17,831
Mortgage loans given as collateral			–	–	223
Deferred tax assets			2,246	1,853	2,076
Assets held for sale ¹			13	102	54
Property and equipment			1,442	1,530	1,580
Goodwill		8	2,046	2,107	2,060
Other intangible assets		8	7,052	7,448	8,062
Total assets			398,096	408,831	385,481

¹ June 30, 2013 included assets held for sale amounting to USD 13 million relating to land and buildings formerly classified as real estate held for investment. December 31, 2012 included land and buildings formerly classified as real estate held for investment and held for own use amounting to USD 91 million and USD 10 million, respectively. January 1, 2012 included assets relating to the sale of a company in Bolivia (see note 5 of the Consolidated financial statements 2012).

Liabilities
and equity

in USD millions, as of	Notes	06/30/13	Restated 12/31/12	Restated 01/01/12
Liabilities				
Reserve for premium refunds		570	706	611
Liabilities for investment contracts	5	58,219	57,437	50,309
Deposits received under ceded reinsurance contracts		1,291	1,558	1,560
Deferred front-end fees		5,891	6,073	5,720
Reserves for insurance contracts	4	257,869	265,233	253,207
Obligations to repurchase securities		1,388	1,539	1,794
Accrued liabilities		2,863	3,279	3,154
Other liabilities		18,645	18,368	18,265
Collateralized loans		–	–	223
Deferred tax liabilities		4,986	5,244	4,577
Liabilities held for sale ¹		–	–	55
Senior debt	11	6,503	6,660	6,541
Subordinated debt	11	6,632	5,861	5,476
Total liabilities		364,857	371,957	351,493
Equity				
Share capital		11	11	10
Additional paid-in capital		6,281	8,172	9,907
Net unrealized gains/(losses) on available-for-sale investments		2,417	4,523	2,800
Cash flow hedges		136	238	232
Cumulative foreign currency translation adjustment		(4,345)	(3,022)	(2,581)
Revaluation reserve		186	180	180
Retained earnings		26,237	24,403	20,951
Shareholders' equity		30,923	34,505	31,499
Non-controlling interests		2,316	2,369	2,490
Total equity		33,238	36,874	33,989
Total liabilities and equity		398,096	408,831	385,481

¹ Related to the sale of a company in Bolivia (see note 5 of the Consolidated financial statements 2012).

Consolidated financial statements (unaudited) *continued*

Consolidated statements of cash flows (unaudited)

in USD millions, for the six months ended June 30	2013	Restated 2012
Cash flows from operating activities		
Net income attributable to shareholders	1,851	2,227
Adjustments for:		
Net (gain)/loss on divestments of businesses	–	(1)
(Income)/expense from equity method accounted investments	(5)	(3)
Depreciation, amortization and impairments of fixed and intangible assets	474	517
Other non-cash items	37	(359)
Underwriting activities:	4,843	5,379
<i>Reserves for insurance contracts, gross</i>	<i>1,415</i>	<i>4,227</i>
<i>Reinsurers' share of reserves for insurance contracts</i>	<i>515</i>	<i>93</i>
<i>Liabilities for investment contracts</i>	<i>3,680</i>	<i>1,494</i>
<i>Deferred policy acquisition costs</i>	<i>(582)</i>	<i>(616)</i>
<i>Deferred origination costs</i>	<i>24</i>	<i>45</i>
<i>Deposits made under assumed reinsurance contracts</i>	<i>23</i>	<i>154</i>
<i>Deposits received under ceded reinsurance contracts</i>	<i>(233)</i>	<i>(18)</i>
Investments:	(4,277)	(5,477)
<i>Net capital (gains)/losses on total investments and impairments</i>	<i>(4,867)</i>	<i>(3,694)</i>
<i>Net change in trading securities and derivatives</i>	<i>19</i>	<i>(268)</i>
<i>Net change in money market investments</i>	<i>938</i>	<i>(198)</i>
<i>Sales and maturities</i>		
<i>Debt securities</i>	<i>55,004</i>	<i>53,128</i>
<i>Equity securities</i>	<i>33,101</i>	<i>31,247</i>
<i>Other</i>	<i>14,011</i>	<i>22,205</i>
<i>Purchases</i>		
<i>Debt securities</i>	<i>(59,513)</i>	<i>(54,438)</i>
<i>Equity securities</i>	<i>(31,192)</i>	<i>(31,066)</i>
<i>Other</i>	<i>(11,777)</i>	<i>(22,394)</i>
Proceeds from sale and repurchase agreements	(50)	(257)
Movements in receivables and payables	(406)	99
Net changes in other operational assets and liabilities	(748)	(249)
Deferred income tax, net	(37)	63
Net cash provided by/(used in) operating activities	1,682	1,940

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

in USD millions, for the six months ended June 30	2013	Restated 2012
Cash flows from investing activities		
Sales of property and equipment	31	32
Purchases of property and equipment	(87)	(92)
Disposal of equity method accounted investments, net	–	1
Acquisitions of companies, net of cash acquired	–	(91)
Divestments of companies, net of cash balances	–	(9)
Net cash provided by/(used in) investing activities	(56)	(160)
Cash flows from financing activities		
Dividends paid	(2,747)	(2,717)
Issuance of share capital	39	78
Net movement in treasury shares	12	21
Issuance of debt	917	1,873
Repayments of debt outstanding	–	(1,298)
Net cash provided by/(used in) financing activities	(1,779)	(2,043)
Foreign currency translation effects on cash and cash equivalents	(331)	(65)
Change in cash and cash equivalents	(484)	(327)
Cash and cash equivalents as of January 1	10,208	9,705
Cash and cash equivalents as of June 30	9,724	9,378
of which:		
– cash and cash equivalents – Group investments	8,432	8,405
– cash and cash equivalents – unit linked	1,292	973
Other supplementary cash flow disclosures		
Other interest income received	3,380	3,767
Dividend income received	890	937
Other interest expense paid	(517)	(520)
Income taxes paid	(757)	(720)

Cash and cash equivalents

in USD millions, as of June 30	2013	Restated 2012
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	6,459	5,566
Cash equivalents	3,265	3,812
Total	9,724	9,378

As of June 30, 2013 and 2012, cash and cash equivalents held to meet local regulatory requirements were USD 1,443 million and USD 1,499 million, respectively.

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

Consolidated financial statements (unaudited) *continued*

Consolidated statements of changes in equity (unaudited)

in USD millions			
	Share capital	Additional paid-in capital	
Balance as of December 31, 2011, as previously reported	10	9,907	
Total adjustments due to restatement	–	–	
Balance as of December 31, 2011, as restated	10	9,907	
Issuance of share capital ¹	–	199	
Dividends to shareholders ²	–	(1,923)	
Share-based payment transactions	–	(75)	
Treasury share transactions ⁴	–	1	
Change in ownership interests with no loss of control	–	–	
Total comprehensive income for the period, net of tax	–	–	
<i>Net income</i>	–	–	
<i>Net unrealized gains/(losses) on available-for-sale investments</i>	–	–	
<i>Cash flow hedges</i>	–	–	
<i>Cumulative foreign currency translation adjustment</i>	–	–	
<i>Revaluation reserve</i>	–	–	
<i>Net actuarial gains/(losses) on pension plans</i>	–	–	
Net changes in capitalization of non-controlling interests	–	–	
Balance as of June 30, 2012, as restated	11	8,108	
Balance as of December 31, 2012, as previously reported	11	8,172	
Total adjustments due to restatement	–	–	
Balance as of December 31, 2012, as restated	11	8,172	
Issuance of share capital ¹	–	142	
Dividends to shareholders ³	–	(1,933)	
Share-based payment transactions	–	(108)	
Treasury share transactions ⁴	–	7	
Reclassification from revaluation reserves	–	–	
Total comprehensive income for the period, net of tax	–	–	
<i>Net income</i>	–	–	
<i>Net unrealized gains/(losses) on available-for-sale investments</i>	–	–	
<i>Cash flow hedges</i>	–	–	
<i>Cumulative foreign currency translation adjustment</i>	–	–	
<i>Revaluation reserve</i>	–	–	
<i>Net actuarial gains/(losses) on pension plans</i>	–	–	
Net changes in capitalization of non-controlling interests	–	–	
Balance as of June 30, 2013	11	6,281	

¹ The number of common shares issued as of June 30, 2013 was 148,861,970 (June 30, 2012: 148,202,200, December 31, 2012: 148,300,123, December 31, 2011: 147,385,822).

² As approved by the Annual General Meeting on March 29, 2012, the dividend of CHF 17 per share was paid out of the capital contribution reserve. The difference of USD 840 million between the dividend at transaction day exchange rates amounting to USD 2,763 million and the dividend at historical exchange rates amounting to USD 1,923 million is reflected in the cumulative foreign currency translation adjustment.

³ As approved by the Annual General Meeting on April 4, 2013, the dividend of CHF 17 per share was paid out of the capital contribution reserve. The difference of USD 718 million between the dividend at transaction day exchange rates amounting to USD 2,651 million and the dividend at historical exchange rates amounting to USD 1,933 million is reflected in the cumulative foreign currency translation adjustment.

⁴ The number of treasury shares deducted from equity as of June 30, 2013 amounted to 1,326,726 (June 30, 2012: 1,361,465, December 31, 2012: 1,348,395, December 31, 2011: 1,373,392).

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

	Net unrealized gains/(losses) on available-for-sale investments	Cash flow hedges	Cumulative foreign currency translation adjustment	Revaluation reserve	Retained earnings	Shareholders' equity	Non-controlling interests	Total equity
	2,800	232	(2,581)	180	20,936	31,484	2,489	33,973
	-	-	-	-	15	15	1	16
	2,800	232	(2,581)	180	20,951	31,499	2,490	33,989
	-	-	-	-	-	199	-	199
	-	-	-	-	-	(1,923)	(30)	(1,953)
	-	-	-	-	-	(75)	-	(75)
	-	-	-	-	20	21	-	21
	-	-	-	-	(5)	(5)	-	(5)
	1,026	19	(859)	-	2,345	2,531	(15)	2,516
	-	-	-	-	2,227	2,227		
	1,026	-	-	-	-	1,026		
	-	19	-	-	-	19		
	-	-	(859)	-	-	(859)		
	-	-	-	-	-	-		
	-	-	-	-	118	118		
	-	-	-	-	-	-	(14)	(14)
	3,825	251	(3,440)	180	23,312	32,246	2,432	34,678
	4,523	238	(3,022)	180	24,391	34,494	2,368	36,862
	-	-	-	-	11	11	1	12
	4,523	238	(3,022)	180	24,403	34,505	2,369	36,874
	-	-	-	-	-	142	-	142
	-	-	-	-	-	(1,933)	(96)	(2,029)
	-	-	-	-	-	(108)	-	(108)
	-	-	-	-	5	12	-	12
	-	-	-	-	5	5	-	5
	(2,106)	(103)	(1,322)	6	1,825	(1,701)	42	(1,659)
	-	-	-	-	1,851	1,851		
	(2,106)	-	-	-	-	(2,106)		
	-	(103)	-	-	-	(103)		
	-	-	(1,322)	-	-	(1,322)		
	-	-	-	6	-	6		
	-	-	-	-	(26)	(26)		
	-	-	-	-	-	-	1	1
	2,417	136	(4,345)	186	26,237	30,923	2,316	33,238

Consolidated financial statements (unaudited) *continued*

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

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

1. Basis of presentation

General information

The unaudited Consolidated financial statements for the six months to June 30, 2013 of the Group have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting". The accounting policies used to prepare the unaudited Consolidated financial statements comply with International Financial Reporting Standards (IFRS), and are consistent with those set out in the notes to the Consolidated financial statements in the Annual Report 2012 of the Group.

The accounting policies applied by the reportable segments are the same as those applied by the Group. The Group accounts for inter-segment revenues and transfers as if the transactions were with third parties at current market prices, with the exception of dividends, realized capital gains and losses as well as gains and losses on transfers of net assets, which are eliminated against equity. In the unaudited Consolidated financial statements inter-segment revenues and transfers are eliminated.

The unaudited Consolidated financial statements for the six months to June 30, 2013 should be read in conjunction with the Group's Annual Report 2012.

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

All amounts in the unaudited Consolidated financial statements, unless otherwise stated, are shown in USD, rounded to the nearest million with the consequence that the rounded amounts may not add to the rounded total in all cases. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts.

Table 1.1 summarizes the principal exchange rates used for translation purposes. Net gains/(losses) on foreign currency transactions included in the consolidated income statements were USD (5) million and USD 8 million for the six months ended June 30, 2013 and 2012, respectively. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD (41) million and USD 150 million for the six months ended June 30, 2013 and 2012, respectively.

Table 1.1

Principal exchange rates

USD per foreign currency unit	Consolidated balance sheets		Consolidated income statements and cash flows	
	06/30/2013	12/31/2012	06/30/2013	06/30/2012
Euro	1.3005	1.3188	1.3132	1.2975
Swiss franc	1.0574	1.0928	1.0683	1.0770
British pound	1.5201	1.6272	1.5448	1.5769

Implementation of new accounting standards

Table 1.2 shows new accounting standards or amendments to and interpretations of standards relevant to the Group that have been implemented for the financial year beginning January 1, 2013, with no material impact on the Group's financial position or performance.

Table 1.2		
Standard/ Interpretation		Effective date
	New Standards	
IFRS 10	Consolidated Financial Statements ¹	January 1, 2013
IFRS 11	Joint Arrangements	January 1, 2013
IFRS 12	Disclosure of Interests in Other Entities	January 1, 2013
IFRS 13	Fair Value Measurement	January 1, 2013
	Amended Standards	
IAS 1	Presentations of Components of Other Comprehensive Income (OCI)	July 1, 2012
IAS 19	Employee Benefits ¹	January 1, 2013
IAS 27	Separate Financial Statements	January 1, 2013
IAS 28	Investments in Associates and Joint Ventures	January 1, 2013
IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities	January 1, 2013

¹ Impacts set out in tables 1.4 and 1.5

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

Table 1.3		
Standard/ Interpretation		Effective date
	New Standards	
IFRS 9	Financial Instruments	Pending
	Amended Standards	
IAS 32	Offsetting Financial Assets and Financial Liabilities	January 1, 2014

Restatements and reclassifications

In 2011, the Group completed the acquisition of the life insurance, pension and general insurance operations of Banco Santander S.A. (Santander) in Brazil, Argentina, Chile, Mexico and Uruguay (see note 5 of the Consolidated financial statements 2011 and 2012). The Consolidated financial statements 2012 included restated amounts as of December 31, 2011 to reallocate the preliminary numbers to individual balance sheet line items and for the subsequent reassessment of the initial purchase accounting. Table 1.4 shows the impact of the reclassifications as well as updates to the initial purchase accounting on the consolidated income statement for the six months ended June 30, 2012. Consolidated income statements, consolidated statements of comprehensive income, consolidated statements of cash flows, consolidated statements of changes in equity and notes 3, 4, 5, 6, 7, 8, 10, 12 and 16 have been restated accordingly.

Tables 1.4 and 1.5 show the impacts of implementing IAS 19 "Employee Benefits" and IFRS 10 "Consolidated Financial Statements" on the consolidated income statement for the six months ended June 30, 2012 and consolidated balance sheet as of December 31, 2012. Consolidated income statements, consolidated balance sheets, consolidated statements of comprehensive income, consolidated statements of changes in equity, consolidated statements of cash flows and notes 3, 5, 6, 10, 12, 14, 15 and 16 have been restated accordingly.

Consolidated financial statements (unaudited) *continued*

Table 1.4		As reported	Santander	IAS 19	IFRS 10	As restated
Restatement of the consolidated income statement	in USD millions, for the six months ended June 30, 2012					
	Revenues					
	Gross written premiums	26,821	–	–	–	26,821
	Policy fees	1,422	–	–	–	1,422
	Gross written premiums and policy fees	28,243	–	–	–	28,243
	Less premiums ceded to reinsurers	(3,340)	–	–	–	(3,340)
	Net written premiums and policy fees	24,903	–	–	–	24,903
	Net change in reserves for unearned premiums	(2,126)	6	–	–	(2,119)
	Net earned premiums and policy fees	22,778	6	–	–	22,784
	Farmers management fees and other related revenues	1,420	–	–	–	1,420
	Net investment result on Group investments	4,096	2	–	36	4,134
	Net investment income on Group investments	3,440	–	–	36	3,476
	Net capital gains/(losses) and impairments on Group investments	656	2	–	–	658
	Net investment result on unit-linked investments	3,992	–	–	(28)	3,964
	Net gain/(loss) on divestments of businesses	1	–	–	–	1
	Other income	794	–	–	–	794
	Total revenues	33,081	8	–	8	33,096
	Benefits, losses and expenses					
	Insurance benefits and losses, gross of reinsurance	17,527	30	–	–	17,556
	Less ceded insurance benefits and losses	(1,356)	(12)	–	–	(1,368)
	Insurance benefits and losses, net of reinsurance	16,170	18	–	–	16,188
	Policyholder dividends and participation in profits, net of reinsurance	4,591	–	–	(28)	4,562
	Underwriting and policy acquisition costs, net of reinsurance	4,820	(19)	–	–	4,801
	Administrative and other operating expense	4,071	5	(4)	1	4,073
	Interest expense on debt	293	–	–	–	293
	Interest credited to policyholders and other interest	227	–	–	35	262
	Total benefits, losses and expenses	30,172	3	(4)	8	30,179
	Net income before income taxes	2,909	5	4	–	2,917
	Income tax expense	(677)	7	(1)	–	(671)
	attributable to policyholders	(22)	–	–	–	(22)
attributable to shareholders	(655)	7	(1)	–	(649)	
Net income after taxes	2,232	12	3	–	2,247	
attributable to non-controlling interests	14	6	–	–	20	
attributable to shareholders	2,218	6	3	–	2,227	
in USD						
Basic earnings per share	15.15	0.05	0.01	0.00	15.21	
Diluted earnings per share	15.07	0.05	0.01	0.00	15.13	
in CHF						
Basic earnings per share	14.06	0.05	0.01	0.00	14.12	
Diluted earnings per share	13.99	0.05	0.01	0.00	14.05	

Restatement of the consolidated balance sheet

Table 1.5				
in USD millions, as of December 31, 2012	As reported	IAS 19	IFRS 10	As restated
Investments				
Total Group investments	208,707	–	875	209,582
Cash and cash equivalents	9,098	–	–	9,098
Equity securities	12,341	–	–	12,341
Debt securities	155,594	–	–	155,594
Real estate held for investment	8,561	–	–	8,561
Mortgage loans	10,519	–	–	10,519
Other loans	12,423	–	962	13,385
Investments in associates and joint ventures	172	–	(87)	85
Investments for unit-linked contracts	125,226	–	(1,313)	123,913
Total investments	333,934	–	(438)	333,496
Reinsurers' share of reserves for insurance contracts	19,753	–	–	19,753
Deposits made under assumed reinsurance contracts	2,588	–	–	2,588
Deferred policy acquisition costs	18,346	–	–	18,346
Deferred origination costs	770	–	–	770
Accrued investment income	2,414	–	–	2,414
Receivables and other assets	18,423	–	3	18,425
Deferred tax assets	1,854	–	–	1,853
Assets held for sale	102	–	–	102
Property and equipment	1,530	–	–	1,530
Goodwill	2,107	–	–	2,107
Other intangible assets	7,448	–	–	7,448
Total assets	409,267	–	(436)	408,831
Liabilities				
Reserve for premium refunds	706	–	–	706
Liabilities for investment contracts	58,131	–	(693)	57,437
Deposits received under ceded reinsurance contracts	1,558	–	–	1,558
Deferred front-end fees	6,073	–	–	6,073
Reserves for insurance contracts	265,233	–	–	265,233
Obligations to repurchase securities	1,539	–	–	1,539
Accrued liabilities	3,272	–	7	3,279
Other liabilities	18,135	(18)	251	18,368
Deferred tax liabilities	5,238	6	–	5,244
Senior debt	6,660	–	–	6,660
Subordinated debt	5,861	–	–	5,861
Total liabilities	372,405	(12)	(436)	371,957
Equity				
Share capital	11	–	–	11
Additional paid-in capital	8,172	–	–	8,172
Net unrealized gains/(losses) on available-for-sale investments	4,523	–	–	4,523
Cash flow hedges	238	–	–	238
Cumulative translation adjustment	(3,022)	–	–	(3,022)
Revaluation reserve	180	–	–	180
Retained earnings	24,391	12	–	24,403
Shareholders' equity	34,494	11	–	34,505
Non-controlling interests	2,368	–	1	2,369
Total equity	36,862	11	1	36,874
Total liabilities and equity	409,267	–	(435)	408,831

Consolidated financial statements (unaudited) *continued*

2. Acquisitions and divestments

Transactions in 2013

There were no transactions in the six months ended June 30, 2013.

Transactions in 2012

Acquisitions

On May 25, 2012, the Group increased its shareholding in Zurich Insurance Company South Africa Limited, a partially owned subsidiary, to 84.05 percent by purchasing a 25.1 percent shareholding from Royal Bafokeng Finance (Pty) Limited (RBF) for a purchase price of approximately USD 75 million. With this purchase of 25.1 percent, the Group's controlling interest for the Consolidated financial statements is now in line with its legal ownership. On this date, the put option right granted to RBF in 2010 to sell back its entire shareholding to the Group also ceased to exist.

Divestments and loss of control

The Group lost control over one of its subsidiaries and consequently derecognized the assets and liabilities at their carrying value and recognized its retained investment in this entity as an equity security classified as available-for-sale as of September 30, 2012. A USD 38 million pre-tax loss was recorded within net gain/(loss) on divestments of businesses.

