

Consolidated financial statements 2013

Zurich Insurance Group
Annual Report 2013

Consolidated financial statements

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Consolidated income statements

in USD millions, for the years ended December 31			
	Notes	2013	Restated 2012
Revenues			
Gross written premiums		51,965	51,285
Policy fees		2,884	2,692
Gross written premiums and policy fees		54,849	53,977
Less premiums ceded to reinsurers		(6,546)	(6,481)
Net written premiums and policy fees		48,303	47,496
Net change in reserves for unearned premiums	11	(1,025)	(741)
Net earned premiums and policy fees		47,277	46,755
Farmers management fees and other related revenues	14	2,810	2,846
Net investment result on Group investments	6	7,398	8,983
Net investment income on Group investments		6,240	6,782
Net capital gains/(losses) and impairments on Group investments		1,157	2,201
Net investment result on unit-linked investments	6	12,805	10,193
Net gain/(loss) on divestments of businesses		(1)	(34)
Other income		1,757	1,669
Total revenues		72,045	70,411
Benefits, losses and expenses			
Insurance benefits and losses, gross of reinsurance	11	35,256	37,271
Less ceded insurance benefits and losses	11	(3,058)	(3,519)
Insurance benefits and losses, net of reinsurance	11	32,198	33,752
Policyholder dividends and participation in profits, net of reinsurance	11	13,946	11,405
Underwriting and policy acquisition costs, net of reinsurance	11	10,041	10,014
Administrative and other operating expense	13	8,804	8,654
Interest expense on debt	20	586	570
Interest credited to policyholders and other interest		510	545
Total benefits, losses and expenses		66,086	64,939
Net income before income taxes		5,960	5,472
Income tax expense	19	(1,701)	(1,496)
attributable to policyholders	19	(285)	(194)
attributable to shareholders	19	(1,415)	(1,302)
Net income after taxes		4,259	3,975
attributable to non-controlling interests		231	89
attributable to shareholders		4,028	3,887
in USD			
Basic earnings per share	21	27.33	26.50
Diluted earnings per share	21	27.22	26.37
in CHF			
Basic earnings per share	21	25.33	24.84
Diluted earnings per share	21	25.23	24.72

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

Consolidated financial statements *continued*

Consolidated statements of comprehensive income

in USD millions, for the years ended December 31

	Net income attributable to shareholders	Net unrealized gains/(losses) on available- for-sale investments	Cash flow hedges
2012			
Comprehensive income for the period, as restated	3,887	1,724	6
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		3,875	32
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(1,724)	(35)
Deferred income tax (before foreign currency translation effects)		(514)	4
Foreign currency translation effects		87	6
2013			
Comprehensive income for the period	4,028	(2,794)	(133)
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		(1,684)	(87)
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(1,692)	(86)
Reclassification to retained earnings		–	–
Deferred income tax (before foreign currency translation effects)		596	40
Foreign currency translation effects		(13)	1

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

	Cumulative foreign currency translation adjustment	Total other comprehensive income recycled through profit or loss	Revaluation reserve	Net actuarial gains/(losses) on pension plans	Total other comprehensive income not recycled through profit or loss	Total other comprehensive income attributable to shareholders	Total comprehensive income attributable to shareholders	Comprehensive income attributable to non-controlling interests	Total comprehensive income
	(441)	1,289	–	(459)	(459)	830	4,717	138	4,855
	(485)	3,422	–	(485)	(485)	2,937			
	44	(1,715)	–	–	–	(1,715)			
	–	(511)	–	104	104	(407)			
	–	93	–	(77)	(77)	16			
	(986)	(3,912)	15	(367)	(352)	(4,265)	(237)	122	(115)
	(1,065)	(2,836)	24	(205)	(181)	(3,017)			
	79	(1,699)	–	–	–	(1,699)			
	–	–	(6)	–	(6)	(6)			
	–	635	(4)	(76)	(80)	555			
	–	(12)	–	(86)	(86)	(98)			

Consolidated financial statements *continued*

Consolidated balance sheets

Assets	in USD millions, as of	Notes	Restated		
			12/31/13	12/31/12	01/01/12
Investments					
Total Group investments		6	207,280	209,582	198,549
Cash and cash equivalents			7,181	9,098	8,835
Equity securities			13,183	12,341	13,037
Debt securities			156,456	155,594	144,139
Real estate held for investment			8,745	8,561	8,472
Mortgage loans			9,798	10,519	11,058
Other loans			11,789	13,385	12,928
Investments in associates and joint ventures			129	85	80
Investments for unit-linked contracts		6	134,267	123,913	111,911
Total investments		6	341,547	333,496	310,461
Reinsurers' share of reserves for insurance contracts		8	17,978	19,753	19,592
Deposits made under assumed reinsurance contracts			2,645	2,588	2,711
Deferred policy acquisition costs		12	18,724	18,346	17,420
Deferred origination costs		12	724	770	824
Accrued investment income			2,321	2,414	2,589
Receivables and other assets		17	18,499	18,425	17,831
Mortgage loans given as collateral			–	–	223
Deferred tax assets		19	2,020	1,853	2,076
Assets held for sale ¹			223	102	54
Property and equipment		15	1,494	1,530	1,580
Goodwill		16	1,852	2,107	2,060
Other intangible assets		16	7,028	7,448	8,062
Total assets			415,053	408,831	385,481

¹ December 31, 2013 included assets relating to a subsidiary of Centre Group Holdings Limited amounting to USD 100 million (see note 5) and land and buildings formerly classified as real estate held for investment amounting to USD 123 million. December 31, 2012 included land and buildings formerly classified as real estate held for investment and held for own use amounting to USD 91 million and USD 10 million, respectively. January 1, 2012 included assets relating to the sale of a company in Bolivia (see note 5 of the Consolidated financial statements 2012).

Liabilities
and equity

in USD millions, as of	Notes	12/31/13	Restated 12/31/12	Restated 01/01/12
Liabilities				
Reserve for premium refunds		571	706	611
Liabilities for investment contracts	9	67,113	57,437	50,309
Deposits received under ceded reinsurance contracts		1,245	1,558	1,560
Deferred front-end fees		5,791	6,073	5,720
Reserves for insurance contracts	8	265,440	265,233	253,207
Obligations to repurchase securities		1,685	1,539	1,794
Accrued liabilities		3,023	3,279	3,154
Other liabilities	18	17,904	18,368	18,265
Collateralized loans		–	–	223
Deferred tax liabilities	19	5,110	5,244	4,577
Liabilities held for sale ¹		49	–	55
Senior debt	20	6,044	6,660	6,541
Subordinated debt	20	6,342	5,861	5,476
Total liabilities		380,319	371,957	351,493
Equity				
Share capital	21	11	11	10
Additional paid-in capital	21	6,395	8,172	9,907
Net unrealized gains/(losses) on available-for-sale investments		1,730	4,523	2,800
Cash flow hedges		106	238	232
Cumulative foreign currency translation adjustment		(4,008)	(3,022)	(2,581)
Revaluation reserve		195	180	180
Retained earnings		28,075	24,403	20,951
Shareholders' equity		32,503	34,505	31,499
Non-controlling interests		2,231	2,369	2,490
Total equity		34,734	36,874	33,989
Total liabilities and equity		415,053	408,831	385,481

¹ December 31, 2013 included liabilities relating to a subsidiary of Centre Group Holdings Limited amounting to USD 49 million (see note 5). January 1, 2012 included liabilities relating to the sale of a company in Bolivia (see note 5 of the Consolidated financial statements 2012).

Consolidated financial statements *continued*

Consolidated statements of cash flows

in USD millions, for the years ended December 31	2013	Restated 2012
Cash flows from operating activities		
Net income attributable to shareholders	4,028	3,887
Adjustments for:		
Net (gain)/loss on divestments of businesses	1	34
(Income)/expense from equity method accounted investments	(11)	(12)
Depreciation, amortization and impairments of fixed and intangible assets	1,198	1,085
Other non-cash items	255	134
Underwriting activities:	8,144	10,313
<i>Reserves for insurance contracts, gross</i>	<i>(727)</i>	<i>5,727</i>
<i>Reinsurers' share of reserves for insurance contracts</i>	<i>1,787</i>	<i>80</i>
<i>Liabilities for investment contracts</i>	<i>7,984</i>	<i>5,283</i>
<i>Deferred policy acquisition costs</i>	<i>(578)</i>	<i>(960)</i>
<i>Deferred origination costs</i>	<i>62</i>	<i>89</i>
<i>Deposits made under assumed reinsurance contracts</i>	<i>(58)</i>	<i>125</i>
<i>Deposits received under ceded reinsurance contracts</i>	<i>(327)</i>	<i>(31)</i>
Investments:	(11,006)	(12,099)
<i>Net capital (gains)/losses on total investments and impairments</i>	<i>(12,245)</i>	<i>(10,574)</i>
<i>Net change in trading securities and derivatives</i>	<i>15</i>	<i>(169)</i>
<i>Net change in money market investments</i>	<i>1,578</i>	<i>341</i>
<i>Sales and maturities</i>		
<i>Debt securities</i>	<i>109,172</i>	<i>107,436</i>
<i>Equity securities</i>	<i>62,758</i>	<i>64,123</i>
<i>Other</i>	<i>28,003</i>	<i>39,077</i>
<i>Purchases</i>		
<i>Debt securities</i>	<i>(113,259)</i>	<i>(110,301)</i>
<i>Equity securities</i>	<i>(62,968)</i>	<i>(62,800)</i>
<i>Other</i>	<i>(24,059)</i>	<i>(39,231)</i>
Proceeds from sale and repurchase agreements	117	(332)
Movements in receivables and payables	(1,260)	(953)
Net changes in other operational assets and liabilities	(252)	351
Deferred income tax, net	228	461
Net cash provided by/(used in) operating activities	1,443	2,868

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

in USD millions, for the years ended December 31	2013	Restated 2012
Cash flows from investing activities		
Sales of property and equipment	66	95
Purchases of property and equipment	(282)	(226)
(Acquisitions)/disposals of equity method accounted investments, net	(24)	3
Acquisitions of companies, net of cash acquired	–	(97)
Divestments of companies, net of cash balances	–	(14)
Dividends from equity method accounted investments	1	6
Net cash provided by/(used in) investing activities	(239)	(233)
Cash flows from financing activities		
Dividends paid	(2,889)	(2,704)
Issuance of share capital	44	96
Net movement in treasury shares	15	30
Issuance of debt	1,545	1,575
Repayment of debt	(1,948)	(1,315)
Net cash provided by/(used in) financing activities	(3,233)	(2,318)
Foreign currency translation effects on cash and cash equivalents	(17)	187
Change in cash and cash equivalents	(2,046)	503
Cash and cash equivalents as of January 1	10,208	9,705
Cash and cash equivalents as of December 31	8,162	10,208
of which:		
– cash and cash equivalents – Group investments	7,181	9,098
– cash and cash equivalents – unit linked	982	1,110
Other supplementary cash flow disclosures		
Other interest income received	6,437	6,929
Dividend income received	1,724	1,826
Other interest expense paid	(1,180)	(1,216)
Income taxes paid	(1,186)	(1,231)

Cash and cash equivalents

in USD millions, as of December 31	2013	Restated 2012
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	5,746	6,954
Cash equivalents	2,416	3,254
Total	8,162	10,208

As of December 31, 2013 and 2012, cash and cash equivalents held to meet local regulatory requirements were USD 1,284 million and USD 1,345 million, respectively.

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

Consolidated financial statements *continued*

Consolidated statements of changes in equity

in USD millions

	Share capital	Additional paid-in capital
Balance as of December 31, 2011, as previously reported	10	9,907
Total adjustments due to restatement	–	–
Balance as of December 31, 2011, as restated	10	9,907
Issuance of share capital ¹	–	221
Dividends to shareholders ²	–	(1,923)
Share-based payment transactions	–	(34)
Treasury share transactions ⁴	–	2
Change in ownership interests with no loss of control	–	–
Total comprehensive income for the period, net of tax	–	–
<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 December 31, 2012, as restated	11	8,172
Balance as of December 31, 2012, as previously reported	11	8,172
Total adjustments due to restatement	–	–
Balance as of December 31, 2012, as restated	11	8,172
Issuance of share capital ¹	–	152
Dividends to shareholders ³	–	(1,933)
Share-based payment transactions	–	(4)
Treasury share transactions ⁴	–	8
Reclassification from revaluation reserves	–	–
Total comprehensive income for the period, net of tax	–	–
<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 December 31, 2013	11	6,395

¹ The number of common shares issued as of December 31, 2013 was 148,903,222 (December 31, 2012: 148,300,123, December 31, 2011: 147,385,822).

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

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

⁴ The number of treasury shares deducted from equity as of December 31, 2013 amounted to 1,320,652 (December 31, 2012: 1,348,395, December 31, 2011: 1,373,392).

	Net unrealized gains/(losses) on available-for-sale investments	Cash flow hedges	Cumulative foreign currency translation adjustment	Revaluation reserve	Retained earnings	Shareholders' equity	Non-controlling interests	Total equity
	2,800	232	(2,581)	180	20,936	31,484	2,489	33,973
	–	–	–	–	15	15	1	16
	2,800	232	(2,581)	180	20,951	31,499	2,490	33,989
	–	–	–	–	–	221	–	221
	–	–	–	–	–	(1,923)	(43)	(1,966)
	–	–	–	–	–	(34)	–	(34)
	–	–	–	–	28	30	–	30
	–	–	–	–	(5)	(5)	–	(5)
	1,724	6	(441)	–	3,428	4,717	138	4,855
	–	–	–	–	3,887	3,887		
	1,724	–	–	–	–	1,724		
	–	6	–	–	–	6		
	–	–	(441)	–	–	(441)		
	–	–	–	–	–	–		
	–	–	–	–	(459)	(459)		
	–	–	–	–	–	–	(216)	(216)
	4,523	238	(3,022)	180	24,403	34,505	2,369	36,874
	4,523	238	(3,022)	180	24,391	34,494	2,368	36,862
	–	–	–	–	11	11	1	12
	4,523	238	(3,022)	180	24,403	34,505	2,369	36,874
	–	–	–	–	–	152	–	152
	–	–	–	–	–	(1,933)	(238)	(2,171)
	–	–	–	–	–	(4)	–	(4)
	–	–	–	–	7	15	–	15
	–	–	–	–	6	6	–	6
	(2,794)	(133)	(986)	15	3,661	(237)	122	(115)
	–	–	–	–	4,028	4,028		
	(2,794)	–	–	–	–	(2,794)		
	–	(133)	–	–	–	(133)		
	–	–	(986)	–	–	(986)		
	–	–	–	15	–	15		
	–	–	–	–	(367)	(367)		
	–	–	–	–	–	–	(22)	(22)
	1,730	106	(4,008)	195	28,075	32,503	2,231	34,734

Consolidated financial statements *continued*

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

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

On February 12, 2014 the Board of Directors of Zurich Insurance Group Ltd authorized these Consolidated financial statements for issue. These financial statements will be submitted for approval to the Annual General Meeting of Shareholders to be held on April 2, 2014.

1. Basis of presentation

General information

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

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

Disclosures under IFRS 4 "Insurance Contracts" and IFRS 7 "Financial Instruments: Disclosures" relating to the nature and extent of risks, and capital disclosures under IAS 1 "Presentation of Financial Statements" have been included in the Risk review on pages 128 to 168, and they form an integral part of the Consolidated financial statements.

Certain amounts recorded in the Consolidated financial statements reflect estimates and assumptions made by management about insurance liability reserves, investment valuations, interest rates and other factors. Critical accounting judgments and estimates are discussed in note 4. Actual results may differ from the estimates and assumptions made.

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

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

The following balances are mixed in nature (including both current and non-current portions): debt securities, mortgage loans, other loans, reinsurers' share of reserves for insurance contracts, deposits made under assumed reinsurance contracts, deferred origination costs, other assets, mortgage loans given as collateral, reserves and investments for unit-linked contracts, liabilities for investment contracts, deposits received under ceded reinsurance

contracts, deferred front-end fees, reserves for losses and loss adjustment expenses, reserves for unearned premiums, future life policyholders' benefits, policyholders' contract deposits and other funds, other liabilities, collateralized loans, senior and subordinated debt, and assets and liabilities held for sale.

Maturity tables have been provided for the following balances: reserves for insurance contracts (tables 20a and 20b in the Risk review), liabilities for investment contracts (tables 21a and 21b in the Risk review), debt securities (table 6.4), derivative assets and derivative liabilities (tables 7.1 and 7.2), other financial liabilities (table 18.2) and outstanding debt (table 20.4).

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

Table 1.1 summarizes the principal exchange rates used for translation purposes. Net gains/(losses) on foreign currency transactions included in the consolidated income statements were USD 37 million and USD 79 million for the years ended December 31, 2013 and 2012, respectively. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD (58) million and USD 130 million for the years ended December 31, 2013 and 2012, respectively.

Table 1.1

Principal exchange rates	USD per foreign currency unit	Consolidated balance sheets		Consolidated income statements and cash flows	
		12/31/13	12/31/12	12/31/13	12/31/12
		Euro	1.3778	1.3188	1.3277
Swiss franc	1.1228	1.0928	1.0790	1.0668	
British pound	1.6568	1.6272	1.5639	1.5847	

Restatements and reclassifications

Tables 1.2 and 1.3 show the impacts of the restatement as a result of implementing IAS 19 "Employee Benefits" and IFRS 10 "Consolidated Financial Statements" on the consolidated income statement for the year ended December 31, 2012 and the consolidated balance sheet as of December 31, 2012. Consolidated income statements, consolidated balance sheets, consolidated statements of comprehensive income, consolidated statements of changes in equity, consolidated statements of cash flows and notes 6, 9, 11, 13, 17, 18, 19, 21, 22, 25, 26, 28 and 29 have been restated accordingly.

The presentation of deferred bonuses allocated to policyholders had been aligned across the Group. There was no impact to the Group's consolidated income statement. As a result of this alignment there was a corresponding reduction in both deferred front-end fees and deferred policy acquisition costs. The impact of the reduction in deferred policy acquisition costs is set out in note 12.

The presentation of indemnity commission has been aligned across the Group with no impact on the Group's consolidated income statement. As a result of this alignment there is a transfer from receivables and other assets to deferred policy acquisition costs. The impact of the increase in deferred policy acquisition costs is set out in note 12.

Consolidated financial statements *continued*

Table 1.2					
in USD millions, for the year ended December 31, 2012		As reported	IAS 19	IFRS 10	As restated
Restatement of the consolidated income statement	Revenues				
	Gross written premiums	51,285	–	–	51,285
	Policy fees	2,692	–	–	2,692
	Gross written premiums and policy fees	53,977	–	–	53,977
	Less premiums ceded to reinsurers	(6,481)	–	–	(6,481)
	Net written premiums and policy fees	47,496	–	–	47,496
	Net change in reserves for unearned premiums	(741)	–	–	(741)
	Net earned premiums and policy fees	46,755	–	–	46,755
	Farmers management fees and other related revenues	2,846	–	–	2,846
	Net investment result on Group investments	8,911	–	72	8,983
	Net investment income on Group investments	6,711	–	72	6,782
	Net capital gains/(losses) and impairments on Group investments	2,201	–	–	2,201
	Net investment result on unit-linked investments	10,268	–	(74)	10,193
	Net gain/(loss) on divestments of businesses	(34)	–	–	(34)
	Other income	1,669	–	–	1,669
	Total revenues	70,414	–	(3)	70,411
	Benefits, losses and expenses				
	Insurance benefits and losses, gross of reinsurance	37,271	–	–	37,271
	Less ceded insurance benefits and losses	(3,519)	–	–	(3,519)
	Insurance benefits and losses, net of reinsurance	33,752	–	–	33,752
	Policyholder dividends and participation in profits, net of reinsurance	11,479	–	(74)	11,405
	Underwriting and policy acquisition costs, net of reinsurance	10,014	–	–	10,014
	Administrative and other operating expense	8,661	(9)	2	8,654
	Interest expense on debt	570	–	–	570
	Interest credited to policyholders and other interest	475	–	69	545
	Total benefits, losses and expenses	64,951	(9)	(3)	64,939
	Net income before income taxes	5,462	9	–	5,472
	Income tax expense	(1,496)	–	–	(1,496)
	attributable to policyholders	(194)	–	–	(194)
	attributable to shareholders	(1,301)	–	–	(1,302)
Net income after taxes	3,967	9	–	3,975	
attributable to non-controlling interests	89	–	–	89	
attributable to shareholders	3,878	9	–	3,887	
in USD					
Basic earnings per share	26.44	0.06	–	26.50	
Diluted earnings per share	26.31	0.06	–	26.37	
in CHF					
Basic earnings per share	24.79	0.06	–	24.84	
Diluted earnings per share	24.66	0.06	–	24.72	

Restatement of the consolidated balance sheet

Table 1.3				
in USD millions, as of December 31, 2012	As reported	IAS 19	IFRS 10	As restated
Investments				
Total Group investments	208,707	–	875	209,582
Cash and cash equivalents	9,098	–	–	9,098
Equity securities	12,341	–	–	12,341
Debt securities	155,594	–	–	155,594
Real estate held for investment	8,561	–	–	8,561
Mortgage loans	10,519	–	–	10,519
Other loans	12,423	–	962	13,385
Investments in associates and joint ventures	172	–	(87)	85
Investments for unit-linked contracts	125,226	–	(1,313)	123,913
Total investments	333,934	–	(438)	333,496
Reinsurers' share of reserves for insurance contracts	19,753	–	–	19,753
Deposits made under assumed reinsurance contracts	2,588	–	–	2,588
Deferred policy acquisition costs	18,346	–	–	18,346
Deferred origination costs	770	–	–	770
Accrued investment income	2,414	–	–	2,414
Receivables and other assets	18,423	–	3	18,425
Deferred tax assets	1,854	–	–	1,853
Assets held for sale	102	–	–	102
Property and equipment	1,530	–	–	1,530
Goodwill	2,107	–	–	2,107
Other intangible assets	7,448	–	–	7,448
Total assets	409,267	–	(436)	408,831
Liabilities				
Reserve for premium refunds	706	–	–	706
Liabilities for investment contracts	58,131	–	(693)	57,437
Deposits received under ceded reinsurance contracts	1,558	–	–	1,558
Deferred front-end fees	6,073	–	–	6,073
Reserves for insurance contracts	265,233	–	–	265,233
Obligations to repurchase securities	1,539	–	–	1,539
Accrued liabilities	3,272	–	7	3,279
Other liabilities	18,135	(18)	251	18,368
Deferred tax liabilities	5,238	6	–	5,244
Senior debt	6,660	–	–	6,660
Subordinated debt	5,861	–	–	5,861
Total liabilities	372,405	(12)	(436)	371,957
Equity				
Share capital	11	–	–	11
Additional paid-in capital	8,172	–	–	8,172
Net unrealized gains/(losses) on available-for-sale investments	4,523	–	–	4,523
Cash flow hedges	238	–	–	238
Cumulative translation adjustment	(3,022)	–	–	(3,022)
Revaluation reserve	180	–	–	180
Retained earnings	24,391	12	–	24,403
Shareholders' equity	34,494	11	–	34,505
Non-controlling interests	2,368	–	1	2,369
Total equity	36,862	11	1	36,874
Total liabilities and equity	409,267	–	(435)	408,831

Consolidated financial statements *continued*

2. New accounting standards and amendments to published accounting standards

Standards, amendments and interpretations effective or early adopted as of January 1, 2013 and relevant for the Group's operations

The following amendments to accounting standards and interpretations of standards relevant to the Group have been implemented for the financial year beginning January 1, 2013. The impact of adoption on the Group's Consolidated financial statements is disclosed in table 2.1.

Table 2.1

Standard/ interpretation		Effective date
	New standards	
IFRS 10	Consolidated Financial Statements ²	January 1, 2013
IFRS 11	Joint Arrangements ¹	January 1, 2013
IFRS 12	Disclosure of Interests in Other Entities ¹	January 1, 2013
IFRS 13	Fair Value Measurement ³	January 1, 2013
	Amended standards	
IAS 1	Presentation of items of Other Comprehensive Income (OCI) ¹	July 1, 2012
IAS 19	Employee Benefits ⁴	January 1, 2013
IAS 27	Separate Financial Statements ¹	January 1, 2013
IAS 28	Investments in Associates and Joint Ventures ¹	January 1, 2013
IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities ¹	January 1, 2013

¹ Adoption has no significant impact on the Consolidated financial statements.

