

Consolidated financial statements (unaudited) 2014

Zurich Insurance Group
Results for the six months to June 30, 2014

Consolidated financial statements (unaudited)

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Consolidated income statements (unaudited)

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

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

Consolidated financial statements (unaudited) *continued*

Consolidated statements of comprehensive income (unaudited)

in USD millions, for the six months ended June 30

	Net income attributable to shareholders	Net unrealized gains/(losses) on available- for-sale investments	Cash flow hedges
2013			
Comprehensive income for the period	1,851	(2,106)	(103)
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		(1,926)	(149)
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(591)	23
Reclassification to retained earnings		–	–
Deferred income tax (before foreign currency translation effects)		512	29
Foreign currency translation effects		(101)	(7)
2014			
Comprehensive income for the period	2,109	1,748	100
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		2,950	118
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(721)	10
Deferred income tax (before foreign currency translation effects)		(485)	(29)
Foreign currency translation effects		3	1

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

	Cumulative foreign currency translation adjustment	Total other comprehensive income recycled through profit or loss	Revaluation reserve	Net actuarial gains/(losses) on pension plans	Total other comprehensive income not recycled through profit or loss	Total other comprehensive income attributable to shareholders	Total comprehensive income attributable to shareholders	Total comprehensive income attributable to non-controlling interests	Total comprehensive income
	(1,322)	(3,532)	6	(26)	(21)	(3,552)	(1,701)	42	(1,659)
	(1,397)	(3,472)	14	(94)	(80)	(3,552)			
	75	(493)	–	–	–	(493)			
	–	–	(5)	–	(5)	(5)			
	–	541	(3)	(38)	(41)	500			
	–	(108)	–	105	105	(2)			
	(866)	981	21	(176)	(155)	827	2,936	160	3,096
	(880)	2,188	28	(115)	(87)	2,101			
	14	(697)	–	–	–	(697)			
	–	(513)	(7)	(5)	(12)	(525)			
	–	4	–	(56)	(56)	(52)			

Consolidated financial statements (unaudited) *continued*

in USD millions, for the three months ended June 30

	Net income attributable to shareholders	Net unrealized gains/(losses) on available- for-sale investments	Cash flow hedges
2013			
Comprehensive income for the period	789	(1,765)	(69)
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		(1,930)	(63)
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(288)	(27)
Deferred income tax (before foreign currency translation effects)		445	20
Foreign currency translation effects		8	1
2014			
Comprehensive income for the period	837	972	19
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		1,546	37
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(361)	11
Deferred income tax (before foreign currency translation effects)		(217)	(28)
Foreign currency translation effects		4	(1)

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	Cumulative foreign currency translation adjustment	Total other comprehensive income recycled through profit or loss	Revaluation reserve	Net actuarial gains/(losses) on pension plans	Total other comprehensive income not recycled through profit or loss	Total other comprehensive income attributable to shareholders	Total comprehensive income attributable to shareholders	Total comprehensive income attributable to non-controlling interests	Total comprehensive income
	(905)	(2,740)	11	39	50	(2,690)	(1,900)	(31)	(1,931)
	(982)	(2,976)	14	80	94	(2,882)			
	77	(238)	–	–	–	(238)			
	–	465	(3)	(32)	(36)	429			
	–	10	–	(8)	(8)	1			
	(886)	105	22	(135)	(113)	(7)	830	75	904
	(897)	686	28	(73)	(45)	641			
	11	(339)	–	–	–	(339)			
	–	(244)	(6)	(20)	(26)	(270)			
	–	3	–	(42)	(42)	(39)			

Consolidated financial statements (unaudited) *continued*

Consolidated balance sheets (unaudited)

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

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

Liabilities
and equity

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

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

Consolidated financial statements (unaudited) *continued*

Consolidated statements of cash flows (unaudited)