3. Investments

Total investments include Group investments and investments for unit-linked products. Group investments are those for which the Group bears part or all of the investment risk. They also include investments related to investment contracts with discretionary participation features. Investments for unit-linked products include investments where the policyholder bears the investment risk, and are held for liabilities related to unit-linked investment contracts and reserves for unit-linked insurance contracts. They are managed in accordance with the investment objectives of each unit-linked fund.

Table 3.1a

Net investment result for total investments

in USD millions, for the six months ended June 30

	Net investment income		Net capital gains/ (losses) on investments and impairments		Net investment result	
	2013	2012	2013	2012	2013	2012
	Cash and cash equivalents	19	33	(20)	24	–
Equity securities	931	912	5,221	3,225	6,152	4,136
Debt securities	2,547	2,752	(111)	722	2,436	3,473
Real estate held for investment	370	413	11	(288)	381	126
Mortgage loans	193	221	(44)	(39)	149	181
Other loans	404	435	260	3	664	438
Investments in associates and joint ventures	5	3	1	1	6	4
Derivative financial instruments ¹	–	–	(451)	47	(451)	47
Investment result, gross	4,470	4,770	4,867	3,694	9,337	8,464
Investment expenses	(379)	(366)	–	–	(379)	(366)
Investment result, net	4,091	4,404	4,867	3,694	8,958	8,098

¹ Net capital losses on derivatives attributable to cash flow hedge ineffectiveness amounted to USD 4 million and USD 36 million for the six months ended June 30, 2013 and 2012, respectively.

Rental operating expenses for real estate held for investment included in investment expenses for total investments amounted to USD 94 million for both the six months ended June 30, 2013 and 2012.

Table 3.1b

Net investment result for Group investments

in USD millions, for the six months ended June 30

	Net investment income		Net capital gains/ (losses) on investments and impairments		Net investment result	
	2013	2012	2013	2012	2013	2012
	Cash and cash equivalents	17	23	–	–	16
Equity securities	162	174	390	164	553	338
Debt securities	2,410	2,611	15	511	2,425	3,121
Real estate held for investment	240	254	37	(80)	277	174
Mortgage loans	193	221	(44)	(39)	149	181
Other loans	282	309	165	3	447	311
Investments in associates and joint ventures	5	3	1	1	6	4
Derivative financial instruments ¹	–	–	(429)	98	(429)	98
Investment result, gross, for Group investments	3,310	3,594	135	658	3,445	4,252
Investment expenses for Group investments	(122)	(119)	–	–	(122)	(119)
Investment result, net, for Group investments	3,187	3,476	135	658	3,323	4,134

¹ Net capital losses on derivatives attributable to cash flow hedge ineffectiveness amounted to USD 4 million and USD 36 million for the six months ended June 30, 2013 and 2012, respectively.

Consolidated financial statements (unaudited) *continued*

Impairment charges on Group investments included in net capital gains/(losses) amounted to USD 88 million and USD 97 million, including impairment charges on mortgage loans and other loans of USD 45 million and USD 37 million, for the six months ended June 30, 2013 and 2012, respectively.

Table 3.1c

Net investment result for unit-linked contracts

in USD millions, for the six months ended June 30

	Net investment income		Net capital gains/(losses) on investments		Net investment result	
	2013	2012	2013	2012	2013	2012
Cash and cash equivalents	3	10	(19)	24	(17)	34
Equity securities	769	738	4,831	3,061	5,600	3,798
Debt securities	136	141	(126)	211	11	352
Real estate held for investment	130	159	(26)	(208)	104	(49)
Other loans	122	127	95	–	216	127
Derivative financial instruments	–	–	(22)	(52)	(22)	(52)
Investment result, gross, for unit-linked contracts	1,160	1,175	4,732	3,036	5,892	4,212
Investment expenses for unit-linked contracts	(256)	(247)	–	–	(256)	(247)
Investment result, net, for unit-linked contracts	904	928	4,732	3,036	5,636	3,964

Table 3.2

Net capital gains, losses and impairments on equity and debt securities for total investments

in USD millions, for the six months ended June 30

	Equity securities		Debt securities		Total	
	2013	2012	2013	2012	2013	2012
Securities at fair value through profit or loss:	5,019	3,171	(502)	352	4,517	3,523
Net capital gains/(losses) on Group investments	188	111	(377)	141	(188)	252
<i>of which:</i>						
<i>Trading securities</i>	19	–	(1)	3	18	2
<i>Securities designated at fair value through profit or loss</i>	169	111	(375)	139	(207)	250
Net capital gains/(losses) for unit-linked contracts	4,831	3,061	(126)	211	4,705	3,271
Available-for-sale securities:	202	53	391	369	594	423
Realized capital gains on Group investments	293	199	563	672	856	871
Realized capital losses on Group investments	(47)	(95)	(172)	(293)	(219)	(388)
Impairments on Group investments	(44)	(51)	1	(10)	(44)	(61)
Total net capital gains/(losses) and impairments	5,221	3,225	(111)	722	5,110	3,946

Details of total investments by category

as of	06/30/13		12/31/12	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	9,724	3.0	10,208	3.1
Equity securities:				
Fair value through profit or loss	102,327	31.6	103,023	30.9
<i>of which:</i>				
<i>Trading securities</i>	372	0.1	410	0.1
<i>Securities designated at fair value through profit or loss</i>	101,955	31.5	102,613	30.8
Available-for-sale	7,599	2.3	8,796	2.6
Total equity securities	109,926	34.0	111,819	33.5
Debt securities:				
Fair value through profit or loss	19,627	6.1	20,630	6.2
<i>of which:</i>				
<i>Trading securities</i>	44	0.0	48	0.0
<i>Securities designated at fair value through profit or loss</i>	19,583	6.1	20,583	6.2
Available-for-sale	139,558	43.1	141,597	42.5
Held-to-maturity	4,666	1.4	5,012	1.5
Total debt securities	163,851	50.6	167,239	50.1
Real estate held for investment	11,201	3.5	11,962	3.6
Mortgage loans	9,738	3.0	10,519	3.2
Other loans	19,004	5.9	21,664	6.5
Investments in associates and joint ventures	98	0.0	85	0.0
Total investments	323,542	100.0	333,496	100.0

Details of Group investments by category

as of	06/30/13		12/31/12	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	8,432	4.2	9,098	4.3
Equity securities:				
Fair value through profit or loss	3,343	1.7	3,545	1.7
<i>of which:</i>				
<i>Trading securities</i>	372	0.2	410	0.2
<i>Securities designated at fair value through profit or loss</i>	2,971	1.5	3,135	1.5
Available-for-sale	7,599	3.8	8,796	4.2
Total equity securities	10,942	5.4	12,341	5.9
Debt securities:				
Fair value through profit or loss	8,078	4.0	8,985	4.3
<i>of which:</i>				
<i>Trading securities</i>	44	0.0	48	0.0
<i>Securities designated at fair value through profit or loss</i>	8,035	4.0	8,937	4.3
Available-for-sale	139,558	69.1	141,597	67.6
Held-to-maturity	4,666	2.3	5,012	2.4
Total debt securities	152,302	75.4	155,594	74.2
Real estate held for investment	8,082	4.0	8,561	4.1
Mortgage loans	9,738	4.8	10,519	5.0
Other loans	12,275	6.1	13,385	6.4
Investments in associates and joint ventures	98	0.0	85	0.0
Total Group investments	201,869	100.0	209,582	100.0

Investments (including cash and cash equivalents) with a carrying value of USD 6,212 million and USD 6,340 million were held to meet local regulatory requirements as of June 30, 2013, and December 31, 2012, respectively.

Consolidated financial statements (unaudited) *continued*

Details of investments held for unit-linked contracts	as of	06/30/13		12/31/12	
		USD millions	% of total	USD millions	% of total
		Cash and cash equivalents	1,292	1.1	1,110
Equity securities	98,984	81.4	99,478	80.3	
Debt securities	11,549	9.5	11,646	9.4	
Real estate	3,119	2.6	3,401	2.7	
Other loans	6,729	5.5	8,279	6.7	
Total investments for unit-linked contracts		121,673	100.0	123,913	100.0

Investments held for unit-linked contracts are classified as securities designated at fair value through profit or loss.

Accrued interest on unit-linked investments disclosed under accrued investment income amounted to USD 195 million and USD 210 million as of June 30, 2013 and December 31, 2012, respectively.

Net unrealized gains/(losses) on Group investments included in other comprehensive income	in USD millions, as of	Total	
		06/30/13	12/31/12
		Equity securities: available-for-sale	1,556
Debt securities: available-for-sale	4,676	8,679	
Other	170	300	
Less: amount of net unrealized gains/(losses) on investments attributable to:			
Life policyholder dividends and other policyholder liabilities	(2,671)	(3,918)	
Life deferred acquisition costs and present value of future profits	(362)	(571)	
Deferred income taxes	(810)	(1,385)	
Non-controlling interests	(8)	(23)	
Total¹	2,553	4,762	

¹ Net unrealized gains/(losses) included net gains arising on cash flow hedges of USD 136 million and USD 238 million as of June 30, 2013 and December 31, 2012, respectively.

Securities under security lending and repurchase agreements

As of June 30, 2013 and December 31, 2012, respectively, investments included USD 8,793 million and USD 7,751 million of loaned securities. These loaned securities were mainly debt securities. Liabilities for cash collateral received for securities lending comprised USD 341 million and USD 330 million as of June 30, 2013 and December 31, 2012, respectively. Non-cash collateral received for loaned securities comprised mainly equity and debt securities, and amounted to USD 9,209 million and USD 8,085 million as of June 30, 2013 and December 31, 2012, respectively. The Group can sell or repledge the collateral only in the event of default by a counterparty.

As of June 30, 2013 and December 31, 2012, respectively, debt securities with a carrying value of USD 1,399 million and USD 1,550 million have been sold to financial institutions under repurchase agreements. These securities continue to be recognized as investments in the Group's consolidated balance sheets. Obligations to repurchase these securities amounted to USD 1,388 million and USD 1,539 million as of June 30, 2013 and December 31, 2012, respectively.

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

As of June 30, 2013 and December 31, 2012, respectively, securities with a carrying value of USD 468 million and USD 990 million have been purchased from financial institutions under short-term reverse sale and repurchase agreements. Receivables under these agreements have been recognized in the Group's consolidated balance sheets and amounted to USD 462 million and USD 988 million as of June 30, 2013 and December 31, 2012, respectively.

Derivative financial instruments: offsetting of financial assets and liabilities

Tables 3.5 and 3.6 show the net asset and liability position of derivative financial instruments subject to enforceable master netting arrangements and collateral agreements. Master netting arrangements are used by the Group to provide protection against loss in the event of bankruptcy or other circumstances that result in a counterparty being unable to meet its obligations. These arrangements commonly create a right of offset that becomes enforceable and affects the realization or settlement of individual financial assets and financial liabilities only following a specified event of default or other circumstances which would not be expected to arise in the normal course of business.

Table 3.5

Derivative financial instruments subject to enforceable master netting arrangements and collateral agreements – current period

in USD millions, as of June 30, 2013

	Fair value	Related amounts not offset	Cash collateral (received)/ pledged	Non cash collateral (received)/ pledged	Net amount
Assets					
Group derivatives	1,341	(260)	(883)	(13)	185
Unit-linked derivatives	82	(2)	(78)	–	2
Total derivative assets	1,423	(262)	(961)	(13)	187
Liabilities					
Group derivatives	(673)	260	261	12	(139)
Unit-linked derivatives	(5)	2	–	–	(3)
Total derivative liabilities	(677)	262	261	12	(142)

Table 3.6

Derivative financial instruments subject to enforceable master netting arrangements and collateral agreements – prior period

in USD millions, as of December 31, 2012

	Fair value	Related amounts not offset	Cash collateral (received)/ pledged	Non cash collateral (received)/ pledged	Net amount
Assets					
Group derivatives	1,750	(276)	(1,152)	(13)	309
Unit-linked derivatives	62	–	(47)	–	15
Total derivative assets	1,813	(276)	(1,199)	(13)	324
Liabilities					
Group derivatives	(537)	276	72	15	(174)
Unit-linked derivatives	(5)	–	–	–	(5)
Total derivative liabilities	(542)	276	72	15	(179)

Consolidated financial statements (unaudited) *continued*

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

Table 4.1

Reserves for insurance contracts	in USD millions, as of	Gross		Ceded		Net	
		06/30/13	12/31/12	06/30/13	12/31/12	06/30/13	12/31/12
		Reserves for losses and loss adjustment expenses	67,248	69,986	(11,613)	(12,601)	55,634
Reserves for unearned premiums	19,057	17,300	(2,895)	(2,666)	16,162	14,634	
Future life policyholders' benefits	81,418	83,807	(2,420)	(2,507)	78,998	81,300	
Policyholders' contract deposits and other funds	19,421	20,024	(2,062)	(2,106)	17,359	17,917	
Reserves for unit-linked contracts	70,725	74,117	–	–	70,725	74,117	
Total reserves for insurance contracts¹	257,869	265,233	(18,990)	(19,880)	238,879	245,353	

¹ The total reserves for insurance contracts ceded are gross of allowances for uncollectible amounts of USD 144 million and USD 127 million as of June 30, 2013 and December 31, 2012, respectively.

Table 4.2

Development of reserves for losses and loss adjustment expenses	in USD millions	Gross		Ceded		Net	
		2013	2012	2013	2012	2013	2012
		As of January 1	69,986	67,762	(12,601)	(12,421)	57,385
Losses and loss adjustment expenses incurred:							
Current year	13,308	13,065	(1,586)	(1,375)	11,722	11,690	
Prior years	(485)	(446)	167	72	(318)	(374)	
Total incurred	12,822	12,619	(1,419)	(1,303)	11,404	11,316	
Losses and loss adjustment expenses paid:							
Current year	(3,706)	(3,814)	231	226	(3,475)	(3,588)	
Prior years	(10,331)	(9,099)	2,006	1,362	(8,325)	(7,737)	
Total paid	(14,037)	(12,914)	2,238	1,588	(11,799)	(11,326)	
Foreign currency translation effects	(1,524)	(251)	168	5	(1,355)	(245)	
As of June 30	67,248	67,217	(11,613)	(12,130)	55,634	55,087	

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

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

Table 4.2 shows the development of reserves for losses and loss adjustment expenses during the first six months of 2013 and 2012.

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

For the first six months of 2012 net reserves for losses and loss adjustment expenses decreased by USD 254 million. Of this, USD 245 million related to a reserve reduction due to the effect of foreign currency movements. During the same period, favorable reserve development emerged from reserves established in prior years of USD 374 million, which mainly related to experience from Switzerland's motor business and many lines of business in the UK and North America.

Development of future life policyholders' benefits	in USD millions	Gross		Ceded		Net	
		2013	2012	2013	2012	2013	2012
		As of January 1	83,807	80,584	(2,507)	(2,583)	81,300
Premiums	4,463	4,160	(267)	(266)	4,196	3,894	
Claims	(4,478)	(4,211)	211	207	(4,267)	(4,005)	
Fee income and other expenses	(1,047)	(1,229)	64	153	(983)	(1,075)	
Interest and bonuses credited to policyholders	987	1,557	7	(87)	994	1,470	
Change in assumptions	(182)	(51)	11	166	(171)	115	
(Decreases)/increases recorded in other comprehensive income	(165)	124	-	-	(165)	124	
Foreign currency translation effects	(1,968)	(1,194)	63	5	(1,906)	(1,190)	
As of June 30	81,418	79,740	(2,420)	(2,405)	78,998	77,335	

Policyholders' contract deposits and other funds gross	in USD millions, as of	06/30/13	12/31/12	
		Universal life and other contracts	12,395	12,219
		Policyholder dividends	7,026	7,804
Total	19,421	20,024		

Development of policyholders' contract deposits and other funds	in USD millions	Gross		Ceded		Net	
		2013	2012	2013	2012	2013	2012
		As of January 1	20,024	18,356	(2,106)	(2,181)	17,917
Premiums	698	605	(33)	(14)	665	591	
Claims	(678)	(615)	122	98	(557)	(517)	
Fee income and other expenses	(151)	(119)	(4)	(24)	(156)	(144)	
Interest and bonuses credited to policyholders	804	110	(39)	(39)	765	72	
(Decrease)/increase recorded in other comprehensive income	(1,006)	589	-	-	(1,006)	589	
Foreign currency translation effects	(269)	(176)	-	1	(269)	(175)	
As of June 30	19,421	18,749	(2,062)	(2,158)	17,359	16,590	

Consolidated financial statements (unaudited) *continued*

Table 4.6			
Development of reserves for unit-linked contracts	in USD millions		
		2013	2012
	As of January 1	74,117	68,844
	Premiums	3,044	5,571
	Claims	(5,068)	(5,462)
	Fee income and other expenses	(836)	(841)
	Interest and bonuses credited/(charged) to policyholders	2,565	2,617
	Acquisitions/(divestments) and transfers ¹	–	148
	Foreign currency translation effects	(3,096)	(882)
	As of June 30	70,725	69,994

¹ The 2012 movement relates to USD 260 million transferred from liabilities for investment contracts partly offset by USD (112) million transferred to liabilities for investment contracts (see note 1 of the Consolidated financial statements 2012).

5. Liabilities for investment contracts

Liabilities for investment contracts	in USD millions, as of	
	06/30/13	12/31/12
Liabilities related to unit-linked investment contracts	51,243	50,229
Liabilities related to investment contracts (amortized cost)	1,098	1,305
Liabilities related to investment contracts with DPF	5,878	5,903
Total	58,219	57,437

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

The value of liabilities related to investment contracts 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 risks specific to the liabilities.

Development of liabilities for investment contracts	in USD millions	
	2013	2012
As of January 1	57,437	50,309
Premiums	3,942	3,266
Claims	(3,212)	(3,191)
Fee income and other expenses	(272)	(301)
Interest and bonuses credited/(charged) to policyholders	3,222	1,720
Acquisitions/(divestments) and transfers ¹	–	(148)
Increase/(decrease) recorded in other comprehensive income	13	(1)
Foreign currency translation effects	(2,911)	(94)
As of June 30	58,219	51,560

¹ The 2012 movement relates to USD (260) million transferred to reserves for unit-linked contracts partly offset by USD 112 million transferred from reserves for unit-linked contracts (see note 1 of the Consolidated financial statements 2012).

Consolidated financial statements (unaudited) *continued*

6. Gross and ceded insurance revenues and expenses

Table 6.1

Insurance benefits and losses	in USD millions, for the six months ended June 30	Gross		Ceded		Net	
		2013	2012	2013	2012	2013	2012
		Losses and loss adjustment expenses	12,822	12,619	(1,419)	(1,303)	11,404
Life insurance death and other benefits	4,563	4,938	(198)	(65)	4,366	4,872	
Total insurance benefits and losses	17,386	17,556	(1,617)	(1,368)	15,769	16,188	

Table 6.2

Policyholder dividends and participation in profits	in USD millions, for the six months ended June 30	Gross		Ceded		Net	
		2013	2012	2013	2012	2013	2012
		Change in policyholders' contract deposits and other funds	730	518	–	(19)	730
Change in reserves for unit-linked products	2,540	2,582	–	–	2,540	2,582	
Change in liabilities for investment contracts – unit-linked	3,129	1,464	–	–	3,129	1,464	
Change in liabilities for investment contracts – other	99	109	–	–	99	109	
Change in unit-linked liabilities related to UK capital gains tax	(181)	(91)	–	–	(181)	(91)	
Total policyholder dividends and participation in profits	6,318	4,582	–	(19)	6,318	4,562	

7. Deferred policy acquisition costs and deferred origination costs

Table 7.1

Development of deferred policy acquisition costs

in USD millions	General Insurance		Global Life		Other segments ¹		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
As of January 1	3,543	3,482	14,466	13,584	337	353	18,346	17,420
Acquisition costs deferred	1,848	1,642	1,152	928	420	457	3,420	3,027
Amortization	(1,581)	(1,459)	(814)	(486)	(425)	(453)	(2,820)	(2,398)
Impairments	–	–	(19)	(11)	–	–	(19)	(11)
Amortization (charged)/ credited to other comprehensive income	–	–	183	(97)	–	–	183	(97)
Acquisitions/(divestments) and transfers ²	–	–	–	(6)	–	–	–	(6)
Foreign currency translation effects	(109)	(35)	(600)	(122)	–	–	(708)	(157)
As of June 30	3,701	3,630	14,368	13,791	332	358	18,401	17,779

¹ Net of eliminations from inter-segment transactions.

² The 2012 movement related to a transfer to deferred origination costs (see note 1 of the Consolidated financial statements 2012).

As of June 30, 2013, December 31, 2012 and June 30, 2012, deferred policy acquisition costs relating to non-controlling interests were USD 596 million, USD 572 million and USD 536 million, respectively.

Table 7.2

Development of deferred origination costs

in USD millions	2013	2012
As of January 1	770	824
Origination costs deferred	34	40
Amortization	(58)	(85)
Acquisitions/(divestments) and transfers ¹	–	6
Foreign currency translation effects	(38)	1
As of June 30	708	785

¹ The 2012 movement related to a transfer from deferred acquisition costs (see note 1 of the Consolidated financial statements 2012).