² Resulted in an immaterial net deconsolidation impact following the additional consolidation of certain structured entities that were previously accounted for as associates and the deconsolidation of silo-structures and funds.

³ Resulted in a change in the fair value hierarchy disclosures.

⁴ Applying a high quality corporate bond rate rather than an expected return on assets rate resulted in approximately USD 9 million lower expenses. Additionally, impact from past service cost is immaterial.

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

The following standards, amendments and interpretations of existing published standards are not yet effective but are relevant to the Group's operations. The expected impact of these standards, amendments, and interpretations on the Group's Consolidated financial statements are disclosed in table 2.2. In addition to the standards and amendments listed in table 2.2 the Group will also have to incorporate amendments resulting from the IASB annual improvements project, which relate primarily to disclosure enhancements.

Table 2.2

Standard/ interpretation		Effective date
	New standards	
IFRS 9	Financial Instruments ²	Pending
IFRIC 21	Levies ¹	January 1, 2014
	Amended standards	
IAS 32	Offsetting Financial Assets and Financial Liabilities ¹	January 1, 2014
IAS 39	Novation of Derivatives and Continuation of Hedge Accounting ¹	January 1, 2014

¹ Not expected to have a significant impact on the Consolidated financial statements.

² The impact on the Consolidated financial statements will be assessed in conjunction with the revised standard IFRS 4 "Insurance Contracts". Changes to the IFRS timetable may impact this approach.

3. Summary of significant accounting policies

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

a) Consolidation principles

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

Acquisition transactions with non-controlling interests are accounted for as transactions with parties external to the Group. The effect of transactions with non-controlling interests is recorded in equity if there is no change in control.

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

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

b) Foreign currency translation and transactions

Foreign currency translation

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

Foreign currency transactions and balances

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

- when gains or losses on non-monetary items measured at fair value, such as available-for-sale equity securities, are recognized directly in OCI, any foreign currency component included in the gains or losses is also recognized directly in OCI;
- when changes in the fair value of monetary items denominated in foreign currency, such as debt securities, that are classified as available-for-sale, are analyzed between foreign currency translation differences resulting from changes in the amortized cost of the security and other fair value changes in the security. Foreign currency translation differences related to changes in amortized cost are recognized in income, and those related to other changes in fair value are recognized in OCI; and
- foreign currency translation differences arising on monetary items that form part of net investments in foreign operations are included directly in OCI as cumulative foreign currency translation adjustment.

Consolidated financial statements *continued*

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

Classification

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

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

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

Premiums

General insurance

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

Life insurance

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

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

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

Reserves for losses and loss adjustment expenses

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

Reserves for life benefits

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

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

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

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

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

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

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

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

Deferred acquisition costs (DAC)

Costs that vary with and are directly related to the acquisition of new and renewal business, including for example commissions and certain underwriting and policy issue expenses, are deferred and subsequently amortized over a defined period. Certain direct response marketing costs for efforts which solicit a direct response that is specific and quantifiable are also deferred, when it can be demonstrated that such marketing results in future economic benefits.

General insurance

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

Life insurance

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

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

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

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

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

Liability adequacy tests

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

General insurance

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

Consolidated financial statements *continued*

Life insurance

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

Reinsurance

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

Reinsurance contracts that do not transfer significant insurance risk are accounted for using the deposit method. A deposit asset or liability is recognized based on the premium paid or received less any explicitly identified premiums or fees to be retained by the ceding company. Interest on deposits is accounted for using the effective interest rate method. Future cash flows are estimated to calculate the effective yield and revenue and expense are recorded as interest income or expense. Reinsurance deposit assets or liabilities also include funds deposited or held by the Group, under assumed or ceded reinsurance contracts, respectively, when funds are retained by the reinsured under the terms of the contract.

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

Reinsurance assets are assessed for impairment on a regular basis for any events that may trigger impairment. If a reinsurance asset is impaired, the carrying amount of the asset is reduced to its recoverable amount, through the use of an allowance account, and the amount of the impairment loss is recognized in income. If a decrease in the impairment loss can be related objectively to an event occurring after the impairment loss was initially recognized, the impairment loss is reversed through income.

Premiums paid under retroactive contracts are included in reinsurance recoverables in the balance sheet. If the amount of gross liabilities reinsured is higher than the premium paid, reinsurance recoverables are increased by the difference and the resulting gain is deferred and amortized over the expected settlement period. If the amount of gross liabilities reinsured is lower than the premium paid, reinsurance recoverables are reduced by the difference and the resulting loss is recognized in income immediately.

d) Liabilities for investment contracts (without DPF)

Investment contracts are those contracts that transfer no significant insurance risk. The Group issues investment contracts without fixed terms (unit-linked) and investment contracts with fixed and guaranteed terms (fixed interest rate).

Unit-linked investment contracts

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

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

Investment contracts at amortized cost

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

Deferred origination costs (DOC)

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

e) Investments excluding derivative financial instruments

Investments include financial assets (excluding derivative financial instruments), cash and cash equivalents and real estate held for investment.

Categories and measurement of investments (excluding derivative financial instruments)

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

The Group recognizes regular purchases and sales of financial assets on the trade date, which is the date on which the Group commits to purchase or sell the asset.

Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are either designated as such or are not classified in any of the other categories. Available-for-sale financial assets are carried at fair value, with changes in fair value recognized in OCI, until the securities are either sold or impaired.

The cumulative unrealized gains or losses recorded in OCI are net of cumulative deferred income taxes, certain related life policyholder liabilities and deferred acquisition costs. When available-for-sale financial assets are sold, impaired or otherwise disposed of, the cumulative gains or losses are recycled from OCI and recognized in income.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and those irrevocably designated at fair value through profit or loss at inception.

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

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

Held-to-maturity investments

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities other than those that meet the definition of loans and receivables, and for which the Group has the positive intention and ability to hold to maturity.

Held-to-maturity investments are carried at amortized cost using the effective interest rate method, less any charges for impairment.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market and are not classified in any of the other categories.

Loans and receivables are carried at amortized cost using the effective interest rate method, less any charges for impairment.

Other items

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

Consolidated financial statements *continued*

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

Impairment of financial assets

General

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

Available-for-sale financial assets

When there is objective evidence that an available-for-sale debt security is impaired, the cumulative loss that had been recognized in OCI is reclassified to income as an impairment loss. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through income, up to the amortized cost amount calculated as if no impairment had been recognized at the date of reversal. Any further gains are recognized in OCI. Any subsequent losses, to the extent that they do not represent further impairment losses, are also recognized in OCI.

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

Held-to-maturity investments and loans and receivables

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

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

f) Derivative financial instruments and hedge accounting

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

Derivative financial instruments that qualify for hedge accounting

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

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

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

Fair value hedges

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

Cash flow hedges

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

Net investment hedges

Measurement of hedge effectiveness is based on changes in forward rates. Gains and losses on the designated hedging derivative relating to the effective portion of the hedge are recognized in OCI, whereas the ineffective portion is immediately recognized in income. The accumulated gains and losses in OCI on the hedging instrument are reclassified to income on disposal or partial disposal of the foreign operation.

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

g) Borrowings

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

When fair value hedge accounting is applied to borrowings, the carrying values of the borrowings are adjusted for changes in fair value attributable to the risk being hedged.

h) Derecognition of financial assets and liabilities

Financial assets are derecognized when the right to receive cash flows from the assets has expired, or when the Group has transferred its contractual right to receive the cash flows from the financial asset, and either

- substantially all the risks and rewards of ownership have been transferred; or
- substantially all the risks and rewards have not been retained or transferred, but control has been transferred.

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

Securities lending

Certain entities within the Group participate in securities lending arrangements whereby specific securities are loaned to other institutions, primarily banks and brokerage firms, for short periods of time. Under the terms of the securities lending agreements, the Group retains substantially all the risks and rewards of ownership of these loaned securities, and also retains contractual rights to the cash flows therefrom. These securities are therefore not derecognized from the Group's balance sheet. Cash received as collateral for loaned securities is recorded as an asset, and a corresponding liability is established.

Repurchase and reverse repurchase transactions

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

Consolidated financial statements *continued*

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

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

In cases such as events of default by a third party, it may be determined that the risks and rewards of ownership over the collateral have been obtained by the Group. At such point in time, the securities held under the reverse repurchase agreement would be recognized on the balance sheet at fair value and the original receivable as collateral would be derecognized. Any shortfall is recorded as a loss in income.

i) Property and equipment

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

- buildings 25 to 50 years;
- furniture and fixtures five to ten years; and
- computer equipment three to six years.

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

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets are grouped on a cash generating unit (CGU) level if the recoverable amount cannot be separately determined.

j) Intangible assets

Intangible assets include goodwill, present value of future profits (PVFP) from acquired insurance contracts, attorney-in-fact (AIF) relationships, distribution agreements and other intangible assets, such as computer software licenses and capitalized software development costs.

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

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

Goodwill

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

Goodwill on the acquisition of subsidiaries is capitalized as a separate line and reviewed for impairment annually, or more frequently if impairment indicators are observed. For the purpose of impairment testing, goodwill is allocated to cash generating units (CGUs) based on the level at which management monitors operations and makes decisions relating to the continuation or disposal of assets and operations. On this basis, for the General Insurance segment, CGUs are aggregated predominantly on the segment level. Within the segments Global Life and Farmers, CGUs are identified at either business unit level or individual reporting entity level.

Goodwill on the acquisition of associates and joint ventures is included in the value of equity method accounted investments and is tested for impairment as part of the overall measurement of the carrying amount of those investments.

If goodwill has been allocated to a CGU and an operation within that unit is disposed of, the carrying amount of the operation includes attributable goodwill when determining the gain or loss on disposal.

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

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

Attorney-in-fact relationships (AIF)

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

Distribution agreements

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

Software

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

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

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

k) Provisions, contingent liabilities, commitments and financial guarantees

Provisions, contingent liabilities, commitments and financial guarantees are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of such an obligation. Provisions are discounted when the effect of the time value of money is considered material.

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

l) Treasury shares

Zurich Insurance Group Ltd shares held by the Group are classified as treasury shares and are deducted from shareholders' equity, net of transaction costs and tax. The nominal value of treasury shares is deducted from share capital. The difference between the nominal value and the amount paid to acquire the treasury shares, is allocated between additional paid-in capital and retained earnings. No gain or loss is recognized in income on the purchase, sale, issue or cancellation of treasury shares.

Consolidated financial statements *continued*

m) Other revenue recognition

Farmers management fees

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

Other fees and commission income

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

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

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

n) Net investment income

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

Investment income

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

For Group investments, interest income is recognized using the effective interest method. Dividend income is recognized when the right to receive payment is established, which is usually the ex-dividend date.

Rental income from real estate held for investment is recognized on an accrual basis.

Investment expenses

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

o) Employee benefits

Share-based compensation and cash incentive plans

The Group operates long-term incentive plans which comprise the allocation of a target number of shares.

Under the Group's equity-settled share-based compensation plans, the fair value of the employee services received in exchange for the grant is determined by reference to the fair value of the shares previously granted and is recognized as an expense in income over the vesting period, with a corresponding amount recorded in additional paid-in capital.

Non-market vesting conditions (for example, profitability and revenue growth targets) are included in assumptions to determine the number of shares that are expected to be issued or become exercisable. At each balance sheet date, the Group revises its estimates of the number of shares that are expected to be issued. It recognizes the impact of the revision to original estimates, if any, in income with a corresponding adjustment to additional paid-in capital. However, no subsequent adjustment to total additional paid-in capital is made after the vesting date.

The proceeds received when the shares are delivered are credited, net of any directly attributable transaction costs, to share capital (nominal value) and additional paid-in capital.

Retirement benefits

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

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

Other post-employment benefits

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

p) Leases

Payments made under operating leases (net of any incentives received from the lessor) are normally charged to income on a straight-line basis over the period of the lease.

Finance leases, where the Group is the lessee, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in income. Contingent rents are recognized as expenses in the period in which they are incurred.

q) Income taxes

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

Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same taxation authority and when there is a legally enforceable right to offset them.

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

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

Consolidated financial statements *continued*

4. Critical accounting judgments and estimates

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

a) Reserves for insurance contracts and deferred acquisition costs

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

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

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

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

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

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

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

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

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

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

b) Fair value measurement

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

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

Valuations can be subject to significant judgment especially when the fair value is determined based on at least one significant unobservable input parameter; such items are classified within Level 3 of the fair value hierarchy. See note 6, 7 and 25 for further information regarding the estimate of fair value.

c) Impairment of assets

Financial assets

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

Consolidated financial statements *continued*

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

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

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

Goodwill and Attorney-in-fact relationships (AIF)

Goodwill is allocated to the cash generating units (CGUs) as outlined in note 3. For goodwill impairment testing, the recoverable amount is the higher of its fair value less costs to sell and its value-in-use.

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

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

For the General Insurance segment, CGUs are aggregated predominantly on the segment level. Within the Global Life and Farmers segments, CGUs are identified at either business unit level or individual reporting entity level.

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

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

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

Table 4.1

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

	Segment	in USD millions	Discount rates in % 2013	Discount rates in % 2012	Perpetual nominal growth rate in % 2013	Perpetual nominal growth rate in % 2012
Farmers	Farmers	1,845	11.4	8.5	–	–
General Insurance	General Insurance	588	10.6	8.0	2.2	2.1
Global Life Germany	Global Life	272	8.6	6.7	1.9	2.0
Zurich Assurance Ltd and Openwork Holdings Ltd	Global Life	102	7.8	5.9	–	–

Sensitivity tests have been performed on goodwill and AIF, and typically comprised of an analysis for either a decrease in cash flows of up to 30 percent, a decrease in the perpetual growth rate of up to 1.0 percentage point or an increase in the discount rate of up to 3.5 percentage points in order to capture potential future variations in market conditions. Applying the value-in-use methodology, an increase of approximately 1.4 percentage points in the discount rate or a decrease of approximately 1.7 percentage points in the perpetual growth rate of the Global Life Germany CGU would result in the recoverable amount being close to the carrying value. No such reasonably possible changes of key assumptions were identified for the remaining CGUs.

Distribution agreements

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

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

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

Table 4.2

Discount and perpetual growth rates by major distribution agreements

	in USD millions	Range of discount rates in % 2013	Range of discount rates in % 2012	Perpetual nominal growth rate in % 2013	Perpetual nominal growth rate in % 2012
Banco Sabadell S.A. entities in Spain	1,697	11.0	9.0	2.0	2.5
Banco Santander S.A. entities in Latin America	1,717	12.6–42.0	7.8–20.1	n/a	n/a

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

Sensitivity tests have been performed on distribution agreements and typically comprised of an analysis for either a decrease in cash flows, a decrease in the perpetual growth rate or an increase in the discount rate, applying reasonably possible changes. An increase of approximately 2.6 percentage points in the discount rate or a decrease of approximately 30 percent in the cash flows of the distribution agreement of the Banco Sabadell S.A. entities would result in the recoverable amount being close to the carrying value. No such reasonably possible changes of key assumptions were identified for the remaining distribution agreements.

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See notes 3, 6, 15, 16 and 17 for further information on impairment of assets.

d) Deferred taxes

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

See note 19 for further information on deferred taxes.

e) Employee benefits

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

See note 22 for further information on employee benefits.

5. Acquisitions and divestments

Transactions in 2013

Assets/liabilities held for sale

As of December 31, 2013, a subsidiary of Centre Group Holdings Limited, Centre Insurance Company, which is a general insurance and reinsurance company based in the United States of America, with total assets of USD 100 million and total liabilities of USD 49 million, was classified as held for sale.

Transactions in 2012

Acquisitions

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

Divestments and loss of control

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

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6. Investments

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

Table 6.1a

Net investment result
for total
investments

in USD millions, for the years ended December 31

	Net investment income		Net capital gains/ (losses) on investments and impairments		Net investment result	
	2013	2012	2013	2012	2013	2012
	Cash and cash equivalents	43	60	(11)	(4)	32
Equity securities	1,734	1,780	12,561	8,903	14,296	10,683
Debt securities	5,082	5,395	65	2,552	5,147	7,947
Real estate held for investment	757	816	272	(331)	1,030	485
Mortgage loans	379	428	(121)	(100)	258	328
Other loans	782	870	298	17	1,079	887
Investments in associates and joint ventures	11	12	1	1	12	13
Derivative financial instruments ¹	–	–	(820)	(463)	(820)	(463)
Investment result, gross	8,788	9,362	12,245	10,574	21,033	19,936
Investment expenses	(831)	(760)	–	–	(831)	(760)
Investment result, net	7,958	8,602	12,245	10,574	20,202	19,176

¹ Net capital losses on derivative financial instruments attributable to cash flow hedge ineffectiveness amounted to USD 9 million and USD 7 million for the years ended December 31, 2013 and 2012, respectively.

Rental operating expenses for real estate held for investment included in investment expenses for total investments amounted to USD 189 million and USD 194 million for the years ended December 31, 2013 and 2012, respectively.

Net investment result for Group investments	in USD millions, for the years ended December 31					
	Net investment income		Net capital gains/(losses) on investments and impairments		Net investment result	
	2013	2012	2013	2012	2013	2012
Cash and cash equivalents	34	44	–	1	33	45
Equity securities	244	331	1,499	549	1,743	879
Debt securities	4,790	5,096	188	1,968	4,978	7,064
Real estate held for investment	486	506	186	12	671	517
Mortgage loans	379	428	(121)	(100)	258	328
Other loans	553	617	211	79	764	696
Investments in associates and joint ventures	11	12	1	1	12	13
Derivative financial instruments ¹	–	–	(806)	(307)	(806)	(307)
Investment result, gross, for Group investments	6,496	7,034	1,157	2,201	7,653	9,235
Investment expenses for Group investments	(256)	(252)	–	–	(256)	(252)
Investment result, net, for Group investments	6,240	6,782	1,157	2,201	7,398	8,983

¹ Net capital losses on derivative financial instruments attributable to cash flow hedge ineffectiveness amounted to USD 9 million and USD 7 million for the years ended December 31, 2013 and 2012, respectively.

Impairment charges on Group investments included in net capital gains/(losses) on investments and impairments amounted to USD 201 million and USD 208 million, including impairment charges on mortgage loans and other loans of USD 141 million and USD 114 million, for the years ended December 31, 2013 and 2012, respectively.

Net investment result for unit-linked contracts	in USD millions, for the years ended December 31					
	Net investment income		Net capital gains/(losses) on investments		Net investment result	
	2013	2012	2013	2012	2013	2012
Cash and cash equivalents	9	16	(10)	(4)	(1)	12
Equity securities	1,491	1,449	11,062	8,354	12,553	9,803
Debt securities	292	299	(124)	584	168	884
Real estate held for investment	272	310	87	(342)	358	(32)
Other loans	229	253	87	(62)	316	191
Derivative financial instruments	–	–	(14)	(157)	(14)	(157)
Investment result, gross, for unit-linked contracts	2,292	2,327	11,088	8,373	13,380	10,701
Investment expenses for unit-linked contracts	(575)	(508)	–	–	(575)	(508)
Investment result, net, for unit-linked contracts	1,717	1,820	11,088	8,373	12,805	10,193

Net capital gains, losses and impairments on equity and debt securities for total investments	in USD millions, for the years ended December 31					
	Equity securities		Debt securities		Total	
	2013	2012	2013	2012	2013	2012
Securities at fair value through profit or loss:	11,431	8,596	(508)	924	10,923	9,520
Net capital gains/(losses) on Group investments	368	242	(384)	339	(16)	581
Net capital gains/(losses) for unit-linked contracts	11,062	8,354	(124)	584	10,939	8,938
Available-for-sale securities:	1,131	307	573	1,628	1,704	1,935
Realized capital gains on Group investments	1,292	552	1,008	2,120	2,299	2,672
Realized capital losses on Group investments	(103)	(163)	(433)	(480)	(536)	(643)
Impairments on Group investments	(58)	(82)	(2)	(12)	(60)	(95)
Total net capital gains/(losses) and impairments	12,561	8,903	65	2,552	12,626	11,455

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Details of total investments by category	2013		2012	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	8,162	2.4	10,208	3.1
Equity securities:				
Fair value through profit or loss	115,379	33.8	103,023	30.9
Available-for-sale	9,758	2.9	8,796	2.6
Total equity securities	125,137	36.6	111,819	33.5
Debt securities:				
Fair value through profit or loss	18,725	5.5	20,630	6.2
Available-for-sale	144,723	42.4	141,597	42.5
Held-to-maturity	4,613	1.4	5,012	1.5
Total debt securities	168,061	49.2	167,239	50.1
Real estate held for investment	12,406	3.6	11,962	3.6
Mortgage loans	9,798	2.9	10,519	3.2
Other loans	17,854	5.2	21,664	6.5
Investments in associates and joint ventures	129	0.0	85	0.0
Total investments	341,547	100.0	333,496	100.0

Details of Group investments by category	2013		2012	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	7,181	3.5	9,098	4.3
Equity securities:				
Fair value through profit or loss	3,425	1.7	3,545	1.7
Available-for-sale	9,758	4.7	8,796	4.2
Total equity securities	13,183	6.4	12,341	5.9
Debt securities:				
Fair value through profit or loss	7,121	3.4	8,985	4.3
Available-for-sale	144,723	69.8	141,597	67.6
Held-to-maturity	4,613	2.2	5,012	2.4
Total debt securities	156,456	75.5	155,594	74.2
Real estate held for investment	8,745	4.2	8,561	4.1
Mortgage loans	9,798	4.7	10,519	5.0
Other loans	11,789	5.7	13,385	6.4
Investments in associates and joint ventures	129	0.1	85	0.0
Total Group investments	207,280	100.0	209,582	100.0

Investments (including cash and cash equivalents) with a carrying value of USD 5,853 million and USD 6,340 million were held to meet local regulatory requirements as of December 31, 2013 and 2012, respectively.

Securities lending, repurchase and reverse repurchase agreements

As of December 31, 2013 and 2012, respectively, investments included USD 9,947 million and USD 7,751 million of loaned securities. These loaned securities were mainly debt securities. Liabilities for cash collateral received for securities lending comprised USD 332 million and USD 330 million as of December 31, 2013 and 2012, respectively. Non-cash collateral received for loaned securities comprised mainly equity and debt securities and amounted to USD 10,474 million and USD 8,085 million as of December 31, 2013 and 2012, respectively. The Group can sell or repledge the collateral only in the event of a default by a counterparty.

As of December 31, 2013 and 2012, respectively, debt securities with a carrying value of USD 1,694 million and USD 1,550 million have been sold to financial institutions under repurchase agreements. These securities continue to be recognized as investments in the Group's consolidated balance sheets. Obligations to repurchase these securities amounted to USD 1,685 million and USD 1,539 million as of December 31, 2013 and 2012, respectively.

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

As of December 31, 2013 and December 31, 2012, respectively, securities with a carrying value of USD 681 million and USD 990 million have been purchased from financial institutions under short-term reverse sale and repurchase agreements. Receivables under these agreements have been recognized in the Group's consolidated balance sheets and amounted to USD 678 million and USD 988 million as of December 31, 2013 and December 31, 2012, respectively.

Table 6.3c

Details of investments held for unit-linked contracts	as of December 31	2013		2012	
		USD millions	% of total	USD millions	% of total
Cash and cash equivalents		982	0.7	1,110	0.9
Equity securities		111,954	83.4	99,478	80.3
Debt securities		11,605	8.6	11,646	9.4
Real estate		3,661	2.7	3,401	2.7
Other loans		6,066	4.5	8,279	6.7
Total investments for unit-linked contracts		134,267	100.0	123,913	100.0

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

Accrued investment income on unit-linked investments disclosed as accrued investment income amounted to USD 230 million and USD 255 million as of December 31, 2013 and December 31, 2012, respectively.

