

Consolidated financial statements (unaudited) 2014

Zurich Insurance Group
Results for the nine months to September 30, 2014

Consolidated financial statements (unaudited)

Contents

Consolidated income statements (unaudited)	3
Consolidated statements of comprehensive income (unaudited)	4
Consolidated balance sheets (unaudited)	8
Consolidated statements of cash flows (unaudited)	10
Consolidated statements of changes in equity (unaudited)	12
1. Basis of presentation	14
2. Acquisitions and divestments	16
3. Group investments	17
4. Reserves for insurance contracts and reinsurers' share of reserves for insurance contracts	19
5. Policyholder dividends and participation in profits	20
6. Deferred policy acquisition costs and deferred origination costs	21
7. Goodwill and other intangible assets	22
8. Restructuring provisions	24
9. Income taxes	25
10. Senior and subordinated debt	26
11. Commitments and contingencies, legal proceedings and regulatory investigations	27
12. Fair value of financial assets and financial liabilities	29
13. Segment Information	34
14. Events after the balance sheet date	38

Consolidated income statements (unaudited)

in USD millions	Notes	2014	2013	2014	2013
		for the three months ended September 30	for the three months ended September 30	for the nine months ended September 30	for the nine months ended September 30
Revenues					
Gross written premiums		12,367	11,804	40,241	39,459
Policy fees		537	908	1,976	2,185
Gross written premiums and policy fees		12,903	12,712	42,217	41,643
Less premiums ceded to reinsurers		(1,467)	(1,532)	(4,750)	(5,145)
Net written premiums and policy fees		11,436	11,179	37,466	36,498
Net change in reserves for unearned premiums		537	509	(1,451)	(1,714)
Net earned premiums and policy fees		11,973	11,688	36,015	34,784
Farmers management fees and other related revenues		698	705	2,089	2,113
Net investment result on Group investments	3	2,378	1,941	6,746	5,264
Net investment income on Group investments		1,553	1,471	4,770	4,659
Net capital gains/(losses) and impairments on Group investments		824	470	1,977	605
Net investment result on unit-linked investments		2,530	2,951	6,935	8,587
Net gain/(loss) on divestments of businesses		–	–	(13)	(1)
Other income		429	434	1,278	1,280
Total revenues		18,008	17,720	53,051	52,027
Benefits, losses and expenses					
Insurance benefits and losses, gross of reinsurance		9,041	8,608	27,196	25,993
Less ceded insurance benefits and losses		(518)	(796)	(1,927)	(2,413)
Insurance benefits and losses, net of reinsurance		8,522	7,811	25,268	23,580
Policyholder dividends and participation in profits, net of reinsurance	5	3,043	3,277	8,361	9,594
Underwriting and policy acquisition costs, net of reinsurance		2,359	2,630	7,439	7,422
Administrative and other operating expense		2,326	2,196	6,608	6,284
Interest expense on debt		135	155	411	445
Interest credited to policyholders and other interest		113	88	398	387
Total benefits, losses and expenses		16,498	16,157	48,486	47,712
Net income before income taxes		1,510	1,563	4,565	4,315
Income tax expense	9	(532)	(434)	(1,356)	(1,177)
attributable to policyholders	9	(41)	(1)	(19)	(148)
attributable to shareholders	9	(491)	(433)	(1,337)	(1,029)
Net income after taxes		978	1,129	3,209	3,137
attributable to non-controlling interests		51	26	172	183
attributable to shareholders		928	1,103	3,037	2,954
in USD					
Basic earnings per share		6.26	7.47	20.52	20.05
Diluted earnings per share		6.23	7.44	20.39	19.95
in CHF					
Basic earnings per share		5.73	6.96	18.44	18.74
Diluted earnings per share		5.70	6.93	18.32	18.65

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 nine months ended September 30

	Net income attributable to shareholders	Net unrealized gains/(losses) on available- for-sale investments	Cash flow hedges
2013			
Comprehensive income for the period	2,954	(2,073)	(101)
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		(1,616)	(80)
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(973)	(51)
Reclassification to retained earnings		–	–
Deferred income tax (before foreign currency translation effects)		538	30
Foreign currency translation effects		(21)	(1)
2014			
Comprehensive income for the period	3,037	1,946	128
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		3,946	51
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(1,267)	134
Deferred income tax (before foreign currency translation effects)		(539)	(42)
Foreign currency translation effects		(194)	(16)