Consolidated financial statements (unaudited) *continued*

8. Goodwill and other intangible assets

Table 8.1

Intangible assets –
current period

in USD millions

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

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

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

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

Table 8.2

Intangible assets
by segment –
current period

in USD millions, as of June 30, 2013

	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other	Total
General Insurance	805	–	689	–	545	69	2,108
Global Life	422	771	2,917	–	382	13	4,505
Farmers	819	–	–	1,025	360	–	2,204
Other Operating Businesses	–	–	–	–	279	–	279
Net carrying value as of June 30, 2013	2,046	771	3,606	1,025	1,566	83	9,098

Intangible assets –
prior period

Table 8.3

in USD millions

	Goodwill	PVFP	Distribution agreements	Attorney- in-fact relationships	Software	Other	Total
Gross carrying value as of January 1, 2012	2,186	2,824	4,562	1,025	4,210	190	14,997
Less: accumulated amortization/impairments	(126)	(1,640)	(430)	–	(2,593)	(86)	(4,876)
Net carrying value as of January 1, 2012	2,060	1,184	4,132	1,025	1,616	104	10,121
Additions and transfers	–	–	18	–	203	–	220
Divestments and transfers	–	–	–	–	(2)	–	(2)
Amortization	–	(100)	(96)	–	(205)	(7)	(408)
Amortization charged to other comprehensive income	–	(51)	–	–	–	–	(51)
Impairments	–	–	–	–	(7)	–	(7)
Foreign currency translation effects	(13)	(12)	(91)	–	(13)	–	(130)
Net carrying value as of June 30, 2012	2,046	1,021	3,962	1,025	1,594	97	9,745
Plus: accumulated amortization/impairments	125	1,789	515	–	2,762	91	5,282
Gross carrying value as of June 30, 2012	2,171	2,810	4,477	1,025	4,356	188	15,027

As of June 30, 2012, intangible assets relating to non-controlling interests were USD 235 million for present value of future profits (PVFP) of acquired insurance contracts, USD 1,866 million for distribution agreements and USD 6 million for software.

New distribution agreements in Global Life operations in the Middle East and in General Insurance operations in Brazil, to gain access to the mass consumer market, provided an additional USD 18 million.

Intangible assets
by segment –
prior period

Table 8.4

in USD millions, as of December 31,
2012

	Goodwill	PVFP	Distribution agreements	Attorney- in-fact relationships	Software	Other	Total
General Insurance	852	–	713	–	586	76	2,227
Global Life	435	844	3,102	–	403	17	4,801
Farmers	819	–	–	1,025	382	–	2,226
Other Operating Businesses	–	–	–	–	300	–	300
Non-Core Businesses	–	–	–	–	1	–	1
Net carrying value as of December 31, 2012	2,107	844	3,815	1,025	1,670	94	9,555

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9. Restructuring provisions

Table 9

Restructuring provisions	in USD millions	
	2013	2012
As of January 1	297	254
Provisions made during the period	33	21
Increase of provisions set up in prior years	2	18
Provisions used during the period	(80)	(74)
Provisions reversed during the period	(3)	(3)
Foreign currency translation effects	(5)	(2)
As of June 30	244	214

During the six months ended June 30, 2013, the restructuring programs primarily impacted the UK within Global Life with estimated costs of USD 33 million for restructuring announced in the current year. USD 2 million related to increases of provisions for restructuring which were initiated in prior years.

During the six months ended June 30, 2012, the main restructuring programs impacted several European countries within the General Insurance and Global Life operations with estimated costs of USD 21 million for restructuring announced in that year. USD 18 million related to increases of provisions for restructuring which have been initiated in prior years.

10. Income taxes

Table 10.1

in USD millions, for the six months ended June 30		2013	2012
Income tax expense – current/deferred split	Current	771	619
	Deferred	(27)	52
	Total income tax expense	744	671

Table 10.2

in USD millions, for the six months ended June 30		2013	2012
Income tax expense – policyholder/shareholder attribution	Total income tax expense/(benefit) attributable to policyholders	147	22
	Total income tax expense attributable to shareholders	596	649
	Total income tax expense	744	671

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

Table 10.3

in USD millions, for the six months ended June 30		Rate	2013	Rate	2012
Expected and actual income tax expense	Net income before income taxes		2,752		2,917
	less: income tax (expense)/benefit attributable to policyholders		(147)		(22)
	Net income before income taxes attributable to shareholders		2,605		2,895
	Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%	573	22.0%	637
	Increase/(reduction) in taxes resulting from:				
	<i>Tax rate differential in foreign jurisdictions</i>		61		126
	<i>Tax exempt and lower taxed income</i>		(44)		(31)
	<i>Non-deductible expenses</i>		47		34
	<i>Tax losses previously unrecognized or no longer recognized</i>		(1)		7
	<i>Prior year adjustments and other</i>		(39)		(124)
	Actual income tax expense attributable to shareholders	22.9%	596	22.4%	649
	plus: income tax expense/(benefit) attributable to policyholders		147		22
	Actual income tax expense	27.0%	744	23.0%	671

Table 10.3 sets out the factors that cause the actual income tax expense to differ from the expected expense computed by applying the Swiss statutory tax rate of 22.0 percent, which is the rate applicable in the jurisdiction where the ultimate parent company is resident.

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11. Senior and subordinated debt

Table 11.1				
in USD millions, as of		06/30/13	12/31/12	
Senior and subordinated debt	Senior debt			
	Zurich Insurance Company Ltd	3.75% CHF 500 million notes, due September 2013 ⁵	528	545
		2.25% CHF 500 million notes, due July 2017 ⁵	526	543
		2.875% CHF 250 million notes, due July 2021 ⁵	261	269
		2.375% CHF 525 million notes, due November 2018 ⁵	550	568
		1.50% CHF 400 million notes, due June 2019 ^{4,5,6}	415	440
		3.375% EUR 500 million notes, due June 2022 ^{4,5,6}	652	682
	Zurich Finance (Luxembourg) S.A.	3.25% USD 750 million notes, due September 2013 ^{4,5,6}	753	757
	Zurich Finance (USA), Inc.	4.50% EUR 1 billion notes, due September 2014 ^{1,5,6}	1,310	1,333
		6.50% EUR 600 million notes, due October 2015 ^{2,5,6}	779	790
		Euro Commercial Paper Notes	400	400
	Zurich Santander Insurance America S.L.	7.5% EUR 167 million loan, due December 2035	216	220
	Other	Various debt instruments payable in more than 1 year	113	113
		Senior debt	6,503	6,660
		Subordinated debt		
	Zurich Insurance Company Ltd	12.0% EUR 143 million perpetual capital notes ⁵	186	188
		7.5% EUR 425 million notes, due July 2039 ⁵	549	557
		4.25% CHF 700 million perpetual notes ⁵	733	756
		4.625% CHF 500 million perpetual notes ⁵	522	539
		8.25% USD 500 million perpetual capital notes ⁵	495	495
		4.25% EUR 788 million notes, due October 2043 ⁵	1,010	–
	Zurich Finance (UK) plc	6.625% GBP 450 million perpetual notes ^{3,5}	676	723
	Zurich Finance (USA), Inc.	5.75% EUR 500 million notes, due October 2023 ⁵	643	652
		4.5% EUR 418 million notes, due June 2025 ^{4,5,6}	573	705
	ZFS Finance (USA) Trust II	Series II 6.45% USD 700 million Trust Preferred Securities (ECAPS), due December 2065	676	676
	ZFS Finance (USA) Trust V	Series V 6.5% USD 1 billion Trust Preferred Securities, due May 2067	498	498
	Other	Various debt instruments payable in more than 1 year	72	73
		Subordinated debt	6,632	5,861
		Total senior and subordinated debt	13,134	12,521

¹ The bond is part of a qualifying cash flow hedge (80 percent of the total) and fair value hedge (20 percent of the total).

² The bond is part of a qualifying cash flow hedge (100 percent).

³ The holders of these notes benefit from the Replacement Capital Covenant which states that if Series V Fixed/Floating Trust Preferred Securities, issued by ZFS Finance (USA) Trust V, are called before 2047, the Group will issue a replacement debt instrument with terms and provisions that will be as or more equity-like than the replaced notes.

⁴ These bonds are part of qualifying fair value hedges (100 percent).

⁵ Issued under the Group's Euro Medium Term Note Programme (EMTN Programme).

⁶ The Group applied the cash flow hedge methodology to hedge the foreign currency exposure and deferred the attributable basis spreads in shareholders' equity, whereas the fair value hedge methodology was used to hedge the interest rate exposure with changes in the fair value being recorded through the income statement.

None of the debt instruments listed in table 11.1 were in default as of June 30, 2013 or December 31, 2012.

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

i) Senior debt

Senior debt amounted to USD 6,503 million and USD 6,660 million as of June 30, 2013 and December 31, 2012, respectively.

The decrease was due to the translation effects of the U.S. dollar against the currencies in which the notes were issued.

ii) Subordinated debt

Subordinated debt securities are obligations of the Group which, in case of liquidation of the Group, rank junior to all present and future senior indebtedness and certain other obligations of the Group.

Subordinated debt amounted to USD 6,632 million and USD 5,861 million as of June 30, 2013 and December 31, 2012, respectively.

The increase is mainly the result of the 4.25% EUR 788 million notes issued in March 2013 by Zurich Insurance Company Ltd under the Group's EMTN Programme. Simultaneously with this new issuance, investors who held Zurich Finance (USA), Inc. 4.5% EUR 500 million subordinated notes due June 2025, were made an offer to switch part or all of their holdings for this new issue. The total nominal amount of the 2025 notes switched was EUR 82 million for which those investors received EUR 88 million of the new notes. The net increase in debt was partially offset by the translation effects of the U.S. dollar against the currencies in which the notes were issued.

Operational and financial debt

Table 11.2

Indebtedness	in USD millions, as of	Senior debt		Subordinated debt		Total	
		06/30/13	12/31/12	06/30/13	12/31/12	06/30/13	12/31/12
Operational debt		825 ^{1,2}	829 ^{1,2}	28 ²	28 ²	853	857
Financial debt		5,678	5,831	6,604	5,833	12,282	11,664
Total		6,503	6,660	6,632	5,861	13,134	12,521

¹ Operational senior debt included USD 750 million in senior debt issued under the EMTN Programme by Zurich Finance (Luxembourg) S.A. in September 2009, which was loaned directly to the Group's banking activities. During 2012 the entity to which the funds were loaned surrendered its banking license. The debt proceeds continue to finance the same loan portfolio as prior to the license being surrendered. This issue has been recognized as operational debt by Moody's but not by Standard & Poor's.

² In addition, operational senior and subordinated debt included an adjustment of USD 100 million for non-recourse debt.

Consolidated financial statements (unaudited) *continued*

Table 11.3

Description and features of significant subordinated debt	Table 11.3			
	Description	Coupon conditions	Call/ redemption date	Redemption conditions
	12.00% EUR 143 million perpetual capital notes	12.00% payable annually up to July 15, 2014 and then reset quarterly to 3-month EURIBOR plus 10.33%.	Quarterly on or after July 15, 2014	Redeemable in whole at par plus any accrued interest.
	7.5% EUR 425 million notes, due July 2039	7.5% payable annually up to July 24, 2019 and then reset quarterly to 3-month EURIBOR plus 5.85%.	Quarterly on or after July 24, 2019	Redeemable in whole or in part at par plus any accrued interest.
	4.25% CHF 700 million perpetual notes	4.25% payable annually up to May 26, 2016 and then reset quarterly to 3-month CHF-Libor plus 3.046%.	Quarterly on or after May 26, 2016	Redeemable in whole or in part at par plus any accrued interest.
	4.625% CHF 500 million perpetual notes	4.625% payable annually up to May 16, 2018 and then reset to the prevailing 7 year CHF mid swap rate plus 2.691%.	Annually on or after May 16, 2018	Redeemable in whole or in part at par plus any accrued interest.
	8.25% USD 500 million perpetual capital notes	8.25% per annum payable quarterly until January 18, 2018. Resets to the 6-Year USD mid swap rate plus 6.84% until January 18, 2024. Resets thereafter every 6 years to the 6-Year USD mid swap rate plus 7.84%.	Quarterly on or after January 18, 2018	Redeemable in whole or in part at par plus any accrued interest.
	4.25% EUR 788 million notes, due October 2043	4.25% payable annually up to October 02, 2023 and then reset quarterly to 3-month EURIBOR plus 3.45%.	Quarterly on or after October 2, 2023	Redeemable in whole or in part at par plus any accrued interest.
	6.625% GBP 450 million perpetual notes	6.625% payable annually up to October 2, 2022 and then reset every 5 years to the reset rate of interest plus 2.85%. ¹	Every five years on or after October 2, 2022	Redeemable in whole every five years at par plus any accrued interest.
	5.75% EUR 500 million notes, due October 2023	5.75% payable annually up to October 2, 2013 and then reset quarterly to 3-month EURIBOR plus 2.67%.	Quarterly on or after October 2, 2013	Redeemable in whole at par plus any accrued interest.
	4.5% EUR 418 million notes, due June 2025	4.5% payable annually up to June 15, 2015 and then reset quarterly to 3-month EURIBOR plus 2.20%.	Quarterly on or after June 15, 2015	Redeemable in whole at par plus any accrued interest.
	Series II 6.45% USD 700 million Fixed/Adjustable Trust Preferred Securities (ECAPS), due December 2065	6.45% payable semi-annually until June 15, 2016 and then reset quarterly to the adjustable rate plus 2.00%. ²	Quarterly on or after June 15, 2016	Redeemable in whole or in part at par plus any accrued interest.
	Series V 6.5% USD 1 billion Fixed/Floating Trust Preferred Securities, due May 2067	6.5% payable semi-annually until May 9, 2017 and then reset quarterly to 3-month LIBOR plus 2.285%.	Quarterly on or after May 9, 2017	Redeemable in whole or in part at par plus any accrued interest.

¹ Reset rate of interest is equal to the gross redemption yield on the benchmark five-year gilt as determined by the Calculation Bank.

² Adjustable rate is equal to the greatest of (i) the 3-month LIBOR Rate; (ii) the 10-year Treasury CMT (Constant Maturity Treasury) Rate; and (iii) the 30-year Treasury CMT Rate, subject to a maximum under (ii) and (iii) of 13% for Series II.

Maturity schedule of outstanding debt

	06/30/13		12/31/12	
	Carrying value	Undiscounted cash flows	Carrying value	Undiscounted cash flows
< 1 year	1,681	2,271	1,702	2,299
1 to 2 years	1,445	1,959	1,356	1,907
2 to 3 years	779	1,221	902	1,371
3 to 4 years	–	375	–	429
4 to 5 years	526	928	543	934
5 to 10 years	2,575	4,416	2,705	4,340
> 10 years	6,129	8,751	5,313	7,418
Total	13,134	19,922	12,521	18,698

Debt maturities reflect original contractual dates without taking early redemption options into account. For call/redemption dates, see table 11.3. The total notional amount of debt due in each period is not materially different from the total carrying value disclosed in table 11.4. Undiscounted cash flows included interest and principal cash flows on debt outstanding as of June 30, 2013 and December 31, 2012. All debt is assumed to mature within 20 years of the balance sheet date without refinancing. Floating interest rates are assumed to remain constant as of June 30, 2013 and December 31, 2012. The aggregated cash flows are translated into U.S. dollars at end-of-period rates.

Interest expense on debt

	2013	2012
Senior debt	103	117
Subordinated debt	186	176
Total	290	293

Interest expense on debt amounted to USD 290 million and USD 293 million for the six months ended June 30, 2013 and 2012, respectively.

The lower interest expense on senior debt was mainly due to the maturity of the 4.875% EUR 800 million notes in April 2012. This reduction was partially offset by the issuance of two new senior notes under the EMTN Programme in June 2012.

Credit facilities

The Group has access to a multicurrency revolving credit facility of USD 3.2 billion that terminates in 2018 at the latest. It is guaranteed by Zurich Insurance Company Ltd.

In addition, the Group has access to four other revolving credit facilities totaling USD 441 million, of which USD 336 million will expire in 2014 and USD 75 million in 2015. No borrowings were outstanding under any of these facilities as of June 30, 2013 or December 31, 2012.

Consolidated financial statements (unaudited) *continued*

12. Earnings per share

Earnings per share		Net income attributable to common shareholders (in USD millions)	Weighted average number of shares	Per share (USD)	Per share (CHF) ¹
Table 12 for the six months ended June 30					
2013					
Basic earnings per share		1,851	147,240,918	12.57	11.77
Effect of potentially dilutive shares related to share-based compensation plans			809,176	(0.07)	(0.06)
Diluted earnings per share		1,851	148,050,094	12.50	11.70
2012					
Basic earnings per share		2,227	146,402,512	15.21	14.12
Effect of potentially dilutive shares related to share-based compensation plans			759,002	(0.08)	(0.07)
Diluted earnings per share		2,227	147,161,514	15.13	14.05

¹ The translation from USD to CHF is shown for information purposes only and has been calculated at the Group's average exchange rates for the six months ended June 30, 2013 and 2012, respectively.

13. Legal proceedings and regulatory investigations

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

An action entitled Fuller-Austin Asbestos Settlement Trust, et al. v. Zurich American Insurance Company (ZAIC), et al., was filed in May 2004 in the Superior Court for San Francisco County, California. Three other similar actions were filed in 2004 and 2005 and have been coordinated with the Fuller-Austin action (collectively, the Fuller-Austin Case). In addition to ZAIC and four of its insurance company subsidiaries, Zurich Insurance Company Ltd and Orange Stone Reinsurance Dublin (Orange Stone) are named as defendants. The plaintiffs, who are historical policyholders of the Home Insurance Company (Home), plead claims for, inter alia, fraudulent transfer, tortious interference, unfair business practices, alter ego and agency liability relating to the recapitalization of Home, which occurred in 1995 following regulatory review and approval. The plaintiffs allege that pursuant to the recapitalization and subsequent transactions, various Zurich entities took assets of Home without giving adequate consideration in return, and contend that this forced Home into liquidation. The plaintiffs further allege that the defendants should be held responsible for Home's alleged obligations under their Home policies. The trial judge designated the plaintiffs' claims for constructive fraudulent transfer for adjudication before all other claims; he subsequently ordered an initial bench trial on certain threshold elements of those fraudulent transfer claims and on certain of defendants' affirmative defenses. The trial commenced on November 1, 2010. Closing arguments were heard on February 22 and 23, 2012, and a decision on these threshold elements and affirmative defenses is pending. The Group maintains that the Fuller-Austin Case is without merit and intends to continue to defend itself vigorously.

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

Consolidated financial statements (unaudited) *continued*

14. Fair value of financial assets and financial liabilities

The Group implemented IFRS 13 "Fair Value Measurement" effective January 1, 2013 (see note 1), which affects fair value hierarchy disclosures, including requirements for interim reporting. IFRS 13 provides guidance on the measurement of fair value and requires disclosures about fair value measurements to increase transparency. It does not require any new measurements of assets or liabilities at fair value.

In determining the fair values of debt and equity instruments, the Group makes extensive use of third party pricing providers and, only in rare cases, places reliance on prices that are derived from internal models. One of the objectives of the Group's control environment and the process of selection of pricing providers is to ensure that fair values of investments are sourced only from independent, reliable and reputable third party pricing providers that have proper processes and controls in place to guarantee that the price quality meets the Group's standards.

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

Tables 14.1a and 14.1b compare the fair value of financial assets and financial liabilities with their carrying value.

Fair value (FV) and carrying value of financial assets and financial liabilities – Group investments and other non unit-linked

Table 14.1a

in USD millions, as of

	Total fair value		Total carrying value	
	06/30/13	12/31/12	06/30/13	12/31/12
Cash and cash equivalents	8,432	9,098	8,432	9,098
Available-for-sale securities				
Debt securities	139,558	141,597	139,558	141,597
Equity securities	7,599	8,796	7,599	8,796
Total available-for-sale securities	147,157	150,392	147,157	150,392
Securities at FV through profit or loss				
Trading				
Debt securities	44	48	44	48
Equity securities	372	410	372	410
Designated at FV				
Debt securities	8,035	8,937	8,035	8,937
Equity securities	2,971	3,135	2,971	3,135
Total securities at FV through profit or loss	11,421	12,530	11,421	12,530
Derivative assets	1,341	1,750	1,341	1,750
Held-to-maturity debt securities	5,235	5,745	4,666	5,012
Investments in associates and joint ventures	98	85	98	85
Loans and receivables				
Mortgage loans	10,315	11,298	9,738	10,519
Other loans	13,997	15,857	12,275	13,385
Deposits made under assumed reinsurance contracts	2,553	2,583	2,560	2,588
Receivables	14,297	13,611	14,363	13,642
Total loans and receivables	41,161	43,349	38,936	40,134
Total financial assets	214,845	222,949	212,052	219,002
Derivative liabilities	(673)	(537)	(673)	(537)
Financial liabilities held at amortized cost:				
Liabilities related to investment contracts	(1,263)	(1,540)	(1,098)	(1,305)
Liabilities related to investment contracts with DPF	(5,616)	(5,663)	(5,878)	(5,903)
Senior debt	(6,794)	(7,180)	(6,503)	(6,660)
Subordinated debt	(7,071)	(6,379)	(6,632)	(5,861)
Deposits received under ceded reinsurance contracts	(1,207)	(1,482)	(1,291)	(1,558)
Other financial liabilities	(2,499)	(2,750)	(2,499)	(2,750)
Obligation to repurchase securities	(1,388)	(1,539)	(1,388)	(1,539)
Total financial liabilities	(26,510)	(27,070)	(25,961)	(26,113)

Table 14.1b

in USD millions, as of

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

	Total fair value		Total carrying value	
	06/30/13	12/31/12	06/30/13	12/31/12
Cash and cash equivalents	1,292	1,110	1,292	1,110
Investments at FV through profit or loss				
Designated at FV				
Debt securities	11,549	11,646	11,549	11,646
Equity securities	98,984	99,478	98,984	99,478
Other loans	6,729	8,279	6,729	8,279
Total investments at FV through profit or loss	117,261	119,403	117,261	119,403
Derivative assets	82	62	82	62
Total financial assets	118,636	120,574	118,636	120,574
Financial liabilities at FV through profit or loss				
Designated at FV				
Liabilities related to unit-linked investment contracts	(51,243)	(50,229)	(51,243)	(50,229)
Derivative liabilities	(5)	(5)	(5)	(5)
Total financial liabilities	(51,248)	(50,234)	(51,248)	(50,234)

Consolidated financial statements (unaudited) *continued*

All of the Group's financial assets and financial liabilities are initially recorded at fair value. Subsequently, available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss, and derivative financial instruments are carried at fair value as of the balance sheet date. All other financial instruments are carried at amortized cost, with their fair values disclosed in tables 14.1a and 14.1b. Their valuation techniques are described below.