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Table 6.4

Debt securities maturity schedule (total investments)	in USD millions, as of December 31					
	Held-to-maturity		Available-for-sale		Fair value through profit or loss	
	2013	2012	2013	2012	2013	2012
Debt securities:						
< 1 year	424	493	9,744	10,072	4,750	3,890
1 to 5 years	1,957	2,188	47,123	46,027	4,570	5,336
5 to 10 years	904	527	35,632	33,784	3,542	3,740
> 10 years	1,328	1,805	32,971	32,233	5,008	6,677
Subtotal	4,613	5,012	125,470	122,115	17,869	19,642
Mortgage and asset-backed securities:						
< 1 year	–	–	612	540	24	26
1 to 5 years	–	–	4,781	5,358	429	406
5 to 10 years	–	–	2,054	2,175	54	114
> 10 years	–	–	11,806	11,407	349	443
Subtotal	–	–	19,253	19,481	856	988
Total	4,613	5,012	144,723	141,597	18,725	20,630

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

Table 6.5

Available-for-sale securities	in USD millions, as of December 31							
	Cost or amortized cost ¹		Gross unrealized gains		Gross unrealized losses		Fair value	
	2013	2012	2013	2012	2013	2012	2013	2012
Equity securities								
Common stock	4,711	4,515	1,443	1,841	(282)	(331)	5,872	6,025
Unit trusts	3,422	2,434	390	398	(167)	(247)	3,645	2,584
Non-redeemable preferred stock	197	167	46	21	(3)	(3)	241	186
Total equity securities	8,331	7,117	1,878	2,259	(452)	(581)	9,758	8,796
Debt securities								
Swiss federal and cantonal governments	4,093	3,925	210	466	(81)	(3)	4,222	4,388
United Kingdom government	7,305	7,566	186	496	(118)	(8)	7,373	8,054
United States government	10,877	10,560	137	340	(334)	(55)	10,680	10,845
Other governments and supra-nationals	39,988	36,226	2,041	2,795	(224)	(350)	41,805	38,672
Corporate securities	58,822	55,792	4,056	5,738	(1,497)	(1,386)	61,380	60,145
Mortgage and asset-backed securities	19,201	18,838	363	730	(311)	(87)	19,253	19,481
Redeemable preferred stocks	7	10	2	2	–	–	9	12
Total debt securities	140,292	132,917	6,995	10,568	(2,564)	(1,888)	144,723	141,597

¹ Net of impairments (see table 6.2).

as of December 31	Investments for unit-linked products							
	Group investments				Investments for unit-linked products		Total investments	
	2013		2012		2013	2012	2013	2012
	USD millions	% of total	USD millions	% of total	USD millions	USD millions	USD millions	USD millions
Equity securities:								
Common stock	2,731	25.9	2,204	17.6	41,290	36,936	44,021	39,140
<i>of which: common stock portfolios backing participating with profit policyholder contracts</i>	558	5.3	534	4.3	–	–	558	534
Unit trusts	694	6.6	1,341	10.7	70,617	62,495	71,312	63,836
Non-redeemable preferred stock	–	0.0	–	0.0	46	47	46	47
Total equity securities	3,425	32.5	3,545	28.3	111,954	99,478	115,379	103,023
Debt securities:								
Debt securities	6,442	61.1	8,221	65.6	11,428	11,421	17,869	19,642
Mortgage and asset-backed securities	679	6.4	763	6.1	177	225	856	988
Total debt securities	7,121	67.5	8,985	71.7	11,605	11,646	18,725	20,630
Total	10,546	100.0	12,530	100.0	123,558	111,124	134,104	123,654

as of December 31	2013		2012	
	USD millions	% of total	USD millions	% of total
Swiss federal and cantonal governments	1,896	41.1	1,847	36.9
United States government	1,303	28.3	1,627	32.5
Other governments and supra-nationals	1,045	22.7	1,168	23.3
Corporate securities	368	8.0	370	7.4
Total held-to-maturity debt securities	4,613	100.0	5,012	100.0

in USD millions	Total	
	2013	2012
As of January 1	11,962	12,246
Additions and improvements	794	360
Disposals	(793)	(702)
Market value revaluation	162	(206)
Transfer from assets held for own use	81	–
Transfer to assets held for sale	(87)	(89)
Foreign currency translation effects	287	353
As of December 31	12,406	11,962

Real estate held for investment consists of investments in commercial, residential and mixed-use properties primarily located in Switzerland, Germany and the UK.

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Table 6.9			
Net unrealized gains/(losses) on Group investments included in equity	in USD millions, as of December 31	Total	
		2013	2012
	Equity securities: available-for-sale	1,427	1,679
	Debt securities: available-for-sale	4,431	8,679
	Other	130	300
	Gross unrealized gains/(losses) on Group investments	5,988	10,658
	Less: amount of unrealized gains/(losses) on investments attributable to:		
	Life policyholder dividends and other policyholder liabilities	(2,948)	(3,918)
	Life deferred acquisition costs and present value of future profits	(460)	(571)
	Deferred income taxes	(738)	(1,385)
	Non-controlling interests	(6)	(23)
	Total¹	1,835	4,762

¹ Net unrealized gains/(losses) on Group Investments include net gains arising on cash flow hedges of USD 106 million and USD 238 million as of December 31, 2013 and 2012, respectively.

7. Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments mainly for economic hedging purposes in order to mitigate risks. Such risks result from changes in interest rates, equity prices and exchange rates. Derivative financial instruments with a positive fair value are reported in other assets (see note 17) and those with a negative fair value are reported in other liabilities (see note 18).

Table 7.1 shows the fair value and notional amounts for instruments which do not qualify for hedge accounting as of December 31, 2013 and 2012, respectively. Whilst these notional amounts express the extent of the Group's involvement in derivative transactions, they are not, however, representative of amounts at risk. Fair values for derivative financial instruments are included in the consolidated balance sheets in receivables and other assets, and other liabilities.

Maturity profile of notional amounts and fair values of derivative financial instruments	Maturity by notional amount			Notional amounts	2013		2012		
	< 1 year	1 to 5 years	> 5 years		Positive fair values	Negative fair values	Notional amounts	Positive fair values	Negative fair values
Interest rate contracts:									
OTC									
Swaps	950	974	2,840	4,764	175	(178)	5,292	349	(45)
Swaptions ¹	512	3,966	4,037	8,515	177	(234)	9,408	242	(104)
Exchange traded									
Futures	776	–	–	776	1	–	8	–	–
Total interest rate contracts	2,238	4,939	6,877	14,054	353	(413)	14,709	591	(148)
Equity contracts:									
OTC									
Swaps	52	–	–	52	–	(1)	42	–	(2)
Puts	1,768	556	2,331	4,655	99	(62)	9,854	220	(119)
Calls	1,500	517	–	2,017	37	(71)	3,214	62	(81)
Exchange traded									
Puts	10	–	–	10	–	–	49	1	–
Calls	–	–	–	–	–	–	–	–	–
Futures	519	–	–	519	–	(22)	503	1	(3)
Total equity contracts	3,849	1,073	2,331	7,252	137	(156)	13,663	284	(206)
Foreign exchange contracts:									
OTC									
Cross currency swaps	–	–	–	–	–	–	444	–	(45)
Forwards	17,474	–	–	17,474	62	(110)	13,681	45	(84)
Total foreign exchange contracts	17,474	–	–	17,474	62	(110)	14,124	45	(129)
Other contracts:									
OTC									
Puts	–	–	397	397	–	–	93	–	–
Swaps	–	–	64	64	–	(3)	66	–	(11)
Total other contracts	–	–	460	460	–	(3)	159	–	(11)
Total Group derivative financial instruments	23,561	6,012	9,668	39,241	552	(682)	42,656	920	(494)
Total unit-linked derivative financial instruments	1,885	225	–	2,110	45	(4)	2,113	62	(5)
Total	25,446	6,238	9,668	41,352	596	(686)	44,769	982	(500)

¹ Including net settled forward swaptions.

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Interest rate contracts

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

The decrease in the notional amount between December 31, 2012 and December 31, 2013 was mainly due to reductions in interest rate swaps to hedge a closed book of variable annuities products within the U.S. life business and a decrease in swaptions, to protect European life insurance books against falling interest rates.

Equity contracts

Equity contracts are entered into, either on a portfolio or on a macro level to protect equity investments against a decline in equity market prices or to manage the risk return profile of equity exposures. Most equity contracts are purchased put options.

The decrease in the notional amount of put options between December 31, 2012 and December 31, 2013 was mainly due to matured positions relating to a hedging program. Total return swaps, exchange traded options and futures are relating to the dynamic hedging strategy that has been put in place to reduce the volatility associated with a closed book of variable annuities products within the U.S. life business.

The majority of positions are for hedging purposes. For short positions, call options are used in collar structures to mitigate the hedging costs for some life portfolios and the written put positions are fully backed by long put positions and relate only to legacy positions.

Foreign exchange contracts

Forward contracts are used to hedge the Group's foreign currency exposures and to manage balance sheet mismatches. As of December 31, 2013 there were no open cross currency swap positions.

The increase in notional amounts of foreign exchange forwards between December 31, 2012 and December 31, 2013 was mostly volume driven.

Other contracts

Other contracts predominantly include stable value products (SVPs), which are designed to amortize on a quarterly basis investment gains and losses of the investment portfolios underlying certain life insurance policies, which are owned by banks (Bank Owned Life Insurance or BOLI) and other companies (Company Owned Life Insurance or COLI). The Group monitors the risk of surrender of those life insurance policies on an ongoing basis and considers the likelihood of surrender as an input factor to the model to determine the fair value of the SVPs. The notional SVP derived value was USD 397 million and USD 93 million as of December 31, 2013 and 2012, respectively, representing the total loss before surrender charges in the unlikely event that all policies would have been surrendered on those dates.

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

Maturity profile of notional amounts and fair values of derivative financial instruments	Table 7.2								
	in USD millions, as of December 31			2013			2012		
	Maturity by notional amount			Notional principal amounts	Positive fair values	Negative fair values	Notional principal amounts	Positive fair values	Negative fair values
< 1 year	1 to 5 years	> 5 years							
Fair value hedges:									
Cross currency interest rate swaps	244	330	–	574	108	–	1,530	252	–
Currency swaps	–	8	62	69	–	(39)	69	–	(40)
Interest rate swaps	–	–	1,699	1,699	15	(6)	1,097	37	–
Total fair value hedges	244	338	1,761	2,342	122	(45)	2,695	288	(40)
Cash flow hedges:									
Options on interest rate swaps	–	949	2,347	3,296	282	–	3,207	438	–
Currency swaps	975	793	–	1,768	166	–	1,768	90	–
Interest rate swaps	15	76	40	132	20	–	159	14	–
Total cash flow hedges	991	1,818	2,387	5,196	468	–	5,135	542	–
Net investment hedges:									
Forwards	275	–	–	275	–	(2)	273	–	(2)
Total net investment hedges	275	–	–	275	–	(2)	273	–	(2)

Fair value hedges

Designated fair value hedges consist of interest rate swaps and cross currency interest rate swaps used to protect the Group against changes in interest rate exposure and foreign currency exposure of Swiss franc, euro and U.S. dollar-denominated debt issued by the Group.

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

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

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

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

Table 7.3			
Gains/(losses) arising from fair value hedges	in USD millions, as of December 31		
	Gains/(losses)	2013	2012
	<i>on hedging instruments¹</i>	(57)	20
	<i>on hedged items attributable to the hedged risk</i>	52	(30)

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

Cash flow hedges

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

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

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

The net gains/(losses) deferred in other comprehensive income on derivative financial instruments designated as cash flow hedges were USD (94) million and USD 32 million before tax for the years ended December 31, 2013 and 2012, respectively.

The portion recognized in income was a gain of USD 86 million and USD 35 million before tax for the years ended December 31, 2013 and 2012, respectively, as an offset to the foreign currency revaluation on the underlying hedged debt.

A loss of USD 9 million and USD 7 million for the years ended December 31, 2013 and 2012, respectively, was recognized in net capital gains/(losses) and impairments due to hedge ineffectiveness.

Net investment hedges

In 2012, the Group started to apply net investment hedge accounting in order to hedge against the effects of changes in exchange rates in its net investments in foreign operations. A net hedge relationship through a foreign exchange forward with a notional amount of USD 275 million and USD 273 million was in place as of December 31, 2013 and 2012, respectively.

Net gains/(losses) deferred in shareholders' equity on net investment hedges were USD 4 million and USD (2) million before tax for the years ended December 31, 2013 and 2012, respectively.

Derivative financial instruments: offsetting of financial assets and liabilities

Tables 7.4 and 7.5 show the net asset and liability position of derivative financial instruments subject to enforceable master netting arrangements and collateral agreements. Master netting arrangements are used by the Group to provide protection against loss in the event of bankruptcy or other circumstances that result in a counterparty being unable to meet its obligations. These arrangements commonly create a right of offset that becomes enforceable and affects the realization or settlement of individual financial assets and financial liabilities only following a specified event of default or other circumstances which would not be expected to arise in the normal course of business.

Table 7.4

Table 7.4						
Derivative financial instruments subject to enforceable master netting arrangements and collateral agreements – current period	in USD millions, as of December 31, 2013		Related amounts not offset	Cash collateral (received)/ pledged	Non-cash collateral (received)/ pledged	Net amount
		Fair value				
Assets						
		1,142	(216)	(845)	(9)	72
		45	(1)	(24)	–	20
		1,187	(217)	(868)	(9)	92
Liabilities						
		(729)	216	375	7	(132)
		(4)	1	–	–	(3)
		(733)	217	375	7	(135)

Table 7.5

Table 7.5						
Derivative financial instruments subject to enforceable master netting arrangements and collateral agreements – prior period	in USD millions, as of December 31, 2012		Related amounts not offset	Cash collateral (received)/ pledged	Non-cash collateral (received)/ pledged	Net amount
		Fair value				
Assets						
		1,750	(276)	(1,152)	(13)	309
		62	–	(47)	–	15
		1,813	(276)	(1,199)	(13)	324
Liabilities						
		(537)	276	72	15	(174)
		(5)	–	–	–	(5)
		(542)	276	72	15	(179)

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

Table 8.1

Reserves for insurance contracts	in USD millions, as of December 31					
	Gross		Ceded		Net	
	2013	2012	2013	2012	2013	2012
Reserves for losses and loss adjustment expenses	68,312	69,986	(10,993)	(12,601)	57,319	57,385
Reserves for unearned premiums	17,616	17,300	(2,576)	(2,666)	15,040	14,634
Future life policyholders' benefits	84,476	83,807	(2,501)	(2,507)	81,975	81,300
Policyholders' contract deposits and other funds	20,162	20,024	(2,036)	(2,106)	18,126	17,917
Reserves for unit-linked contracts	74,873	74,117	–	–	74,873	74,117
Total reserves for insurance contracts¹	265,440	265,233	(18,107)	(19,880)	247,333	245,353

¹ The total reserves for insurance contracts ceded are gross of allowances for uncollected amounts of USD 129 million and USD 127 million as of December 31, 2013 and December 31, 2012, respectively.

Table 8.2

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	55,341
Losses and loss adjustment expenses incurred:						
Current year	26,936	27,612	(3,050)	(3,273)	23,885	24,340
Prior years	(1,187)	(676)	430	105	(757)	(571)
Total incurred	25,749	26,936	(2,621)	(3,168)	23,128	23,769
Losses and loss adjustment expenses paid:						
Current year	(10,350)	(10,548)	745	694	(9,605)	(9,853)
Prior years	(17,169)	(16,230)	3,370	2,706	(13,799)	(13,525)
Total paid	(27,519)	(26,778)	4,115	3,400	(23,404)	(23,378)
Acquisitions/(divestments) and transfers ¹	(61)	1,217	13	(257)	(49)	960
Foreign currency translation effects	157	849	101	(156)	258	693
As of December 31	68,312	69,986	(10,993)	(12,601)	57,319	57,385

¹ The 2013 net movement includes USD (49) million due to the reclassification of a subsidiary of Centre Group Holdings Limited to held for sale (see note 5). The 2012 net movement includes a transfer of USD 1,224 million from policyholders' contract deposits and other funds, partially offset by USD (235) million relating to a reinsurance agreement which transferred the benefits and risks of some of the Group's general insurance portfolio to RiverStone Insurance (UK) Limited, and by USD (33) million transferred to future life policyholders' benefits (see note 1 of the Consolidated financial statements 2012).

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

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

Table 8.2 shows the development of reserves for losses and loss adjustment expenses during the years 2013 and 2012.

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

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

The increase of USD 2,044 million during the year ended December 31, 2012 in net reserves for losses and loss adjustment expenses was mostly driven by the reclassification of USD 1,224 million transferred from policyholders' contract deposits and other funds to reserves for losses and loss adjustment expenses (see note 1 of the Consolidated financial statements 2012), and the foreign currency impact of USD 693 million. Additionally, USD 571 million of favorable reserve development emerged from reserves established in prior years. Gross of reinsurance, the favorable development was USD 676 million. This favorable development was primarily attributable to the General Insurance business segment and mainly relates to the following movements by market-facing business, country and line of business:

- In Global Corporate, favorable development of USD 199 million was driven by Europe essentially originating from Switzerland, the UK and Ireland. The development occurred mostly in the property and engineering lines of business;
- In North America Commercial, favorable development of USD 203 million arose mostly from medical malpractice, general liability, errors and omissions and the Canadian operations;
- The personal and commercial business in Europe reported favorable prior year development of USD 90 million. The favorable development was driven by USD 435 million in Switzerland, mostly in motor, and USD 96 million in the UK and Ireland, coming from many lines of business. Partially offsetting this, Germany reported an adverse development of USD 476 million arising mainly from the medical and professional liability lines of business.

The Non-Core Businesses segment additionally added to the adverse development.

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Table 8.3

Development of insurance losses, net	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
in USD millions, as of December 31										
Gross reserves for losses and loss adjustment expenses	57,765	60,425	64,535	67,890	65,218	68,126	68,274	67,762	69,986	68,312
Reinsurance recoverable	(14,279)	(14,231)	(13,722)	(13,179)	(12,232)	(12,182)	(12,093)	(12,421)	(12,601)	(10,993)
Initial net reserves for losses and loss adjustment expenses	43,486	46,194	50,814	54,712	52,986	55,944	56,180	55,341	57,385	57,319
Cumulative paid as of December 31:										
<i>One year later</i>	(9,464)	(11,423)	(11,237)	(12,551)	(13,047)	(12,716)	(13,092)	(13,525)	(13,799)	
<i>Two years later</i>	(16,273)	(18,044)	(18,362)	(19,660)	(19,909)	(19,821)	(21,073)	(21,245)		
<i>Three years later</i>	(21,234)	(23,077)	(23,421)	(24,428)	(24,693)	(25,623)	(27,137)			
<i>Four years later</i>	(24,945)	(26,850)	(26,839)	(27,735)	(28,808)	(30,127)				
<i>Five years later</i>	(27,798)	(29,425)	(29,224)	(30,690)	(32,170)					
<i>Six years later</i>	(29,810)	(31,189)	(31,483)	(33,310)						
<i>Seven years later</i>	(31,148)	(33,030)	(33,665)							
<i>Eight years later</i>	(32,655)	(34,896)								
<i>Nine years later</i>	(34,267)									
Cumulative incurred as of December 31:										
<i>One year later</i>	141	(218)	(1,219)	(1,271)	(1,059)	(1,378)	(1,302)	(571)	(757)	
<i>Two years later</i>	1,520	(367)	(2,171)	(2,152)	(2,350)	(2,565)	(1,819)	(891)		
<i>Three years later</i>	1,839	(897)	(2,686)	(2,844)	(3,048)	(2,700)	(2,028)			
<i>Four years later</i>	1,808	(945)	(3,003)	(3,533)	(3,176)	(2,770)				
<i>Five years later</i>	2,118	(1,044)	(3,438)	(3,580)	(3,235)					
<i>Six years later</i>	2,194	(1,184)	(3,279)	(3,478)						
<i>Seven years later</i>	2,254	(841)	(3,146)							
<i>Eight years later</i>	2,686	(681)								
<i>Nine years later</i>	2,815									
Net reserves re-estimated as of December 31:										
<i>One year later</i>	43,627	45,976	49,594	53,441	51,927	54,565	54,878	54,770	56,628	
<i>Two years later</i>	45,006	45,827	48,642	52,559	50,637	53,379	54,361	54,450		
<i>Three years later</i>	45,325	45,297	48,127	51,868	49,939	53,243	54,152			
<i>Four years later</i>	45,294	45,249	47,811	51,179	49,810	53,173				
<i>Five years later</i>	45,604	45,150	47,376	51,131	49,752					
<i>Six years later</i>	45,680	45,010	47,535	51,234						
<i>Seven years later</i>	45,740	45,353	47,668							
<i>Eight years later</i>	46,172	45,513								
<i>Nine years later</i>	46,301									
Cumulative (deficiency)/redundancy of net reserves	(2,815)	681	3,146	3,478	3,235	2,770	2,028	891	757	
Cumulative (deficiency)/redundancy as a percentage of initial net reserves	(6.5%)	1.5%	6.2%	6.4%	6.1%	5.0%	3.6%	1.6%	1.3%	
Gross reserves re-estimated as of December 31, 2013	61,784	60,425	60,893	63,365	60,921	63,984	65,472	66,413	68,799	
Cumulative (deficiency)/redundancy of gross reserves	(4,019)	-	3,642	4,525	4,297	4,143	2,802	1,349	1,187	
Cumulative (deficiency)/redundancy as a percentage of initial gross reserves	(7.0%)	0.0%	5.6%	6.7%	6.6%	6.1%	4.1%	2.0%	1.7%	

Table 8.3 presents changes in the historical non-life reserves, net of reinsurance, that the Group established in 2004 and subsequent years. Reserves are presented by financial year, not by accident year. The reserves (and the development thereon) are for all accident years in that financial year. The top line of the table shows the estimated gross reserves for unpaid losses and loss adjustment expenses as of each balance sheet date, which represents the estimated amount of future payments for losses incurred in that year and in prior years. The cumulative paid portion of the table presents the cumulative amounts paid through each subsequent year in respect of the reserves established at each year end. Similarly, the cumulative incurred losses section details the sum of the cumulative paid amounts shown in the triangle above and the changes in loss reserves since the end of each financial year. The net reserves re-estimated portion of the table shows the re-estimation of the initially recorded reserve as of each succeeding year end. Reserve development is shown in each column. Changes to estimates are made as more information becomes known about the actual losses for which the initial reserves were established. The cumulative deficiency or redundancy is equal to the initial net reserves less the liability re-estimated as of December 31, 2013. It is the difference between the initial net reserve estimate and the last entry of the diagonal. Conditions and trends that have affected the development of reserves for losses and loss adjustment expenses in the past may or may not necessarily occur in the future, and accordingly, conclusions about future results cannot be derived from the information presented in table 8.3.

Table 8.4

Development of reserves for losses and loss adjustment expenses for asbestos

in USD millions	2013		2012	
	Gross	Net	Gross	Net
Asbestos				
As of January 1	3,332	2,779	3,283	2,867
Losses and loss adjustment expenses incurred	47	53	51	37
Losses and loss adjustment expenses paid	(267)	(104)	(134)	(110)
Acquisitions/(divestments) and transfers ¹	–	–	–	(127)
Foreign currency translation effects	41	41	132	112
As of December 31	3,154	2,768	3,332	2,779

¹ The 2012 net movement relates to a reinsurance agreement which transferred the benefits and risks of some of the Group's general insurance portfolio to RiverStone Insurance (UK) Limited.

The Group has considered asbestos and environmental, including latent injury, claims and claims expenses in establishing the reserves for losses and loss adjustment expenses. The Group continues to be advised of claims asserting injuries from toxic waste, hazardous materials and other environmental pollutants, alleged damages to cover the clean-up costs of hazardous waste dump sites relating to policies written in prior years and indemnity claims asserting injuries from asbestos. Coverage and claim settlement issues, such as determination that coverage exists and the definition of an occurrence, together with increased medical diagnostic capabilities and awareness have often caused actual loss development to exhibit more variation than in other lines. Such claims require specialized reserving techniques and the uncertainty of the ultimate cost of these types of claims has tended to be greater than the uncertainty relating to standard lines of business.

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

In 2012, following an in-depth review of asbestos, pollution and health (APH) book of business in the U.S., gross and net reserves were strengthened. Despite these increases, the total net reserves have decreased due to a reinsurance agreement which transferred the benefits and risks of a general insurance portfolio to RiverStone Insurance (UK) Limited.

While the Group believes that it has made adequate provision for these claims, it is possible that future adverse development could have a material effect on the Group's results of operations, cash flows and financial position. The net reserve amounts relating to such claims are not discounted for the time value of money.