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
	(917)	(3,092)	6	(500)	(494)	(3,586)	(632)	100	(531)
	(1,029)	(2,726)	14	(427)	(413)	(3,139)			
	112	(912)	–	–	–	(912)			
	–	–	(5)	–	(5)	(5)			
	–	568	(3)	(30)	(33)	535			
	–	(22)	–	(43)	(43)	(65)			
	(1,798)	276	23	(82)	(59)	217	3,254	48	3,302
	(1,850)	2,147	32	(237)	(205)	1,942			
	52	(1,081)	–	–	–	(1,081)			
	–	(581)	(8)	29	21	(560)			
	–	(209)	–	126	126	(83)			

Consolidated financial statements (unaudited) *continued*

in USD millions, for the three months ended September 30

	Net income attributable to shareholders	Net unrealized gains/(losses) on available- for-sale investments	Cash flow hedges
2013			
Comprehensive income for the period	1,103	34	1
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		309	68
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(382)	(74)
Deferred income tax (before foreign currency translation effects)		26	1
Foreign currency translation effects		80	6
2014			
Comprehensive income for the period	928	198	28
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		996	(66)
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(546)	124
Deferred income tax (before foreign currency translation effects)		(54)	(13)
Foreign currency translation effects		(197)	(17)

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
	405	440	–	(473)	(473)	(33)	1,070	58	1,128
	368	746	–	(333)	(333)	413			
	37	(419)	–	–	–	(419)			
	–	27	–	8	8	36			
	–	86	–	(148)	(148)	(62)			
	(932)	(705)	2	94	96	(609)	318	(112)	207
	(970)	(40)	3	(122)	(119)	(159)			
	38	(384)	–	–	–	(384)			
	–	(67)	(1)	34	33	(35)			
	–	(213)	–	182	182	(31)			

Consolidated financial statements (unaudited) *continued*

Consolidated balance sheets (unaudited)

Assets	in USD millions, as of	Notes	09/30/14	12/31/13
Investments				
	Total Group investments	3	206,855	207,280
	Cash and cash equivalents		8,285	7,181
	Equity securities		15,701	13,183
	Debt securities		154,671	156,456
	Real estate held for investment		9,036	8,745
	Mortgage loans		8,353	9,798
	Other loans		10,737	11,789
	Investments in associates and joint ventures		72	129
	Investments for unit-linked contracts		133,903	134,267
	Total investments		340,758	341,547
	Reinsurers' share of reserves for insurance contracts	4	16,883	17,978
	Deposits made under assumed reinsurance contracts		2,686	2,645
	Deferred policy acquisition costs	6	18,338	18,724
	Deferred origination costs	6	655	724
	Accrued investment income		1,920	2,321
	Receivables and other assets		18,304	18,499
	Deferred tax assets		1,825	2,020
	Assets held for sale ¹		196	223
	Property and equipment		1,320	1,494
	Goodwill	7	1,712	1,852
	Other intangible assets	7	6,892	7,028
	Total assets		411,489	415,053

¹ September 30, 2014 included assets relating to the Group's General Insurance retail business in Russia amounting to USD 171 million (see note 2) and land and buildings formerly classified as real estate held for investment amounting to USD 24 million. December 31, 2013 included assets relating to a subsidiary of Centre Group Holdings Limited amounting to USD 100 million (see note 2) and land and buildings formerly classified as real estate held for investment amounting to USD 123 million.