Certain financial instruments are carried at nominal value which represents a reasonable estimate of fair value as these positions are readily convertible to known amounts of cash and subject to insignificant risk of changes in fair value. Such instruments include cash and cash equivalents, receivables, obligations to repurchase securities and other short-term financial assets and financial liabilities.

Fair values of held-to-maturity debt securities 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.

Discounted cash flow models are used for mortgage and other loans as well as long-term receivables. The discount yields in these models use either current interest rates charged by the Group on these instruments or calculated rates that reflect the return a market participant would expect to receive on instruments with similar remaining maturities, cash flow patterns, currencies, credit risk, collateral and interest rates.

Fair values of debt instruments issued by the Group are estimated using discounted cash flow models based on the Group's current incremental borrowing rates for similar types of borrowings, with maturities consistent with those remaining for the debt instruments being valued.

Fair values of liabilities related to other investment contracts are determined using discounted cash flow models that incorporate a variety of factors, including credit risk, embedded derivatives (such as unit-linking features), volatility factors (including contract holder behavior), servicing costs and surrenders.

Recurring fair value measurements of financial assets and financial liabilities

Table 14.2a

in USD millions, as of June 30, 2013

	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Debt securities	831	136,100	2,628	139,558
Equity securities	6,282	366	951	7,599
Total available-for-sale securities	7,113	136,466	3,578	147,157
Securities at FV through profit or loss				
Trading				
Debt securities	–	43	–	44
Equity securities	–	40	332	372
Designated at FV				
Debt securities	80	7,740	214	8,035
Equity securities	1,205	252	1,514	2,971
Total securities at FV through profit or loss	1,286	8,075	2,060	11,421
Derivative assets	11	1,306	24	1,341
Total	8,410	145,847	5,662	159,919
Derivative liabilities	–	(672)	–	(673)
Total	–	(672)	–	(673)

Fair value hierarchy –
Group investments
and other non
unit-linked

Fair value hierarchy – unit-linked

Table 14.2b

in USD millions, as of June 30, 2013

	Level 1	Level 2	Level 3	Total
Investments at FV through profit or loss				
Designated at FV				
Debt securities	1,616	9,852	81	11,549
Equity securities	68,526	30,405	53	98,984
Other loans	–	6,729	–	6,729
Total investments at FV through profit or loss	70,141	46,986	134	117,261
Derivative assets	–	82	–	82
Total	70,141	47,068	134	117,344
Financial liabilities at FV through profit or loss				
Designated at FV				
Liabilities related to unit-linked investment contracts	(315)	(50,928)	–	(51,243)
Derivatives liabilities	–	(4)	(1)	(5)
Total	(315)	(50,932)	(1)	(51,248)

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

Level 1 – includes assets and liabilities for which fair values are determined directly from unadjusted current quoted prices resulting from orderly transactions in active markets for identical assets/liabilities. Within level 1, the Group has classified common stocks, exchange traded derivative financial instruments, investments in unit trusts that are actively traded in an exchange market and highly liquid debt securities.

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. Within level 2, the Group has classified government and corporate bonds, investments in unit trusts, and investments in agency-backed and senior tranches of asset-backed securities where quotes are obtained from independent pricing providers. The fair value received from these pricing providers may be based on quoted prices in an active market for similar assets, alternative pricing methods such as matrix pricing or an income approach employing discounted cash flow models. If such quoted prices are not available, then fair values are estimated on the basis of information from external pricing providers or internal pricing models (for example, discounted cash flow models or other recognized valuation techniques). Upon adoption of IFRS 13, the Group elected to classify certain government and corporate debt within level 2, which were previously within level 1. While these debt securities may qualify for level 1 classification based on ordinary transactions in identical instruments, it has been assumed, as a practical expedient, that such instruments would predominantly be valued based on a mix of observable inputs.

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

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

Level 3 – includes assets and liabilities for which fair values are determined using valuation techniques with at least one significant input not being based on observable market data. This approach is used only in circumstances when there is little, if any, market activity for a certain instrument, and the Group is required to develop internal valuation inputs based on the best information available about the assumptions that market participants would use when pricing the asset or liability. This would normally apply in the case of private equity funds, asset-backed securities for which very limited market activity is currently observed, long-dated derivative financial instruments as well as equity and debt securities from organizations in default.

Consolidated financial statements (unaudited) *continued*

The effect of changes in the internal valuation inputs to reasonably possible alternative values are disclosed in tables 14.4 and 14.5.

The Group holds certain asset classes that are not actively traded, in particular certain hedge funds and private equity investments. Fair values of such instruments are obtained from net asset value information and audited financial statements provided by the issuing hedge funds and private equity funds. Such instruments are classified within level 3. Performance of these investments and determination of their fair value are monitored closely by the Group's in-house investment professionals.

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

For the six months ended June 30, 2013, no material transfers between level 1 and level 2 occurred.

Table 14.3a

Development of financial instruments classified within level 3 – Group investments and other non unit-linked

in USD millions	Available-for-sale securities		Securities at FV through profit or loss			Derivative assets
			Trading	Designated at FV		
	Debt securities	Equity securities	Equity securities	Debt securities	Equity securities	
As of January 1, 2013	2,788	917	367	246	1,260	30
Realized gains/(losses) recognized in income ¹	23	16	(3)	(1)	–	–
Unrealized gains/(losses) recognized in income ^{1,2}	(2)	(1)	24	2	110	(5)
Unrealized gains/(losses) recognized in other comprehensive income	(34)	55	–	–	–	–
Purchases	496	68	15	–	729	–
Settlements/sales/redemptions	(641)	(92)	(60)	(21)	(581)	–
Transfers into level 3	59	–	–	–	–	–
Transfers out of level 3	(5)	–	–	–	–	–
Foreign currency translation effects	(57)	(13)	(10)	(12)	(5)	(1)
As of June 30, 2013	2,628	951	332	214	1,514	24

¹ Presented as net capital gains/(losses) and impairments on Group investments in the consolidated income statements.

² Unrealized gains/(losses) recognized in income for available-for-sale securities relate to impairments. Unrealized gains/(losses) recognized in income for securities at fair value through profit or loss relate to net capital gains/(losses) and impairments.

For the six months ended June 30, 2013, the Group transferred USD 59 million of available-for-sale debt securities into level 3. The transfers were mainly the result of higher price volatility and credit rating downgrades of certain asset-backed securities, resulting in a reduction of market activity in the instruments.

Development of financial instruments classified within level 3 – unit-linked

Table 14.3b
in USD millions

	Securities at FV through profit or loss	
	Debt securities	Equity securities
As of January 1, 2013	109	2,663
Realized gains/(losses) recognized in income ¹	1	6
Unrealized gains/(losses) recognized in income ¹	(7)	(4)
Purchases	–	61
Sales/redemptions	(16)	(30)
Transfers into Level 3	1	–
Transfers out of Level 3	–	(2,641)
Foreign currency translation effects	(7)	(1)
As of June 30, 2013	81	53

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

For the six months ended June 30, 2013, the Group transferred USD 2,641 million of equity securities at fair value through profit or loss 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 financial assets and financial liabilities

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

For the six months ended June 30, 2013, the Group has valued USD 607 million of mortgage loans at fair value on a non-recurring basis. The fair value measurement is classified within level 3 as it is based on internal pricing models, using significant unobservable inputs.

Consolidated financial statements (unaudited) *continued*

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

Within level 3, the Group classified asset-backed securities (ABSs) amounting to USD 2,842 million and USD 81 million for Group investments and investments for unit-linked contracts, respectively, as of June 30, 2013. These ABSs include non-agency backed securities for which limited observable market activity required the Group's external pricing providers to make internal valuation assumptions. To determine the fair value of these investments, pricing providers use valuation models that are based on an expected present value technique.

Within level 3, the Group also classified investments in private equity funds, certain hedge funds and other securities which are not quoted on an exchange amounting to USD 2,796 million and USD 53 million for Group investments and investments for unit-linked contracts, respectively, as of June 30, 2013. 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 table 14.4. While this table illustrates the overall effect of changing the values of the unobservable inputs by a set percentage, the significance of the impact and the range of reasonably possible alternative assumptions may differ significantly between investments, given their different terms and circumstances. Inter-relationships between those unobservable inputs are disclosed in table 14.5. The correlation is based on the historical correlation matrix derived from the risk factors which are assigned to each of the level 3 exposures (equity and debt securities). The main market drivers are equity markets and rate indicators and the impact of such changes on the other factors. The spread scenario has been added to analyze the impact of an increase of borrowing cost for entities.

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

Table 14.4

Sensitivity analysis of level 3 investments to changes in key assumptions

as of June 30, 2013	Less favorable values (relative change)	Decrease of reported fair value (in USD millions)	More favorable values (relative change)	Increase of reported fair value (in USD millions)
Key assumptions				
Equity levels	-20%	(569)	+20%	569
Discount rates	+20%	(69)	-20%	70
Spread rates	+20%	(61)	-20%	62
Prepayment rates	-20%	(2)	+20%	2

Table 14.5

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

as of June 30, 2013	Key assumptions				Increase/ decrease of reported fair value (in USD millions)
	Equity Levels	Discount Rates	Spread rates	Prepayment rates	
Scenarios					
Equity levels +10%	+10.0%	+1.4%	+1.3%	+1.3%	284
Equity levels -10%	-10.0%	-1.5%	-1.5%	-1.5%	(283)
Discount rates +10%	0.0%	+10.0%	+15.0%	-2.0%	(80)
Discount rates -10%	0.0%	-10.0%	-7.5%	+2.0%	67
Spread rates +10%	+0.1%	+7.0%	+10.0%	+0.2%	(56)

15. Related party transactions

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

Table 15 sets out related party transactions with equity method accounted investments, recognized in the consolidated income statements and consolidated balance sheets.

Table 15			
in USD millions			
for the six months ended June 30			
		2013	2012
Related party transactions included in the Consolidated financial statements	Net earned premiums and policy fees	2	7
	Net investment result on Group investments	5	3
	Insurance benefits and losses, net of reinsurance	(4)	(8)
	Administrative and other operating expense	(1)	(1)
as of			
		06/30/13	12/31/12
	Other loans	16	18
	Deposits made under assumed reinsurance contracts	3	4
	Receivables and other assets	2	5
	Reserves for insurance contracts	(13)	(11)
	Other liabilities	(1)	(1)

Consolidated financial statements (unaudited) *continued*

16. Segment information

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

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

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

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

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

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

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

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

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

- Global Corporate
- North America Commercial
- Europe
- Latin America
- Asia-Pacific
- Middle East and Africa

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

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

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

The segment information includes the Group's internal performance measure, business operating profit (BOP). This measure is the basis on which business units are managed. It indicates the underlying performance of the business units by eliminating the impact of financial market volatility and other non-operational variables. BOP reflects adjustments for shareholders' taxes, net capital gains on investments and impairments (except for the capital markets and property lending/banking operations included in Non-Core Businesses and investments in hedge funds, certain securities held for specific economic hedging purposes and policyholders' share of investment results for the life businesses), non-operational foreign exchange movements, and significant items arising from special circumstances, including restructuring charges, charges for litigation outside the ordinary course of business and gains and losses on divestments of businesses.

Consolidated financial statements (unaudited) *continued*

Table 16.1

in USD millions, for the six months ended June 30

Business operating
profit by business
segment

	General Insurance		Global Life	
	2013	2012	2013	2012
Revenues				
Direct written premiums ¹	18,702	18,042	5,730	5,338
Assumed written premiums	1,068	1,112	52	45
Gross Written Premiums	19,770	19,153	5,782	5,383
Policy fees	–	–	1,150	1,296
Gross written premiums and policy fees	19,770	19,153	6,931	6,679
Less premiums ceded to reinsurers	(3,314)	(3,045)	(348)	(359)
Net written premiums and policy fees	16,456	16,108	6,583	6,320
Net change in reserves for unearned premiums	(1,993)	(1,890)	(250)	(216)
Net earned premiums and policy fees	14,464	14,218	6,334	6,105
Farmers management fees and other related revenues	–	–	–	–
Net investment result on Group investments	1,182	1,346	2,240	2,206
Net investment income on Group investments	1,127	1,323	1,990	2,009
Net capital gains/(losses) and impairments on Group investments	55	23	249	197
Net investment result on unit-linked investments	–	–	5,805	3,587
Other income	437	493	549	502
Total BOP revenues	16,082	16,057	14,928	12,399
<i>of which: inter-segment revenues</i>	<i>(184)</i>	<i>(251)</i>	<i>(174)</i>	<i>(178)</i>
Benefits, losses and expenses				
Insurance benefits and losses, net ¹	9,914	9,602	4,493	4,623
Losses and loss adjustment expenses, net	9,915	9,605	–	22
Life insurance death and other benefits, net ¹	(1)	(4)	4,493	4,600
Policyholder dividends and participation in profits, net	2	2	6,496	4,120
Income tax expense/(benefit) attributable to policyholders	–	–	147	22
Underwriting and policy acquisition costs, net	2,790	2,770	1,359	1,341
Administrative and other operating expense (excl. depreciation/amortization)	1,744	1,809	1,210	1,156
Interest credited to policyholders and other interest	14	6	248	192
Restructuring provisions and other items not included in BOP	(15)	(10)	(41)	(31)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	14,448	14,178	13,912	11,424
Business operating profit (before interest, depreciation and amortization)	1,634	1,879	1,016	975
Depreciation and impairments of property and equipment	43	50	15	16
Amortization and impairments of intangible assets	102	94	196	243
Interest expense on debt	74	80	11	9
Business operating profit before non-controlling interests	1,415	1,657	794	708
Non-controlling interests	46	21	135	49
Business operating profit	1,369	1,636	659	659

¹ Global Life includes approximately USD 234 million and USD 342 million of gross written premiums and future life policyholders' benefits for certain universal life-type contracts in the Group's Spanish operations for the six months ended June 30, 2013 and 2012, respectively (see note 3 of the Consolidated financial statements 2012).

	Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	-	-	-	-	57	53	-	-	24,489	23,433
	2,034	2,211	62	67	46	58	(95)	(103)	3,166	3,389
	2,034	2,211	62	67	102	111	(95)	(103)	27,654	26,821
	-	-	-	-	127	126	-	-	1,277	1,422
	2,034	2,211	62	67	230	236	(95)	(103)	28,932	28,243
	-	-	(25)	(27)	(22)	(12)	95	103	(3,613)	(3,340)
	2,034	2,211	37	40	208	225	-	-	25,319	24,903
	19	(15)	-	-	-	1	-	-	(2,223)	(2,119)
	2,053	2,195	37	40	208	226	-	-	23,095	22,784
	1,408	1,420	-	-	-	-	-	-	1,408	1,420
	54	65	167	219	(291)	306	(304)	(359)	3,047	3,783
	54	65	167	219	154	219	(304)	(359)	3,187	3,476
	-	-	-	-	(445)	87	-	-	(140)	307
	-	-	-	-	(169)	378	-	-	5,636	3,964
	37	40	381	441	55	51	(613)	(732)	846	794
	3,551	3,720	585	700	(197)	960	(917)	(1,092)	34,031	32,745
	(32)	(35)	(505)	(598)	(22)	(30)	917	1,092	-	-
	1,468	1,688	32	35	(138)	241	-	-	15,769	16,188
	1,468	1,688	-	-	17	2	3	(2)	11,404	11,316
	-	-	32	35	(155)	239	(3)	2	4,366	4,872
	-	-	-	-	(180)	441	-	-	6,318	4,562
	-	-	-	-	-	-	-	-	147	22
	644	687	-	-	4	4	(5)	(2)	4,792	4,801
	682	661	525	563	40	87	(581)	(720)	3,620	3,555
	-	-	2	4	47	62	(11)	(2)	299	262
	(6)	11	(70)	4	1	-	-	-	(131)	(26)
	2,788	3,047	489	606	(226)	834	(597)	(724)	30,814	29,365
	763	674	95	94	28	126	(320)	(368)	3,217	3,380
	24	28	7	9	-	1	-	-	90	103
	42	48	36	30	-	-	-	-	377	414
	-	1	513	540	11	31	(320)	(368)	290	293
	696	597	(461)	(485)	17	94	-	-	2,461	2,570
	-	-	(8)	(13)	-	-	-	-	173	57
	696	597	(453)	(472)	17	93	-	-	2,288	2,512

Consolidated financial statements (unaudited) *continued*

Table 16.2

in USD millions, for the six months ended June 30

Reconciliation of BOP to net income after income taxes

	General Insurance		Global Life	
	2013	2012	2013	2012
Business operating profit	1,369	1,636	659	659
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	252	181	34	152
Net gain/(loss) on divestments of businesses	–	1	–	–
Restructuring provisions	(5)	(20)	(21)	(16)
Net income/(expense) on intercompany loans	(6)	(15)	(1)	(1)
Other adjustments	(5)	25	(19)	(13)
Add back:				
Business operating profit attributable to non-controlling interests	46	21	135	49
Net income before shareholders' taxes	1,652	1,828	787	829
Income tax expense/(benefit) attributable to policyholders	–	–	147	22
Net income before income taxes	1,652	1,828	935	851
Income tax expense				
attributable to policyholders				
attributable to shareholders				
Net income after taxes				
attributable to non-controlling interests				
attributable to shareholders				

¹ Includes USD 77 million release of non-operational foreign exchange relating to the closure of a branch office.

	Farmers		Other Operating Businesses		Non-Core Businesses		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
	696	597	(453)	(472)	17	93	2,288	2,512
	-	18	(14)	(17)	3	17	276	351
	-	-	-	-	-	-	-	1
	(6)	-	1	-	-	-	(32)	(36)
	-	-	7	16	-	-	-	-
	-	11	(78) ¹	(12)	1	-	(100)	10
	-	-	(8)	(13)	-	-	173	57
	690	626	(546)	(498)	21	111	2,605	2,895
	-	-	-	-	-	-	147	22
	690	626	(546)	(498)	21	111	2,752	2,917
							(744)	(671)
							(147)	(22)
							(596)	(649)
							2,008	2,247
							157	20
							1,851	2,227

Consolidated financial statements (unaudited) *continued*

Table 16.3

Assets and liabilities by business segment	General Insurance		Global Life	
	06/30/13	12/31/12	06/30/13	12/31/12
in USD millions, as of				
Assets				
Total Group Investments	86,659	89,557	109,633	113,305
Cash and cash equivalents	10,337	10,795	3,523	3,096
Equity securities	5,339	5,716	3,890	4,467
Debt securities	63,577	65,556	77,836	79,626
Real estate held for investment	2,770	2,827	4,915	5,334
Mortgage loans	1,416	1,460	7,383	7,934
Other loans	3,213	3,197	12,003	12,779
Investments in associates and joint ventures	7	7	82	69
Investments for unit-linked contracts	–	–	109,953	112,036
Total investments	86,659	89,557	219,586	225,340
Reinsurers' share of reserves for insurance contracts	13,638	13,901	1,960	1,983
Deposits made under assumed reinsurance contracts	53	46	24	29
Deferred policy acquisition costs	3,701	3,543	14,368	14,466
Deferred origination costs	–	–	708	770
Goodwill	805	852	422	435
Other intangible assets	1,303	1,375	4,084	4,366
Other assets ¹	15,993	15,642	7,014	6,669
Total assets (after cons. of investments in subsidiaries)	122,152	124,916	248,166	254,059
Liabilities				
Liabilities for investment contracts	–	–	58,219	57,437
Reserves for insurance contracts, gross	82,179	82,693	152,934	158,533
Reserves for losses and loss adjustment expenses, gross	64,257	66,542	–	–
Reserves for unearned premiums, gross	17,798	16,023	–	–
Future life policyholders' benefits, gross	93	96	76,895	78,718
Policyholders' contract deposits and other funds, gross	31	32	17,033	17,572
Reserves for unit-linked contracts, gross	–	–	59,005	62,243
Senior debt	6,790	6,625	526	289
Subordinated debt	183	617	332	334
Other liabilities	13,771	13,967	17,287	17,447
Total liabilities	102,923	103,901	229,298	234,040
Equity				
Shareholders' equity				
Non-controlling interests				
Total equity				
Total liabilities and equity				
Supplementary information				
Additions and capital improvements to property, equipment and intangible assets	125	331	60	150

¹ As of June 30, 2013 General Insurance included assets held for sale amounting to USD 13 million relating to land and buildings formerly classified as real estate held for investment. As of December 31, 2012 General Insurance, Global Life and Farmers included assets held for sale amounting to USD 36 million, USD 22 million and USD 33 million, respectively, relating to land and buildings formerly classified as real estate held for investment and General Insurance also included assets held for sale amounting to USD 10 million, relating to land and buildings formerly classified as real estate held for own use.

	Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
	06/30/13	12/31/12	06/30/13	12/31/12	06/30/13	12/31/12	06/30/13	12/31/12	06/30/13	12/31/12
	3,728	3,881	18,906	18,503	11,349	13,120	(28,406)	(28,785)	201,869	209,582
	303	377	8,672	8,562	2,052	2,518	(16,455)	(16,249)	8,432	9,098
	97	96	1,378	1,686	238	376	–	–	10,942	12,341
	1,217	1,274	5,878	4,707	5,567	6,250	(1,772)	(1,819)	152,302	155,594
	96	101	46	43	254	256	–	–	8,082	8,561
	–	–	–	–	939	1,125	–	–	9,738	10,519
	2,016	2,033	2,924	3,498	2,298	2,595	(10,179)	(10,717)	12,275	13,385
	–	–	9	9	1	1	–	–	98	85
	–	–	–	–	11,720	11,877	–	–	121,673	123,913
	3,728	3,881	18,906	18,503	23,069	24,998	(28,406)	(28,785)	323,542	333,496
	–	–	–	–	3,374	4,042	(126)	(174)	18,846	19,753
	2,317	2,319	–	–	166	194	–	–	2,560	2,588
	332	337	–	–	–	–	–	–	18,401	18,346
	–	–	–	–	–	–	–	–	708	770
	819	819	–	–	–	–	–	–	2,046	2,107
	1,385	1,407	279	300	–	1	–	–	7,052	7,448
	1,033	1,071	1,696	1,717	1,217	1,347	(2,012)	(2,122)	24,941	24,324
	9,614	9,834	20,881	20,520	27,826	30,583	(30,544)	(31,081)	398,096	408,831
	–	–	–	–	–	–	–	–	58,219	57,437
	2,803	2,841	41	36	20,039	21,303	(126)	(174)	257,869	265,233
	1,560	1,580	27	27	1,483	1,969	(79)	(131)	67,248	69,986
	1,243	1,262	4	4	20	20	(7)	(9)	19,057	17,300
	–	–	10	6	4,459	5,020	(40)	(33)	81,418	83,807
	–	–	–	–	2,357	2,420	–	–	19,421	20,024
	–	–	–	–	11,720	11,874	–	–	70,725	74,117
	68	214	23,729	24,398	2,496	2,554	(27,106)	(27,421)	6,503	6,660
	–	–	6,560	5,788	23	23	(467)	(901)	6,632	5,861
	1,279	1,318	2,413	1,925	3,730	4,695	(2,845)	(2,586)	35,635	36,766
	4,149	4,373	32,743	32,148	26,287	28,576	(30,544)	(31,081)	364,857	371,957
									30,923	34,505
									2,316	2,369
									33,238	36,874
									398,096	408,831
	47	120	21	150	2	–	–	–	256	751

Consolidated financial statements (unaudited) *continued*

Table 16.4

in USD millions, for the six months ended June 30

General Insurance –
Customer segment
overview

	Global Corporate		North America Commercial	
	2013	2012	2013	2012
Gross written premiums and policy fees	5,192	4,720	5,318	5,069
Net earned premiums and policy fees	2,904	2,702	3,611	3,590
Insurance benefits and losses, net	2,077	1,905	2,530	2,379
Policyholder dividends and participation in profits, net	–	–	2	2
Total net technical expenses	536	540	997	1,041
Net underwriting result	291	258	82	169
Net investment income	251	303	328	445
Net capital gains/(losses) and impairments on investments	16	5	39	15
Net non-technical result (excl. items not included in BOP)	(79)	(68)	(84)	(112)
Business operating profit before non-controlling interests	479	498	365	517
Non-controlling interests	–	–	–	–
Business operating profit	479	499	365	517
Ratios, as % of net earned premiums and policy fees				
Loss ratio	71.5%	70.5%	70.1%	66.3%
Expense ratio	18.5%	20.0%	27.7%	29.0%
Combined ratio	90.0%	90.5%	97.7%	95.3%

	Europe		International Markets		GI Global Functions including Group Reinsurance		Eliminations		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	6,659	6,924	2,888	2,653	205	174	(492)	(387)	19,770	19,153
	5,719	5,918	2,227	2,003	3	4	–	–	14,464	14,218
	3,945	4,076	1,372	1,244	(10)	(3)	–	–	9,914	9,602
	–	–	–	–	–	–	–	–	2	2
	1,506	1,556	862	745	3	3	4	(4)	3,908	3,882
	267	285	(6)	14	9	4	(4)	4	640	733
	370	409	139	135	39	32	(1)	(1)	1,127	1,323
	1	–	–	3	–	–	–	–	55	23
	(203)	(173)	7	(69)	(54)	3	5	(2)	(407)	(423)
	436	520	140	83	(5)	38	–	–	1,415	1,657
	7	1	39	21	–	–	–	–	46	21
	429	520	101	62	(5)	38	–	–	1,369	1,636
	69.0%	68.9%	61.6%	62.1%	nm	nm	n/a	n/a	68.5%	67.5%
	26.3%	26.3%	38.7%	37.2%	nm	nm	n/a	n/a	27.0%	27.3%
	95.3%	95.2%	100.3%	99.3%	nm	nm	n/a	n/a	95.6%	94.8%

Consolidated financial statements (unaudited) *continued*

Table 16.5

in USD millions, for the six months ended June 30

General Insurance –
Revenues by region

	Gross written premiums and policy fees from external customers		of which Global Corporate	
	2013	2012	2013	2012
North America				
United States	6,687	6,190		
Canada	489	483		
Bermuda	5	4		
North America	7,180	6,678	1,956	1,688
Europe				
United Kingdom	1,996	1,976		
Germany	1,923	2,018		
Switzerland	2,228	2,229		
Italy	933	942		
Spain	789	834		
Rest of Europe	1,508	1,504		
Europe	9,377	9,504	2,652	2,519
Latin America				
Argentina	208	181		
Brazil	572	425		
Chile	135	181		
Mexico	365	248		
Venezuela	87	91		
Rest of Latin America	19	16		
Latin America	1,387	1,141	–	–
Asia-Pacific				
Australia	649	621		
Hong Kong	114	104		
Japan	364	402		
Taiwan	67	67		
Rest of Asia-Pacific	226	204		
Asia-Pacific	1,421	1,398	299	310
Middle East	108	119	81	77
Africa				
South Africa	223	237		
Morocco	73	72		
Africa	296	310	26	11
Total	19,769	19,150	5,013	4,604

General Insurance –
Non-current assets
by region

Table 16.6

in USD millions, as of

	Property/equipment and intangible assets	
	06/30/13	12/31/12
North America		
United States	211	223
Canada	4	4
Bermuda	23	24
North America	238	252
Europe		
United Kingdom	207	213
Germany	210	210
Switzerland	565	593
Italy	28	34
Spain	333	346
Rest of Europe	562	605
Europe	1,905	2,001
Latin America		
Argentina	11	11
Brazil	215	234
Chile	31	34
Mexico	257	263
Venezuela	12	16
Rest of Latin America	–	5
Latin America	526	561
Asia-Pacific		
Australia	63	74
Hong Kong	12	13
Japan	23	27
Taiwan	8	9
Rest of Asia-Pacific	4	4
Asia-Pacific	110	128
Middle East	52	43
Africa		
South Africa	11	15
Morocco	31	32
Africa	42	46
Total	2,872	3,032

Consolidated financial statements (unaudited) *continued*

Table 16.7

in USD millions, for the six months ended June 30

Global Life – Overview

	North America		Latin America	
	2013	2012	2013	2012
Revenues				
Life insurance deposits	139	137	869	1,356
Gross written premiums ¹	275	260	1,653	1,225
Policy fees	154	146	29	36
Gross written premiums and policy fees	429	406	1,682	1,261
Net earned premiums and policy fees	322	300	1,442	1,041
Net investment income on Group investments	146	159	169	112
Net capital gains/(losses) and impairments on Group investments	–	–	(95)	30
Net investment result on Group investments	146	159	74	143
Net investment income on unit-linked investments	(17)	(17)	7	5
Net capital gains/(losses) and impairments on unit-linked investments	34	28	167	545
Net investment result on unit-linked investments	17	12	174	550
Other income	44	47	122	40
Total BOP revenues	529	518	1,813	1,774
Benefits, losses and expenses				
Insurance benefits and losses, net ¹	195	164	599	462
Policyholder dividends and participation in profits, net	27	23	187	553
Income tax expense/(benefit) attributable to policyholders	–	–	–	–
Underwriting and policy acquisition costs, net	60	61	496	416
Administrative and other operating expense (excl. depreciation/amortization)	75	72	175	168
Interest credited to policyholders and other interest	74	71	43	10
Restructuring provisions and other items not included in BOP	–	–	–	(24)
Total BOP benefits, losses and expenses	432	391	1,500	1,586
Business operating profit (before interest, depreciation and amortization)	97	126	314	188
Depreciation and impairments of property and equipment	–	–	2	1
Amortization and impairments of intangible assets	11	11	65	97
Interest expense on debt	2	2	–	(6)
Business operating profit before non-controlling interests	84	113	247	96
Non-controlling interests	–	–	125	40
Business operating profit	84	113	122	56

¹ Europe includes approximately USD 234 million and USD 342 million of gross written premiums and future life policyholders' benefits for certain universal life-type contracts in the Group's Spanish operations for the six months ended June 30, 2013 and 2012, respectively (see note 3 of the Consolidated financial statements 2012).

	Europe		Asia-Pacific and Middle East		Other		Eliminations		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	3,803	5,375	822	902	465	270	-	-	6,098	8,039
	3,366	3,499	423	351	104	75	(39)	(27)	5,782	5,383
	906	1,024	57	87	4	3	-	-	1,150	1,296
	4,272	4,523	480	439	108	78	(39)	(27)	6,931	6,679
	4,063	4,315	413	377	93	72	-	-	6,334	6,105
	1,596	1,652	74	81	6	5	-	(1)	1,990	2,009
	333	143	11	24	-	-	-	-	249	197
	1,929	1,795	85	105	6	5	-	(1)	2,240	2,206
	969	991	38	38	16	21	-	-	1,012	1,039
	4,196	1,863	416	87	(20)	24	-	-	4,793	2,548
	5,165	2,854	454	125	(5)	46	-	-	5,805	3,587
	153	165	100	92	131	160	(2)	(3)	549	502
	11,310	9,129	1,052	700	225	282	(2)	(4)	14,928	12,399
	3,503	3,824	132	128	63	44	-	-	4,493	4,623
	5,747	3,284	536	209	(2)	51	-	-	6,496	4,120
	146	14	1	8	-	-	-	-	147	22
	686	684	55	113	62	67	-	-	1,359	1,341
	603	656	239	150	119	113	(2)	(4)	1,210	1,156
	119	98	11	13	-	-	-	-	248	192
	(32)	(16)	-	9	(9)	-	-	-	(41)	(31)
	10,773	8,544	974	632	235	275	(2)	(4)	13,912	11,424
	537	585	78	68	(9)	8	-	-	1,016	975
	10	11	3	3	-	-	-	-	15	16
	116	129	4	2	-	4	-	-	196	243
	7	12	-	-	1	1	-	-	11	9
	404	433	71	63	(11)	3	-	-	794	708
	11	10	(1)	(1)	-	-	-	-	135	49
	392	423	72	64	(11)	3	-	-	659	659

Consolidated financial statements (unaudited) *continued*

Table 16.8

in USD millions, for the six months ended June 30

Global Life –
Revenues by region

	Gross written premiums and policy fees from external customers		Life insurance deposits	
	2013	2012	2013	2012
North America				
United States	429	406	139	137
North America	429	406	139	137
Latin America				
Chile	555	296	5	5
Argentina	58	56	25	20
Mexico	163	120	240	81
Venezuela	30	30	–	–
Brazil	874	757	600	1,250
Uruguay	3	1	–	–
Latin America	1,682	1,261	869	1,356
Europe				
United Kingdom	860	871	1,109	2,918
Germany	1,334	1,405	944	1,032
Switzerland	995	1,130	60	63
Ireland ¹	371	256	1,316	1,024
Spain	404	508	34	121
Italy	194	230	278	178
Portugal	14	17	37	15
Austria	74	79	26	24
Europe	4,246	4,496	3,803	5,375
Asia-Pacific and Middle East				
Hong Kong	47	43	61	64
Taiwan	–	–	2	–
Indonesia	4	–	–	–
Australia	162	157	40	37
Japan	41	50	9	12
Malaysia	112	120	–	–
Zurich International Life ²	114	68	710	788
Asia-Pacific and Middle East	480	439	822	902
Other				
Luxembourg ¹	4	3	465	270
International Group Risk Solutions ³	59	43	–	–
Other	63	46	465	270
Total	6,900	6,647	6,098	8,039

¹ Includes business written under freedom of services and freedom of establishment in Europe.² Mainly includes business written through licenses into Asia-Pacific and Middle East.³ Includes business written through licenses into all regions.

Global Life –
Non-current assets
by region

Table 16.9

in USD millions, as of

	Property/equipment and intangible assets	
	06/30/13	12/31/12
North America		
United States	176	165
North America	176	165
Latin America		
Chile	432	472
Argentina	87	96
Mexico	242	256
Brazil	868	965
Latin America	1,630	1,789
Europe		
United Kingdom	387	426
Germany	697	743
Switzerland	75	81
Ireland ¹	4	2
Spain	1,687	1,759
Italy	108	122
Austria	31	32
Europe	2,988	3,164
Asia-Pacific and Middle East		
Hong Kong	7	8
Indonesia	3	3
Japan	5	3
Singapore	2	1
Malaysia	119	124
Zurich International Life	17	20
Asia-Pacific and Middle East	152	158
Other		
Luxembourg ¹	3	4
Other	3	4
Total	4,949	5,280

¹ Includes assets relating to business written under freedom of services and freedom of establishment in Europe.

Consolidated financial statements (unaudited) *continued*

Table 16.10				
in USD millions, for the six months ended June 30				
		2013	Total 2012	
Farmers – Overview	Farmers Management Services			
	Management fees and other related revenues	1,408	1,420	
	Management and other related expenses	738	736	
	Gross management result	670	684	
	Other net income (excl. items not included in BOP)	18	23	
	Business operating profit before non-controlling interest	687	707	
	Business operating profit	687	707	
	Farmers Re			
	Gross written premiums and policy fees	2,034	2,211	
	Net earned premiums and policy fees	2,053	2,195	
	Insurance benefits and losses, net	(1,468)	(1,688)	
	Total net technical expenses	(644)	(687)	
	Net underwriting result	(58)	(179)	
	Net non-technical result (excl. items not relevant for BOP)	33	31	
	Net investment income	34	38	
	Business operating profit before non-controlling interests	9	(110)	
	Business operating profit	9	(110)	
	Farmers business operating profit	696	597	
	Ratios, as % of net earned premiums and policy fees			
	Farmers Re Combined ratio		102.8%	108.2%
Supplementary information				
Property, equipment and intangible assets ¹		2,376	2,403	

¹ As of June 30, 2013 and December 31, 2012, respectively.

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Consolidated financial statements (unaudited) *continued*

Table 16.11

in USD millions, for the six months ended June 30

	Holding and Financing	
	2013	2012
Gross written premiums and policy fees	58	63
Net earned premiums and policy fees	33	36
Net investment income	148	199
Other income	32	34
Total BOP revenues	213	269
Insurance benefits and losses, incl. PH dividends, net	33	35
Administrative and other operating expense (excl. depreciation/amortization)	148	70
Other expenses and items not included in BOP	(69)	8
Depreciation, amortization and impairments of property, equipment and intangible assets	–	5
Interest expense on debt	516	542
Business operating profit before non-controlling interests	(415)	(391)
Non-controlling interests	(8)	(13)
Business operating profit	(407)	(378)

Other Operating
Businesses –
Overview

	Headquarters		Eliminations		Total	
	2013	2012	2013	2012	2013	2012
	4	4	–	–	62	67
	4	4	–	–	37	40
	22	23	(3)	(3)	167	219
	452	479	(103)	(72)	381	441
	477	505	(106)	(75)	585	700
	(1)	–	–	–	32	35
	479	565	(102)	(72)	525	563
	1	–	–	–	(68)	8
	43	34	–	–	43	39
	1	1	(3)	(3)	513	540
	(46)	(94)	–	–	(461)	(485)
	–	–	–	–	(8)	(13)
	(46)	(94)	–	–	(453)	(472)

Consolidated financial statements (unaudited) *continued*

Table 16.12

in USD millions, for the six months ended June 30

Non-Core
Businesses –
Overview

		Total
	2013	2012
Gross written premiums and policy fees	230	236
Net earned premiums and policy fees	208	226
Insurance benefits and losses, net	(138)	241
Policyholder dividends and participation in profits, net	(180)	441
Total net technical expenses	31	38
Net underwriting result	495	(494)
Net investment income	46	108
Net capital gains/(losses) and impairments on investments	(506)	575
Net non-technical result (excl. items not included in BOP)	(18)	(96)
Business operating profit before non-controlling interests	17	94
Non-controlling interests	–	–
Business operating profit	17	93

17. Events after the balance sheet date

On July 16, 2013, Zurich Insurance Company Ltd, a wholly owned subsidiary of the Group, completed the sale of part of its holding in New China Life Insurance Company Ltd (NCI) representing 3.1% of the total issued share capital of NCI. The gross sale proceeds to be realized by the Group were HKD 2,194 million (approximately USD 283 million). Zurich Insurance Company Ltd continues to hold approximately 9.4% of the total issued share capital of NCI.

On July 26, 2013, the Group issued an increase of EUR 212 million to the EUR 788 million 4.25% dated subordinated notes due 2043 (the Notes) bringing the total issue size to EUR 1.0 billion. The Notes are expected to be treated as capital from a regulatory and rating agency perspective to the extent permissible. Simultaneously with this new issuance, a nominal amount of EUR 149 million of the Zurich Finance (USA), Inc. 4.5% EUR 500 million subordinated notes due June 2025 were repurchased and canceled after holders of these notes were made an offer to tender part or all of their holdings for cash.

Review report of the auditors

Review report of the auditors

To the Board of Directors of Zurich Insurance Group Ltd

Introduction

We have reviewed the accompanying unaudited Consolidated financial statements (consolidated income statement (unaudited), consolidated statement of comprehensive income (unaudited), consolidated balance sheet (unaudited), consolidated statement of cash flows (unaudited), consolidated statement of changes in equity (unaudited) and related notes on pages 31 to 97) of Zurich Insurance Group Ltd for the period ended June 30, 2013. The Board of Directors is responsible for the preparation and presentation of these unaudited Consolidated financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these unaudited Consolidated financial statements based on our review.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers AG

Richard Burger
Audit expert

Stephen O'Hearn
Global relationship partner

Zurich, August 14, 2013

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Embedded value report

Zurich produces and reports Embedded Value in accordance with the Market Consistent Embedded Value (MCEV) Principles and Guidance issued by the CFO Forum in October 2009 to provide an economic view of the value of the life business to shareholders in order to support financial management and strategic decision making. This report provides an overview of the movement in the MCEV during the six months to June 30, 2013 and New Business Value added from new sales during the same period, including further splits into constituent parts and geographical regions.

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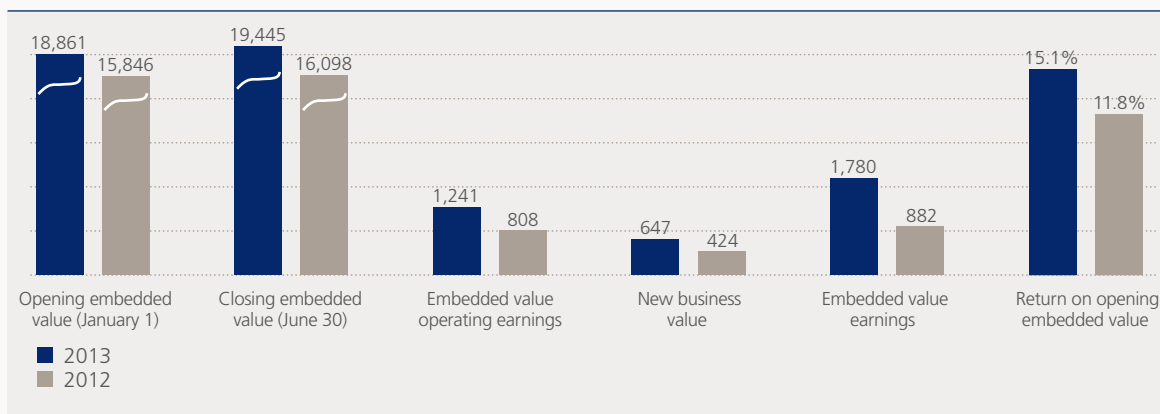
This report describes the development of the embedded value of the Zurich Insurance Group (the Group) for the six months ended June 30, 2013.

The majority of this report, Sections 1 to 10, relates to Global Life, but summary information relating to the life business in the Non-Core Businesses is given in Section 11 and to the total Group MCEV in Section 12.

Embedded value report – executive summary

Key results

in USD millions, for the six months ended June 30



Embedded value key results

in USD millions, for the six months ended June 30

	2013 ¹	2012 ^{1,2}	Change
Opening embedded value	18,861	15,846	3,016
Closing embedded value	19,445	16,098	3,347
Embedded value operating earnings	1,241	808	433
<i>of which new business value³</i>	647	424	224
Embedded value earnings	1,780	882	898
Return on opening embedded value ⁴	15.1%	11.8%	3.3%

¹ As of December 31, 2012 Zurich Santander businesses were included in embedded value. See Annual Report 2012 for details.

² New business for 2012 does not include contributions from Zurich Santander.

³ All metrics in the calculations are net of non-controlling interests except new business.

⁴ Returns for the six months ended in June 30 are annualized by doubling expected movements such as expected return and new business but experience variances are assumed to be zero for the rest of the year.