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

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

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

Cash and cash equivalents

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

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

Consolidated financial statements (unaudited) *continued*

Consolidated statements of changes in equity (unaudited)

in USD millions

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

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

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

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

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

	Net unrealized gains/(losses) on available-for-sale investments	Cash flow hedges	Cumulative foreign currency translation adjustment	Revaluation reserve	Retained earnings	Shareholders' equity	Non-controlling interests	Total equity
	4,523	238	(3,022)	180	24,403	34,505	2,369	36,874
	-	-	-	-	-	142	-	142
	-	-	-	-	-	(1,933)	(96)	(2,029)
	-	-	-	-	-	(108)	-	(108)
	-	-	-	-	5	12	-	12
	-	-	-	-	5	5	-	5
	(2,106)	(103)	(1,322)	6	1,825	(1,701)	42	(1,659)
	-	-	-	-	1,851	1,851		
	(2,106)	-	-	-	-	(2,106)		
	-	(103)	-	-	-	(103)		
	-	-	(1,322)	-	-	(1,322)		
	-	-	-	6	-	6		
	-	-	-	-	(26)	(26)		
	-	-	-	-	-	-	1	1
	2,417	136	(4,345)	186	26,237	30,923	2,316	33,238
	1,730	106	(4,008)	195	28,075	32,503	2,231	34,734
	-	-	-	-	-	146	-	146
	-	-	-	-	-	(1,815)	(25)	(1,840)
	-	-	-	-	-	(47)	-	(47)
	-	-	-	-	14	15	-	15
	-	-	-	-	(38)	(38)	-	(38)
	1,748	100	(866)	21	1,933	2,936	160	3,096
	-	-	-	-	2,109	2,109		
	1,748	-	-	-	-	1,748		
	-	100	-	-	-	100		
	-	-	(866)	-	-	(866)		
	-	-	-	21	-	21		
	-	-	-	-	(176)	(176)		
	-	-	-	-	-	-	(112)	(112)
	3,478	205	(4,874)	216	29,984	33,699	2,254	35,953

Consolidated financial statements (unaudited) *continued*

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

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

1. Basis of presentation

General information

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

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

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

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

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

Table 1.1 summarizes the principal exchange rates used for translation purposes. Net gains/(losses) on foreign currency transactions included in the consolidated income statements were USD 64 million and USD (5) million for the six months ended June 30, 2014 and 2013, respectively. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD 45 million and USD (41) million for the six months ended June 30, 2014 and 2013, respectively.

Table 1.1

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

Implementation of new accounting standards

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

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

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

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

¹ The impact on the Consolidated financial statements will be assessed in conjunction with the revised standard IFRS 4 "Insurance Contracts". Changes to the IFRS timetable may impact this approach.

Restatements and reclassifications

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

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

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

Consolidated financial statements (unaudited) *continued*

2. Acquisitions and divestments

Transactions in 2014

Acquisitions

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

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

Transactions in 2013

Assets/liabilities held for sale

As of December 31, 2013, a subsidiary of Centre Group Holdings Limited, Centre Insurance Company, which is a general insurance and reinsurance company based in the United States of America, with total assets of USD 103 million (initially USD 100 million) and total liabilities of USD 48 million (initially USD 49 million), was classified as held for sale.

3. Investments

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

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

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

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

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

Consolidated financial statements (unaudited) *continued*

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

Table 3.3

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

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

Securities under security lending and repurchase agreements

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

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

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

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

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

Table 4.1

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

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

Table 4.2

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

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

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

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

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

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

Consolidated financial statements (unaudited) *continued*

Table 4.3

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

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

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

Table 4.4

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

Table 4.5

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

5. Policyholder dividends and participation in profits

Table 5		
in USD millions, for the six months ended June 30		
	2014	2013
Policyholder dividends and participation in profits		
Change in policyholders' contract deposits and other funds	803	730
Change in reserves for unit-linked products	2,457	2,540
Change in liabilities for investment contracts – unit-linked	1,983	3,129
Change in liabilities for investment contracts – other	127	99
Change in unit-linked liabilities related to UK capital gains tax	(52)	(181)
Total policyholder dividends and participation in profits	5,318	6,318

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6. Deferred policy acquisition costs and deferred origination costs

Table 6.1

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

¹ Net of eliminations from inter-segment transactions.