Liabilities
and equity

in USD millions, as of	Notes	09/30/14	12/31/13
Liabilities			
Reserve for premium refunds		616	571
Liabilities for investment contracts		68,445	67,113
Deposits received under ceded reinsurance contracts		1,057	1,245
Deferred front-end fees		5,689	5,791
Reserves for insurance contracts	4	260,868	265,440
Obligations to repurchase securities		1,498	1,685
Accrued liabilities		3,031	3,023
Other liabilities		17,048	17,904
Deferred tax liabilities		5,315	5,110
Liabilities held for sale ¹		141	49
Senior debt	10	5,563	6,044
Subordinated debt	10	6,027	6,342
Total liabilities		375,299	380,319
Equity			
Share capital		11	11
Additional paid-in capital		4,756	6,395
Net unrealized gains/(losses) on available-for-sale investments		3,676	1,730
Cash flow hedges		233	106
Cumulative foreign currency translation adjustment		(5,806)	(4,008)
Revaluation reserve		218	195
Retained earnings		31,010	28,075
Shareholders' equity		34,098	32,503
Non-controlling interests		2,092	2,231
Total equity		36,190	34,734
Total liabilities and equity		411,489	415,053

¹ September 30, 2014 included liabilities relating to the Group's General Insurance retail business in Russia amounting to USD 141 million and December 31, 2013 included liabilities relating to a subsidiary of Centre Group Holdings Limited amounting to USD 49 million (see note 2).

Consolidated financial statements (unaudited) *continued*

Consolidated statements of cash flows (unaudited)

in USD millions, for the nine months ended September 30	2014	2013
Cash flows from operating activities		
Net income attributable to shareholders	3,037	2,954
Adjustments for:		
Net (gain)/loss on divestments of businesses	13	1
(Income)/expense from equity method accounted investments	(10)	(6)
Depreciation, amortization and impairments of fixed and intangible assets	770	699
Other non-cash items	(257)	693
Underwriting activities:	9,104	6,563
<i>Reserves for insurance contracts, gross</i>	4,942	730
<i>Reinsurers' share of reserves for insurance contracts</i>	644	809
<i>Liabilities for investment contracts</i>	4,370	5,712
<i>Deferred policy acquisition costs</i>	(713)	(492)
<i>Deferred origination costs</i>	39	43
<i>Deposits made under assumed reinsurance contracts</i>	(48)	28
<i>Deposits received under ceded reinsurance contracts</i>	(130)	(268)
Investments:	(6,934)	(7,662)
<i>Net capital (gains)/losses on total investments and impairments</i>	(7,541)	(7,890)
<i>Net change in derivatives</i>	41	(134)
<i>Net change in money market investments</i>	1,396	471
<i>Sales and maturities</i>		
<i>Debt securities</i>	84,593	85,275
<i>Equity securities</i>	44,223	37,771
<i>Other</i>	5,373	8,435
<i>Purchases</i>		
<i>Debt securities</i>	(80,065)	(89,708)
<i>Equity securities</i>	(50,107)	(37,861)
<i>Other</i>	(4,846)	(4,021)
Proceeds from sale and repurchase agreements	(154)	(102)
Movements in receivables and payables	315	(300)
Net changes in other operational assets and liabilities	(346)	(852)
Deferred income tax, net	75	79
Net cash provided by/(used in) operating activities	5,612	2,067

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

in USD millions, for the nine months ended September 30	2014	2013
Cash flows from investing activities		
Disposals of tangible and intangible assets	50	49
Additions of tangible and intangible assets	(775)	(510)
(Acquisitions)/Disposals of equity method accounted investments, net	94	(24)
Divestments of companies, net of cash balances	55	–
Dividends from equity method accounted investments	1	–
Net cash provided by/(used in) investing activities	(575)	(484)
Cash flows from financing activities		
Dividends paid	(2,913)	(2,817)
Issuance of share capital	96	41
Net movement in treasury shares	20	13
Other acquisitions and divestments related cash flows	(410)	–
Issuance of debt	1,560	1,547
Repayment of debt	(1,553)	(1,264)
Net cash provided by/(used in) financing activities	(3,201)	(2,480)
Foreign currency translation effects on cash and cash equivalents	(502)	(56)
Change in cash and cash equivalents	1,334	(954)
Cash and cash equivalents as of January 1	8,162	10,208
Cash and cash equivalents as of September 30	9,497	9,254
of which:		
– cash and cash equivalents – Group investments	8,285	7,788
– cash and cash equivalents – unit linked	1,212	1,466
Other supplementary cash flow disclosures		
Other interest income received	4,933	4,953
Dividend income received	1,515	1,263
Other interest expense paid	(792)	(726)
Income taxes paid	(1,078)	(862)

Cash and cash equivalents	in USD millions, as of September 30	2014	2013
	Cash and cash equivalents comprise the following:		
	Cash at bank and in hand	6,980	6,817
	Cash equivalents	2,517	2,437
	Total	9,497	9,254

As of September 30, 2014 and 2013, cash and cash equivalents held to meet local regulatory requirements were USD 802 million and USD 1,405 million, respectively.