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Table 8.5

Development of future life policyholders' benefits	in USD millions					
	Gross		Ceded		Net	
	2013	2012	2013	2012	2013	2012
As of January 1	83,807	80,584	(2,507)	(2,583)	81,300	78,001
Premiums	8,972	8,867	(580)	(541)	8,392	8,326
Claims	(10,334)	(9,168)	453	414	(9,880)	(8,754)
Fee income and other expenses	(1,898)	(1,789)	176	182	(1,722)	(1,608)
Interest and bonuses credited to policyholders	2,017	2,649	(8)	(75)	2,009	2,575
Changes in assumptions	(64)	(147)	9	155	(55)	8
Acquisitions/(divestments) and transfers ¹	–	1,065	–	(14)	–	1,051
(Decreases)/increases recorded in other comprehensive income	(122)	167	–	–	(122)	167
Foreign currency translation effects	2,098	1,579	(45)	(45)	2,053	1,534
As of December 31	84,476	83,807	(2,501)	(2,507)	81,975	81,300

¹ The 2012 net movement includes USD 937 million transferred from reserves for unearned premiums, USD 66 million transferred from policyholders' contract deposits and other funds, USD 33 million transferred from loss reserves (see note 1 of the Consolidated financial statements 2012) and USD 15 million from the acquisition of Zurich Insurance Malaysia Berhad (ZIMB, see note 5 of the Consolidated financial statements 2012).

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

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

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

Effect of changes in assumptions for future life policyholders' benefits	in USD millions, for the years ended December 31	
	2013	2012
Interest rates	(134)	223
Investment return	37	(51)
Changes in modeling	27	(58)
Expense	(5)	(75)
Morbidity	–	(1)
Longevity	(5)	(4)
Lapses	22	(7)
Legislative Changes	–	88
Other	2	(108)
Net impact of changes in assumptions	(55)	8

Policyholders' contract deposits and other funds gross	in USD millions, as of December 31	
	2013	2012
Universal life and other contracts	12,833	12,219
Policyholder dividends	7,329	7,804
Total	20,162	20,024

Development of policyholders' contract deposits and other funds	in USD millions					
	Gross		Ceded		Net	
	2013	2012	2013	2012	2013	2012
As of January 1	20,024	18,356	(2,106)	(2,181)	17,917	16,175
Premiums	1,371	1,157	(66)	(27)	1,305	1,131
Claims	(1,527)	(1,269)	228	211	(1,299)	(1,058)
Fee income and other expenses	(285)	(230)	(12)	(60)	(297)	(290)
Interest and bonuses credited to policyholders	1,217	708	(80)	(81)	1,137	627
Acquisitions/(divestments) and transfers ¹	–	(1,308)	–	32	–	(1,276)
(Decrease)/increase recorded in other comprehensive income	(1,041)	2,313	–	–	(1,041)	2,313
Foreign currency translation effects	403	296	–	(1)	403	296
As of December 31	20,162	20,024	(2,036)	(2,106)	18,126	17,917

¹ The 2012 net movement includes USD (1,224) million transferred to loss reserves and loss adjustment expenses and USD (66) million transferred to future life policyholders' benefits (see note 1 of the Consolidated financial statements 2012).

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Table 8.9			
Development of reserves for unit-linked contracts	in USD millions		
		2013	2012
	As of January 1	74,117	68,844
	Premiums	6,541	11,064
	Claims	(10,221)	(11,434)
	Fee income and other expenses	(1,885)	(1,586)
	Interest and bonuses credited/(charged) to policyholders	6,444	6,270
	Acquisitions/(divestments) and transfers ¹	–	154
	Foreign currency translation effects	(123)	804
	As of December 31	74,873	74,117

¹ The 2012 movement includes USD 151 million transferred from liabilities for investment contracts (see note 1 of the Consolidated financial statements 2012).

9. Liabilities for investment contracts

Liabilities for investment contracts	in USD millions, as of December 31	
	2013	2012
Liabilities related to unit-linked investment contracts	59,469	50,229
Liabilities related to investment contracts (amortized cost)	1,030	1,305
Liabilities related to investment contracts with DPF	6,614	5,903
Total	67,113	57,437

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

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

Development of liabilities for investment contracts	in USD millions	
	2013	2012
As of January 1	57,437	50,309
Premiums	8,276	7,278
Claims	(6,499)	(6,294)
Fee income and other expenses	(594)	(607)
Interest and bonuses credited/(charged) to policyholders	6,800	4,906
Acquisitions/(divestments) and transfers ¹	–	(150)
Increase/(decrease) recorded in other comprehensive income	94	4
Foreign currency translation effects	1,598	1,991
As of December 31	67,113	57,437

¹ The 2012 movement includes USD (151) million transferred to reserves for unit-linked contracts (see note 1 of the Consolidated financial statements 2012).

10. Equity component relating to contracts with DPF

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

Development of the equity component relating to contracts with DPF	in USD millions	
	2013	2012
As of January 1	2,560	1,488
Net unrealized gains/(losses) on investments	(196)	557
Current period profit/(loss)	(96)	476
Foreign currency translation effects	70	39
As of December 31	2,338	2,560

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11. Gross and ceded insurance revenues and expenses

Table 11.1

Insurance benefits and losses	in USD millions, for the years ended December 31	Gross		Ceded		Net	
		2013	2012	2013	2012	2013	2012
		Losses and loss adjustment expenses	25,749	26,936	(2,621)	(3,168)	23,128
Life insurance death and other benefits	9,507	10,334	(437)	(351)	9,070	9,983	
Total insurance benefits and losses	35,256	37,271	(3,058)	(3,519)	32,198	33,752	

Table 11.2

Policyholder dividends and participation in profits	in USD millions, for the years ended December 31	Gross		Ceded		Net	
		2013	2012	2013	2012	2013	2012
		Change in policyholders' contract deposits and other funds	1,185	1,210	–	(19)	1,185
Change in reserves for unit-linked products	6,290	6,153	–	–	6,290	6,153	
Change in liabilities for investment contracts – unit-linked	6,605	4,091	–	–	6,605	4,091	
Change in liabilities for investment contracts – other	218	233	–	–	218	233	
Change in unit-linked liabilities related to UK capital gains tax	(352)	(264)	–	–	(352)	(264)	
Total policyholder dividends and participation in profits	13,946	11,424	–	(19)	13,946	11,405	

Table 11.3

Underwriting and policy acquisition costs	in USD millions, for the years ended December 31	Gross		Ceded		Net	
		2013	2012	2013	2012	2013	2012
		Amortization of deferred acquisition costs	6,415	6,484	(456)	(536)	5,959
Amortization of deferred origination costs	125	168	–	–	125	168	
Commissions and other underwriting and acquisition expenses ¹	4,323	4,283	(366)	(384)	3,957	3,898	
Total underwriting and policy acquisition costs	10,863	10,934	(822)	(920)	10,041	10,014	

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

Table 11.4

Change in reserves for unearned premiums	in USD millions, for the years ended December 31	Gross		Ceded		Net	
		2013	2012	2013	2012	2013	2012
		Change in reserves for unearned premiums	971	845	54	(103)	1,025

12. Deferred policy acquisition costs and deferred origination costs

Table 12.1

Development of deferred policy acquisition costs	General Insurance		Global Life		Other segments ¹		Total	
	in USD millions							
	2013	2012	2013	2012	2013	2012	2013	2012
As of January 1	3,543	3,482	14,466	13,584	337	353	18,346	17,420
Acquisition costs deferred	3,460	3,355	2,243	2,656	833	898	6,537	6,908
Amortization	(3,141)	(3,240)	(1,882)	(1,744)	(847)	(914)	(5,871)	(5,898)
Impairments	–	(39)	(88)	(11)	–	–	(88)	(50)
Amortization (charged)/ credited to other comprehensive income	–	–	102	(314)	–	–	102	(314)
Acquisitions/(divestments) and transfers ²	–	(3)	(313)	(5)	–	–	(313)	(8)
Foreign currency translation effects	(68)	(13)	79	301	–	–	11	288
As of December 31	3,794	3,543	14,606	14,466	323	337	18,724	18,346

¹ Net of eliminations from inter-segment transactions.

² The 2013 Global Life movement relates to a transfer to deferred front-end fees of USD (438) million and a transfer from receivables and other assets of USD 126 million (see note 1). The 2012 movement includes USD 5 million transferred to deferred origination costs in Global Life (see note 1 of the Consolidated financial statements 2012) and USD 3 million in General Insurance mainly as a consequence of the loss of control over one of the Group's subsidiaries (see note 5).

As of December 31, 2013 and 2012, deferred policy acquisition costs related to non-controlling interests were USD 614 million and USD 572 million, respectively.

The decision to stop offering life products through tied agents in Hong Kong triggered a reassessment of the recoverability of deferred policy acquisition costs, resulting in a USD 54 million impairment in 2013. The net impact on the Group is USD 30 million, including an impairment of deferred origination costs and the acceleration of the recognition of deferred front-end fees of USD 4 million and USD 27 million, respectively. An additional impairment of USD 34 million resulted from a reassessment of deferred policy acquisition costs in the Global Life business in Germany. Impairments in 2012 included USD 39 million, following a reassessment of the deferred policy acquisition costs in the General Insurance business in Germany.

Table 12.2

Development of deferred origination costs	in USD millions	
	2013	2012
As of January 1	770	824
Origination costs deferred	63	79
Amortization	(121)	(168)
Impairments	(4)	–
Acquisitions/(divestments) and transfers ¹	–	5
Foreign currency translation effects	16	29
As of December 31	724	770

¹ The 2012 movement relates to USD 5 million transferred from deferred policy acquisition costs (see note 1 of the Consolidated financial statements 2012).

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13. Expenses

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

Table 13			
Expenses	in USD millions, for the years ended December 31		
		2013	2012
	Administrative and other operating expense	8,804	8,654
	Other underwriting and policy acquisition expenses ¹	1,020	1,020
	Net unallocated loss adjustment expenses ²	1,725	1,711
	Other investment expenses for Group investments ³	125	132
	Total	11,674	11,517
	of which:		
	Personnel and other related expenses	6,017	6,021
	Amortization and impairments of intangible assets	1,011	874
	Depreciation and impairments of property and equipment	186	210
	Building and infrastructure expenses	582	614
	Brand and marketing expenses	473	438
	Life recurring commission	380	365
	Asset and other non-income taxes	150	131
	IT expenses	1,182	1,165
	Restructuring costs	40	210
	External professional services expenses	896	982
	Foreign currency translation	38	(4)
	Other	718	512
	Total	11,674	11,517

¹ Included within commissions and other underwriting and acquisition expenses (see table 11.3).

² Included within losses and loss adjustment expenses (see table 11.1).

³ Excludes expenses arising from rental of real estate held for investment within investment expenses for Group investments (see table 6.1b).

14. Farmers management fees and other related revenues

Farmers management fees and other related revenues

Table 14

in USD millions, for the years ended December 31

	2013	2012
Farmers management fees and other related revenues	2,810	2,846

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

FGI has historically charged a lower management fee than the amount allowed by contract. The range of fees has varied by line of business over time and from year to year. The gross earned premiums of the Farmers Exchanges were USD 18,757 million and USD 18,703 million for the years ended December 31, 2013 and 2012, respectively.

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15. Property and equipment

Table 15.1

Property and equipment – current period

in USD millions	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other equipment	Total
Gross carrying value as of January 1, 2013	320	1,060	506	520	645	3,050
Less: accumulated depreciation/impairments	(7)	(378)	(348)	(442)	(346)	(1,520)
Net carrying value as of January 1, 2013	313	682	158	79	299	1,530
Additions and improvements	54	38	46	31	113	282
Disposals	(5)	(14)	(7)	(2)	(34)	(62)
Transfers	(19)	(63)	(14)	1	14	(81)
Depreciation and impairments	–	(39)	(33)	(35)	(79)	(186)
Foreign currency translation effects	5	11	(2)	(3)	–	12
Net carrying value as of December 31, 2013	347	614	149	71	314	1,494
Plus: accumulated depreciation/impairments	7	407	258	394	426	1,492
Gross carrying value as of December 31, 2013	354	1,020	407	465	739	2,986

Table 15.2

Property and equipment – prior period

in USD millions	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other equipment	Total
Gross carrying value January 1, 2012	325	1,057	575	559	694	3,210
Less: accumulated depreciation/impairments	–	(348)	(423)	(464)	(395)	(1,630)
Net carrying value January 1, 2012	325	709	152	95	299	1,580
Additions and improvements	–	15	39	35	137	226
Disposals	(5)	(21)	(7)	(7)	(42)	(82)
Transfers	(7)	(3)	15	–	(15)	(9)
Depreciation and impairments	(7)	(33)	(43)	(44)	(84)	(210)
Foreign currency translation effects	7	15	1	–	3	26
Net carrying value as of December 31, 2012	313	682	158	79	299	1,530
Plus: accumulated depreciation/impairments	7	378	348	442	346	1,520
Gross carrying value as of December 31, 2012	320	1,060	506	520	645	3,050

The fire insurance value of the Group's own-use property and equipment totaled USD 2,919 million and USD 3,036 million as of December 31, 2013 and 2012, respectively.

16. Goodwill and other intangible assets

Table 16.1

Intangible assets –
current period

in USD millions

	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other	Total
Gross carrying value as of January 1, 2013	2,239	2,890	4,435	1,025	4,418	219	15,226
Less: accumulated amortization/impairments	(132)	(2,047)	(620)	–	(2,747)	(125)	(5,671)
Net carrying value as of January 1, 2013	2,107	844	3,815	1,025	1,670	94	9,555
Additions and transfers	–	–	36	–	433	–	469
Divestments and transfers	–	–	–	–	(2)	–	(3)
Amortization	–	(139)	(188)	–	(399)	(10)	(736)
Amortization charged to other comprehensive income	–	22	–	–	–	–	22
Impairments	(209)	–	–	–	(65)	(2)	(275)
Foreign currency translation effects	(46)	2	(111)	–	4	(1)	(152)
Net carrying value as of December 31, 2013	1,852	729	3,553	1,025	1,640	81	8,880
Plus: accumulated amortization/impairments	338	2,189	811	–	3,080	145	6,563
Gross carrying value as of December 31, 2013	2,190	2,918	4,364	1,025	4,720	226	15,443

As of December 31, 2013, intangible assets relating to non-controlling interests were USD 163 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1,660 million for distribution agreements and USD 12 million for software.

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

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

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

Table 16.2

Intangible assets
by segment –
current periodin USD millions, as of December 31,
2013

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

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Table 16.3

Intangible assets – prior period	in USD millions						
	Goodwill	PVFP	Distribution agreements	Attorney- in-fact relationships	Software	Other	Total
Gross carrying value as of January 1, 2012	2,186	2,824	4,562	1,025	4,210	190	14,997
Less: accumulated amortization/impairments	(126)	(1,640)	(430)	–	(2,593)	(86)	(4,876)
Net carrying value as of January 1, 2012	2,060	1,184	4,132	1,025	1,616	104	10,121
Additions and transfers	22	–	36	–	482	–	539
Divestments and transfers	(1)	–	(137)	–	(4)	–	(143)
Amortization	–	(205)	(213)	–	(392)	(13)	(822)
Amortization charged to other comprehensive income	–	(149)	–	–	–	–	(149)
Impairments	–	–	–	–	(51)	(1)	(52)
Foreign currency translation effects	27	13	(3)	–	19	3	59
Net carrying value as of December 31, 2012	2,107	844	3,815	1,025	1,670	94	9,555
Plus: accumulated amortization/impairments	132	2,047	620	–	2,747	125	5,671
Gross carrying value as of December 31, 2012	2,239	2,890	4,435	1,025	4,418	219	15,226

As of December 31, 2012, intangible assets relating to non-controlling interests were USD 201 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1,789 million for distribution agreements and USD 11 million for software.

Additions to goodwill of USD 14 million related to the acquisition of Zurich Insurance Malaysia Berhad (ZIMB) in 2011, resulting from an increase in the anticipated purchase price adjustment and finalization of the purchase accounting (see note 5 of the Consolidated financial statements 2012) and an increase of USD 8 million relating to the increase of an earn out liability in Brazil.

New distribution agreements in General Insurance operations in Brazil, to gain access to the mass consumer market, and in Global Life operations in the Middle East, resulted in additions of USD 36 million.

The loss of control over one of the Group's subsidiaries resulted in the derecognition of the related assets and liabilities, including a goodwill asset of USD 1 million and USD 137 million of distribution agreements (see note 5).

Table 16.4

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

17. Receivables and other assets

Table 17			
in USD millions, as of December 31		2013	2012
Receivables and other assets	Financial assets		
	Derivative assets	1,187	1,813
	Receivables from policyholders	3,711	3,514
	Receivables from insurance companies, agents and intermediaries	5,506	5,884
	Receivables arising from ceded reinsurance	1,094	1,117
	Reverse repurchase agreements	678	988
	Amounts due from investment brokers	758	493
	Other receivables	2,238	1,974
	Allowance for impairments ¹	(297)	(327)
	Other assets ²	768	135
	Non-financial assets		
	Current tax receivables	1,084	1,198
	Accrued premiums	731	688
	Prepaid expenses	319	277
	Prepaid insurance benefits	344	333
	Other assets	377	340
	Total receivables and other assets	18,499	18,425

¹ Allowance for impairments includes USD 45 million and USD 79 million as of December 31, 2013 and 2012, respectively, for receivables arising from ceded reinsurance.

² December 31, 2013 included investments managed on a fiduciary and ring-fenced basis on behalf of Banco Santander S.A. amounting to USD 603 million, carried at fair value through profit or loss.

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

18. Other liabilities

Table 18.1			
in USD millions, as of December 31		2013	2012
Other liabilities	Other financial liabilities		
	Derivative liabilities	733	542
	Amounts due to policyholders	923	761
	Amounts due to insurance companies, agents & intermediaries	1,437	1,360
	Amounts due to reinsurers	1,226	1,398
	Liabilities for cash collateral received for securities lending	332	330
	Amounts due to investment brokers	1,068	1,334
	Deposits from banking activities	344	672
	Collateralized bank financing for structured lease vehicles	796	860
	Liabilities for defined benefit plans	3,665	3,399
	Other liabilities for employee benefit plans	123	108
	Other liabilities	4,043	4,594
	Other non-financial liabilities		
	Current tax payables	1,246	1,101
	Restructuring provisions	188	297
	Premium prepayments and other advances	973	916
	Other liabilities	806	694
	Total other liabilities	17,904	18,368

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Table 18.2 shows the maturity schedule of other financial liabilities as of December 31, 2013 and 2012, respectively.

Maturity schedule – other financial liabilities ¹	in USD millions, as of December 31		2013		2012	
			Carrying	Undiscounted	Carrying	Undiscounted
			value ²	cash flows ³	value ²	cash flows ³
< 1 year			8,687	8,734	9,674	9,717
1 to 2 years			175	240	151	176
2 to 3 years			209	256	172	204
3 to 4 years			176	225	220	265
4 to 5 years			76	116	177	241
> 5 years			1,703	2,434	1,566	2,159
Total			11,026	12,005	11,960	12,762

¹ Excluding liabilities for defined benefit plans.

² Allocation to the time bands is based on the expected maturity date.

³ Based on the earliest contractual maturity.

Restructuring provisions	in USD millions		2013	2012
	As of January 1			297
Provisions made during the period			62	174
Increase of provisions set up in prior years			34	43
Provisions used during the period			(154)	(170)
Provisions reversed during the period			(55)	(6)
Foreign currency translation effects			5	5
As of December 31			188	297

During the year ended December 31, 2013, restructuring programs with estimated costs of USD 62 million were announced and primarily impacted General Insurance in Middle East and Africa, Global Life in the UK and Ireland as well as Farmers. USD 34 million related to increases of provisions for restructuring which were initiated in prior years. In addition, the Group recorded USD 37 million of software impairments (see note 16), and USD 30 million for impairments of deferred policy acquisition costs and deferred origination costs, net of deferred front-end fees (see note 12), resulting from restructuring decisions.

During the year ended December 31, 2012, restructuring programs primarily impacted several European countries within the General Insurance and Global Life operations with estimated costs of USD 174 million for restructuring programs announced in 2012 and USD 43 million for increases of provisions for restructuring which had been initiated in prior years. In addition, software impairments amounting to USD 11 million were made as part of the restructuring decisions of Global Life operations.

19. Income taxes

Table 19.1

in USD millions, for the years ended December 31		2013	2012
Income tax expense – current/deferred split	Current	1,474	1,033
	Deferred	227	463
	Total income tax expense	1,701	1,496

Table 19.2

in USD millions, for the years ended December 31		2013	2012
Income tax expense – policyholder/shareholder attribution	Total income tax expense/(benefit) attributable to policyholders	285	194
	Total income tax expense attributable to shareholders	1,415	1,302
	Total income tax expense	1,701	1,496

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

Table 19.3

in USD millions, for the years ended December 31		Rate	2013	Rate	2012
Expected and actual income tax expense	Net income before income taxes		5,960		5,472
	less: income tax (expense)/benefit attributable to policyholders		(285)		(194)
	Net income before income taxes attributable to shareholders		5,674		5,277
	Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%	1,248	22.0%	1,161
	Increase/(reduction) in taxes resulting from:				
	<i>Tax rate differential in foreign jurisdictions</i>		158		238
	<i>Tax exempt and lower taxed income</i>		(107)		(133)
	<i>Non-deductible expenses</i>		78		85
	<i>Tax losses previously unrecognized or no longer recognized</i>		40		(12)
	<i>Prior year adjustments and other</i>		(2)		(37)
	Actual income tax expense attributable to shareholders	24.9%	1,415	24.7%	1,302
	plus: income tax expense/(benefit) attributable to policyholders		285		194
	Actual income tax expense	28.5%	1,701	27.3%	1,496

Table 19.3 sets out the factors that cause the actual income tax expense to differ from the expected expense computed by applying the Swiss statutory tax rate of 22.0 percent, which is the rate applicable in the jurisdiction where the ultimate parent company is resident.

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Table 19.4			
in USD millions, as of December 31			
		2013	2012
Current tax receivables and payables	Current tax receivables	1,084	1,198
	Current tax payables	(1,246)	(1,101)
	Net current tax receivables/(payables)	(162)	96

Table 19.5			
in USD millions, as of December 31			
		2013	2012
Deferred tax assets and liabilities	Deferred tax assets	2,020	1,853
	Deferred tax liabilities	(5,110)	(5,244)
	Net deferred tax liabilities	(3,090)	(3,390)

Table 19.6			
in USD millions			
		2013	2012
Development of net deferred tax liabilities	As of January 1	(3,390)	(2,502)
	Net change recognized in the income statement	(227)	(463)
	Net change recognized in equity	555	(407)
	Net changes due to acquisitions/(divestments)	–	44
	Foreign currency translation effects	(28)	(64)
	As of December 31	(3,090)	(3,390)

The net deferred tax liabilities relating to non-controlling interests amounted to USD 531 million and USD 577 million as of December 31, 2013 and 2012, respectively.

Table 19.7			
in USD millions, as of December 31			
		2013	2012
Deferred taxes – policyholder/ shareholder attribution	Net deferred tax liabilities attributable to policyholders	(586)	(321)
	Net deferred tax liabilities attributable to shareholders	(2,504)	(3,070)
	Net deferred tax liabilities	(3,090)	(3,390)

Deferred tax
assets/(liabilities)
analysis
by source

Table 19.8

in USD millions, as of December 31

	2013		2012	
	Assets	Liabilities	Assets	Liabilities
Gross deferred tax				
Deferred acquisition and origination costs	20	(773)	35	(677)
Depreciable and amortizable assets	49	(65)	45	(63)
Life policyholders' benefits and deposits ¹	32	(13)	13	(15)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	368	(443)	251	(511)
Accruals and deferred income	185	(1)	158	(1)
Reserves for losses and loss adjustment expenses	614	(192)	434	(132)
Reserves for unearned premiums	728	(37)	765	(59)
Pensions and other employee benefits	604	–	544	–
Other assets/liabilities	620	(96)	785	(89)
Tax loss carryforwards	572	–	484	–
Gross deferred tax assets/(liabilities) before valuation allowance	3,791	(1,621)	3,514	(1,549)
Valuation allowance	(150)	–	(112)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,641	(1,621)	3,403	(1,549)
Deferred tax assets	2,020		1,853	
Deferred acquisition and origination costs	90	(2,560)	89	(2,662)
Depreciable and amortizable assets	373	(2,566)	247	(2,585)
Life policyholders' benefits and deposits ¹	1,229	(940)	1,162	(961)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	172	(888)	209	(1,364)
Accruals and deferred income	112	(136)	116	(94)
Reserves for losses and loss adjustment expenses	159	(111)	149	(82)
Reserves for unearned premiums	46	(84)	50	(72)
Deferred front-end fees	551	–	616	–
Pensions and other employee benefits	369	(42)	482	(40)
Other assets/liabilities	605	(1,549)	744	(1,363)
Tax loss carryforwards	77	–	127	–
Gross deferred tax assets/(liabilities) before valuation allowance	3,784	(8,876)	3,992	(9,224)
Valuation allowance	(18)	–	(12)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,766	(8,876)	3,980	(9,224)
Deferred tax liabilities		(5,110)		(5,244)
Net deferred tax liabilities		(3,090)		(3,390)

¹ Includes reserves for unit-linked contracts.