Embedded value operating earnings were USD 1,241 million and represented a strong return of 12 percent on the opening embedded value. The earnings included USD 373 million of expected emergence of value from in-force business, USD 647 million of new business value and USD 221 million of operating variances.

New business value of USD 647 million increased by USD 224 million compared with the same period of 2012. New business value for the acquired businesses of Zurich Santander was USD 140 million, which was not included in the new business result of prior year. Excluding the contribution of these businesses new business value increased by 21 percent on a local currency basis compared with the same period of 2012. This increase was driven by generally improved volumes globally and improved profitability in some European markets.

Embedded value earnings were USD 1,780 million, a return on embedded value of 15 percent. This increase was the result of strong operating earnings and favorable economic variances.

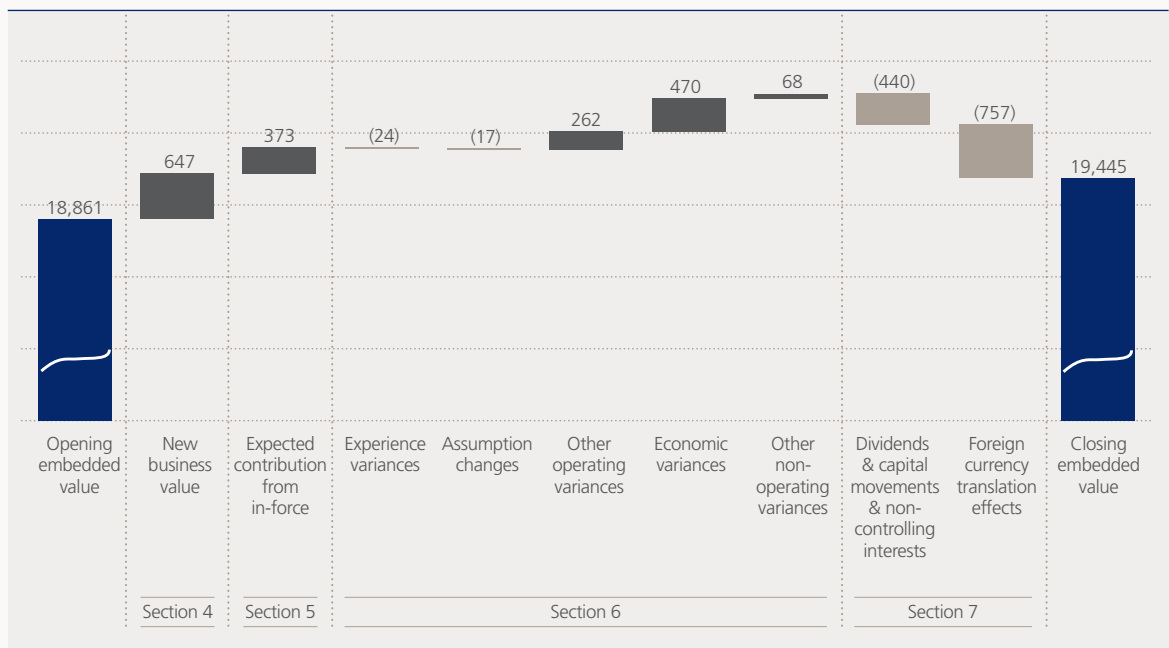
Embedded value report *continued*

1. Analysis of embedded value earnings

The graph and table below show how the embedded value has moved from USD 18,861 million to USD 19,445 million over the first six months of 2013. Each movement is described in its own section of the report as detailed on the graph below.

Embedded value development

in USD millions, for the six months ended June 30, 2013



Analysis of embedded value earnings

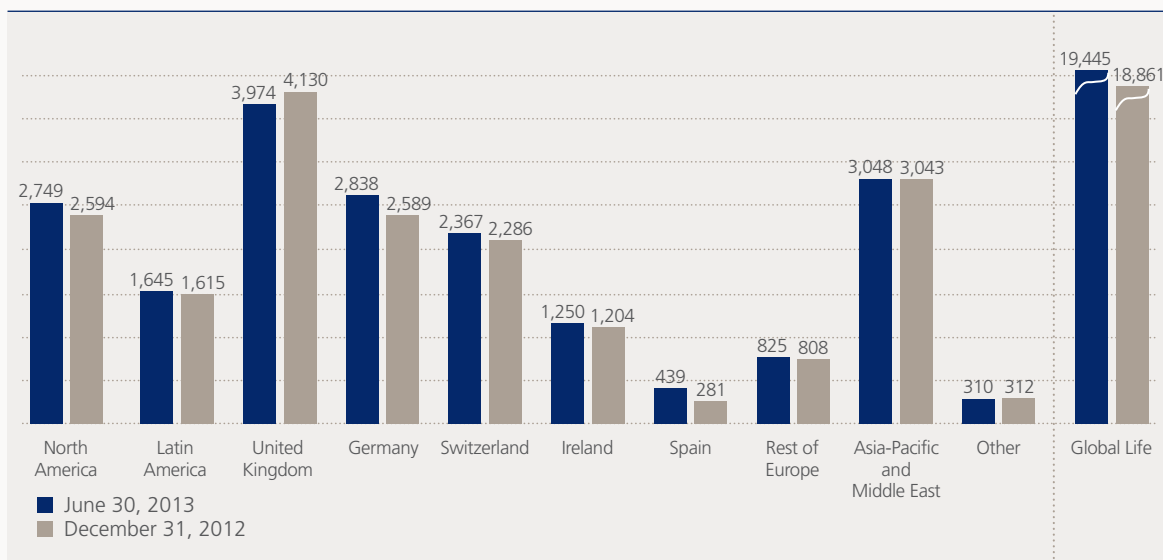
in USD millions, for the six months ended June 30, 2013 and June 30, 2012

	2013				2012	
	Required capital	Free surplus	Shareholders' net assets	Value of business in force	Total	Total
Opening embedded value	5,222	2,280	7,502	11,359	18,861	15,846
Dividends & capital movements start of period	(55)	(197)	(252)	(87)	(339)	(534)
New business value¹	434	(820)	(386)	1,033	647	424
<i>New business value net of non-controlling interests</i>	341	(705)	(364)	911	547	401
Expected contribution at reference rate	9	30	40	41	81	149
Expected contribution in excess of reference rate	20	15	35	257	293	355
Transfer to shareholders' net assets	(238)	896	657	(657)	-	-
Operating experience variances	12	30	43	(67)	(24)	(114)
Operating assumption changes	15	191	206	(223)	(17)	25
Other operating variances	(2)	26	24	238	262	(31)
Operating earnings	251	369	620	622	1,241	808
Economic variances	54	146	200	270	470	86
Other non-operating variances	42	4	46	22	68	(13)
Embedded value earnings	347	519	866	914	1,780	882
Non-controlling interests	(93)	115	22	(123)	(101)	(22)
Foreign currency translation effects	(222)	(78)	(300)	(457)	(757)	(73)
Closing embedded value	5,199	2,639	7,838	11,607	19,445	16,098

¹ All metrics in the calculations are net of non-controlling interests except new business.

Embedded value by geographical region

in USD millions



In **North America**, embedded value increased by USD 155 million. Positive contributions came from new business and economic variances offset by dividends.

Embedded value increased in **Latin America** by USD 31 million with a strong new business value offset by capital movements and exchange rate impacts.

In the **UK**, embedded value decreased by USD 156 million, mainly driven by the pound weakening partially offset by new business value.

In **Germany**, embedded value increased by USD 249 million mainly driven by modeling changes.

Embedded value in **Switzerland** increased by USD 81 million as a result of positive economic and other operating variances that were partially offset by dividend payments.

In **Ireland**, stable new business value was the main contributor to the increase in embedded value of USD 46 million.

In **Spain**, embedded value increased by USD 158 million as a result of continued strong new business performance and positive economic variances.

In the **Rest of Europe**, embedded value increased by USD 17 million, mainly from positive economic variances in Italy offset by dividend payments.

In **Asia-Pacific and Middle East**, embedded value increased by USD 5 million.

In **Other**, the embedded value decreased by USD 3 million.

Embedded value report *continued*

2. Free surplus

Required capital is the amount of shareholders' net asset value required to cover the target capital requirement, covering both minimum solvency margin and target excess solvency margin. Free surplus is the difference between the target capital requirement and the shareholders' net asset value.

Shareholders' net assets	in USD millions, as of June 30, 2013 and December 31, 2012	2013			2012
		Shareholders' net assets	Required capital	Required capital (% SM) ¹	Free surplus
North America		411	636	291.6%	(226)
Latin America		1,041	513	109.9%	528
of which:					
<i>Zurich Santander</i>		577	269	117.5%	308
Europe		5,061	3,177	128.5%	1,884
<i>United Kingdom</i>		1,507	941	133.0%	566
<i>Germany</i>		1,906	794	125.8%	1,113
<i>Switzerland</i>		355	226	100.0%	129
<i>Ireland</i>		444	389	149.1%	55
<i>Spain</i>		260	324	125.0%	(64)
<i>Rest of Europe</i>		589	503	129.7%	86
Asia-Pacific and Middle East		1,292	826	132.2%	467
Other		33	47	101.6%	(14)
Global Life		7,838	5,199	135.8%	2,639
					2,280

¹ SM is the local minimum solvency margin.

In **North America**, free surplus reduced mainly from dividend payments to the Group of USD 68 million and increased required capital.

In **Latin America**, free surplus decreased by USD 64 million due to new business strain exceeding transfer of profit from the in-force business.

In the **UK**, free surplus increased by USD 569 million mainly due to a change in the treatment of internal reinsurance.

In **Germany** transfer of profits from the in-force business was more than offset by adverse development of assets held outside of the main life insurance entities and in total free surplus reduced by USD 55 million.

In **Switzerland**, transfer of profits from the in-force business and improved economic conditions increased free surplus USD 257 million, which was offset by dividend payments.

In **Ireland**, free surplus increased by USD 19 million mainly as a result of a capital injection.

In **Spain**, free surplus increased mainly due to positive economic variance.

In **Rest of Europe**, free surplus decreased by USD 73 million. The main drivers were positive economic variance of USD 111 million offset by dividends of USD 178 million.

In **Asia-Pacific and Middle East**, free surplus increased by USD 67 million, mainly due to capital injections into the region.

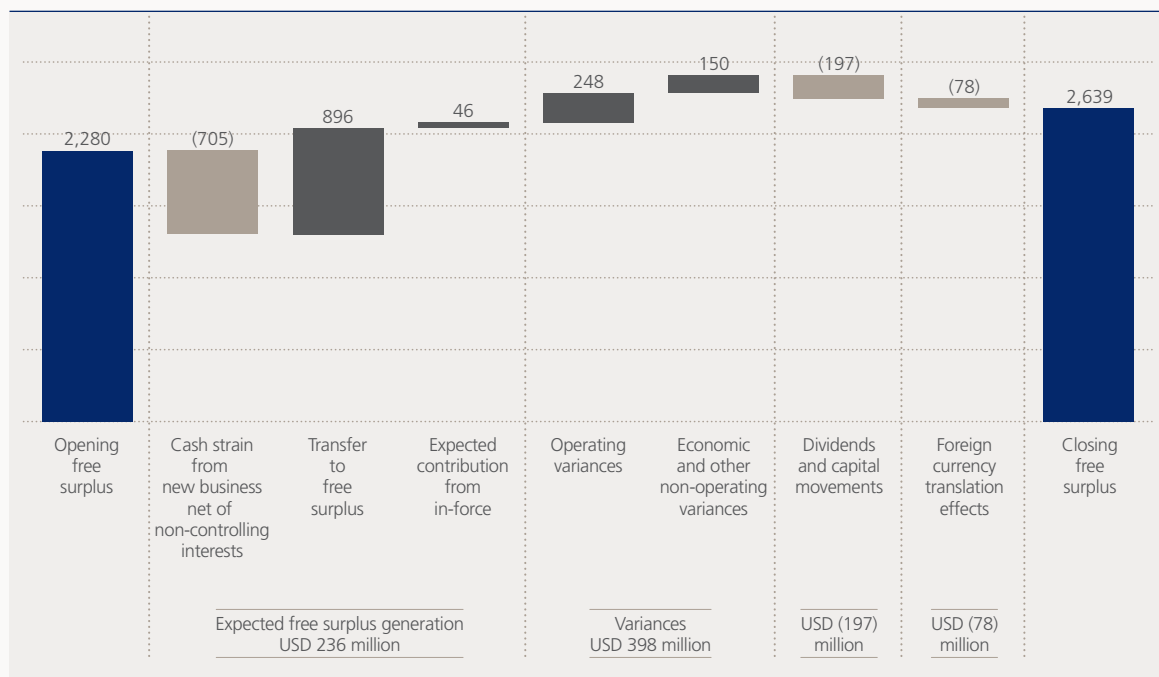
In **Other**, free surplus decreased by USD 67 million due to central costs and a dividend payment made to the Group.

3. Analysis of free surplus generation

The graph below shows how the free surplus value has moved from USD 2,280 million to USD 2,639 million over the first six months of 2013.

Free surplus development

in USD millions, for the six months ended June 30, 2013



Expected free surplus generation includes cash strain from new business net of non-controlling interests, transfer of profits to free surplus and expected contribution. This was USD 236 million for the first six months of 2013. The cash strain on new business of USD 705 million results from the combination of initial cash consumption of USD 364 million and the related increase in required capital of USD 341 million. The transfer of profits to shareholders' net assets increased free surplus by USD 896 million and was driven by expected profits of USD 657 million and the release of required capital of USD 238 million. Expected contribution was USD 46 million relating to the expected return on free surplus.

Variations in relation to operating and economic assumptions increased free surplus by USD 398 million. Variations represent the difference between actual experience during the period and that implied by the assumption on the emergence of free surplus, and actual market development over the period.

Dividends and capital movements amounted to USD 197 million and was mainly driven by dividends paid to the Group.

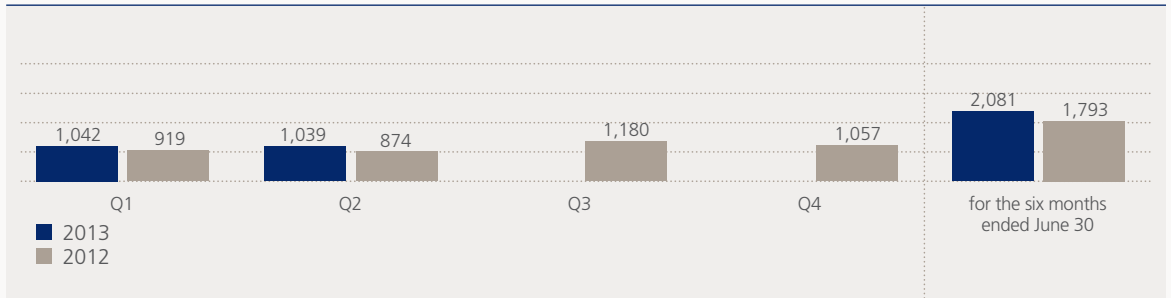
Foreign currency translation effects reduced the U.S. dollar free surplus by USD 78 million.

Embedded value report *continued*

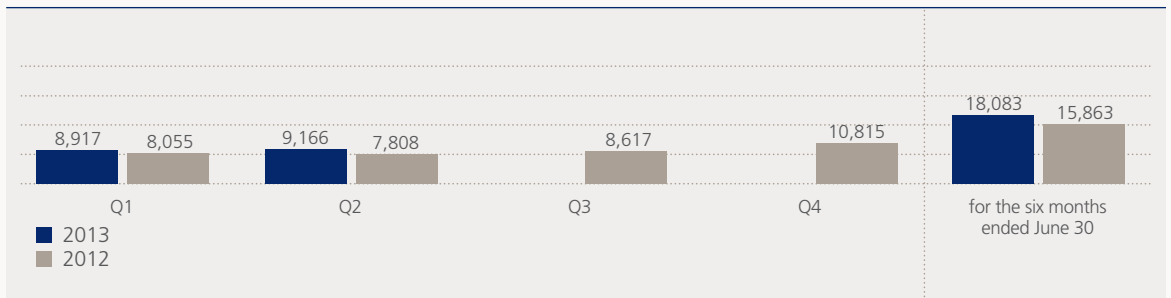
4. New business

Global Life

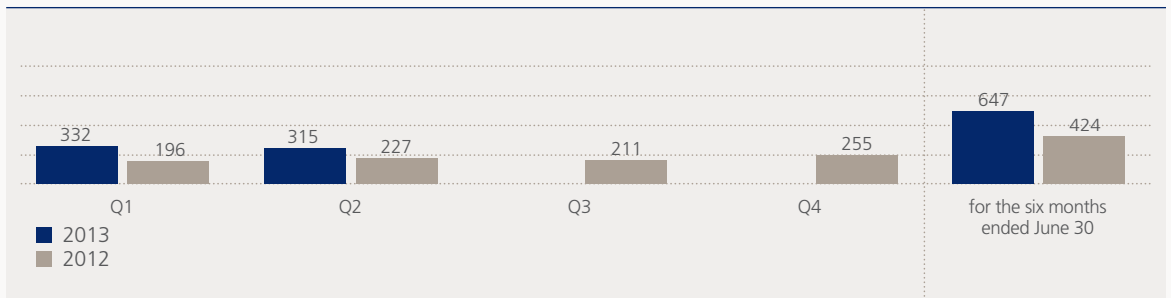
Annual premium equivalent (APE)
in USD millions



Present value of new business premiums (PVNBP)
in USD millions

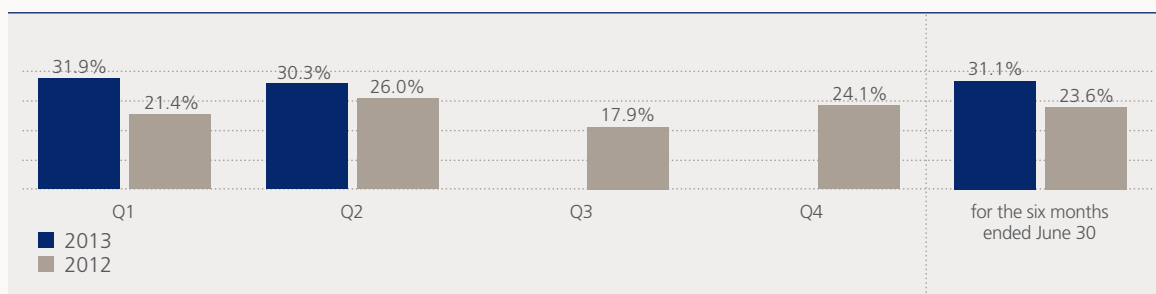


New business value
in USD millions



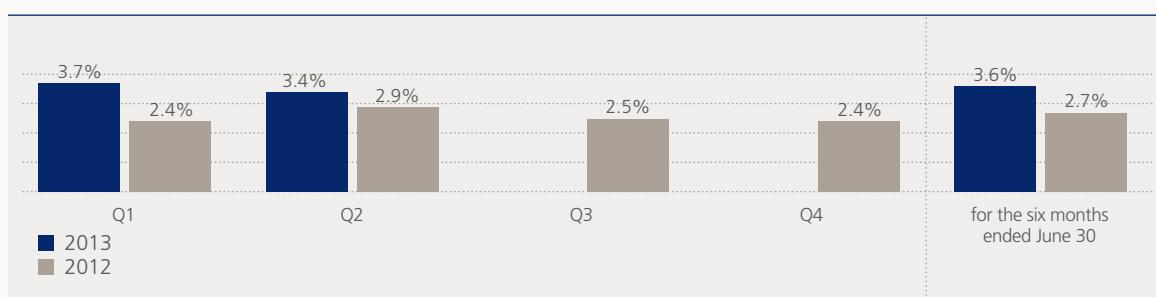
New business margin (%APE)

in percent



New business margin (%PVNBP)

in percent

New business
by quarter

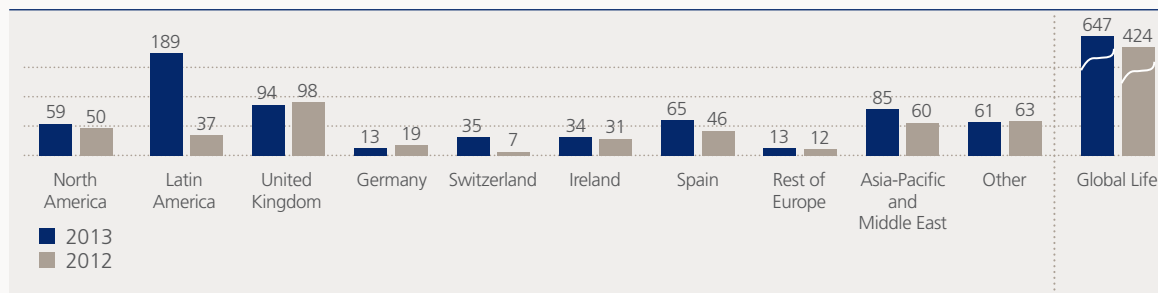
in USD millions	2013					2012				
	Q1	Q2	Q3	Q4	Q2 YTD	Q1	Q2	Q3	Q4	Q2 YTD
Annual premium equivalent (APE)¹	1,042	1,039	–	–	2,081	919	874	1,180	1,057	1,793
Annual premiums	684	706	–	–	1,390	582	529	906	661	1,111
Single premiums	3,583	3,330	–	–	6,913	3,371	3,451	2,741	3,964	6,822
Present value of new business premiums (PVNBP) ²	8,917	9,166	–	–	18,083	8,055	7,808	8,617	10,815	15,863
Average annual premium multiplier	7.8	8.3	–	–	8.0	8.1	8.2	6.5	10.4	8.1
New business value	332	315	–	–	647	196	227	211	255	424
New business margin (% of APE)	31.9%	30.3%	–	–	31.1%	21.4%	26.0%	17.9%	24.1%	23.6%
New business margin (% of PVNBP)	3.7%	3.4%	–	–	3.6%	2.4%	2.9%	2.5%	2.4%	2.7%

¹ APE is measured as new annual premiums plus 10 percent of new single premiums.² PVNBP is measured as new single premiums plus the present value of new annual premiums.