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

Consolidated financial statements (unaudited) *continued*

Consolidated statements of changes in equity (unaudited)

in USD millions

	Share capital	Additional paid-in capital
Balance as of December 31, 2012	11	8,172
Issuance of share capital ¹	–	149
Dividends to shareholders ²	–	(1,933)
Share-based payment transactions	–	(45)
Treasury share transactions ⁴	–	7
Change in ownership interests with no loss of control	–	–
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 September 30, 2013	11	6,351
Balance as of December 31, 2013	11	6,395
Issuance of share capital ¹	–	167
Dividends to shareholders ³	–	(1,815)
Share-based payment transactions	–	6
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 September 30, 2014	11	4,756

¹ The number of common shares issued as of September 30, 2014 was 149,510,650 (September 30, 2013: 148,888,459, 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 September 30, 2014 amounted to 1,294,944 (September 30, 2013: 1,323,302, 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
	-	-	-	-	-	149	-	149
	-	-	-	-	-	(1,933)	(166)	(2,099)
	-	-	-	-	-	(45)	-	(45)
	-	-	-	-	6	13	-	13
	-	-	-	-	(1)	(1)	-	(1)
	-	-	-	-	5	5	-	5
	(2,073)	(101)	(917)	6	2,454	(632)	100	(531)
	-	-	-	-	2,954	2,954		
	(2,073)	-	-	-	-	(2,073)		
	-	(101)	-	-	-	(101)		
	-	-	(917)	-	-	(917)		
	-	-	-	6	-	6		
	-	-	-	-	(500)	(500)		
	-	-	-	-	-	-	4	4
	2,450	137	(3,939)	186	26,868	32,062	2,306	34,369
	1,730	106	(4,008)	195	28,075	32,503	2,231	34,734
	-	-	-	-	-	167	-	167
	-	-	-	-	-	(1,815)	(76)	(1,891)
	-	-	-	-	-	6	-	6
	-	-	-	-	18	20	-	20
	-	-	-	-	(38)	(38)	-	(38)
	1,946	128	(1,798)	23	2,954	3,254	48	3,302
	-	-	-	-	3,037	3,037		
	1,946	-	-	-	-	1,946		
	-	128	-	-	-	128		
	-	-	(1,798)	-	-	(1,798)		
	-	-	-	23	-	23		
	-	-	-	-	(82)	(82)		
	-	-	-	-	-	-	(111)	(111)
	3,676	233	(5,806)	218	31,010	34,098	2,092	36,190

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 nine months to September 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 nine months to September 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 114 million and USD 21 million for the nine months ended September 30, 2014 and 2013, respectively. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD 145 million and USD (40) million for the nine months ended September 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	
		09/30/14	12/31/13	09/30/14	09/30/13
Euro		1.2625	1.3778	1.3560	1.3166
Swiss franc		1.0469	1.1228	1.1132	1.0695
British pound		1.6216	1.6568	1.6691	1.5459
Brazilian Real		0.4083	0.4233	0.4372	0.4742
Argentine Peso		0.1180	0.1534	0.1258	0.1901

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

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.

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

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 51 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 313 million for the nine months ended September 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 51 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. The acquisition was closed on October 31, 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 382 million, of which USD 287 million for 15.17 percent were previously recorded on the balance sheet as a put option liability.

Assets/liabilities held for sale

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. Therefore this business, with total assets of USD 171 million and total liabilities of USD 141 million, was classified as held for sale as of September 30, 2014, as the transaction had not closed until October 30, 2014 (see note 14).