The Group's deferred tax assets and liabilities are recorded by its tax paying entities throughout the world, which may include several legal entities within each tax jurisdiction. Legal entities are grouped as a single taxpayer only when permitted by local legislation and when deemed appropriate. The first part of table 19.8 includes single taxpayers with a net deferred tax asset position and the second part includes single taxpayers with a net deferred tax liability position.

As of December 31, 2013 and 2012, the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognized amount to approximately USD 20 billion and USD 22 billion, respectively. In the remote scenario in which these temporary differences were to reverse simultaneously, the resulting tax liabilities would be very limited due to participation exemption rules.

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Table 19.9			
in USD millions, as of December 31			
		2013	2012
Tax losses carryforwards and tax credits	For which deferred tax assets have been recognized, expiring		
	< 5 years	71	105
	5 to 20 years	344	622
	> 20 years or with no time limitation	1,395	1,002
	Subtotal	1,810	1,729
	For which deferred tax assets have not been recognized, expiring		
	5 to 20 years	127	102
	> 20 years or with no time limitation	658	629
	Subtotal	795	731
	Total	2,604	2,460

The tax rates applicable to tax losses for which a deferred tax asset has not been recognized are 18.3 percent and 18.6 percent for the years 2013 and 2012, respectively.

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

Management assesses the recoverability of the deferred tax asset carrying values based on future years taxable income projections and believes that the carrying values of the deferred tax assets as of December 31, 2013, are recoverable.

20. Senior and subordinated debt

Table 20.1

Senior and subordinated debt

in USD millions, as of December 31		2013	2012
Senior debt			
Zurich Insurance Company Ltd	3.75% CHF 500 million notes, due September 2013 ⁵	–	545
	2.25% CHF 500 million notes, due July 2017 ⁵	559	543
	2.375% CHF 525 million notes, due November 2018 ⁵	585	568
	1.50% CHF 400 million notes, due June 2019 ^{4,5,6}	443	440
	1.125% CHF 400 million notes, due September 2019 ^{4,5,6}	450	–
	2.875% CHF 250 million notes, due July 2021 ⁵	277	269
	3.375% EUR 500 million notes, due June 2022 ^{4,5,6}	687	682
	1.875% CHF 100 million notes, due September 2023 ^{4,5,6}	112	–
Zurich Finance (Luxembourg) S.A.	3.25% USD 750 million notes, due September 2013 ^{4,5,6}	–	757
Zurich Finance (USA), Inc.	USD 400 million Euro Commercial Paper Notes, due in less than 1 year	400	400
	4.50% EUR 1 billion notes, due September 2014 ^{1,5,6}	1,384	1,333
	6.50% EUR 600 million notes, due October 2015 ^{2,5,6}	825	790
Zurich Santander Insurance America S.L.	7.5% EUR 152 million loan, due December 2035	210	220
Other	Various debt instruments	113	113
Senior debt		6,044	6,660
Subordinated debt			
Zurich Insurance Company Ltd	12.0% EUR 143 million perpetual capital notes, first callable July 2014 ⁵	197	188
	4.25% CHF 700 million perpetual notes, first callable May 2016 ⁵	780	756
	8.25% USD 500 million perpetual capital notes, first callable January 2018 ⁵	496	495
	4.625% CHF 500 million perpetual notes, first callable May 2018 ⁵	555	539
	7.5% EUR 425 million notes, due July 2039, first callable July 2019 ⁵	582	557
	4.25% EUR 1 billion notes, due October 2043, first callable October 2023 ⁵	1,360	–
	6.625% GBP 450 million perpetual notes, first callable October 2022 ^{3,5}	737	723
Zurich Finance (UK) plc	5.75% EUR 500 million notes, due October 2023, first callable October 2013 ⁵	–	652
Zurich Finance (USA), Inc.	4.5% EUR 269 million notes, due June 2025, first callable June 2015 ^{4,5,6}	385	705
ZFS Finance (USA) Trust II	Series II 6.45% USD 700 million Trust Preferred Securities (ECAPS), due December 2065, first callable June 2016	677	676
ZFS Finance (USA) Trust V	Series V 6.5% USD 1 billion Trust Preferred Securities, due May 2067, first callable May 2017	498	498
Other	Various debt instruments	74	73
Subordinated debt		6,342	5,861
Total senior and subordinated debt		12,386	12,521

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

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

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

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

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

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

None of the debt instruments listed in table 20.1 were in default as of December 31, 2013 or 2012.

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

i) Senior debt

Senior debt amounted to USD 6,044 million and USD 6,660 million as of December 31, 2013 and December 31, 2012, respectively.

The decrease was due to the maturities in September 2013 of 3.75% CHF 500 million notes and 3.25% USD 750 million notes issued by Zurich Insurance Company Ltd and Zurich Finance (Luxembourg) S.A., respectively. This decrease was partially offset by the placement of 6 and 10-year notes for a combined amount of CHF 500 million in September 2013, issued by Zurich Insurance Company Ltd under the Group's EMTN Programme. The coupon for the 6-year tranche was set at 1.125% and at 1.875% for the 10-year tranche. The remaining increase was due to the translation effects of the U.S. dollar against the currencies in which the notes were issued.

ii) Subordinated debt

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

Subordinated debt amounted to USD 6,342 million and USD 5,861 million as of December 31, 2013 and December 31, 2012, respectively.

The increase is mainly the result of the total of 4.25% EUR 1 billion notes due 2043 issued in March and July 2013 by Zurich Insurance Company Ltd under the Group's EMTN Programme. Simultaneously with this new issuance, investors who held Zurich Finance (USA), Inc. 4.5% EUR 500 million subordinated notes due June 2025, were made an offer to switch part or all of their holdings against this new issue and, with regard to the notes issued in July 2013, were offered to deliver notes against cash. The total nominal of EUR 231 million of the Zurich Finance (USA), Inc. notes were cancelled. A further decrease was due to the early repayment of the 5.75% EUR 500 million notes due October 2023 issued by Zurich Finance (USA), Inc. on the first call date in October 2013. The remaining increase was due to the translation effects of the U.S. dollar against the currencies in which the notes were issued.

Operational and financial debt

Table 20.2

Indebtedness	in USD millions, as of December 31	Senior debt		Subordinated debt		Total	
		2013	2012	2013	2012	2013	2012
Operational debt		72 ²	829 ^{1,2}	28 ²	28 ²	100	857
Financial debt		5,972	5,831	6,314	5,833	12,286	11,664
Total		6,044	6,660	6,342	5,861	12,386	12,521

¹ Operational senior debt included USD 750 million in senior debt issued under the Group's EMTN Programme by Zurich Finance (Luxembourg) S.A. in September 2009, which was loaned directly to the Group's banking activities, matured in September 2013. This issue had been recognized as operational debt by Moody's but not by Standard & Poor's.

² Operational senior and subordinated debt included USD 100 million for non-recourse debt.

Table 20.3

Description and features of significant subordinated debt	Table 20.3	
	Coupon conditions	Call/ redemption date
Description		
12.00% EUR 143 million perpetual capital notes	12.00% payable annually up to July 15, 2014 and then reset quarterly to 3-month EURIBOR plus 10.33%.	Quarterly on or after July 15, 2014
4.5% EUR 269 million notes, due June 2025	4.5% payable annually up to June 15, 2015 and then reset quarterly to 3-month EURIBOR plus 2.20%.	Quarterly on or after June 15, 2015
4.25% CHF 700 million perpetual notes	4.25% payable annually up to May 26, 2016 and then reset quarterly to 3-month CHF-Libor plus 3.046%.	Quarterly on or after May 26, 2016
Series II 6.45% USD 700 million Fixed/Adjustable Trust Preferred Securities (ECAPS), due December 2065	6.45% payable semi-annually until June 15, 2016 and then reset quarterly to the adjustable rate plus 2.00%. ²	Quarterly on or after June 15, 2016
Series V 6.5% USD 1 billion Fixed/Floating Trust Preferred Securities, due May 2067	6.5% payable semi-annually until May 9, 2017 and then reset quarterly to 3-month LIBOR plus 2.285%.	Quarterly on or after May 9, 2017
8.25% USD 500 million perpetual capital notes	8.25% per annum payable quarterly until January 18, 2018. Resets to the 6-Year USD mid swap rate plus 6.84% until January 18, 2024. Resets thereafter every 6 years to the 6-Year USD mid swap rate plus 7.84%.	Quarterly on or after January 18, 2018
4.625% CHF 500 million perpetual notes	4.625% payable annually up to May 16, 2018 and then reset to the prevailing 7 year CHF mid swap rate plus 2.691%.	Annually on or after May 16, 2018
7.5% EUR 425 million notes, due July 2039	7.5% payable annually up to July 24, 2019 and then reset quarterly to 3-month EURIBOR plus 5.85%.	Quarterly on or after July 24, 2019
6.625% GBP 450 million perpetual notes	6.625% payable annually up to October 2, 2022 and then reset every 5 years to the reset rate of interest plus 2.85%. ¹	Every five years on or after October 2, 2022
4.25% EUR 1 billion notes, due October 2043	4.25% payable annually up to October 02, 2023 and then reset quarterly to 3-month EURIBOR plus 3.45%.	Quarterly on or after October 2, 2023

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

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

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Table 20.4

Maturity schedule of outstanding debt

in USD millions, as of December 31	2013		2012	
	Carrying value	Undiscounted cash flows	Carrying value	Undiscounted cash flows
< 1 year	1,796	2,411	1,702	2,299
1 to 2 years	949	1,446	1,356	1,907
2 to 3 years	–	458	902	1,371
3 to 4 years	559	987	–	429
4 to 5 years	613	1,024	543	934
5 to 10 years	2,729	4,529	2,705	4,340
> 10 years	5,741	8,568	5,313	7,418
Total	12,386	19,422	12,521	18,698

Debt maturities reflect original contractual dates without taking early redemption options into account. For call/redemption dates, see table 20.3. The total notional amount of debt due in each period is not materially different from the total carrying value disclosed in table 20.4. Undiscounted cash flows include interest and principal cash flows on debt outstanding as of December 31, 2013 and 2012. All debt is assumed to mature within 20 years of the balance sheet date without refinancing. Floating interest rates are assumed to remain constant as of December 31, 2013 and 2012. The aggregated cash flows are translated into U.S. dollars at end-of-period rates.

Table 20.5

Interest expense on debt

in USD millions, for the years ended December 31	2013	2012
Senior debt	200	221
Subordinated debt	386	348
Total	586	570

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

The increase in the interest expense on subordinated debt was mainly due to the issuance of 4.25% EUR 1 billion notes in March and July 2013. This was partially offset by the reduction in 4.5% EUR 500 million notes as investors could switch part or all of their holdings against the new issue or, with regard to the notes issued in July 2013, against cash. A further reduction resulted from the repayment of 5.875% USD 500 million Trust Preferred Securities in June 2012.

Credit facilities

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

In addition, the Group has access to four other revolving credit facilities totaling USD 441 million, of which USD 366 million will expire in 2014 and USD 75 million in 2015. No borrowings were outstanding under any of these facilities as of December 31, 2013 or 2012.

21. Shareholders' equity

Table 21.1

Share capital	Share capital in CHF	Number of shares	Par value in CHF
Issued share capital			
As of December 31, 2011	14,738,582	147,385,822	0.10
New shares issued from contingent capital in 2012	91,430	914,301	0.10
As of December 31, 2012	14,830,012	148,300,123	0.10
New shares issued from contingent capital in 2013	60,310	603,099	0.10
As of December 31, 2013	14,890,322	148,903,222	0.10
Authorized, contingent and issued share capital			
As of December 31, 2012	17,129,526	171,295,259	0.10
As of December 31, 2013	17,129,526	171,295,259	0.10

a) Issued share capital

The issued share capital of Zurich Insurance Group Ltd as of December 31, 2013 amounts to CHF 14,890,322.20, divided into 148,903,222 fully paid registered shares with a nominal value of CHF 0.10 each.

b) Authorized share capital

Until March 29, 2014, the Board of Zurich Insurance Group Ltd is authorized to increase the share capital by an amount not exceeding CHF 1,000,000 by issuing up to 10,000,000 fully paid registered shares with a nominal value of CHF 0.10 each. An increase in partial amounts is permitted. The Board would determine the date of issue of any such new shares, the issue price, type of payment, conditions for exercising pre-emptive rights, and the commencement of entitlement to dividends.

The Board may issue such new shares by means of a firm underwriting by a banking institution or syndicate with a subsequent offer of those shares to current shareholders. The Board may allow the expiry of pre-emptive rights which have not been exercised, or it may place these rights as well as shares, the pre-emptive rights of which have not been exercised, at market conditions.

The Board is further authorized to restrict or withdraw the pre-emptive rights of shareholders and to allocate them to third parties if the shares are to be used for the take-over of an enterprise, or parts of an enterprise or of participations or if issuing shares for the financing including re-financing of such transactions, or for the purpose of expanding the scope of shareholders in connection with the quotation of shares on foreign stock exchanges.

c) Contingent share capital

Capital market instruments and option rights to shareholders

The share capital of Zurich Insurance Group Ltd may be increased by an amount not exceeding CHF 1,000,000 by the issuance of up to 10,000,000 fully paid registered shares with a nominal value of CHF 0.10 each (i) by exercising conversion and/or option rights which are granted in connection with the issuance of bonds or similar debt instruments by Zurich Insurance Group Ltd or one of its Group companies in national or international capital markets; and/or (ii) by exercising option rights which are granted to current shareholders. When issuing bonds or similar debt instruments connected with conversion and/or option rights, the pre-emptive rights of the shareholders will be excluded. The current owners of conversion and/or option rights shall be entitled to subscribe for the new shares. The conversion and/or option conditions are to be determined by the Board.

The Board is authorized, when issuing bonds or similar debt instruments connected with conversion and/or option rights, to restrict or withdraw the right of shareholders for advance subscription in cases where such bonds are issued for the financing or re-financing of a takeover of an enterprise, of parts of an enterprise, or of participations. If the right for advance subscription is withdrawn by the Board, the convertible bond or warrant issues are to be offered at market conditions (including standard dilution protection provisions in accordance with market practice) and the new shares are issued at the then current convertible bond or warrant issue conditions.

The conversion rights are exercisable during a maximum period of ten years and option rights for a maximum period of seven years from the time of the respective issue. The conversion or option price or its calculation methodology shall be determined in accordance with market conditions whereby, for shares of Zurich Insurance Group Ltd, the quoted share price is to be used as a basis.

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Employee participation

During 2013 and 2012, 603,099 shares and 914,301 shares, respectively, were issued to employees from contingent share capital as outlined in note 23. As a result, on December 31, 2013 and 2012, respectively, the remaining contingent share capital, which can be issued to employees of Zurich Insurance Group Ltd and its subsidiaries, amounted to CHF 239,203.70 and CHF 299,513.60 or 2,392,037 and 2,995,136 fully paid registered shares, respectively, with a nominal value of CHF 0.10 each. Pre-emptive rights of the shareholders, as well as the right for advance subscription, are excluded. The issuance of shares or respective option rights to employees is subject to one or more regulations to be issued by the Board of Directors and takes into account performance, functions, levels of responsibility and criteria of profitability. Shares or option rights may be issued to employees at a price lower than that quoted on the stock exchange.

d) Additional paid-in capital

This reserve is not ordinarily available for distribution. However, as of January 1, 2011 a Swiss tax regulation based on the Swiss Corporate Tax reform II became effective, allowing for payments free of Swiss withholding tax to shareholders out of a so called capital contribution reserve, created out of additional paid-in capital. Therefore, amounts qualifying under this regulation can be paid out of additional paid-in capital.

e) Treasury shares

Table 21.2

Treasury shares	number of shares, as of December 31	2013	2012
Treasury shares		1,320,652	1,348,395

Treasury shares comprise shares acquired in the market, primarily held to cover employee share and share option plans.

f) Earnings per share

Table 21.3

Earnings per share	for the years ended December 31	Net income attributable to shareholders (in USD millions)	Weighted average number of shares	Per share (USD)	Per share (CHF) ¹
2013					
Basic earnings per share		4,028	147,404,623	27.33	25.33
Effect of potentially dilutive shares related to share-based compensation plans			568,876	(0.11)	(0.10)
Diluted earnings per share		4,028	147,973,499	27.22	25.23
2012					
Basic earnings per share		3,887	146,641,273	26.50	24.84
Effect of potentially dilutive shares related to share-based compensation plans			728,444	(0.13)	(0.12)
Diluted earnings per share		3,887	147,369,717	26.37	24.72

¹ The translation from USD to CHF is shown for information purposes only and has been calculated at the Group's average exchange rates for the years ended December 31, 2013 and 2012, respectively.

Basic earnings per share is computed by dividing net income attributable to shareholders by the weighted average number of shares outstanding for the year, excluding the weighted average number of shares held as treasury shares and preferred securities. Diluted earnings per share reflects the effect of potentially dilutive shares.

22. Employee benefits

The Group had 55,102 and 55,312 employees (full-time equivalents) as of December 31, 2013 and 2012, respectively. Personnel and other related costs incurred for the years ended December 31, 2013 and 2012, were USD 6,054 million and USD 6,100 million, including wages and salaries of USD 4,803 million and USD 4,861 million, respectively.

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

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

Governance of the Group's pension and post-employment benefit plans is the responsibility of the Group Pensions Committee, a technical committee to the Board. The Group Pensions Committee provides oversight and guidance over the costs and risks of the Group's overall benefits policy. This includes oversight of the impact of the Group's principal defined benefit pension and post retirement benefit plans on the Group in terms of cash, expense, and balance sheet accounting impact and capital implications by the development and maintenance of policies on funding, asset allocation and assumption setting.

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

a) Defined benefit plans

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

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

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

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

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

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also taking into account local pension laws. The investment strategies aim to mitigate asset-liability mismatches in the long run.

For post-employment defined benefit plans, total contributions to funded plans and benefits paid directly by the Group were USD 491 million for 2013 compared with USD 491 million for 2012. The estimated total for 2014 is USD 523 million (actual amount may differ), not taking into account the plan amendment becoming effective January 1, 2014, as outlined in Swiss pension plans.

Swiss pension plans

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

Actuarial valuations are completed regularly and if the plans become underfunded under local regulations, options for dealing with this include the Group paying additional contributions into the plan and/or reducing future benefits. At present, the plans are sufficiently funded, meaning that it is not expected for additional contributions into the plans to be required in the next year. The investment strategy of the Swiss plans is constrained by Swiss pension law including regulations relating to diversification of plan assets. Under IAS 19, volatility arises in the Swiss pension plan net liability because the fair value of the plan assets is not directly correlated to movements in the value of the plan's defined benefit obligation in the short-term.

Effective January 1, 2014, following a plan amendment, the fixed annuity conversion rates will be revised downwards to reflect the migration of the plan's technical basis to a revised interest rate expectation and new mortality tables resulting in a curtailment gain. This change will be phased in over a period of four years. It has also been agreed that the two pension plans will be merged into a single plan at the end of 2014 or beginning of 2015.

UK pension plan

The major UK pension plan is a final salary plan and accrued benefits increase in line with salary increases. Normal retirement age for the plan is 60. The plan is split into distinct sections and the two defined benefit sections are closed to new entrants, who instead can participate in a defined contribution section within the same trust. The notes that follow consider only the defined benefit sections. There is a UK Pension Trustee Board, which is responsible for the governance of the plan. The employer contributions are determined based on regular triennial actuarial valuations which are conducted using assumptions agreed by the Trustee Board and the sponsoring company. A valuation was carried out during 2013 and the results are yet to be finalized. In the event of any under-funding, the sponsoring company must agree a deficit recovery plan with the Trustee Board within the statutory deadlines. The ongoing funding of the plan is closely monitored by the Trustee Board and a dedicated funding committee is made up of representatives from the Trustee Board and the Group. The plan rules and UK pension legislation set out maximum levels of inflationary increases applied to plan benefits. The plan assets are invested in diversified classes of assets and a portion are invested in inflation-linked debt securities, to provide a partial hedge against inflation. The Trustees have also implemented an interest rate swap contract which will provide partial protection against volatility in interest rates.

U.S. pension plans

There are two major pension plans in the U.S., the Zurich North America (ZNA) plan and the Farmers Group, Inc. pension (the Farmers Group) plan. These are both cash balance pension plans funded entirely by the Group. The ZNA plan is entirely cash balance and the Farmers Group plan provides benefits on a cash balance pension formula for benefits accruing after January 1, 2009, except with respect to certain grandfathered participants. A final average pay defined benefit formula applied for benefits accrued before 2009, and for the grandfathered participants. For both cash balance plans, an amount is credited to the cash balance plan each quarter, determined by an employee's age, service and their level of earnings up to and above the social security taxable wage base. The minimum annual interest earned on the account balance is 5 percent. The retirement account is available from age 65, or age 55 with five years'

service. The benefit can be taken as a monthly annuity or a lump sum. Both the ZNA plan and the Farmers Group plan have fiduciaries as required under local pension laws. The fiduciaries are responsible for the governance of the plans. Actuarial valuations are completed regularly and the Group has historically elected to make contributions to the plans to maintain a funding ratio of at least 90 percent as valued under local pension regulations. The annual employer contributions are equal to the present value of benefits accrued each year, plus a rolling amortization of any prior underfunding.

German pension plans

There are a number of legacy defined benefit plans in Germany, most of which were set up under works council agreements. In 2007, a contractual trust arrangement was set up to support all pension commitments of the employing companies in Germany. No contributions or assets have been added to the contractual trust arrangements since 2007. A separate arrangement was also established in 2007 to provide for retirement obligations that were in payment at that time. Consideration is given from time to time based on the fiscal efficiency of adding recent retirees to this arrangement and to adding assets to the contractual trust. There is currently no plan to pay any further contributions to the contractual trust arrangement.

These defined benefit plans provide benefits on either a final salary, career average salary or a cash balance basis. These plans are now closed to new entrants, who instead participate in a new cash balance arrangement, which has the characteristics of a defined contribution arrangement with a capital guarantee on members' balances, which mirrors the capital guarantee given in a conventional life insurance arrangement in Germany.

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

Table 22.1a					
in USD millions		Defined benefit obligation	Fair Value Assets	Asset ceiling	Net defined benefit asset / (liability)
Movement in defined benefit obligation and fair value of assets – current period	As of January 1, 2013	(19,668)	16,268	–	(3,400)
	Net post-employment benefit (expense)/income:				
	Current service cost	(370)	–	–	(370)
	Interest (expense)/income	(701)	575	–	(126)
	Past service (cost)/credit	19	–	–	19
	Net post-employment benefit (expense)/income	(1,052)	575	–	(477)
	Remeasurement effects included in other comprehensive income:				
	Return on plan assets excluding interest income	–	(31)	–	(31)
	Experience gains/(losses)	101	–	–	101
	Actuarial gains/(losses) arising from changes in demographic assumptions	(70)	–	–	(70)
	Actuarial gains/(losses) arising from changes in financial assumptions	(182)	–	–	(182)
	Remeasurement effects included in other comprehensive income	(151)	(31)	–	(182)
	Employer contributions	–	458	–	458
	Employer contributions paid to meet benefits directly	40	–	–	40
	Plan participants' contributions	(53)	53	–	–
	Payments from the plan	648	(648)	–	–
	Foreign currency translation effects	(449)	344	–	(105)
As of December 31, 2013	(20,685)	17,020	–	(3,666)	

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

Table 22.1b

in USD millions

	Defined benefit obligation	Fair Value Assets	Asset ceiling	Net defined benefit asset / (liability)
As of January 1, 2012	(17,780)	14,901	(3)	(2,882)
Net post-employment benefit (expense)/income:				
Current service cost	(344)	–	–	(344)
Interest (expense)/income	(753)	629	–	(124)
Settlements	254	(211)	–	43
Past service (cost)/credit	(11)	–	–	(11)
Net post-employment benefit (expense)/income	(854)	418	–	(436)
Remeasurement effects included in other comprehensive income:				
Return on plan assets excluding interest income	–	596	–	596
Experience gains/(losses)	(127)	–	–	(127)
Actuarial gains/(losses) arising from changes in demographic assumptions	(5)	–	–	(5)
Actuarial gains/(losses) arising from changes in financial assumptions	(955)	–	–	(955)
Change in asset ceiling	–	–	3	3
Remeasurement effects included in other comprehensive income	(1,087)	596	3	(488)
Employer contributions	–	452	–	452
Employer contributions paid to meet benefits directly	51	–	–	51
Plan participants' contributions	(50)	50	–	–
Payments from the plan	628	(628)	–	–
Foreign currency translation effects	(576)	479	–	(97)
As of December 31, 2012	(19,668)	16,268	–	(3,400)

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

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

Table 22.2 provides a breakdown of plan assets by asset class.