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

Table 6.2

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

7. Goodwill and other intangible assets

Table 7.1

Intangible assets –
current period

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

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

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

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

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

Table 7.2

Intangible assets
by segment –
current period

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

Consolidated financial statements (unaudited) *continued*

Table 7.3

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

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

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

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

Table 7.4

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

8. Restructuring provisions

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

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

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

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9. Income taxes

Table 9.1

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

Table 9.2

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

Table 9.2 sets out the factors that cause the actual income tax expense to differ from the expected expense computed by applying the Swiss statutory tax rate of 22.0 percent, which is the rate applicable in the jurisdiction where the ultimate parent company is resident.

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

10. Senior and subordinated debt

Table 10

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

¹ Relates to non-recourse debt.

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

i) Senior debt

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

ii) Subordinated debt

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

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11. Commitments and contingencies, legal proceedings and regulatory investigations

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

Table 11

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

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

Legal proceedings and regulatory investigations

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

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

The court issued its Statement of Decision for Phase 1 on December 27, 2013. While the court found that the plaintiffs had established that Home transferred certain assets to one of the defendants in connection with the 1995 recapitalization transaction, it held that the plaintiffs' fraudulent transfer claims, which all related to transfers allegedly made as part of the 1995 recapitalization, were time-barred. The court further held that Home's liquidator had exclusive standing to bring fraudulent transfer claims involving Home's assets. The effect of these holdings should be the dismissal of the plaintiffs' fraudulent transfer claims. In addition, the court accepted the defendants' arguments that the findings made by the regulators in approving the recapitalization transaction are binding on the plaintiffs in the Fuller-Austin Case.

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

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

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12. Fair value of financial assets and financial liabilities

This note excludes financial assets and financial liabilities relating to unit-linked contracts. Table 12.1 compares the fair value of financial assets and financial liabilities with their carrying value. Certain financial instruments are not included within this table as their carrying value is a reasonable approximation of their fair value. Such instruments include cash and cash equivalents, obligations to repurchase securities, deposits made under assumed reinsurance contracts and deposits received under ceded reinsurance contracts and other financial assets and liabilities.

Table 12.1

Fair value and carrying value of financial assets and financial liabilities

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

Recurring fair value measurements of financial assets and financial liabilities

Table 12.2a

Fair value hierarchy – current period

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

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

Table 12.2b					
in USD millions, as of December 31, 2013					
	Level 1	Level 2	Level 3	Total	
Fair value hierarchy – prior period					
Available-for-sale securities					
Equity securities	8,420	338	1,000	9,758	
Debt securities	122	141,827	2,775	144,723	
Total available-for-sale securities	8,542	142,164	3,774	154,481	
Fair value through profit or loss securities					
Equity securities	1,006	245	2,175	3,425	
Debt securities	66	6,836	219	7,121	
Total fair value through profit or loss securities	1,072	7,080	2,394	10,546	
Derivative assets	1	1,046	95	1,142	
Total	9,615	150,291	6,263	166,168	
Derivative liabilities	(22)	(637)	(70)	(729)	
Total	(22)	(637)	(70)	(729)	

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

Table 12.3a							
in USD millions							
	Available-for-sale securities		Fair value through profit or loss securities		Derivative assets	Derivative liabilities	
	Equity securities	Debt securities	Equity securities	Debt securities			
As of January 1, 2014	1,000	2,775	2,175	219	95	(70)	
Realized gains/(losses) recognized in income ¹	23	12	7	–	–	–	
Unrealized gains/(losses) recognized in income ^{1,2}	(1)	(19)	85	8	(13)	(1)	
Unrealized gains/(losses) recognized in other comprehensive income	31	33	–	–	–	–	
Purchases	67	451	213	13	–	–	
Settlements/sales/redemptions	(125)	(452)	(193)	(29)	–	–	
Transfers into level 3	3	–	–	5	–	–	
Transfers out of level 3	–	(87)	–	–	–	–	
Foreign currency translation effects	3	23	9	5	1	–	
As of June 30, 2014	1,000	2,735	2,297	221	82	(72)	