Transactions in 2013

Assets/liabilities held for sale

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

3. Group 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.

Table 3.1

Net investment result for Group investments

in USD millions, for the nine months ended September 30

	Net investment income		Net capital gains/(losses) and impairments		Net investment result		of which impairments	
	2014	2013	2014	2013	2014	2013	2014	2013
Cash and cash equivalents	41	23	–	–	41	23	–	–
Equity securities	262	193	467	796	729	989	(17)	(50)
Debt securities	3,562	3,571	1,229	132	4,791	3,704	4	(4)
Real estate held for investment	378	361	120	116	498	476	–	–
Mortgage loans	261	287	(30)	(72)	231	215	(29)	(72)
Other loans	436	418	84	225	520	643	–	–
Investments in associates and joint ventures	10	6	37	1	47	7	(2)	–
Derivative financial instruments ¹	–	–	69	(594)	69	(594)	–	–
Investment result, gross, for Group investments	4,949	4,858	1,977	605	6,925	5,463	(43)	(126)
Investment expenses for Group investments ²	(179)	(199)	–	–	(179)	(199)	–	–
Investment result, net, for Group investments	4,770	4,659	1,977	605	6,746	5,264	(43)	(126)

¹ Net capital losses on derivatives attributable to cash flow hedge ineffectiveness amounted to USD 7 million and USD 5 million for the nine months ended September 30, 2014 and 2013, respectively.

² Including rental operating expenses for real estate held for Group investments of USD 71 million and USD 89 million for the nine months ended September 30, 2014 and 2013, respectively.

Table 3.2

Details of Group investments by category

as of

	09/30/14		12/31/13	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	8,285	4.0	7,181	3.5
Equity securities:				
Fair value through profit or loss	3,540	1.7	3,425	1.7
Available-for-sale	12,160	5.9	9,758	4.7
Total equity securities	15,701	7.6	13,183	6.4
Debt securities:				
Fair value through profit or loss	7,188	3.5	7,121	3.4
Available-for-sale	143,288	69.3	144,723	69.8
Held-to-maturity	4,195	2.0	4,613	2.2
Total debt securities	154,671	74.8	156,456	75.5
Real estate held for investment	9,036	4.4	8,745	4.2
Mortgage loans	8,353	4.0	9,798	4.7
Other loans	10,737	5.2	11,789	5.7
Investments in associates and joint ventures	72	0.0	129	0.1
Total Group investments	206,855	100.0	207,280	100.0

Investments (including cash and cash equivalents) with a carrying value of USD 6,337 million and USD 5,853 million were held to meet local regulatory requirements as of September 30, 2014 and December 31, 2013, respectively.

Consolidated financial statements (unaudited) *continued*

Table 3.3

Net unrealized gains/(losses) on Group investments included in equity	in USD millions, as of	Total	
		09/30/14	12/31/13
Equity securities: available-for-sale		1,646	1,427
Debt securities: available-for-sale		10,487	4,431
Other		283	130
Gross unrealized gains/(losses) on Group investments		12,415	5,988
Less amount of unrealized gains/(losses) on investments attributable to:			
Life policyholder dividends and other policyholder liabilities		(6,451)	(2,948)
Life deferred acquisition costs and present value of future profits		(742)	(460)
Deferred income taxes		(1,275)	(738)
Non-controlling interests		(38)	(6)
Total¹		3,909	1,835

¹ Net unrealized gains/(losses) included net gains arising on cash flow hedges of USD 233 million and USD 106 million as of September 30, 2014 and December 31, 2013, respectively.

Securities under security lending and repurchase agreements

As of September 30, 2014 and December 31, 2013, respectively, investments included USD 8,126 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 175 million and USD 332 million as of September 30, 2014 and December 31, 2013, respectively. Non-cash collateral received for loaned securities comprised mainly equity and debt securities, and amounted to USD 8,600 million and USD 10,474 million as of September 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 September 30, 2014 and December 31, 2013, respectively, debt securities with a carrying value of USD 1,502 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 1,498 million and USD 1,685 million as of September 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 September 30, 2014 and December 31, 2013, respectively, securities with a carrying value of USD 305 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 301 million and USD 678 million as of September 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	
	09/30/14	12/31/13	09/30/14	12/31/13	09/30/14	12/31/13	09/30/14	12/31/13
Reserves for losses and loss adjustment expenses	66,010	68,312	(9,839)	(10,993)	56,170	57,319		
Reserves for unearned premiums	18,530	17,616	(2,671)	(2,576)	15,859	15,040		
Future life policyholders' benefits	80,009	84,476	(2,473)	(2,501)	77,536	81,975		
Policyholders' contract deposits and other funds	22,871	20,162	(2,008)	(2,036)	20,864	18,126		
Reserves for unit-linked contracts	73,448	74,873	–	–	73,448	74,873		
Total reserves for insurance contracts¹	260,868	265,440	(16,990)	(18,107)	243,877	247,333		