Table 22.2

in USD millions, as of December 31

Fair value of assets held in post-employment defined benefit plans

	2013				2012			
	Quoted in active markets ¹	Other ²	Total	% of Total	Quoted in active markets ¹	Other ²	Total	% of Total
Mortgage loans	–	424	424	2%	–	444	444	3%
Cash and cash equivalents	164	–	164	1%	182	–	182	1%
Equity securities	3,735	52	3,787	22%	3,645	51	3,696	23%
Debt securities	–	11,656	11,656	68%	–	11,002	11,002	68%
Real estate	–	983	983	6%	–	938	938	6%
Other assets ³	–	7	7	–	–	7	7	–
Total	3,898	13,122	17,020	100%	3,826	12,442	16,268	100%

¹ Level 1 assets (see note 25)

² Level 2 and 3 assets (see note 25)

³ UK annuity policies

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As a matter of policy, pension plan investment guidelines do not permit investment in any assets in which the Group or its subsidiaries have an interest, including shares or other financial instruments issued and real estate held for own use.

Tables 22.3a and 22.3b provide a breakdown of the key information included in tables 22.1a and 22.1b for the main countries for the years ended December 31, 2013 and 2012 respectively.

Table 22.3a							
Key information by main country – current period	as of December 31, 2013	Switzerland	United Kingdom	United States	Germany	Other	Total
	Defined benefit obligation		(4,935)	(10,250)	(3,047)	(1,277)	(1,177)
Fair value of plan assets		4,501	8,243	2,311	1,017	948	17,020
Net defined benefit asset/(liability)		(433)	(2,007)	(736)	(260)	(229)	(3,666)
Net post-employment benefit (expense)/income		(134)	(150)	(138)	(25)	(30)	(477)

Table 22.3b							
Key information by main country – prior period	as of December 31, 2012	Switzerland	United Kingdom	United States	Germany	Other	Total
	Defined benefit obligation		(4,774)	(9,143)	(3,302)	(1,260)	(1,190)
Fair value of plan assets		4,250	7,847	2,286	975	910	16,268
Net defined benefit asset/(liability)		(524)	(1,296)	(1,016)	(285)	(280)	(3,400)
Net post-employment benefit (expense)/income		(133)	(167)	(90)	(29)	(17)	(436)

Table 22.4 shows the key financial assumptions used to calculate the Group's post-employment defined benefit obligations and the Group's post-employment benefit expenses.

Table 22.4									
Key financial assumptions used for major plans	as of December 31	2013				2012			
		Switzerland	United Kingdom	United States	Germany	Switzerland	United Kingdom	United States	Germany
		Discount rate	2.2%	4.5%	4.8%	3.4%	1.7%	4.7%	3.9%
Inflation rate (CPI) ¹	1.4%	2.7%	2.7%	2.0%	1.5%	2.5%	2.9%	2.3%	
Salary increase rate	2.0%	3.7%	4.4%	3.3%	2.1%	3.8%	4.4%	3.6%	
Expected future pension increases	1.0%	3.7%	N/A	2.0%	1.0%	3.3%	N/A	2.3%	
Interest crediting rate	2.2%	N/A	5.0%	N/A	1.4%	N/A	5.0%	N/A	

¹ In the UK part of the liability is linked to the inflation measure of the Retail Prices Index (RPI), which is assumed to be 1.0 percent and 0.8 percent higher than the Consumer Prices Index (CPI) as of December 31, 2013 and 2012, respectively.

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

Table 22.5a					
Mortality tables and life expectancies for major plans – current period		Life expectancy at age 65 for a male currently		Life expectancy at age 65 for a female currently	
		aged 65	aged 45	aged 65	aged 45
as of December 31, 2013					
Country	Mortality table for major plans				
Switzerland	BVG 2010 Generational	21.29	23.08	23.76	25.52
United Kingdom	PNXA00 with CMI_2012 projection	23.14	24.54	25.24	26.74
United States	RP 2000 Generational, partially with projection	19.87	20.65	21.95	22.63
Germany	Heubeck 2005G	18.71	21.39	22.79	25.34

Table 22.5b					
Mortality tables and life expectancies for major plans – prior period		Life expectancy at age 65 for a male currently		Life expectancy at age 65 for a female currently	
		aged 65	aged 45	aged 65	aged 45
as of December 31, 2012					
Country	Mortality table for major plans				
Switzerland	BVG 2010 Generational, partially with projection	21.18	23.00	23.66	25.44
United Kingdom	PNXA00 with CMI_2009 projection	22.94	24.34	24.74	26.24
United States	RP 2000 Generational, partially with projection	19.46	19.98	21.40	21.71
Germany	Heubeck 2005G	18.60	21.30	22.70	25.20

Table 22.6 shows the expected benefits to be paid under the Group's major plans in the future. It should be noted that actual amounts may vary from expected amounts. Therefore future benefit payments may differ from the amounts shown in table 22.6.

Table 22.6									
Maturity profile of future benefit payments for major plans		2013				2012			
		Switzerland	United Kingdom	United States	Germany	Switzerland	United Kingdom	United States	Germany
as of December 31									
Duration of the defined benefit obligation		15.6	20.7	14.1	14.2	14.7	20.5	13.8	14.4
Maturity analysis of benefits expected to be paid:									
< 1 year		155	248	141	54	247	230	131	48
1 to 5 years		661	1,171	631	212	969	1,088	596	192
5 to 10 years		978	1,942	964	295	1,222	1,735	917	272

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Table 22.7

in USD millions, as of December 31, 2013

Sensitivity analysis of significant actuarial assumptions

	Defined benefit obligation ¹
Discount rate + 50 bps	1,621
Discount rate – 50 bps	(1,855)
Salary increase rate + 50 bps	(149)
Salary decrease rate – 50 bps	144
Price inflation increase rate + 50 bps	(1,001)
Price inflation decrease rate – 50 bps	901
Cash balance interest credit rate + 50 bps	(112)
Cash balance interest credit rate – 50 bps	109
Mortality 10% increase in life expectancy	(1,498)
Mortality 10% decrease in life expectancy	1,419

¹ A negative number indicates an increase in DBO, a positive number a decrease in DBO, respectively.

Table 22.7 sets out the sensitivity of the defined benefit obligations (DBO) to the key actuarial assumptions. The effect on DBO shown allows for an alternative value for each assumption while the other actuarial assumptions remain unchanged. Whilst this table illustrates the overall impact on DBO of the changes shown, the significance of the impact and the range of reasonably possible alternative assumptions may differ between the different plans that comprise the total DBO; in particular the plans differ in benefit design, currency and average term, meaning that different assumptions have different levels of significance for different plans. The sensitivity analysis is intended to illustrate the inherent uncertainty in the evaluation of the DBO under market conditions at the measurement date; its results cannot be extrapolated due to non-linear effects that changes in the key actuarial assumptions may have on the overall total DBO. Furthermore, the analysis does not indicate a probability of such changes occurring and it does not necessarily represent the Group's view of expected future changes in DBO. Any management actions that may be taken to mitigate the inherent risks in the post-employment defined benefit plans are not reflected in this analysis.

b) Defined contribution pension plans

Certain of the Group's companies sponsor defined contribution pension plans. Eligibility for participation in such plans is either based on completion of a specified period of continuous service or the date of commencement of employment. The plans provide for voluntary contributions by employees and contributions by the employer which typically range from 2 percent to 10 percent of annual pensionable salary, depending on a number of factors. The Group's contributions under these plans amounted to USD 143 million and USD 132 million for the years ended December 31, 2013 and 2012, respectively.

23. Share-based compensation and cash incentive plans

The Group has adopted various share-based compensation and cash incentive plans to attract, retain and motivate executives and employees. The plans are designed to reward employees for their contribution to the performance of the Group and to encourage employee share ownership. Share-based compensation plans include plans under which shares and options to purchase shares, based on the performance of the businesses, are awarded. Share-based compensation plans are based on the provision of the Zurich Insurance Group Ltd shares.

a) Cash incentive plans

Various businesses throughout the Group operate short-term incentive programs for executives, management and, in some cases, for employees of that business. Awards are made in cash, based on the accomplishment of both organizational and individual performance objectives. The expense recognized for these cash incentive plans amounted to USD 472 million and USD 490 million for the years ended December 31, 2013 and 2012, respectively.

b) Share-based compensation plans for employees and executives

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

Table 23.1

Expenses recognized in income	in USD millions, as of December 31	
	2013	2012
Total option-based expenses	5	14
Total share-based expenses	46	126
Total expenses	50	140

Expenses for share-based payments depend on various factors, including achievement of targets, and are subject to the discretion of the Remuneration Committee. The net amount reflects all aspects of share-based compensation, including adjustments made during the year. The expenses in table 23.1, therefore, may vary significantly from year to year.

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

Employee share plans

Share Incentive Plan for employees in the UK

The Group established an Inland Revenue approved Share Incentive Plan and launched the Partnership Shares element of this plan in 2003, which enabled participating employees to make monthly purchases of Zurich Insurance Group Ltd shares at the prevailing market price out of their gross earnings. This plan was terminated in 2007. There were 138 and 181 participants in the plan as of December 31, 2013 and 2012, respectively.

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

The Group also operates the profit-sharing element of the Share Incentive Plan (Reward Shares) which was launched in 2004 with annual share allocations being made in May each year subject to business performance. The awards are based on the business operating profit (BOP) after tax for the year, for the business unit of each participating employee. Individual awards are subject to a maximum of 5 percent of a participant's base salary (before any flexible benefit adjustments) with an overall maximum of GBP 3,000. The total number of participating employees in the Reward Share element of the plans as of December 31, 2013 and 2012 was 5,201 and 5,289 respectively.

Share Incentive Plan for employees in Switzerland

Under this plan, employees have the option to acquire sales-restricted shares at a 30 percent discount to the market value. The maximum permitted investment in shares is equivalent to CHF 3,500 per employee per annum. During 2013, 4,533 employees were eligible to participate in the share incentive plan for employees in Switzerland compared with 4,894 in 2012. For the years ended December 31, 2013 and 2012, 1,506 and 1,385 employees, respectively, purchased shares under the 2012 and 2011 share plans.

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The Group Long-Term Incentive Plan

Participants in this plan are granted a target number of performance shares in shares of Zurich Insurance Group Ltd in April each year, such that the economic value is a defined percentage of the annual salary of each participant in the year of grant. Performance shares vest on an annual basis over the subsequent three year period, with the actual level of vesting being between 0 percent and 175 percent of the original shares granted, with an additional discretion to increase vesting to a maximum of 200 percent, depending on the performance of the Group over the previous three calendar years. Performance metrics used to determine the level of vesting are the Group's return on equity and the position of its total annual relative shareholder return measured against an international peer group of insurance companies. One half of the shares that actually vest are sales-restricted for a further three years. As of December 31, 2013 and 2012 there were 1,138 and 1,129 participants in the plan, respectively.

Prior to 2011, for selected senior executives, the target granted was allocated between performance shares and share options in shares of Zurich Insurance Group Ltd. Vesting of the share options is based on the same criteria as those for performance shares over the subsequent three year period, with the same potential multiple of the share options granted dependent on the achievement of the same performance metrics. Share options, once vested, may be exercised by the participant over the period up to seven years from the date of grant.

c) Further information on performance share and option plans

Table 23.2

Movements in options under the Group Long-Term Incentive Plan

	Number of shares under option		Weighted average exercise price (in CHF)	
	2013	2012	2013	2012
As of January 1	2,504,584	3,268,779	295	285
Options vesting	236,045	444,277	260	240
Options forfeited	(6,789)	(33,940)	336	258
Options exercised	(152,107)	(408,159)	229	202
Options expired during period	(818,115)	(766,373)	297	273
As of December 31	1,763,618	2,504,584	272	295
Exercisable options as of December 31	1,763,618	2,261,239	272	295

The average share price for Zurich Insurance Group Ltd shares in 2013 and 2012 was CHF 250.47 and CHF 221.56, respectively.

Table 23.3

Share options exercised during the period

	Amount		Weighted average share price (in CHF)	
	2013	2012	2013	2012
Exercise date				
January to April	117,205	296,042	265	235
May to August	15,301	33,289	256	222
September to December	19,601	78,828	252	238
Total	152,107	408,159	258	232

Range of exercise prices for options outstanding	Table 23.4 in CHF, as of December 31					
	Number of options		Weighted average contractual life in years		Weighted average remaining expected life in years	
	2013	2012	2013	2012	2013	2012
Exercise price						
100 to 200	174,732	255,683	7.0	7.0	2.3	3.3
201 to 300	750,298	876,150	7.0	7.0	3.3	4.3
301 to 400	838,588	1,372,751	7.0	7.0	0.7	1.3
Total	1,763,618	2,504,584	7.0	7.0	2.0	2.6

Shares granted during the period	Table 23.5 for the years ended December 31			
	Number		Weighted average fair value at grant date (in CHF)	
	2013	2012	2013	2012
Shares granted during the period	496,342	549,831	267	226

The shares granted during the year are the target allocations made under the Group's Long-Term Incentive Plan. Whether these grants vest or not will depend on whether the performance metrics are achieved. If the vesting level turns out to be different to the target, the expense is adjusted accordingly.

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24. Contingent liabilities, contractual commitments and financial guarantees

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

Table 24.1			
in USD millions, as of December 31		2013	2012
Quantifiable commitments and contingencies	Commitments under investment agreements	4,509	4,225
	Less funded commitments	(3,824)	(3,690)
	Remaining commitments under investment agreements	685	535
	Guarantees and letters of credit ¹	10,283	10,565
	Future operating lease commitments	884	1,085
	Undrawn loan commitments	8	20
	Other commitments and contingent liabilities	72	41

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

Commitments under investment agreements

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

Guarantees and letters of credit

USD 9,270 million of the USD 10,283 million and USD 9,104 million of the USD 10,565 million for financial guarantees and letters of credit as of December 31, 2013 and 2012, respectively, relate to guarantees in the aggregate amount of GBP 5,595 million provided to the directors of a fully owned subsidiary in connection with the rationalization of the Group's top legal holding structure which resulted in the merger of Zurich Group Holding into Zurich Financial Services Ltd in December 2009. These guarantees will expire in August 2015. In 2013 and 2012, an additional USD 787 million and USD 773 million, respectively, relate to guarantees in the aggregate amount of GBP 475 million which were provided to the directors of a fully owned subsidiary in connection with the repatriation of capital. These guarantees have no expiry date.

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

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

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

Commitments under lease agreements

The Group has entered into various operating leases as lessee for office space and certain computer and other equipment. Lease expenses totaled USD 92 million and USD 102 million for the years ended December 31, 2013 and 2012, respectively.

Table 24.2

in USD millions, as of December 31		2013	2012
Future payments under non-cancelable operating leases with terms in excess of one year	< 1 year	193	205
	1 to 2 years	180	187
	2 to 3 years	147	174
	3 to 4 years	101	155
	4 to 5 years	66	110
	> 5 years	198	254
	Total	884	1,085

Indemnity agreements

The Group, through certain of its subsidiaries, has agreed to arrangements that cap Converium's (now Scor Holding (Switzerland) AG) and its successor companies' net exposure for losses arising out of the September 11, 2001 World Trade Center event in New York. As of December 31, 2013 the Group has recorded provisions of USD 38 million, for losses in excess of USD 289 million.

Other contingent liabilities

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

The Group has commitments to provide collateral on certain contracts in the event of a financial strength downgrading for Zurich Insurance Company Ltd from the current AA- by Standard & Poor's. Should the rating by Standard & Poor's fall to A+, then the additional collateral based on information available as of December 31, 2013 and 2012 is estimated to amount to approximately USD 88 million and USD 71 million, respectively.

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

Pledged assets

The majority of assets pledged to secure the Group's liabilities relate to debt securities pledged under short-term sale and repurchase agreements. The total amount of pledged financial assets including the securities under short-term sale and repurchase agreements amounted to USD 11,752 million and USD 9,445 million as of December 31, 2013 and 2012, respectively.

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

Legal proceedings and regulatory investigations

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

An action entitled Fuller-Austin Asbestos Settlement Trust, et al. v. Zurich American Insurance Company (ZAIC), et al., was filed in May 2004 in the Superior Court for San Francisco County, California. Three other similar actions were filed in 2004 and 2005 and have been coordinated with the Fuller-Austin action (collectively, the Fuller-Austin Case). In addition to ZAIC and four of its insurance company subsidiaries, Zurich Insurance Company Ltd and Orange Stone Reinsurance Dublin (Orange Stone) are named as defendants. The plaintiffs, who are historical policyholders of the Home Insurance Company (Home), plead claims for, inter alia, fraudulent transfer, tortious interference, unfair business practices, alter ego and agency liability relating to the recapitalization of Home, which occurred in 1995 following regulatory review and approval. The plaintiffs allege that pursuant to the recapitalization and subsequent transactions, various Zurich entities took assets of Home without giving adequate consideration in return, and contend that this forced Home into liquidation.

The plaintiffs further allege that the defendants should be held responsible for Home's alleged obligations under their

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Home policies. The trial judge designated the plaintiffs' claims for constructive fraudulent transfer for adjudication before all other claims; he subsequently ordered an initial bench trial on certain threshold elements of those fraudulent transfer claims and on certain of defendants' affirmative defenses. The trial commenced on November 1, 2010. Closing arguments were heard on February 22 and 23, 2012.

The court issued a tentative decision on the initial bench trial on November 7, 2013, following which the parties had an opportunity to submit proposed corrections to nonsubstantive matters. The court issued its final decision on December 27, 2013. While the court found that plaintiffs had established that Home transferred certain assets to one of the defendants in connection with the 1995 recapitalization transaction, it held that plaintiffs' fraudulent transfer claims, which all related to transfers allegedly made as part of the 1995 recapitalization, were time-barred. The court further held that Home's liquidator had exclusive standing to bring fraudulent transfer claims involving Home's assets. The effect of these holdings should be the dismissal of plaintiffs' fraudulent transfer claims. In addition, the court accepted defendants' arguments that the findings made by the regulators in approving the recapitalization transaction are binding on plaintiffs in the Fuller-Austin Case.

The court set a second phase for hearing on March 6 and 7, 2014, which will consider the effect of the initial decision on the remaining claims. The Group maintains that the Fuller-Austin Case is without merit and intends to continue to defend itself vigorously.

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

25. Fair value measurement

The Group carries certain assets and liabilities at fair value and discloses the fair value of most other assets and liabilities.

Investment accounting, operations and process functions, are independent from those responsible for buying and selling the assets, and are responsible for receiving, challenging and verifying values provided by third party pricing providers to ensure that fair values are reliable, as well as ensuring compliance with applicable accounting and valuation policies. The quality control procedures used depend on the nature and complexity of the invested assets. They include regular reviews of valuation techniques and inputs used by pricing providers (for example, default rates of collateral for asset-backed securities), variance and stale price analysis, and comparisons with fair values of similar instruments and with alternative values obtained from asset managers and brokers.

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

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

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

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

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Tables 25.1a and 25.1b compare the fair value of financial assets and financial liabilities with their carrying value. Certain financial instruments are not included within these tables as their carrying value is a reasonable approximation of their fair value. Such instruments include cash and cash equivalents, obligations to repurchase securities, deposits made under assumed reinsurance contracts and deposits received under ceded reinsurance contracts and other financial assets and liabilities.

Table 25.1a in USD millions, as of December 31		Total fair value		Total carrying value	
		2013	2012	2013	2012
Fair value and carrying value of financial assets and financial liabilities – non unit-linked	Available-for-sale securities				
	Equity securities	9,758	8,796	9,758	8,796
	Debt securities	144,723	141,597	144,723	141,597
	Total available-for-sale securities	154,481	150,392	154,481	150,392
	Fair value through profit or loss securities				
	Equity securities	3,425	3,545	3,425	3,545
	Debt securities	7,121	8,985	7,121	8,985
	Total fair value through profit or loss securities	10,546	12,530	10,546	12,530
	Derivative assets	1,142	1,750	1,142	1,750
	Held-to-maturity debt securities	5,172	5,745	4,613	5,012
	Investments in associates and joint ventures	129	85	129	85
	Mortgage loans	10,326	11,298	9,798	10,519
	Other loans	13,365	15,857	11,789	13,385
	Total financial assets	195,159	197,657	192,496	193,674
	Derivative liabilities	(729)	(537)	(729)	(537)
	Financial liabilities held at amortized cost				
	Liabilities related to investment contracts	(1,163)	(1,540)	(1,030)	(1,305)
	Liabilities related to investment contracts with DPF	(6,241)	(5,663)	(6,614)	(5,903)
	Senior debt	(6,340)	(7,180)	(6,044)	(6,660)
	Subordinated debt	(6,821)	(6,379)	(6,342)	(5,861)
Total financial liabilities held at amortized cost	(20,565)	(20,763)	(20,030)	(19,729)	
Total financial liabilities	(21,294)	(21,299)	(20,759)	(20,265)	

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

Table 25.1b

in USD millions, as of December 31

	Total fair value		Total carrying value	
	2013	2012	2013	2012
Fair value through profit or loss securities				
Equity securities	111,954	99,478	111,954	99,478
Debt securities	11,605	11,646	11,605	11,646
Other loans	6,066	8,279	6,066	8,279
Total fair value through profit or loss securities	129,624	119,403	129,624	119,403
Derivative assets	45	62	45	62
Total financial assets	129,669	119,465	129,669	119,465
Fair value through profit or loss financial liabilities				
Liabilities related to unit-linked investment contracts	(59,469)	(50,229)	(59,469)	(50,229)
Derivative liabilities	(4)	(5)	(4)	(5)
Total financial liabilities	(59,473)	(50,234)	(59,473)	(50,234)

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

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

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

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

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Recurring fair value measurements of assets and liabilities

Table 25.2a					
in USD millions, as of December 31, 2013					
	Level 1	Level 2	Level 3	Total	
Fair value hierarchy – Group	Available-for-sale securities				
	Equity securities	8,420	338	1,000	9,758
	Debt securities	122	141,827	2,775	144,723
	Total available-for-sale securities	8,542	142,164	3,774	154,481
	Fair value through profit or loss securities				
	Equity securities	1,006	245	2,175	3,425
	Debt securities	66	6,836	219	7,121
	Total fair value through profit or loss securities	1,072	7,080	2,394	10,546
	Derivative assets	1	1,046	95	1,142
	Real estate held for Investment	–	2,011	6,734	8,745
	Reinsurers' share of reserves for insurance contracts fair value option ¹	–	–	346	346
	Total	9,615	152,301	13,343	175,260
	Derivative liabilities	(22)	(637)	(70)	(729)
	Reserves for insurance contracts fair value option ²	–	–	(3,306)	(3,306)
	Total	(22)	(637)	(3,377)	(4,035)

¹ Included within reinsurers' share of reserves for insurance contracts.

² Included within reserves for insurance contracts.