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

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

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

Consolidated financial statements (unaudited) *continued*

Table 12.3b

Development of assets and liabilities classified within level 3 – prior period

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

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

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

For the six months ended June 30, 2013, the Group transferred USD 59 million of available-for-sale debt securities into level 3 from level 2. The transfers were mainly the result of higher price volatility and credit rating downgrades of certain asset-backed securities, resulting in a reduction of market activity in the instruments.

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

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

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

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

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

The key assumptions driving the valuation of these investments include equity levels, discount rates, credit spread rates and prepayment rates. The effect on reported fair values of using reasonably possible alternative values for each of these assumptions, while the other key assumptions remain unchanged, is disclosed in tables 12.4a and 12.4b. While these tables illustrate the overall effect of changing the values of unobservable inputs by a set percentage, the significance of the impact and the range of reasonably possible alternative assumptions may differ significantly between investments, given their different terms and circumstances. Inter-relationships between those unobservable inputs are disclosed in tables 12.5a and 12.5b. The correlation is based on the historical correlation matrix derived from the risk factors which are assigned to each of the level 3 exposures (equity and debt securities). The main market drivers are equity markets and rate indicators and the impact of such changes on the other factors. The spread scenario has been added to analyze the impact of an increase of borrowing cost for entities.

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

Table 12.4a

Sensitivity analysis of level 3 investments to changes in key assumptions – current period		Less favorable values (relative change)	Decrease in reported fair value (in USD millions)	More favorable values (relative change)	Increase in reported fair value (in USD millions)
as of June 30, 2014					
Key assumptions					
Equity levels		-20%	(659)	+20%	659
Discount rates		+20%	(71)	-20%	72
Spread rates		+20%	(60)	-20%	60
Prepayment rates		-20%	1	+20%	(2)

Table 12.4b

Sensitivity analysis of level 3 investments to changes in key assumptions – prior period		Less favorable values (relative change)	Decrease in reported fair value (in USD millions)	More favorable values (relative change)	Increase in reported fair value (in USD millions)
as of June 30, 2013					
Key assumptions					
Equity levels		-20%	(559)	+20%	559
Discount rates		+20%	(65)	-20%	66
Spread rates		+20%	(59)	-20%	59
Prepayment rates		-20%	(2)	+20%	2

Table 12.5a

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

Table 12.5b

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

Consolidated financial statements (unaudited) *continued*

13. Segment Information

Table 13.1

Business operating profit by business segment

in USD millions, for the six months ended June 30

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

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

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

Consolidated financial statements (unaudited) *continued*

Table 13.2

in USD millions, for the six months ended June 30

Reconciliation of
BOP to net income
after income taxes

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

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

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

Consolidated financial statements (unaudited) *continued*

14. Events after the balance sheet date

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

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

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

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Review report of the auditors

Review report of the auditors

To the Board of Directors of Zurich Insurance Group Ltd

Introduction

We have reviewed the accompanying unaudited Consolidated financial statements (consolidated income statement (unaudited), consolidated statement of comprehensive income (unaudited), consolidated balance sheet (unaudited), consolidated statement of cash flows (unaudited), consolidated statement of changes in equity (unaudited) and related notes on pages 3 to 38) of Zurich Insurance Group Ltd for the period ended June 30, 2014. The Board of Directors is responsible for the preparation and presentation of these unaudited Consolidated financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these unaudited Consolidated financial statements based on our review.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers AG

Mark Humphreys
Audit expert
Auditor in charge

Stephen O'Hearn
Global relationship partner

Zurich, August 6, 2014

Disclaimer and Cautionary Statements

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

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

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

Persons requiring advice should consult an independent advisor.

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