Embedded value report *continued*

Geographical region

New business value by geographical region
in USD millions, for the six months ended June 30



New business by geographical region

in USD millions, for the six months ended June 30

	APE		PVNBP		New business value		New business margin			
							% of APE		% of PVNBP	
	2013	2012 ¹	2013	2012 ¹	2013	2012 ¹	2013	2012 ¹	2013	2012 ¹
North America	81	62	700	611	59	50	72.5%	81.0%	8.4%	8.2%
Latin America	582	154	3,039	714	189	37	32.4%	23.9%	6.2%	5.1%
of which:										
<i>Zurich Santander</i>	404	–	2,187	–	140	–	34.7%	–	6.4%	–
Europe	1,045	1,260	11,464	12,167	254	214	24.3%	17.0%	2.2%	1.8%
<i>United Kingdom</i>	389	596	5,367	5,851	94	98	24.2%	16.5%	1.8%	1.7%
<i>Germany</i>	167	224	1,294	2,129	13	19	8.0%	8.3%	1.0%	0.9%
<i>Switzerland</i>	147	120	1,802	1,450	35	7	23.7%	6.2%	1.9%	0.5%
<i>Ireland</i>	198	163	1,703	1,373	34	31	17.1%	19.2%	2.0%	2.3%
<i>Spain</i>	65	79	667	730	65	46	100.3%	57.8%	9.7%	6.3%
<i>Rest of Europe</i>	80	78	630	634	13	12	16.5%	15.8%	2.1%	1.9%
Asia-Pacific and Middle East	271	241	1,759	1,597	85	60	31.3%	24.9%	4.8%	3.8%
Other	102	76	1,121	774	61	63	60.0%	83.0%	5.4%	8.1%
Global Life	2,081	1,793	18,083	15,863	647	424	31.1%	23.6%	3.6%	2.7%

¹ New business for 2012 does not include contributions from Zurich Santander.

North America increased APE by USD 20 million or 32 percent. The main driver was increased sales of individual and corporate protection business. Change in the mix of business resulted in reduced margins. New business value increased by USD 9 million or 18 percent.

Zurich Santander delivered a strong APE of USD 404 million. Higher sales of protection business were the result of an incentive campaign in Brazil. With strong margins, Zurich Santander delivered new business value of USD 140 million.

Zurich Latin America reported an increase in APE of USD 24 million or 20 percent on a local currency basis. The main driver was an increase in sales of individual protection in Mexico. Margins increased, in particular in Brazil due to lower commission rates. New business value increased by USD 11 million or 37 percent on a local currency basis.

Overall in **Europe**, APE decreased by USD 214 million or by 17 percent on a local currency basis. The main reductions were in the UK and Germany. Margins increased in the UK, Switzerland and Spain. New business value increased by USD 40 million or 19 percent on a local currency basis.

In the **UK**, APE decreased by USD 207 million or 33 percent on a local currency basis as a result of reduced sales of corporate savings business and reduced sales of individual savings business following the implementation of the retail distribution review. Several factors increased margins including lower corporation tax rates and improved profitability from corporate business. Overall new business value decreased by USD 4 million or 2 percent on a local currency basis.

In **Germany**, APE decreased by USD 57 million or 26 percent on a local currency basis. This was mainly driven by lower sales of savings business. New business value reduced by USD 5 million or 29 percent on a local currency basis.

In **Switzerland**, APE increased by USD 26 million or 23 percent on a local currency basis. Part of the increased APE was the result of a change in the method for recognizing premiums in group pension business, which reduced margins without impacting new business value. Individual life profitability increased due to re-pricing and a change to the mix of business. New business value increased by USD 27 million or 368 percent on a local currency basis.

In **Ireland**, APE increased by USD 35 million or 20 percent on a local currency basis. The effect on new business value from the increased volume was partially offset by reduced margins on domestic Irish business. In total, new business value increased by USD 3 million or 7 percent on a local currency basis.

APE in **Spain** decreased mainly due to lower sales of savings products. New business value increased by USD 19 million or 39 percent on a local currency basis as a consequence of higher profitability on protection business.

In **Rest of Europe**, APE increased by USD 2 million or 2 percent on a local currency basis. Margins were stable and new business value increased by USD 1 million or an increase of 6 percent on a local currency basis.

For **Asia-Pacific and Middle East**, APE increased by USD 30 million or 14 percent on a local currency basis. The increase arose from the first time inclusion of Zurich Insurance Malaysia Berhad (ZIMB) in new business reporting and from a positive contribution from new local life insurance businesses in Singapore, Indonesia and Taiwan. These businesses have higher margins. New business value increased by USD 25 million or 43 percent on a local currency basis.

In **Other**, APE increased by USD 26 million or 34 percent on a local currency basis. New business value decreased by USD 2 million or 3 percent on a local currency basis due to a reduction in margins on this business.

Embedded value report *continued*

5. Expected contribution and transfer to shareholders' net assets

Expected contribution at reference rate

The expected contribution at reference rate is the projected change in the embedded value over the year using risk-free investment returns applicable at the start of the year. Expected return at risk-free rates was USD 81 million.

Expected contribution in excess of reference rate

The expected contribution in excess of reference rate is the additional value expected to be created if "real world" expected investment returns were to emerge. Expected return in excess of the risk-free reference rate was USD 293 million.

Transfer to shareholders' net assets

The expected transfer to shareholders' net assets shows the profits expected to emerge during the period in respect of business that was in-force at the start of the year. The net effect on embedded value is zero, as the reduction in the value of business in-force is offset by an increase in shareholders' net assets.

6. Operating, economic and other non-operating variances

Operating, economic and other non-operating variances

in USD millions, for the six months ended June 30, 2013

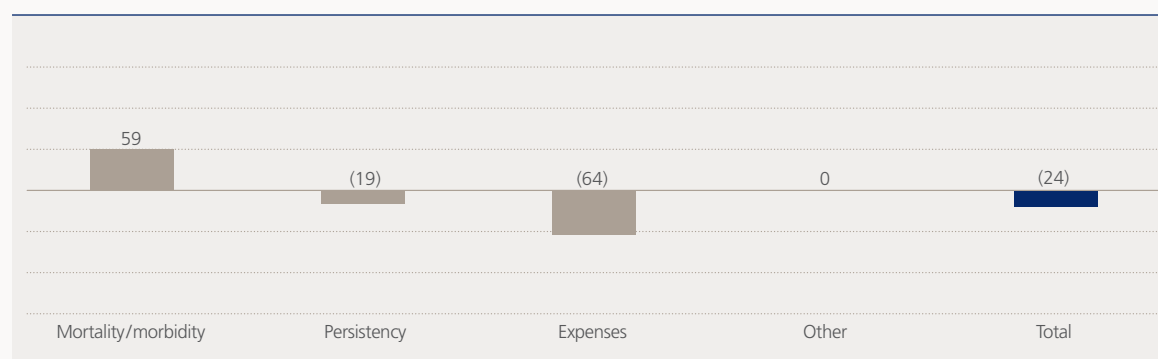
	Operating experience variances	Operating assumption changes	Other operating variances	Economic variances	Other non-operating variances
North America	(10)	–	(2)	79	18
Latin America	22	(13)	(3)	33	(12)
of which:					
<i>Zurich Santander</i>	4	(6)	(8)	45	(9)
Europe	(6)	5	265	446	(31)
<i>United Kingdom</i>	(5)	2	(4)	(59)	4
<i>Germany</i>	(2)	2	228	24	(34)
<i>Switzerland</i>	(3)	–	59	164	(1)
<i>Ireland</i>	7	–	(12)	13	–
<i>Spain</i>	–	–	1	124	2
<i>Rest of Europe</i>	(3)	–	(6)	180	(2)
Asia-Pacific and Middle East	(13)	(6)	11	(83)	90
Other	(17)	(3)	(10)	(5)	2
Global Life	(24)	(17)	262	470	68

Operating experience variances

Operating experience variances measure the difference between actual experience during the period and that implied by the operating assumptions. Experience variances occur in the normal course of business as short-term experience fluctuates around long-term assumptions.

Embedded value split of operating experience variance

in USD millions, for the six months ended June 30, 2013



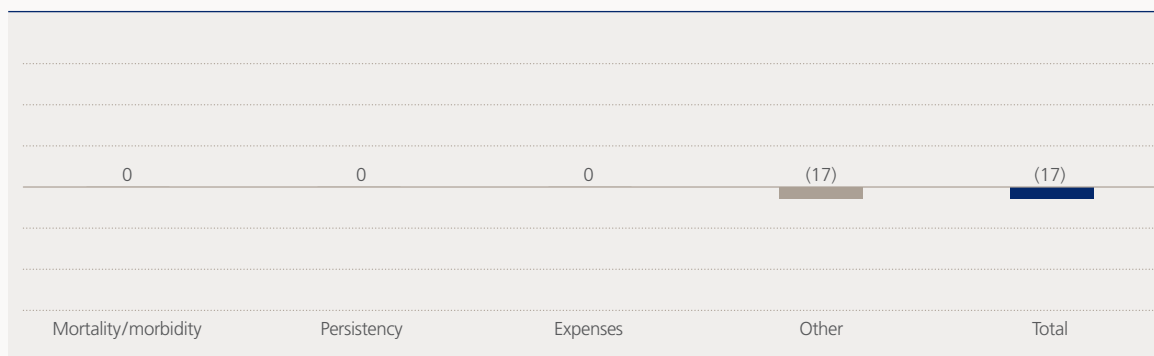
- **Mortality and morbidity** experience increased embedded value by USD 59 million. The main positive experience variance was USD 50 million in Chile from the disability and survival business.
- **Persistency** experience decreased embedded value by USD 19 million. Experience across Latin America reduced embedded value by USD 12 million.
- **Expense** experience reduced embedded value by USD 64 million. The main drivers of this were USD 30 million in Latin America and USD 21 million in Asia-Pacific and Middle East as a result of costs exceeding long-term expense assumptions for start-up business in the regions.
- **Other** operating experience variances were minor.

Embedded value report *continued*

Operating assumption changes

Changes in assumptions about future operating experience also have an impact on operating variances.

Embedded value split of operating assumption changes
in USD millions, for the six months ended June 30, 2013

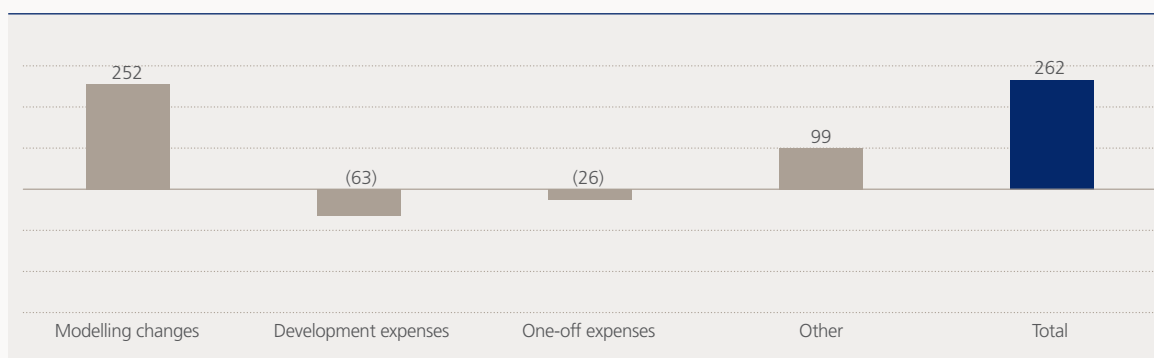


- There were no assumption changes for **mortality and morbidity, persistency** or **expenses** as assumption updates are only carried out during the third quarter.
- **Other** assumption changes decreased embedded value by USD 17 million.

Other operating variances

Other operating variances include modeling changes, development and one-off expenses and other operating variances not captured elsewhere.

Embedded value split of other operating variances
in USD millions, for the six months ended June 30, 2013



- **Modeling changes** increased embedded value by USD 252 million. In Germany, modelling changes related to risk reduced the cost of residual non-hedgeable risk and increased embedded value by USD 146 million. In Switzerland, enhancements to the valuation models, in particular the disability model, increased value by USD 75 million.
- **Development expenses** reduced embedded value by USD 63 million. This was predominantly made up of USD 25 million to fund developments in the UK and expansion of operations in Asia-Pacific and Middle East.
- **One-off expenses** reduced embedded value by USD 26 million, mainly driven by efficiency improvements and other projects in the UK and Switzerland.
- **Other** operating variances had a positive impact on embedded value of USD 99 million. The main contribution came from Germany where profits from companies outside of the main life insurance entity and other experience variances increased embedded value.

Economic variances

Economic variances arise from the differences between actual economic experience during the period and the expected experience implied by the economic assumptions at the start of the period. Economic variances also include the impact of changes in assumptions in respect of future economic experience at the end of the period. In total, economic variances increased embedded value by USD 470 million during the first six months of 2013.

In the first six months of 2013, risk free rates increased in each major currency and in particular for the US dollar and the pound sterling, while the liquidity premium spread remained more or less flat. Yields on sovereign debt were volatile across Europe, but spreads have marginally reduced during the period. These movements are most significant for spread business and traditional participating business and as a result investment performance was positive in Switzerland, Italy, Germany and Spain. Outside Europe, increased interest rates negatively affected the economic variance on protection business in Asia-Pacific and Middle East.

Other non-operating variances

Other non-operating variances include the impact of legal, tax and regulatory changes in the period as well as other significant one-off items.

Impact on embedded value of other non-operating variances was USD 68 million, which was mainly driven by favorable second order exchange rate impacts in business units transacting business in currencies other than their own.

Embedded value report *continued*

7. Dividends and capital movements and other adjustments

Dividends and capital movements

Dividends and capital movements reflect dividends paid by Global Life to the Group, shown as a negative number in the table below, and capital received from the Group, shown as a positive number in the table. Capital movements can also relate to the value of business in-force in respect of acquisitions and disposals, or corporate restructuring.

Dividends and capital movements	in USD millions, for the six months ended June 30, 2013	Total
	North America	(68)
	Latin America	(46)
	of which:	
	<i>Zurich Santander</i>	(60)
	Europe	(293)
	<i>United Kingdom</i>	53
	<i>Germany</i>	9
	<i>Switzerland</i>	(157)
	<i>Ireland</i>	13
	<i>Spain</i>	(32)
	<i>Rest of Europe</i>	(178)
	Asia-Pacific and Middle East	93
	Other	(26)
	Global Life	(339)

Changes in value for Global Life arising from dividend and capital movements are offset by equal and opposite value changes in the non-covered businesses of the Group and therefore have no impact on Group MCEV as shown in Section 12, except as noted below.

North America paid a dividend of USD 68 million to the Group.

In **Latin America** the total capital movements were USD 46 million.

In **Europe** the total capital movements were USD 293 million. The main contributions to this were a dividend payment in Switzerland of USD 161 million and dividend payments from Rest of Europe of USD 178 million. In the UK the main drivers of capital movements of USD 53 million were a change in the treatment of an internal reinsurance treaty which increased embedded value by USD 111 million, with equal and offsetting impacts in other segments of the Group, and a non life insurance entity which was reclassified and excluded from entities covered by MCEV valuation principles reducing embedded value by USD 87 million, with equal impact on Group MCEV.

In **Asia Pacific and Middle East** capital injections amounted to USD 93 million.

In **Other** a dividend of USD 26 million was paid.

Other adjustments

The adjustment to embedded value to remove non-controlling interests from new business value is shown separately and it largely arose from the interests of non-controlling shareholders in Zurich Santander and Spain.

Foreign currency translation effects represent the impact of adjusting opening embedded value and movements during the period which are translated at average exchange rates during the period to end-of-period exchange rates. The strengthening of the U.S. dollar against other currencies reduced the U.S. dollar embedded value by USD 757 million.

8. Value of business in-force

Components of value of business in-force

Components of value of business in-force	in USD millions, as of June 30, 2013 and December 31, 2012				2013		2012
	CE ¹	FC ²	TVFOG ³	CRNHR ⁴	Value of business in-force	Value of business in-force	
North America	2,855	(91)	(200)	(226)	2,338	2,120	
Latin America	693	(39)	(6)	(43)	604	534	
of which:							
<i>Zurich Santander</i>	277	(15)	(3)	(9)	250	205	
Europe	8,274	(420)	(796)	(426)	6,632	6,724	
<i>United Kingdom</i>	2,674	(60)	(30)	(117)	2,467	3,119	
<i>Germany</i>	1,742	(291)	(409)	(110)	932	658	
<i>Switzerland</i>	2,283	(14)	(136)	(121)	2,012	2,002	
<i>Ireland</i>	881	(15)	(23)	(37)	806	781	
<i>Spain</i>	214	(14)	(1)	(20)	178	31	
<i>Rest of Europe</i>	482	(27)	(197)	(21)	236	134	
Asia-Pacific and Middle East	1,960	(77)	(13)	(113)	1,756	1,766	
Other	295	(5)	–	(13)	276	215	
Global Life	14,077	(634)	(1,016)	(821)	11,607	11,359	

¹ CE is the certainty equivalent value of business in-force.

² FC is the frictional cost.

³ TVFOG is the time value of financial options and guarantees including the application of a liquidity premium.

⁴ CRNHR is the cost of residual non-hedgeable risk (see Section 12 d) of the Group's Annual Report 2012 for further details).

Maturity profile of value of business in-force

The value in-force (VIF) maturity profile sets out when the VIF profits are expected to emerge as free surplus. It does not include the release of required capital to free surplus which usually accompanies the emergence of the VIF profit. The VIF emergence is determined after taking into account frictional costs, cost of residual non-hedgeable risk and the time value of financial options and guarantees.

Maturity profile of value of business in-force	in USD millions, as of June 30, 2013 and December 31, 2012		2013		2012	
	VIF	% of Total	VIF	% of Total	VIF	% of Total
1 to 5 years	4,311	37%	3,929	35%		
6 to 10 years	3,013	26%	2,891	25%		
11 to 15 years	1,978	17%	2,111	19%		
16 to 20 years	1,099	9%	1,193	11%		
more than 20 years	1,206	10%	1,236	11%		
Total	11,607	100%	11,359	100%		

The VIF maturity profile shows that 37 percent of the VIF should emerge as free surplus over the next five years and 63 percent over the next ten years.

Embedded value report *continued*

9. Reconciliation of IFRS shareholders' equity to embedded value

in USD billions, as of June 30, 2013		Total
Reconciliation of Global Life IFRS shareholders' equity to embedded value	IFRS shareholders' net assets	18.9
	Less intangible assets	
	<i>Goodwill</i>	(0.4)
	<i>DAC/DOC</i>	(15.1)
	<i>Other intangibles & PVP</i>	(4.1)
	<i>DFEF</i>	5.9
	Plus IAS 19 Liabilities ¹	1.0
	Less non-controlling interests ²	0.1
	Other adjustments ³	1.6
	Embedded value shareholders' net assets	7.8
	Value of business in force	11.6
	Embedded value	19.4

¹ Pension scheme liabilities are IFRS equity but are not deducted from the embedded value shareholders' net assets.

² Primarily the Spanish and Zurich Santander non-controlling interests.

³ Other adjustments include tax differences, policyholders' share of intangibles, reserving differences and asset valuation differences.

10. Sensitivities

Sensitivities

in USD millions, as of June 30, 2013

	Change in embedded value	Change in new business value
Embedded value¹	19,445	647
Operating sensitivities		
10% increase in initial expenses	n/a	(4%)
10% decrease in maintenance expenses	3%	6%
10% increase in voluntary discontinuance rates	(4%)	(13%)
10% decrease in voluntary discontinuance rates	5%	14%
5% improvement in mortality and morbidity for assurances	2%	9%
5% improvement in mortality for annuities	(1%)	(1%)
Required capital set equal to minimum solvency capital	–	–
Economic sensitivities		
100 basis points increase in risk free yield curve	(2%)	(1%)
100 basis points decrease in risk free yield curve	1%	(4%)
10% fall in equity market values	(1%)	n/a
10% fall in property market values	(1%)	n/a
25% increase in implied volatilities for risk free yields	(1%)	(2%)
25% decrease in implied volatilities for risk free yields	1%	–
25% increase in implied volatilities for equities and properties	(1%)	–
25% decrease in implied volatilities for equities and properties	1%	–

¹ Base for sensitivities excludes a liquidity premium. Changes in embedded value and new business value are calculated excluding a liquidity premium and using end of period assumptions. New business also includes deductions for non-controlling interests. These adjustments reduce the reported embedded value by USD 604 million and new business value by USD 100 million.

The key assumption changes represented by each of these sensitivities are given in Section 12 r) of the Group's Annual Report 2012.

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised assumption. The results include the impact of assumption changes on the time value of financial options and guarantees. The 100 basis points decrease in risk free yield curve increases the value of some products, such as term assurance, with fixed future cash flows discounted at lower rates. This increase is offset by the reduction in the value of other products, such as those where lower assumed investment returns reduce profitability.

Embedded value report *continued*

11. Non-Core Business - life businesses

The Group has written life business in Zurich American Life Insurance Company and in its Centre operations, which are not managed by Global Life and are included in Non-Core Business. The main life products that have been written by these businesses were:

- variable annuity contracts that provide annuitants with guarantees related to minimum death and income benefits;
- disability business; and
- bank owned life insurance business.