Table 25.2b					
in USD millions, as of December 31, 2013					
	Level 1	Level 2	Level 3	Total	
Fair value hierarchy – unit-linked	Fair value through profit or loss securities				
	Equity securities	85,375	26,514	64	111,954
	Debt securities	35	11,486	84	11,605
	Other loans	–	6,066	–	6,066
	Total fair value through profit or loss securities	85,411	44,066	148	129,624
	Derivative assets	1	44	–	45
	Real estate held for Investment	–	–	3,661	3,661
	Total	85,412	44,109	3,809	133,330
	Fair value through profit or loss financial liabilities				
	Liabilities related to unit-linked investment contracts	–	(59,469)	–	(59,469)
	Derivative liabilities	–	(4)	–	(4)
Total	–	(59,473)	–	(59,473)	

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

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

Over the counter derivative financial instruments are valued using internal models. The fair values are determined using dealer price quotations, discounted cash flow models and option pricing models, which use various inputs including current market and contractual prices for underlying instruments, time to expiry, correlations, yield curves, prepayment rates and volatility of underlying instruments. Prices are typically sourced from independent pricing providers, banks and

brokers. Such instruments are classified within level 2 as the inputs used in pricing models are generally market observable or derived from market observable data.

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

Within level 3, the Group has classified:

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

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

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

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Table 25.3a

Development of assets and liabilities classified within level 3 – non unit-linked	Available-for-sale securities		Fair value through profit or loss securities		Derivative assets	Derivative liabilities	Real estate held for investment
	Equity securities	Debt securities	Equity securities	Debt securities			
	in USD millions						
As of January 1, 2013	966	2,789	1,670	246	170	(110)	6,926
Realized gains/(losses) recognized in income ¹	71	30	(18)	(2)	–	(37)	99
Unrealized gains/(losses) recognized in income ^{1,2}	(5)	(18)	252	4	(78)	41	26
Unrealized gains/(losses) recognized in other comprehensive income	53	(23)	–	–	–	–	15
Purchases	132	944	694	–	–	–	345
Settlements/sales/redemptions	(240)	(1,001)	(435)	(32)	–	37	(750)
Transfer from assets held for own use	–	–	–	–	–	–	10
Transfer to assets held for sale	–	–	–	–	–	–	(42)
Transfers into level 3	10	57	–	1	–	–	–
Transfers out of level 3	–	(20)	–	–	–	–	–
Foreign currency translation effects	12	17	12	2	3	(2)	106
As of December 31, 2013	1,000	2,775	2,175	219	95	(70)	6,734

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

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

For the year ended December 31, 2013, the Group transferred USD 57 million of available-for-sale debt securities into level 3. The transfers were mainly the result of higher price volatility and credit rating downgrades of certain asset-backed securities, resulting in a reduction of market activity in the instruments.

Table 25.3b

Development of reserves for insurance contracts fair value option classified within level 3	in USD millions		
	Gross	Ceded	Net
As of January 1	4,183	(456)	3,727
Premiums	101	(8)	93
Claims	(312)	31	(281)
Fee income and other expenses	3	(1)	2
Interest and bonuses credited to policyholders	(501)	75	(426)
Changes in assumptions	(167)	13	(154)
As of December 31	3,306	(346)	2,960

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

Table 25.3c

in USD millions

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

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

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

Non-recurring fair value measurements of assets and liabilities

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

For the year ended December 31, 2013, the Group has valued USD 691 million of mortgage loans at fair value on a non-recurring basis. The fair value measurement is classified within level 3 as it is based on internal pricing models, using significant unobservable inputs.

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

Within level 3, the Group classified asset-backed securities amounting to USD 2,993 million and USD 84 million for Group investments and investments for unit-linked contracts, respectively, as of December 31, 2013.

Within level 3, the Group also classified investments in private equity funds, certain hedge funds and other securities which are not quoted on an exchange amounting to USD 3,175 million and USD 64 million for Group investments and investments for unit-linked contracts, respectively, as of December 31, 2013.

The key assumptions driving the valuation of these investments include equity levels, discount rates, credit spread rates and prepayment rates. The effect on reported fair values of using reasonably possible alternative values for each of these assumptions, while the other key assumptions remain unchanged, is disclosed in table 25.4. While this table illustrates the overall effect of changing the values of the unobservable inputs by a set percentage, the significance of the impact and the range of reasonably possible alternative assumptions may differ significantly between investments, given their different terms and circumstances. Inter-relationships between those unobservable inputs are disclosed in table 25.5. The correlation is based on the historical correlation matrix derived from the risk factors which are assigned to each of the level 3 exposures (equity and debt securities). The main market drivers are equity markets and rate indicators and the impact of such changes on the other factors. The spread scenario has been added to analyze the impact of an increase of borrowing cost for entities.

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

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Table 25.4

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

Table 25.5

Inter-relationship analysis of level 3 investments to changes in key assumptions	Key assumptions				Increase / decrease in reported fair value (in USD millions)
	Equity Levels	Discount Rates	Spread rates	Prepayment rates	
Scenarios					
Equity levels +10%	+10.0%	+1.2%	+1.2%	+1.2%	311
Equity levels -10%	-10.0%	-1.2%	-1.3%	-1.3%	(312)
Discount rates +10%	-1.0%	+10.0%	+12.2%	-2.0%	(69)
Discount rates -10%	+1.0%	-10.0%	-6.9%	+2.0%	60
Spread rates +10%	+0.1%	+7.0%	+10.0%	+0.2%	(68)

Within level 3, the Group also classified:

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

26. Related party transactions

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

Table 26.1 sets out related party transactions with equity method accounted investments, reflected in the consolidated income statements and consolidated balance sheets.

Table 26.1			
in USD millions			
Related party transactions included in the Consolidated financial statements	for the years ended December 31		
		2013	2012
	Net earned premiums and policy fees	4	13
	Net investment result on Group investments	10	12
	Insurance benefits and losses, net of reinsurance	(7)	(9)
	Underwriting and policy acquisition costs, net of reinsurance	–	(1)
	Administrative and other operating expense	(3)	(2)
	as of December 31		
		2013	2012
Other loans	15	18	
Deposits made under assumed reinsurance contracts	1	4	
Receivables and other assets	2	5	
Reserves for insurance contracts	(9)	(11)	
Other liabilities	(1)	(1)	

Table 26.2 summarizes related party transactions with key personnel reflected in the Consolidated financial statements. Key personnel includes members of the Board of Directors of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd and members of the Group Executive Committee.

Table 26.2			
in USD millions, for the years ended December 31			
Related party transactions – key personnel	Remuneration of key personnel of the Group		
		2013	2012
	Cash compensation, current benefits and fees	30	31
	Post-employment benefits	3	3
	Share-based compensation	15	14
	Total remuneration of key personnel	48	48

As of December 31, 2013 and 2012 there were no loans, advances or credits outstanding from members of the Group Executive Committee. Outstanding loans and guarantees granted to members of the Board of Directors amounted to USD 3 million for both the years ended December 31, 2013 and December 31, 2012. The terms “members of the Board of Directors” and “members of the Group Executive Committee” in this context include the individual as well as members of their respective households. The figures in table 26.2 include the fees paid to members of the Board of Directors of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd, which were USD 5 million for both the years ended December 31, 2013 and December 31, 2012.

Information required by art. 663bbis and art. 663c paragraph 3 of the Swiss Code of Obligation is disclosed in the Financial statements of the holding company.

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

Consolidated financial statements *continued*

27. Farmers Exchanges

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

a) Certificates of contribution issued by the Farmers Exchanges

As of December 31, 2013 and 2012, FGI and other Group companies held the following certificates of contribution issued by the Farmers Exchanges. Originally these were purchased by FGI in order to supplement the policyholders' surplus of the Farmers Exchanges.

Table 27

Surplus Notes

in USD millions, as of December 31	2013	2012
6.15% certificate of contribution, due June 2021	707	707
6.15% certificate of contribution, due June 2021	140	140
6.15% certificate of contribution, due June 2021	60	60
4.65% certificate of contribution, due December 2013	–	150
Various other certificates of contribution	23	23
Total	930	1,080

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

b) Quota share reinsurance treaties with the Farmers Exchanges

The Farmers Exchanges ceded risk through quota share reinsurance treaties to Farmers Reinsurance Company (Farmers Re Co), a wholly owned subsidiary of FGI, and to Zurich Insurance Company Ltd (ZIC).

Auto Physical Damage Quota Share reinsurance agreement

The Auto Physical Damage (APD) Quota Share reinsurance agreement (APD agreement) with the Farmers Exchanges provides for annual ceded premiums of USD 1 billion with 20.0 percent originally assumed by Farmers Re Co (USD 200 million) and 80.0 percent assumed by ZIC (USD 800 million), with the ceding commission for acquisition expenses ranging between 27.1 percent and 29.1 percent, and the ceding commission for unallocated loss adjustment expenses ranging between 8 percent and 10 percent, both based on a previous 5 year average experience. In addition, Farmers Re Co and ZIC assume a quota share percentage of ultimate net losses sustained by the Farmers Exchanges in their APD lines of business. The APD agreement can be cancelled after 90 days' notice by any of the parties.

Effective January 1, 2013, the APD agreement was amended such that Farmers Re Co assumed 12.5 percent of the ceded annual premiums (USD 125 million) while ZIC continues to assume USD 800 million of the annual ceded premiums. The remaining USD 75 million of the APD premiums is assumed by a third party on the same terms as Farmers Re Co and ZIC.

Farmers Exchanges' share of ceded premiums amounted to USD 1 billion for both the years ended December 31, 2013 and 2012. Ceded incurred losses and loss adjustment expenses totaled USD 703 million and USD 723 million for the years ended December 31, 2013 and 2012, respectively. Farmers Exchanges' share of the total commission income was USD 291 million and USD 290 million for the years ended December 31, 2013 and 2012, respectively.

All Lines Quota Share reinsurance agreement

Certain of the Farmers Exchanges participate in an All Lines Quota Share reinsurance agreement (All Lines agreement) with Farmers Re Co and ZIC which has been amended over the years, with the participation ratio at 20 percent as of December 31, 2011 and 18.5 percent as of December 31, 2012. The All Lines agreement provided for a cession of a quota share of the premiums written and the ultimate net losses sustained in all lines of business written by the Farmers Exchanges after the APD agreement has been applied. Under the All Lines agreement, which can be terminated after 90 days' notice by any of the parties, Farmers Re Co and ZIC assumed a 4.0 percent and 16.0 percent respective quota share of the premiums written and the ultimate net losses sustained in all lines of business written by the Farmers Exchanges after the APD agreement has been applied. In addition, under the All Lines agreement, the Farmers Exchanges catastrophe losses are subject to a maximum of USD 1.2 billion. As a result, Farmers Re Co and ZIC are subject to a maximum annual catastrophe loss of USD 48.0 million and USD 192 million, respectively. The All Lines agreement also provides for the Farmers Exchanges to receive a provisional ceding commission of 26.7 percent, 9.0 percent of premiums for unallocated loss adjustment expenses and 5.3 percent of premiums for other expenses.

Effective December 31, 2012, the All Lines agreement was amended such that Farmers Re Co assumes a 2.5 percent quota share. The remaining 1.5 percent quota share is assumed by a third party on the same terms as Farmers Re Co and ZIC. Unearned premiums totaling USD 102 million were transferred from Farmers Re Co to the Farmers Exchanges as a result of its decreased participation in the All Lines agreement effective December 31, 2012. In addition, the Farmers Exchanges remitted USD 27 million of reinsurance commissions to Farmers Re Co for acquisition expenses due to the decreased participation in the All Lines agreement.

Effective December 31, 2013, the All Lines agreement was amended such that Farmers Re Co assumes a 2.0 percent quota share. The remaining 2.0 percent quota share is assumed by a third party on the same terms as Farmers Re Co and ZIC. Unearned premiums totaling USD 34 million were transferred from Farmers Re Co to the Farmers Exchanges as a result of its decreased participation in the All Lines agreement effective December 31, 2013. In addition, the Farmers Exchanges remitted USD 9.0 million of reinsurance commissions to Farmers Re Co for acquisition expenses due to the decreased participation in the All Lines agreement.

Based on the results for 2013, the Farmers Exchanges share of ceded premiums earned and commissions were USD 3,431 million and USD 1,098 million, respectively, and recoveries totaled USD 2,349 million, for the year ended December 31, 2013.

Consolidated financial statements *continued*

28. Segment information

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

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

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

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

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

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

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

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

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

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

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

The Group decided that from January 1, 2014, the General Insurance business will manage Middle East and Africa together with Europe to form a single market-facing business called Europe, Middle East & Africa (EMEA). This change has no impact on total General Insurance or the Group.

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

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

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

Consolidated financial statements *continued*

Table 28.1

Business operating profit by business segment

in USD millions, for the years ended December 31

	General Insurance		Global Life	
	2013	2012	2013	2012
Revenues				
Direct written premiums ¹	34,240	33,393	11,143	11,043
Assumed written premiums	2,198	2,217	209	102
Gross Written Premiums	36,438	35,610	11,352	11,145
Policy fees	–	–	2,564	2,445
Gross written premiums and policy fees	36,438	35,610	13,916	13,590
Less premiums ceded to reinsurers	(5,959)	(5,874)	(693)	(710)
Net written premiums and policy fees	30,479	29,736	13,223	12,880
Net change in reserves for unearned premiums	(710)	(540)	(371)	(259)
Net earned premiums and policy fees	29,769	29,195	12,852	12,621
Farmers management fees and other related revenues	–	–	–	–
Net investment result on Group investments	2,384	2,587	4,489	4,833
Net investment income on Group investments	2,217	2,516	3,895	3,991
Net capital gains/(losses) and impairments on Group investments	167	71	595	842
Net investment result on unit-linked investments	–	–	12,731	9,629
Other income	830	992	1,156	1,047
Total BOP revenues	32,983	32,774	31,229	28,128
<i>of which: inter-segment revenues</i>	<i>(389)</i>	<i>(510)</i>	<i>(362)</i>	<i>(367)</i>
Benefits, losses and expenses				
Insurance benefits and losses, net ¹	20,321	20,527	9,167	9,592
Losses and loss adjustment expenses, net	20,323	20,547	–	–
Life insurance death and other benefits, net ¹	(1)	(20)	9,167	9,592
Policyholder dividends and participation in profits, net	6	4	13,820	10,706
Income tax expense/(benefit) attributable to policyholders	–	–	285	194
Underwriting and policy acquisition costs, net	5,756	5,833	3,003	2,804
Administrative and other operating expense (excl. depreciation/amortization)	3,604	3,878	2,653	2,523
Interest credited to policyholders and other interest	19	18	420	403
Restructuring provisions and other items not included in BOP	(276)	(113)	(88)	(113)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	29,429	30,147	29,261	26,109
Business operating profit (before interest, depreciation and amortization)	3,554	2,627	1,968	2,020
Depreciation and impairments of property and equipment	90	110	38	32
Amortization and impairments of intangible assets	394	211	405	483
Interest expense on debt	138	141	21	22
Business operating profit before non-controlling interests	2,932	2,165	1,504	1,484
Non-controlling interests	72	52	233	133
Business operating profit	2,859	2,112	1,272	1,351

¹ The Global Life segment includes approximately USD 521 million and USD 603 million of gross written premiums and future life policyholders' benefits for certain universal life-type contracts in the Group's Spanish operations for the years ended December 31, 2013 and 2012, respectively (see note 3).

	Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	-	-	-	-	113	114	-	-	45,496	44,550
	4,045	4,361	109	116	102	113	(194)	(175)	6,469	6,734
	4,045	4,361	109	116	215	227	(194)	(175)	51,965	51,285
	-	-	-	-	320	248	-	-	2,884	2,692
	4,045	4,361	109	116	535	475	(194)	(175)	54,849	53,977
	-	-	(55)	(50)	(33)	(21)	194	175	(6,546)	(6,481)
	4,045	4,361	54	66	502	454	-	-	48,303	47,496
	54	56	-	-	1	1	-	-	(1,025)	(741)
	4,099	4,418	54	66	504	455	-	-	47,277	46,755
	2,810	2,846	-	-	-	-	-	-	2,810	2,846
	107	124	315	396	(439)	390	(602)	(658)	6,254	7,671
	107	124	315	396	309	413	(602)	(658)	6,240	6,782
	-	-	-	-	(748)	(24)	-	-	14	889
	-	-	-	-	73	565	-	-	12,805	10,193
	80	101	730	931	144	113	(1,183)	(1,515)	1,757	1,669
	7,095	7,489	1,099	1,393	282	1,521	(1,785)	(2,173)	70,903	69,133
	(64)	(69)	(919)	(1,171)	(51)	(56)	1,785	2,173	-	-
	2,823	3,198	49	56	(162)	380	-	-	32,198	33,752
	2,823	3,198	-	(1)	(18)	27	-	(3)	23,128	23,769
	-	-	49	56	(144)	353	-	3	9,070	9,983
	-	-	-	-	121	694	-	-	13,946	11,405
	-	-	-	-	-	-	-	-	285	194
	1,285	1,383	-	-	6	2	(10)	(9)	10,041	10,014
	1,343	1,346	993	1,155	132	150	(1,119)	(1,483)	7,607	7,570
	-	-	4	6	91	121	(23)	(3)	510	545
	(12)	3	(63)	(24)	2	(1)	-	-	(437)	(248)
	5,440	5,931	984	1,193	189	1,346	(1,151)	(1,495)	64,151	63,231
	1,655	1,558	115	200	93	175	(634)	(678)	6,752	5,902
	48	53	10	15	1	1	-	-	186	210
	91	100	121	79	-	1	-	-	1,011	874
	1	3	1,040	1,038	20	44	(634)	(678)	586	570
	1,516	1,402	(1,056)	(932)	72	129	-	-	4,968	4,248
	-	-	(16)	(22)	-	1	-	-	288	164
	1,516	1,402	(1,039)	(910)	73	129	-	-	4,680	4,084

Consolidated financial statements *continued*

Table 28.2

in USD millions, for the years ended December 31

Reconciliation of
BOP to net income
after income taxes

	General Insurance		Global Life	
	2013	2012	2013	2012
Business operating profit	2,859	2,112	1,272	1,351
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	480	1,051	1	352
Net gain/(loss) on divestments of businesses	–	(38)	–	3
Restructuring provisions	8	(114)	(36)	(83)
Net income/(expense) on intercompany loans	(12)	(21)	(2)	(2)
Impairments of goodwill	(209)	–	–	–
Change in estimates of earn-out liabilities	(50)	–	35	–
Other adjustments	(13)	22	(84) ¹	(28)
Business operating profit attributable to non-controlling interests	72	52	233	133
Net income before shareholders' taxes	3,135	3,065	1,417	1,725
Income tax expense/(benefit) attributable to policyholders	–	–	285	194
Net income before income taxes	3,135	3,065	1,702	1,919
Income tax expense				
attributable to policyholders				
attributable to shareholders				
Net income after taxes				
attributable to non-controlling interests				
attributable to shareholders				

¹ Includes USD 37 million of software impairments relating to a restructuring program (see notes 16 and 18).

² Includes USD 75 million of foreign exchange movements relating to operations which were liquidated or substantially liquidated.

	Farmers		Other Operating Businesses		Non-Core Businesses		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
	1,516	1,402	(1,039)	(910)	73	129	4,680	4,084
	6	18	645	(149)	12	41	1,144	1,312
	-	-	(1)	1	-	-	(1)	(34)
	(12)	(1)	(2)	(11)	1	(1)	(41)	(211)
	-	-	14	23	-	-	-	-
	-	-	-	-	-	-	(209)	-
	-	-	-	-	-	-	(16)	-
	-	5	(74) ²	(36)	-	-	(172)	(38)
	-	-	(16)	(22)	-	1	288	164
	1,510	1,423	(474)	(1,104)	86	169	5,674	5,277
	-	-	-	-	-	-	285	194
	1,510	1,423	(474)	(1,104)	86	169	5,960	5,472
							(1,701)	(1,496)
							(285)	(194)
							(1,415)	(1,302)
							4,259	3,975
							231	89
							4,028	3,887

Consolidated financial statements *continued*

Table 28.3

in USD millions, as of December 31

Assets and liabilities by business segment	General Insurance		Global Life	
	2013	2012	2013	2012
Assets				
Total Group Investments	90,369	89,557	113,864	113,305
Cash and cash equivalents	10,125	10,795	3,181	3,096
Equity securities	6,733	5,716	5,132	4,467
Debt securities	65,408	65,556	80,715	79,626
Real estate held for investment	3,159	2,827	5,239	5,334
Mortgage loans	1,470	1,460	7,463	7,934
Other loans	3,467	3,197	12,069	12,779
Investments in associates and joint ventures	7	7	65	69
Investments for unit-linked contracts	–	–	122,423	112,036
Total investments	90,369	89,557	236,287	225,340
Reinsurers' share of reserves for insurance contracts	13,008	13,901	2,068	1,983
Deposits made under assumed reinsurance contracts	56	46	49	29
Deferred policy acquisition costs	3,794	3,543	14,606	14,466
Deferred origination costs	–	–	724	770
Goodwill	588	852	445	435
Other intangible assets	1,369	1,375	4,023	4,366
Other assets	15,492	15,642	7,291	6,669
Total assets (after cons. of investments in subsidiaries)	124,675	124,916	265,493	254,059
Liabilities				
Liabilities for investment contracts	–	–	67,113	57,437
Reserves for insurance contracts, gross	82,148	82,693	161,131	158,533
Reserves for losses and loss adjustment expenses, gross	65,629	66,542	–	–
Reserves for unearned premiums, gross	16,409	16,023	–	–
Future life policyholders' benefits, gross	77	96	80,302	78,718
Policyholders' contract deposits and other funds, gross	33	32	17,801	17,572
Reserves for unit-linked contracts, gross	–	–	63,028	62,243
Senior debt	7,021	6,625	545	289
Subordinated debt	193	617	7	334
Other liabilities	14,611	13,967	17,147	17,447
Total liabilities	103,973	103,901	245,943	234,040
Equity				
Shareholders' equity				
Non-controlling interests				
Total equity				
Total liabilities and equity				
Supplementary information				
Additions and capital improvements to property, equipment and intangible assets	344	331	157	150

	Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	3,769	3,881	17,834	18,503	9,856	13,120	(28,412)	(28,785)	207,280	209,582
	418	377	9,023	8,562	1,676	2,518	(17,242)	(16,249)	7,181	9,098
	91	96	1,098	1,686	130	376	–	–	13,183	12,341
	1,190	1,274	5,925	4,707	5,012	6,250	(1,794)	(1,819)	156,456	155,594
	76	101	–	43	272	256	–	–	8,745	8,561
	–	–	–	–	864	1,125	–	–	9,798	10,519
	1,995	2,033	1,733	3,498	1,901	2,595	(9,376)	(10,717)	11,789	13,385
	–	–	55	9	2	1	–	–	129	85
	–	–	–	–	11,844	11,877	–	–	134,267	123,913
	3,769	3,881	17,834	18,503	21,701	24,998	(28,412)	(28,785)	341,547	333,496
	–	–	–	–	3,013	4,042	(111)	(174)	17,978	19,753
	2,376	2,319	–	–	165	194	(2)	–	2,645	2,588
	323	337	–	–	–	–	–	–	18,724	18,346
	–	–	–	–	–	–	–	–	724	770
	819	819	–	–	–	–	–	–	1,852	2,107
	1,368	1,407	268	300	–	1	–	–	7,028	7,448
	985	1,071	1,662	1,717	1,324	1,347	(2,198)	(2,122)	24,556	24,324
	9,640	9,834	19,765	20,520	26,203	30,583	(30,723)	(31,081)	415,053	408,831
	–	–	–	–	–	–	–	–	67,113	57,437
	2,820	2,841	35	36	19,416	21,303	(111)	(174)	265,440	265,233
	1,612	1,580	27	27	1,119	1,969	(75)	(131)	68,312	69,986
	1,208	1,262	3	4	17	20	(21)	(9)	17,616	17,300
	–	–	5	6	4,107	5,020	(14)	(33)	84,476	83,807
	–	–	–	–	2,328	2,420	–	–	20,162	20,024
	–	–	–	–	11,844	11,874	–	–	74,873	74,117
	172	214	24,251	24,398	1,668	2,554	(27,612)	(27,421)	6,044	6,660
	–	–	6,268	5,788	23	23	(149)	(901)	6,342	5,861
	1,175	1,318	1,830	1,925	3,467	4,695	(2,850)	(2,586)	35,380	36,766
	4,167	4,373	32,385	32,148	24,574	28,576	(30,723)	(31,081)	380,319	371,957
									32,503	34,505
									2,231	2,369
									34,734	36,874
									415,053	408,831
	169	120	81	150	–	–	–	–	752	751