¹ The total reserves for insurance contracts ceded are gross of allowances for uncollectible amounts of USD 107 million and USD 129 million as of September 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	19,350	20,145	(2,180)	(2,414)	17,169	17,731		
Prior years	(792)	(893)	686	319	(105)	(574)		
Total incurred	18,558	19,252	(1,494)	(2,095)	17,064	17,157		
Losses and loss adjustment expenses paid:								
Current year	(6,598)	(6,768)	410	461	(6,189)	(6,307)		
Prior years	(12,257)	(13,653)	2,016	2,582	(10,241)	(11,071)		
Total paid	(18,856)	(20,422)	2,425	3,043	(16,430)	(17,379)		
Acquisitions/(divestments) and transfers ¹	39	–	(10)	–	29	–		
Foreign currency translation effects	(2,044)	(135)	233	25	(1,811)	(110)		
As of September 30	66,010	68,682	(9,839)	(11,628)	56,170	57,054		

¹ The 2014 net movement includes USD 48 million reclassified from future life policyholders' benefits (see note 1), USD 49 million due to the reclassification of a subsidiary of Centre Group Holdings Limited from held for sale (see note 2) and USD (69) million due to the reclassification of the Group's General Insurance retail business in Russia to held for sale (see note 2).

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 decrease of USD 1,149 million during the first nine months of 2014 in net reserves for losses and loss adjustment expenses is mostly driven by a decrease in foreign currency translation effects of USD 1,811 million. Favorable reserve development arising from reserves established in prior years amounted to USD 105 million for the first nine months of 2014, mainly coming from favorable releases in Switzerland partly offset by increases in Global Corporate and asbestos and health hazard reserves.

The decrease of USD 332 million during the first nine months of 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 574 million for the first nine months of 2013, in part due to favorable releases in Switzerland and in Global Corporate.

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 ¹	8,764	6,441	(456)	(399)	8,308	6,042	
Claims	(7,494)	(7,027)	373	323	(7,120)	(6,704)	
Fee income and other expenses ¹	(3,102)	(1,432)	132	103	(2,970)	(1,329)	
Interest and bonuses credited to policyholders	2,400	1,482	(91)	(4)	2,309	1,479	
Changes in assumptions	97	(136)	(5)	13	91	(123)	
Acquisitions/(divestments) and transfers ²	(100)	–	–	–	(100)	–	
(Decreases)/increases recorded in other comprehensive income	675	(175)	–	–	675	(175)	
Foreign currency translation effects	(5,708)	1,038	75	(22)	(5,633)	1,015	
As of September 30	80,009	83,998	(2,473)	(2,493)	77,536	81,505	

¹ 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 1.7 billion) is included within fee income and other expenses.

² The 2014 net movement relates to USD (51) million reclassified to reserves for unit-linked contracts and USD (48) million reclassified to reserves for losses and loss adjustment expenses (see note 1).

Table 4.4

Policyholders' contract deposits and other funds gross	in USD millions, as of	09/30/14	12/31/13
		Universal life and other contracts	12,775
Policyholder dividends		10,096	7,329
Total		22,871	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	1,058	993	(40)	(50)	1,018	942	
Claims	(1,039)	(1,071)	130	176	(909)	(896)	
Fee income and other expenses	(235)	(215)	(5)	(8)	(240)	(224)	
Interest and bonuses credited to policyholders	1,256	1,103	(57)	(60)	1,199	1,043	
(Decrease)/increase recorded in other comprehensive income	2,907	(977)	–	–	2,907	(977)	
Foreign currency translation effects	(1,237)	229	–	–	(1,237)	229	
As of September 30	22,871	20,084	(2,008)	(2,049)	20,864	18,035	