The Group has estimated the embedded value of the life business in Non-Core Business based on the same principles as for the Global Life covered business, including deductions for the time value of financial options and guarantees, frictional costs and the cost of residual non-hedgeable risk, but using more approximate models.

Estimated
embedded value
of life businesses in
Non-Core Businesses

in USD billions, as of June 30, 2013 and December 31, 2012

	2013	2012
Shareholders' net assets	0.5	0.7
Value of business in-force	0.1	0.1
Embedded value	0.6	0.8

12. Group MCEV

The Group MCEV is presented in the following table as the Global Life covered business valued using MCEV Principles and the non-covered businesses which are valued at the unadjusted IFRS net asset value. Non-covered business includes the Non-Core Business managed outside of Global Life and all other Group businesses including General Insurance and Farmers.

Group MCEV	in USD billions, as of June 30, 2013	Covered	Non-covered	Total
		business MCEV	business	Group MCEV
Opening Group MCEV		18.9	16.5	35.4
<i>Operating MCEV earnings¹</i>		1.2	1.3	2.5
<i>Non-operating MCEV earnings</i>		0.5	0.0	0.5
<i>Total MCEV Earnings</i>		1.8	1.3	3.1
<i>Other movements in IFRS net equity²</i>		(0.1)	(1.5)	(1.6)
<i>Adjustments³</i>		(1.1)	(2.3)	(3.4)
Closing Group MCEV		19.4	14.0	33.5

¹ For non-covered business this is set equal to the Net Income After Tax (NIAT) over the period.

² For non-covered business this is set equal to non-controlling interests and the change in Other Comprehensive Income (OCI) and unrealised gains and losses excluding the foreign currency translation adjustment over the period.

³ Adjustments include to dividends and other capital movements and foreign currency translation adjustments.

Embedded value report *continued*

13. Embedded value methodology

The Group has applied the Market Consistent Embedded Value (MCEV) Principles and Guidance issued by the European Insurance CFO Forum in October 2009, for its Embedded Value (EV) report for the companies and businesses in its Global Life segment (the covered business). The EV report primarily relates to Global Life. Non-Core Business are shown in Section 11 and to the total Group MCEV in Section 12. The embedded value methodology adopted by the Group is based on a "bottom-up" market consistent approach to allow explicitly for market risk. In particular, asset and liability cash flows are valued using risk discount rates consistent with those applied to similar cash flows in the capital markets and options and guarantees are valued using market consistent models calibrated to observable market prices. Where markets exhibit a limited capacity, the valuation is based on historical averages.

Embedded value represents the shareholders' interests in the entities included in Global Life as set out in the Group's Consolidated IFRS financial statements. Embedded value excludes any value from future new business.

All amounts shown in U. S. dollar are rounded with the consequence that the rounded amounts may not add to the rounded total in all instances.

The unaudited EV report for the six months ended June 30, 2013 should be read in conjunction with the Group's Annual Report 2012. Any differences and amounts associated with the valuation date have been described and updated below.

For certain smaller companies in Global Life, no embedded value has been calculated but these companies have been included in the embedded value at their shareholders' net asset value, as calculated in accordance with the Group's IFRS accounting policies. The contribution from these companies to embedded value is approximately 2 percent.

In the UK there is a system of Pillar 1 and Pillar 2 required capital. As of June 30, 2013 the constraining regime is Pillar 1 capital. The required capital modelled for MCEV is based on the Group's target Pillar 1 required capital.

Cost of residual non-hedgeable risk (CRNHR)

CRNHR allows for diversification across risk types and across geographical segments. This approach complies with all areas of the MCEV principles except guidance 9.7 which does not allow for diversification benefits between covered and non-covered business. The EV report does allow for diversification between covered and non-covered business, which is consistent with the management view of the business and increases embedded value by an estimated USD 469 million to embedded value.

Employee pension schemes

Actuarial gains and losses arising from defined benefit pension and other defined benefit post-retirement plans are not recognized in full in the period in which they occur. If adjustments for such gains and losses had been made the embedded value at the valuation date would have been lower by USD 982 million.

A more complete description of the methodology applying these principles is set out in the embedded value methodology section of the Annual Report 2012.

14. Embedded value assumptions

Projections of future shareholder cash flows expected to emerge from covered business and for new business are determined using best estimate operating assumptions. These assumptions, including mortality, morbidity, persistency and expenses, reflect recent experience and are actively reviewed. Allowance is made for future improvements in annuitant mortality based on experience and externally published data. Favorable changes in future operating efficiency are not anticipated in the assumptions – in particular for expenses and persistency.

Future economic assumptions, for example, investment returns and inflation, are based on period end conditions and assumed risk discount rates are consistent with these conditions. For new business, future economic (and operating) assumptions are based on conditions at the start of each quarter.

Further commentary on these assumptions is available in the Annual Report 2012. Details of the economic assumptions for the major economies in which Global Life carries out business can be downloaded in a spreadsheet from the Investor Relations section at www.zurich.com

Appendix

Embedded value results Global Life, by region

in USD millions, for the six months ended June 30

	North America		Latin America	
	2013	2012	2013	2012
Embedded value information:				
Opening embedded value	2,594	2,780	1,615	683
Dividends and capital movements start of period	(68)	(109)	(46)	(5)
New business value	59	50	189	37
Expected contribution	78	86	35	20
Operating experience variances	(10)	19	22	(38)
Operating assumption changes	–	15	(13)	2
Other operating variances	(2)	(195)	(3)	(32)
Operating earnings	126	(25)	230	(12)
Economic variances	79	33	33	(34)
Other non-operating variances	18	6	(12)	1
Embedded value earnings	223	15	251	(45)
Non-controlling interests	–	–	(70)	(1)
Foreign currency translation effects	–	–	(104)	10
Closing embedded value	2,749	2,685	1,645	643
New business information:				
Annual premiums	76	50	425	131
Single premiums	49	112	1,570	234
Annual premium equivalent (APE)	81	62	582	154
Present value of new business premiums (PVNBP)	700	611	3,039	714
New business value	59	50	189	37
New business margin (% of APE)	72.5%	81.0%	32.4%	23.9%
New business margin (% of PVNBP)	8.4%	8.2%	6.2%	5.1%
Returns¹				
Expected return	6.2%	6.5%	4.4%	5.9%
Operating return	10.4%	4.2%	28.9%	6.6%
Embedded value return	14.3%	5.6%	30.2%	1.8%

¹ Returns are annualized by doubling of expected movements such as expected return and new business but experience variances are assumed to be zero for the rest of the year. All metrics in the calculations are net of non-controlling interests except for new business as new business is reported gross of non-controlling interests.

of which Zurich Santander		Europe		Asia-Pacific and Middle East		Other		Global Life	
2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
820	–	11,298	9,701	3,043	2,465	312	217	18,861	15,846
(60)	–	(293)	(365)	93	(11)	(26)	(45)	(339)	(534)
140	–	254	214	85	60	61	63	647	424
17	–	207	347	48	50	6	1	373	504
4	–	(6)	(55)	(13)	(30)	(17)	(9)	(24)	(114)
(6)	–	5	20	(6)	(6)	(3)	(6)	(17)	25
(8)	–	265	142	11	4	(10)	51	262	(31)
146	–	725	669	124	77	36	99	1,241	808
45	–	446	45	(83)	45	(5)	(4)	470	86
(9)	–	(31)	(10)	90	(17)	2	6	68	(13)
182	–	1,141	705	132	106	34	101	1,780	882
(69)	–	(30)	(21)	–	–	–	–	(101)	(22)
(46)	–	(423)	(83)	(220)	4	(11)	(3)	(757)	(73)
827	–	11,693	9,936	3,048	2,564	310	270	19,445	16,098
277	–	596	679	238	202	55	49	1,390	1,111
1,277	–	4,496	5,809	333	398	465	270	6,913	6,822
404	–	1,045	1,260	271	241	102	76	2,081	1,793
2,187	–	11,464	12,167	1,759	1,597	1,121	774	18,083	15,863
140	–	254	214	85	60	61	63	647	424
34.7%	–	24.3%	17.0%	31.3%	24.9%	60.0%	83.0%	31.1%	23.6%
6.4%	–	2.2%	1.8%	4.8%	3.8%	5.4%	8.1%	3.6%	2.7%
4.4%	–	3.8%	7.4%	3.0%	4.1%	4.2%	1.0%	4.0%	6.6%
39.9%	–	10.8%	13.2%	8.2%	7.6%	36.0%	94.5%	12.2%	11.3%
44.7%	–	14.6%	13.6%	8.4%	8.8%	35.1%	95.9%	15.1%	11.8%

Appendix *continued*Embedded value
results
Europe

in USD millions, for the six months ended June 30

	United Kingdom		Germany	
	2013	2012	2013	2012
Embedded value information:				
Opening embedded value	4,130	3,692	2,589	2,058
Dividends and capital movements start of period	53	6	9	(1)
New business value	94	98	13	19
Expected contribution	32	79	47	113
Operating experience variances	(5)	(28)	(2)	–
Operating assumption changes	2	(42)	2	55
Other operating variances	(4)	100	228	(65)
Operating earnings	119	208	289	123
Economic variances	(59)	(107)	24	115
Other non-operating variances	4	10	(34)	–
Embedded value earnings	65	111	279	237
Non-controlling interests	–	–	–	(1)
Foreign currency translation effects	(274)	36	(39)	(53)
Closing embedded value	3,974	3,845	2,838	2,241
New business information:				
Annual premiums	231	282	143	186
Single premiums	1,577	3,143	242	383
Annual premium equivalent (APE)	389	596	167	224
Present value of new business premiums (PVNBP)	5,367	5,851	1,294	2,129
New business value	94	98	13	19
New business margin (% of APE)	24.2%	16.5%	8.0%	8.3%
New business margin (% of PVNBP)	1.8%	1.7%	1.0%	0.9%
Returns¹				
Expected return	1.5%	4.3%	3.6%	11.0%
Operating return	5.9%	10.4%	13.4%	12.4%
Embedded value return	4.6%	7.8%	13.1%	18.0%

¹ Returns are annualized by doubling of expected movements such as expected return and new business but experience variances are assumed to be zero for the the rest of the year. All metrics in the calculations are net of non-controlling interests except for new business as new business is reported gross of non-controlling interests.

Europe										
Switzerland		Ireland		Spain		Rest of Europe		Europe total		
2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	
2,286	2,126	1,204	1,156	281	164	808	506	11,298	9,701	
(157)	(355)	13	13	(32)	(19)	(178)	(8)	(293)	(365)	
35	7	34	31	65	46	13	12	254	214	
61	91	9	10	34	32	24	21	207	347	
(3)	–	7	(36)	–	8	(3)	1	(6)	(55)	
–	–	–	–	–	9	–	(1)	5	20	
59	79	(12)	(10)	1	36	(6)	2	265	142	
152	178	37	(5)	99	131	28	35	725	669	
164	71	13	27	124	(152)	180	92	446	45	
(1)	(22)	–	–	2	(1)	(2)	4	(31)	(10)	
315	226	51	22	226	(22)	206	131	1,141	705	
–	–	–	–	(30)	(21)	–	–	(30)	(21)	
(76)	(22)	(17)	(27)	(5)	(2)	(11)	(14)	(423)	(83)	
2,367	1,974	1,250	1,163	439	99	825	614	11,693	9,936	
76	72	57	57	35	33	53	50	596	679	
701	483	1,408	1,060	292	463	276	278	4,496	5,809	
147	120	198	163	65	79	80	78	1,045	1,260	
1,802	1,450	1,703	1,373	667	730	630	634	11,464	12,167	
35	7	34	31	65	46	13	12	254	214	
23.7%	6.2%	17.1%	19.2%	100.3%	57.8%	16.5%	15.8%	24.3%	17.0%	
1.9%	0.5%	2.0%	2.3%	9.7%	6.3%	2.1%	1.9%	2.2%	1.8%	
5.7%	10.3%	1.5%	1.8%	27.5%	44.2%	7.5%	8.5%	3.8%	7.4%	
11.6%	15.6%	6.6%	3.1%	79.7%	144.2%	10.4%	13.7%	10.8%	13.2%	
19.3%	18.4%	7.7%	5.4%	130.4%	38.4%	38.6%	33.0%	14.6%	13.6%	

Statement by Directors

Statement by Directors

This embedded value report has been prepared in all material respects in accordance with the Market Consistent Embedded Value Principles and Guidance issued by the European Insurance CFO Forum in October 2009.

The methodology and assumptions underlying the report are described in Sections 13 and 14.

Auditor's report on embedded value

To the Board of Directors of Zurich Insurance Group Ltd

Independent assurance report

We have performed a limited assurance engagement on Zurich Insurance Group Ltd's Embedded Value Report ("EV Report") for the half year period ended June 30, 2013, which includes assessing whether the methodology as applied by Zurich Insurance Group Ltd is in accordance with the Market Consistent Embedded Value ("MCEV") Principles and Guidance issued by the European Insurance CFO Forum, the consistency of application, and the reasonableness of the assumptions used, as described on pages 120 and 121.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and presentation of the EV Report, including the applied methodology and the reasonableness of the assumptions used.

Auditor's responsibility

Our responsibility is to form an independent conclusion, based on our limited assurance procedures, on whether anything has come to our attention to indicate that the information contained in the EV Report for the half year period ended June 30, 2013 is not stated, in all material respects, in accordance with the MCEV Principles and Guidance. Our limited assurance engagement was carried out in accordance with International Standard on Assurance Engagements (ISAE 3000) 'Assurance engagements other than audits or reviews of historical financial information'. This standard requires that we comply with ethical requirements and plan and perform the engagement to obtain limited assurance on the EV Report.

In our engagement, we performed analytical procedures to assess whether the methodology as applied by Zurich Insurance Group Ltd is in accordance with the MCEV Principles and Guidance and the assumptions used are reasonable. In addition we performed procedures to assess the consistent application of the methodology. We did not carry out an audit or review of the EV Report or of the models or of the underlying data. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our limited assurance conclusion.

Limited assurance conclusion

Based on our work described in this report, nothing has come to our attention which indicates that the methodology as applied by Zurich Insurance Group Ltd does not comply with the MCEV Principles and Guidance, has not been implemented consistently, and the assumptions determined by the Zurich Insurance Group Ltd, as described on pages 120 and 121, are not reasonable to derive the information included in the EV Report, in all material respects.

PricewaterhouseCoopers AG

Richard Burger
Audit expert

Stephen O'Hearn
Global relationship partner

Zurich, August 14, 2013

Shareholder information

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Zurich Insurance Group Ltd registered share data

Key indicators

	06/30/2013	06/30/2012
Number of shares issued	148,300,123	147,385,822
Number of dividend-bearing shares ¹	148,300,123	147,385,822
Market capitalization (in CHF millions at end of period)	36,334	31,467
Authorized capital, number of shares	10,000,000	10,000,000
Contingent capital, number of shares	12,995,136	13,909,437

¹ Treasury shares are not entitled to dividends.

Per share data

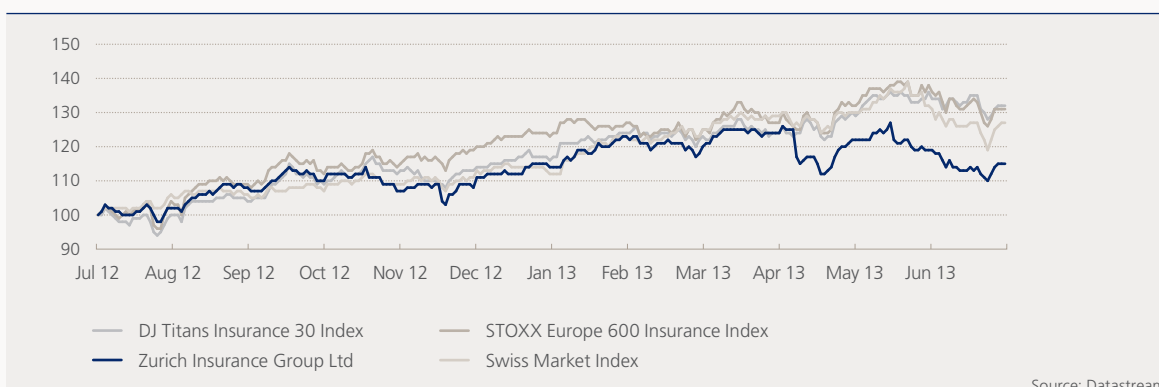
in CHF	06/30/2013	06/30/2012
Gross dividend	17.00 ¹	17.00 ²
Basic earnings per share	11.77	14.12
Diluted earnings per share	11.70	14.05
Nominal value per share	0.10	0.10
Price at end of period	245.00	213.50
Price period high	270.30	244.80
Price period low	234.50	193.10

¹ Gross dividend per registered share; payment date was from April 11, 2013

² Gross dividend per registered share; payment date was from April 5, 2012

Zurich share performance (indexed) over one year, ending June 2013

in %



Shareholder information *continued*

Financial calendar

Results for the nine months to
September 30, 2013
November 14, 2013

Investor Day
December 5, 2013

Annual results 2013
February 13, 2014

Annual General Meeting 2014
April 3, 2014

Results for the three months to
March 31, 2014
May 15, 2014

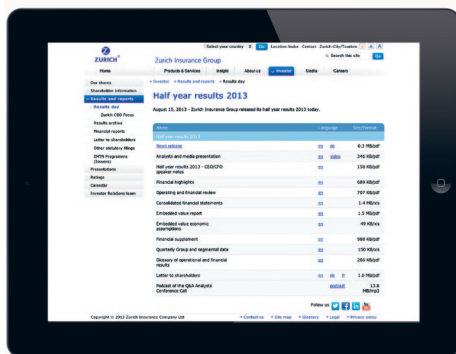
Half year results 2014
August 14, 2014

Results for the nine months to
September 30, 2014
November 13, 2014

Publications

www.zurich.com

A downloadable PDF of this report is available
on www.zurich.com



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American Depositary Receipts

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

Glossary

Group

Book value per share

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

Business operating profit (BOP)

is a measure that is the basis on which the Group manages all its business units. It indicates the underlying performance of the Group's business units by eliminating the impact of financial market volatility and other non-operational variables. BOP reflects adjustments for shareholders' taxes, net capital gains on investments and impairments (except for the capital markets and property lending/banking operations included in Non-Core Businesses, investments in hedge funds, certain securities held for specific economic hedging purposes, and policyholders' share of investment results for the life businesses), non-operational foreign exchange movements, and significant items arising from special circumstances, including restructuring charges for litigation outside the ordinary course of business and gains and losses on divestments of businesses. **Business operating profit before interest, depreciation and amortization (BOPBIDA)** is BOP before interest expense on debt, depreciation of property and equipment and amortization and impairment of goodwill and other intangibles, but including amortization of DAC and DOC.

Adjusted business operating profit is adjusted for notional investment income on the difference between the average actual International Financial Reporting Standards (IFRS) equity and the average allocated IFRS equity using one global swap rate. Allocated IFRS equity is equal to a segment's share of the Group's total IFRS equity allocated based on the segment's proportion of the Group's total risk-based capital (RBC) at each period end.

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

indicates the level of business operating profit or loss relative to resources provided by common shareholders. It is calculated as business operating profit or loss, annualized on a linear basis and adjusted for preferred shareholder dividends and taxes, divided by the average value of common shareholders' equity on a simple basis using the value at the beginning and end of the period.

Investments

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

Return on common shareholders' equity (ROE)

is a measure that indicates the level of profit or loss relative to resources provided by common shareholders. It is calculated as net income after taxes attributable to common shareholders, annualized on a linear basis, divided by the average value of common shareholders' equity on a simple basis using the value at the beginning and end of the period.

General Insurance

The following General Insurance measures are net of reinsurance.

Net underwriting result

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

Total net technical expenses

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

Combined ratio

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

Loss ratio

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

Expense ratio

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

Net non-technical result

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

Global Life

Embedded value (EV) principles

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

Insurance deposits

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

New business annual premium equivalent (APE)

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

New business value, after tax

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

Profit by source

is the analysis of the Global Life BOP into components in a consistent and intuitive way to show profit sources. The net expense margin includes fund and non-fund based fees, policy acquisition costs, maintenance expenses and surrender charges. The net risk margin shows the mortality, morbidity, and longevity premiums less benefits to the policyholder together with the reinsurance result. The investment margin is the spread between investment income and interest credited to the policyholder plus the return on free surplus. All margins are net of any related policyholder bonuses. **BOP before deferrals** is a measure of profit excluding i) the net effect of deferral and amortization of policy acquisition costs and front-end fees, which may be affected by movements in financial markets and changes in assumptions; ii) interest expense on debt, depreciation of property and equipment, amortization and impairment of goodwill and other intangibles; and iii) special operating items. **Special operating items** are material non-recurring items that could lead to distortions in underlying margins and trends.

Farmers

Gross management result

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

Managed gross earned premium margin

is a performance measure calculated as gross operating profit of Farmers Management Services divided by the gross earned premiums of the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc. a wholly owned subsidiary of the Group.

Disclaimer & Cautionary Statement

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

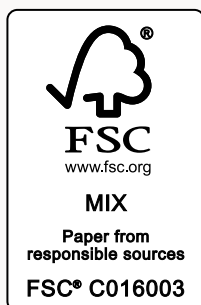
All references to "Farmers Exchanges" mean Farmers Insurance Exchange, Fire Insurance Exchange, Truck Insurance Exchange and their subsidiaries and affiliates. The three Exchanges are California domiciled interinsurance exchanges owned by their policyholders with governance oversight by their Boards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

It should be noted that past performance is not a guide to future performance.
Please also note that interim results are not necessarily indicative of full year results.

Persons requiring advice should consult an independent advisor.

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