Consolidated financial statements *continued*

Table 28.4

in USD millions, for the years ended December 31

General Insurance –
Customer segment
overview

	Global Corporate		North America Commercial	
	2013	2012	2013	2012
Gross written premiums and policy fees	9,264	8,609	10,215	10,003
Net earned premiums and policy fees	6,077	5,499	7,633	7,634
Insurance benefits and losses, net	4,471	4,291	5,193	5,453
Policyholder dividends and participation in profits, net	–	1	5	3
Total net technical expenses	1,140	1,157	2,072	2,151
Net underwriting result	466	50	362	26
Net investment income	505	573	634	827
Net capital gains/(losses) and impairments on investments	48	17	114	44
Net non-technical result (excl. items not included in BOP)	(140)	(142)	(139)	(199)
Business operating profit before non-controlling interests	878	497	970	699
Non-controlling interests	–	(1)	(1)	(1)
Business operating profit	879	498	972	699
Ratios, as % of net earned premiums and policy fees				
Loss ratio	73.6%	78.0%	68.0%	71.4%
Expense ratio	18.8%	21.1%	27.2%	28.2%
Combined ratio	92.3%	99.1%	95.3%	99.7%

	Europe		International Markets		GI Global Functions including Group Reinsurance		Eliminations		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	11,799	11,882	5,700	5,603	390	345	(930)	(832)	36,438	35,610
	11,583	11,772	4,465	4,282	12	9	–	–	29,769	29,195
	7,804	8,225	2,757	2,583	96	(25)	–	–	20,321	20,527
	–	–	–	–	–	–	–	–	6	4
	3,139	3,222	1,737	1,645	12	11	(4)	(2)	8,095	8,185
	640	324	(29)	54	(96)	22	4	2	1,347	479
	724	785	278	269	79	64	(3)	(2)	2,217	2,516
	5	1	–	9	–	–	–	–	167	71
	(351)	(414)	(69)	(110)	(99)	(37)	(1)	–	(799)	(901)
	1,018	697	180	223	(116)	49	–	–	2,932	2,165
	9	(5)	65	58	–	–	–	–	72	52
	1,009	702	115	165	(116)	49	–	–	2,859	2,112
	67.4%	69.9%	61.7%	60.3%	nm	nm	n/a	n/a	68.3%	70.3%
	27.1%	27.4%	38.9%	38.4%	nm	nm	n/a	n/a	27.2%	28.0%
	94.5%	97.2%	100.7%	98.7%	nm	nm	n/a	n/a	95.5%	98.4%

Consolidated financial statements *continued*

Table 28.5

General Insurance –
Revenues by region

in USD millions, for the years ended December 31

	Gross written premiums and policy fees from external customers		of which Global Corporate	
	2013	2012	2013	2012
North America				
United States	12,736	12,223		
Canada	904	928		
Bermuda	11	10		
North America	13,651	13,160	3,632	3,343
Europe				
United Kingdom	3,920	3,899		
Germany	3,134	3,110		
Switzerland	3,330	3,243		
Italy	1,896	1,879		
Spain	1,398	1,438		
Austria	595	544		
Ireland	357	376		
Portugal	326	339		
France	433	410		
Rest of Europe	1,088	1,049		
Europe	16,477	16,287	4,555	4,279
Latin America				
Argentina	422	393		
Brazil	1,112	920		
Chile	324	470		
Mexico	685	600		
Venezuela	287	257		
Rest of Latin America	33	34		
Latin America	2,864	2,674	–	–
Asia-Pacific				
Australia	1,163	1,178		
Hong Kong	246	210		
Japan	702	780		
Taiwan	130	129		
Malaysia	176	156		
Rest of Asia-Pacific	279	264		
Asia-Pacific	2,695	2,717	601	581
Middle East	191	183	140	121
Africa				
South Africa	427	460		
Morocco	131	125		
Africa	558	585	37	19
Total	36,436	35,607	8,965	8,342

General Insurance –
Non-current assets
by region

Table 28.6

in USD millions, as of December 31

	Property, equipment and intangible assets	
	2013	2012
North America		
United States	228	223
Canada	8	4
Bermuda	21	24
North America	257	252
Europe		
United Kingdom	244	213
Germany	224	210
Switzerland	609	593
Italy	30	34
Spain	349	346
Austria	23	24
Ireland	59	56
Portugal	23	22
France	2	2
Rest of Europe	224	501
Europe	1,787	2,001
Latin America		
Argentina	15	11
Brazil	221	234
Chile	29	34
Mexico	254	263
Venezuela	14	16
Rest of Latin America	1	5
Latin America	534	561
Asia-Pacific		
Australia	58	74
Hong Kong	14	13
Japan	22	27
Taiwan	14	9
Malaysia	1	1
Rest of Asia-Pacific	3	4
Asia-Pacific	113	128
Middle East	53	43
Africa		
South Africa	11	15
Morocco	32	32
Africa	43	46
Total	2,787	3,032

Consolidated financial statements *continued*

Table 28.7

in USD millions, for the years ended December 31

Global Life –
Overview

	North America		Latin America	
	2013	2012	2013	2012
Revenues				
Life insurance deposits	264	235	1,937	2,508
Gross written premiums ¹	548	526	3,230	2,982
Policy fees	310	297	76	24
Gross written premiums and policy fees	858	823	3,307	3,005
Net earned premiums and policy fees	652	611	2,920	2,686
Net investment income on Group investments	288	312	278	254
Net capital gains/(losses) and impairments on Group investments	–	–	12	272
Net investment result on Group investments	288	312	290	526
Net investment income on unit-linked investments	(29)	(34)	14	9
Net capital gains/(losses) and impairments on unit-linked investments	100	59	577	1,166
Net investment result on unit-linked investments	71	24	591	1,175
Other income	86	92	194	83
Total BOP revenues	1,098	1,039	3,995	4,470
Benefits, losses and expenses				
Insurance benefits and losses, net ¹	390	350	1,307	1,404
Policyholder dividends and participation in profits, net	93	48	611	1,196
Income tax expense/(benefit) attributable to policyholders	–	–	–	–
Underwriting and policy acquisition costs, net	104	97	996	964
Administrative and other operating expense (excl. depreciation/amortization)	154	141	458	365
Interest credited to policyholders and other interest	152	147	9	36
Restructuring provisions and other items not included in BOP	(2)	(1)	31	7
Total BOP benefits, losses and expenses	891	783	3,413	3,972
Business operating profit (before interest, depreciation and amortization)	207	257	582	498
Depreciation and impairments of property and equipment	1	1	4	3
Amortization and impairments of intangible assets	31	9	124	223
Interest expense on debt	3	4	–	(6)
Business operating profit before non-controlling interests	173	243	455	277
Non-controlling interests	–	–	210	122
Business operating profit	173	243	245	155

¹ Europe includes approximately USD 521 million and USD 603 million of gross written premiums and future life policyholders' benefits for certain universal life-type contracts in the Group's Spanish operations for the years ended December 31, 2013 and 2012, respectively (see note 3).

	Europe		Asia-Pacific and Middle East		Other		Eliminations		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	8,520	11,685	1,634	1,636	824	605	-	-	13,180	16,670
	6,628	6,820	759	721	297	137	(111)	(40)	11,352	11,145
	1,969	1,928	200	191	9	5	-	-	2,564	2,445
	8,597	8,748	959	912	306	142	(111)	(40)	13,916	13,590
	8,204	8,405	825	786	251	133	-	-	12,852	12,621
	3,176	3,225	140	188	13	11	(1)	-	3,895	3,991
	563	552	20	18	-	-	-	-	595	842
	3,739	3,778	160	206	13	11	(1)	-	4,489	4,833
	1,943	2,009	71	79	29	32	-	-	2,027	2,095
	9,310	5,529	655	682	61	98	-	-	10,704	7,534
	11,253	7,538	726	761	90	131	-	-	12,731	9,629
	368	332	202	190	309	357	(3)	(6)	1,156	1,047
	23,564	20,052	1,912	1,943	663	631	(4)	(6)	31,229	28,128
	7,055	7,480	248	293	167	64	-	-	9,167	9,592
	12,158	8,404	869	919	88	139	-	-	13,820	10,706
	270	170	16	25	-	-	-	-	285	194
	1,542	1,401	197	204	164	138	-	-	3,003	2,804
	1,274	1,404	470	328	303	292	(4)	(6)	2,653	2,523
	235	192	23	27	1	1	-	-	420	403
	(47)	(114)	(8)	7	(63)	(13)	-	-	(88)	(113)
	22,485	18,936	1,815	1,802	661	622	(4)	(6)	29,261	26,109
	1,079	1,115	98	141	2	9	-	-	1,968	2,020
	27	21	6	6	-	-	-	-	38	32
	234	242	11	1	6	7	-	-	405	483
	14	21	1	1	3	2	-	-	21	22
	803	831	80	133	(7)	-	-	-	1,504	1,484
	25	12	(2)	(2)	-	-	-	-	233	133
	778	819	83	134	(7)	-	-	-	1,272	1,351

Consolidated financial statements *continued*

Table 28.8

Global Life –
Revenues by region

in USD millions, for the years ended December 31

	Gross written premiums and policy fees from external customers		Life insurance deposits	
	2013	2012	2013	2012
North America				
United States	858	823	264	235
North America	858	823	264	235
Latin America				
Chile	1,102	900	50	–
Argentina	133	78	50	47
Mexico	382	352	250	–
Venezuela	60	65	–	–
Brazil	1,624	1,606	1,586	2,462
Uruguay	6	5	–	–
Latin America	3,307	3,005	1,937	2,508
Europe				
United Kingdom	1,883	1,773	2,765	6,339
Germany	2,837	2,920	1,827	1,966
Switzerland	1,649	2,047	133	141
Ireland ¹	729	479	2,902	2,497
Spain	841	906	70	163
Italy	426	408	684	488
Portugal	27	30	83	42
Austria	151	135	55	49
Europe	8,542	8,698	8,520	11,685
Asia-Pacific and Middle East				
Hong Kong	121	86	112	133
Taiwan	–	–	4	3
Indonesia	4	1	–	–
Australia	329	332	75	83
Japan	81	99	16	21
Singapore	1	–	5	2
Malaysia	195	263	49	–
Zurich International Life ²	204	130	1,372	1,395
Asia-Pacific and Middle East	935	912	1,634	1,636
Other				
Luxembourg ¹	9	5	824	605
International Group Risk Solutions ³	191	92	–	–
Other	200	97	824	605
Total	13,842	13,535	13,180	16,670

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

Global Life –
Non-current assets
by region

Table 28.9

in USD millions, as of December 31

	Property, equipment and intangible assets	
	2013	2012
North America		
United States	161	165
North America	161	165
Latin America		
Chile	403	472
Argentina	72	96
Mexico	232	256
Brazil	804	965
Latin America	1,510	1,789
Europe		
United Kingdom	414	426
Germany	717	743
Switzerland	76	81
Ireland ¹	4	2
Spain	1,741	1,759
Italy	106	122
Austria	32	32
Europe	3,091	3,164
Asia-Pacific and Middle East		
Hong Kong	6	7
Indonesia	3	3
Japan	9	3
Singapore	3	1
Malaysia	46	124
Zurich International Life	17	20
Asia-Pacific and Middle East	84	158
Other		
Luxembourg ¹	3	4
Other	3	4
Total	4,849	5,280

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

Consolidated financial statements *continued*

Table 28.10

in USD millions, for the years ended December 31

Farmers –
Overview

	2013	Total
	2012	2012
Farmers Management Services		
Management fees and other related revenues	2,810	2,846
Management and other related expenses	1,457	1,480
Gross management result	1,353	1,366
Other net income (excl. items not included in BOP)	38	62
Business operating profit before non-controlling interest	1,390	1,428
Business operating profit	1,390	1,428
Farmers Re		
Gross written premiums and policy fees	4,045	4,361
Net earned premiums and policy fees	4,099	4,418
Insurance benefits and losses, net	(2,823)	(3,198)
Total net technical expenses	(1,285)	(1,383)
Net underwriting result	(9)	(163)
Net non-technical result (excl. items not relevant for BOP)	68	65
Net investment income	66	72
Business operating profit before non-controlling interests	125	(26)
Business operating profit	125	(26)
Farmers business operating profit	1,516	1,402
Ratios, as % of net earned premiums and policy fees		
Farmers Re Combined ratio	100.2%	103.7%
Supplementary information		
Property, equipment and intangible assets	2,412	2,403

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Consolidated financial statements *continued*

Table 28.11

in USD millions, for the years ended December 31

	Holding and Financing	
	2013	2012
Gross written premiums and policy fees	102	108
Net earned premiums and policy fees	47	58
Net investment income	284	362
Other income	86	85
Total BOP revenues	417	506
Insurance benefits and losses, incl. PH dividends, net	50	57
Administrative and other operating expense (excl. depreciation/amortization)	237	169
Other expenses and items not included in BOP	(55)	(14)
Depreciation, amortization and impairments of property, equipment and intangible assets	–	8
Interest expense on debt	1,045	1,042
Business operating profit before non-controlling interests	(859)	(757)
Non-controlling interests	(16)	(22)
Business operating profit	(843)	(735)

Other Operating
Businesses –
Overview

	Headquarters		Eliminations		Total	
	2013	2012	2013	2012	2013	2012
	7	8	–	–	109	116
	8	8	–	–	54	66
	36	39	(6)	(5)	315	396
	860	1,015	(217)	(169)	730	931
	904	1,062	(222)	(175)	1,099	1,393
	(1)	(1)	–	–	49	56
	972	1,154	(216)	(169)	993	1,155
	(3)	(4)	–	–	(58)	(18)
	130	86	–	–	130	94
	1	2	(6)	(6)	1,040	1,038
	(196)	(175)	–	–	(1,056)	(932)
	–	–	–	–	(16)	(22)
	(196)	(175)	–	–	(1,039)	(910)

Consolidated financial statements *continued*

Table 28.12

in USD millions, for the years ended December 31

Non-Core
Businesses –
Overview

	Total	
	2013	2012
Gross written premiums and policy fees	535	475
Net earned premiums and policy fees	504	455
Insurance benefits and losses, net	(162)	380
Policyholder dividends and participation in profits, net	121	694
Total net technical expenses	44	56
Net underwriting result	501	(675)
Net investment income	(1)	138
Net capital gains/(losses) and impairments on investments	(365)	816
Net non-technical result (excl. items not included in BOP)	(64)	(150)
Business operating profit before non-controlling interests	72	129
Non-controlling interests	–	1
Business operating profit	73	129

29. Interests in subsidiaries

Significant subsidiaries

Table 29.1

as of December 31, 2013

	Domicile	Segment ¹	Voting rights %	Ownership interest %	Nominal value of common stock (in local currency millions)	
Australia						
Zurich Australia Limited	Sydney	Global Life	100	100	AUD	0.5
Zurich Australian Insurance Limited	Sydney	General Insurance	100	100	AUD	6.6
Austria						
Zürich Versicherungs-Aktiengesellschaft	Vienna	General Insurance/Global Life	99.98	99.98	EUR	12.0
Bermuda						
Centre Group Holdings Limited	Hamilton	Non-Core Businesses	100	100	USD	0.3
CMSH Limited	Hamilton	Non-Core Businesses	100	100	USD	0.3
Zurich International (Bermuda) Ltd.	Hamilton	General Insurance	100	100	USD	9.9
Brazil						
Zurich Santander Brasil Seguros e Previdência S.A.	Sao Paulo	Global Life	51	51	BRL	1,659.2
Zurich Minas Brasil Seguros S.A.	Belo Horizonte	General Insurance/Global Life	100	100	BRL	1,312.4
Chile						
Chilena Consolidada Seguros de Vida S.A.	Santiago	Global Life	98.98	98.98	CLP	24,484.0
Zurich Santander Seguros de Vida Chile S.A.	Santiago	Global Life	51	51	CLP	100,707.5
Cyprus						
Zurich Insurance Holding (Cyprus) Ltd. ³	Nicosia	General Insurance	100	100	RUB	7.4
Germany						
Deutscher Herold Aktiengesellschaft ⁴	Bonn	Global Life	79.83	79.83	EUR	18.4
Zürich Beteiligungs-Aktiengesellschaft (Deutschland)	Frankfurt	General Insurance	100	100	EUR	152.9
Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft	Bonn	Global Life	86.37	86.37	EUR	68.5
Ireland						
Zurich Life Assurance plc	Dublin	Global Life	100	100	EUR	17.5
Zurich Financial Services EUB Holdings Limited	Dublin	Non-Core Businesses	100	100	GBP	0.001
Zurich Insurance plc	Dublin	General Insurance	100	100	EUR	8.2
Zurich Holding Ireland Limited	Dublin	Other Operating Businesses	100	100	EUR	0.1
Italy						
Zurich Investments Life S.p.A.	Milan	Global Life	100	100	EUR	164.0
Zurich Life and Pensions S.p.A.	Milan	Global Life	100	100	EUR	40.5
Zurich Life Insurance Italia S.p.A.	Milan	Global Life	100	100	EUR	85.8
Luxembourg						
Zurich Eurolife S.A.	Bertrange	Global Life	100	100	EUR	12.0
Malaysia						
Zurich Insurance Malaysia Berhad	Kuala Lumpur	General Insurance/Global Life	100	100	MYR	579.0

Consolidated financial statements *continued*

Table 29.1

as of December 31, 2013

Significant subsidiaries
(continued)

	Domicile	Segment ¹	Voting rights %	Ownership interest %	Nominal value of common stock (in local currency millions)	
Mexico						
Zurich Santander Seguros México, S.A.	Mexico City	General Insurance/Global Life	51	51	MXN	190.0
South Africa						
Zurich Insurance Company South Africa Limited ⁵	Johannesburg	General Insurance	84.05	84.05	ZAR	3.0
Spain						
Bansabadell Pensiones, E.G.F.P, S.A. ²	Barcelona	Global Life	50	50	EUR	7.8
Bansabadell Seguros Generales, S.A. de Seguros y Reaseguros ²	Barcelona	General Insurance	50	50	EUR	10.0
Bansabadell Vida S.A. de Seguros y Reaseguros ²	Barcelona	Global Life	50	50	EUR	43.9
Zurich Latin America Holding S.L. – Sociedad Unipersonal	Barcelona	Other Operating Businesses	100	100	EUR	43.0
Zurich Santander Holding (Spain), S.L.	Madrid	Global Life	51	51	EUR	94.3
Zurich Santander Holding Dos (Spain), S.L.	Madrid	Global Life	51	51	EUR	40.0
Zurich Santander Insurance America, S.L.	Madrid	Global Life	51	51	EUR	177.0
Zurich Vida, Compañía de Seguros y Reaseguros, S.A. – Sociedad Unipersonal	Madrid	Global Life	100	100	EUR	56.4
Switzerland						
Genevoise Real Estate Company Ltd	Geneva	Global Life	100	100	CHF	20.4
Zurich Insurance Company Ltd ⁶	Zurich	Other Operating Businesses	100	100	CHF	825.0
Zurich Life Insurance Company Ltd ⁷	Zurich	Other Operating Businesses	100	100	CHF	60.0
Zurich Investment Management AG	Zurich	Other Operating Businesses	100	100	CHF	10.0
Taiwan						
Zurich Insurance (Taiwan) Ltd.	Taipei	General Insurance	99.73	99.73	TWD	2,000.0
Turkey						
Zurich Sigorta A.S.	Istanbul	General Insurance	100	100	TRY	168.9
United Kingdom						
Allied Zurich Holdings Limited	Jersey, Channel Islands	Other Operating Businesses	100	100	GBP	90.7
Zurich Assurance Ltd	Swindon, England	Global Life	100	100	GBP	236.1
Zurich Financial Services (UKISA) Limited	Swindon, England	Other Operating Businesses	100	100	GBP	1,652.1
Zurich Holdings (UK) Limited	Fareham, England	Other Operating Businesses	100	100	GBP	137.3
Zurich International Life Limited	Douglas, Isle of Man	Global Life	100	100	GBP	105.6

Significant subsidiaries (continued)

Table 29.1

as of December 31, 2013

	Domicile	Segment ¹	Voting rights %	Ownership interest %	Nominal value of common stock (in local currency millions)
United States of America					
Farmers Group, Inc. ⁸	Reno, NV	Farmers	100	100	USD 0.001
Farmers New World Life Insurance Company ⁸	Mercer Island, WA	Global Life	100	100	USD 6.6
Farmers Reinsurance Company ⁸	Los Angeles, CA	Farmers	100	100	USD 58.8
Farmers Services LLC ⁹	Wilmington, DE	Farmers	100	100	USD –
Zurich American Corporation	Wilmington, DE	Non-Core Businesses	100	100	USD 0.00001
Zurich American Life Insurance Company	Schaumburg, IL	Global Life/Non-Core Businesses	100	100	USD 2.5
ZFS Finance (USA) LLC V ⁹	Wilmington, DE	Other Operating Businesses	100	100	USD –
Zurich American Insurance Company (and subsidiaries)	New York, NY	General Insurance	100	100	USD 5.0
Zurich Finance (USA), Inc.	Wilmington, DE	Other Operating Businesses	100	100	USD 0.000001
Zurich Holding Company of America, Inc. ¹⁰	Wilmington, DE	Other Operating Businesses	100	100	USD –

¹ The segments are defined in note 28.

² Relates to Bansabadell insurance entities which are controlled by the Group.

³ Zurich Insurance Holding (Cyprus) Limited indirectly holds 99.9% of Zurich Insurance Company Limited in Russia which is a wholly owned subsidiary of the Zurich Insurance Group.

⁴ In addition, buyout options exist which allow the minority shareholders to sell 15.17 percent of the shares of Deutscher Herold Aktiengesellschaft to the Zurich Insurance Group.

⁵ Listed on the Johannesburg Stock Exchange. On December 31, 2013, the company had a market capitalization of ZAR 3.2 billion (ISIN Number ZAE000094496).

⁶ The results of the operating activities are included in the General Insurance, Global Life and Farmers segments, whereas the headquarter's activities are included in Other Operating Businesses.

⁷ The results of the operating activities are included in the Global Life segment, whereas the headquarter's activities are included in Other Operating Businesses.

⁸ The ownership percentages in Farmers Group, Inc. and its fully owned subsidiaries have been calculated based on the participation rights of Zurich Insurance Group in a situation of liquidation, dissolution or winding up of Farmers Group, Inc.

⁹ These entities are LLCs and have no share capital.

¹⁰ Shares have no nominal value in accordance with the company's articles of incorporation and local legislation.

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

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

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

Consolidated financial statements *continued*

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

Table 29.2					
Non-controlling interests	in USD millions, as of December 31	Zurich Santander Insurance America, S.L. and its subsidiaries		Bansabadell insurance entities	
		2013	2012	2013	2012
		Non-controlling interest percentage	49%	49%	50%
Total investments	11,527	13,407	7,749	7,394	
Other assets	4,460	3,917	2,750	2,708	
Insurance and investment contracts liabilities ¹	12,256	13,190	7,944	7,572	
Other liabilities	1,752	1,800	626	637	
Net assets	1,979	2,334	1,929	1,893	
Non-controlling interests in net assets	970	1,144	965	947	
Total revenues	2,643	3,647	1,197	1,089	
Net income after taxes	349	213	33	14	
Other comprehensive income	(328)	(22)	93	51	
Total comprehensive income	22	192	126	65	
Non-controlling interests in total comprehensive income	11	94	63	33	
Dividends paid to non-controlling interests	181	6	44	26	

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

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Report of the statutory auditor

Report of the Statutory Auditor

To the General Meeting of Zurich Insurance Group Ltd

Report of the statutory auditor on the Consolidated financial statements

As statutory auditor, we have audited the Consolidated financial statements of Zurich Insurance Group Ltd, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity, and notes (pages 128 to 168 and 181 to 301), for the year ended December 31, 2013.

Board of Directors' responsibility

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

Auditor's responsibility

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

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

Opinion

In our opinion, the Consolidated financial statements for the year ended December 31, 2013 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on other legal requirements

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

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

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

PricewaterhouseCoopers AG

Richard Burger
Audit expert
Auditor in charge

Stephen O'Hearn
Global relationship partner

Zurich, February 12, 2014

Consolidated financial statements *continued*

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). Forwardlooking 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.

Persons requiring advice should consult an independent advisor.

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

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