5. Policyholder dividends and participation in profits

Table 5

Policyholder dividends and participation in profits	in USD millions, for the nine months ended September 30	2014	2013
		Change in policyholders' contract deposits and other funds	1,262
Change in reserves for unit-linked products	3,753	4,181	
Change in liabilities for investment contracts – unit-linked	3,245	4,470	
Change in liabilities for investment contracts – other	173	167	
Change in unit-linked liabilities related to UK capital gains tax	(72)	(252)	
Total policyholder dividends and participation in profits	8,361	9,594	

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
As of January 1	3,794	3,543	14,606	14,466	323	337	18,724	18,346
Acquisition costs deferred	2,675	2,613	1,578	1,565	620	641	4,873	4,819
Amortization	(2,378)	(2,291)	(1,171)	(1,373)	(610)	(637)	(4,158)	(4,301)
Impairments	–	–	(1)	(24)	–	–	(1)	(24)
Amortization (charged)/ credited to other comprehensive income	–	–	(307)	219	–	–	(307)	219
Acquisitions/(divestments) and transfers ²	(19)	–	–	(309)	–	–	(19)	(309)
Foreign currency translation effects	(114)	(55)	(660)	(64)	–	–	(774)	(118)
As of September 30	3,959	3,809	14,046	14,480	333	341	18,338	18,631

¹ Net of eliminations from inter-segment transactions.

² The 2014 General Insurance movement includes USD (19) million mainly due to the reclassification of the Group's General Insurance retail business in Russia to held for sale (see note 2). The 2013 movement relates to a transfer to deferred front-end fees of USD (433) million and a transfer from receivables and other assets of USD 124 million (see note 1 of the Consolidated financial statements 2013).

As of September 30, 2014, December 31, 2013 and September 30, 2013, deferred policy acquisition costs relating to non-controlling interests were USD 424 million, USD 614 million and USD 606 million, respectively.

Table 6.2

Development of deferred origination costs	in USD millions	
	2014	2013
As of January 1	724	770
Origination costs deferred	46	46
Amortization	(85)	(89)
Foreign currency translation effects	(30)	1
As of September 30	655	727

Consolidated financial statements (unaudited) *continued*

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 ¹	–	–	581	–	285	(13)	852
Amortization	–	(48)	(142)	–	(294)	(8)	(492)
Amortization charged to other comprehensive income	–	(31)	–	–	–	–	(31)
Impairments	(82)	–	–	–	(62)	–	(145)
Foreign currency translation effects	(57)	(35)	(290)	–	(74)	(3)	(460)
Net carrying value as of September 30, 2014	1,712	614	3,701	1,025	1,494	57	8,605
Plus: accumulated amortization/impairments	363	2,184	882	–	3,103	88	6,621
Gross carrying value as of September 30, 2014	2,075	2,798	4,583	1,025	4,598	145	15,225

¹ Other includes USD (13) million due to the reclassification of the Group's General Insurance retail business in Russia to held for sale (see note 2).

As of September 30, 2014, intangible assets relating to non-controlling interests were USD 132 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1,568 million for distribution agreements and USD 15 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 182 million, of which 50 percent was funded by Banco Sabadell. There was a further addition to distribution agreements of USD 399 million, which mainly related to new distribution agreements entered into by General Insurance operations in Brazil, which includes USD 372 million relating to a distribution agreement with Via Varejo S.A. for the exclusive sale of extended warranty insurance.

Following a review of subsidiaries in Global Life, the Group reassessed the recoverability of goodwill resulting in USD 82 million of impairments.

Following a review, software was identified, primarily in Global Life and General Insurance, which was not utilized as originally expected, resulting in USD 62 million of impairments.

Table 7.2

Intangible assets by segment – current period	in USD millions, as of September 30, 2014						
	Goodwill	PVFP	Distribution agreements	Attorney- in-fact relationships	Software	Other	Total
General Insurance	555	–	975	–	576	50	2,155
Global Life	338	614	2,726	–	388	7	4,074
Farmers	819	–	–	1,025	327	–	2,171
Other Operating Businesses	–	–	–	–	204	–	204
Net carrying value as of September 30, 2014	1,712	614	3,701	1,025	1,494	57	8,605

Intangible assets –
prior period

Table 7.3

in USD millions

	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other	Total
Gross carrying value as of January 1, 2013	2,239	2,890	4,435	1,025	4,418	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	–	–	35	–	261	–	296
Amortization	–	(107)	(141)	–	(287)	(7)	(542)
Amortization charged to other comprehensive income	–	12	–	–	–	–	12
Impairments	–	–	–	–	(22)	(1)	(22)
Foreign currency translation effects	(35)	(2)	(71)	–	(6)	(2)	(116)
Net carrying value as of September 30, 2013	2,072	747	3,638	1,025	1,616	84	9,182
Plus: accumulated amortization/impairments	127	2,140	827	–	2,990	135	6,219
Gross carrying value as of September 30, 2013	2,198	2,888	4,465	1,025	4,606	219	15,401

As of September 30, 2013, intangible assets relating to non-controlling interests were USD 171 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1,698 million for distribution agreements and USD 10 million for software.

Additions of USD 35 million related to new distribution agreements entered into by Global Life in the Middle East and by General Insurance and Global Life in Brazil.

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

Intangible assets
by segment –
prior period

Table 7.4

in USD millions, as of December 31, 2013

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

Consolidated financial statements (unaudited) *continued*

8. Restructuring provisions

Table 8

Restructuring provisions	in USD millions	
	2014	2013
As of January 1	188	297
Provisions made during the period	82	39
Increase of provisions set up in prior years	21	6
Provisions used during the period	(111)	(109)
Provisions reversed during the period	(8)	(7)
Foreign currency translation effects	(7)	1
As of September 30	166	227

During the nine months ended September 30, 2014, restructuring programs with estimated costs of USD 82 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 63 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 nine months ended September 30, 2013, restructuring programs with estimated costs of USD 39 million for restructuring announced in that year primarily impacted Global Life in the UK and Farmers. USD 1 million related to net decreases of provisions for restructuring which were initiated in prior years.

9. Income taxes

Table 9.1

in USD millions, for the nine months ended September 30		2014	2013
Income tax expense – current/deferred split	Current	1,262	1,089
	Deferred	94	88
	Total income tax expense	1,356	1,177

Table 9.2

in USD millions, for the nine months ended September 30		Rate	2014	Rate	2013
Expected and actual income tax expense	Net income before income taxes		4,565		4,315
	less: income tax (expense)/benefit attributable to policyholders		(19)		(148)
	Net income before income taxes attributable to shareholders		4,546		4,166
	Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%	1,000	22.0%	916
	Increase/(reduction) in taxes resulting from:				
	<i>Tax rate differential in foreign jurisdictions</i>		207		127
	<i>Tax exempt and lower taxed income</i>		(83)		(46)
	<i>Non-deductible expenses</i>		66		42
	<i>Tax losses previously unrecognized or no longer recognized</i>		(15)		(4)
	<i>Prior year adjustments and other</i>		162		(7)
	Actual income tax expense attributable to shareholders	29.4%	1,337	24.7%	1,029
	plus: income tax expense/(benefit) attributable to policyholders		19		148
	Actual income tax expense	29.7%	1,356	27.3%	1,177

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 includes the anticipated loss relating to the sale of the Group's retail business in Russia, which will not attract tax relief, and a change in the mix of business.

Consolidated financial statements (unaudited) *continued*

10. Senior and subordinated debt

Table 10

Indebtedness	in USD millions, as of	Senior debt		Subordinated debt		Total	
		09/30/14	12/31/13	09/30/14	12/31/13	09/30/14	12/31/13
Operational debt ¹		–	72	–	28	–	100
Financial debt		5,563	5,972	6,027	6,314	11,590	12,286
Total		5,563	6,044	6,027	6,342	11,590	12,386

¹ December 31, 2013 included operational senior and subordinated debt of USD 100 million for non-recourse debt, which was transferred to a third party as the underlying mortgaged property was sold in July 2014.

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

i) Senior debt

The decrease was primarily due to the translation effects of the U.S. dollar against the currencies in which senior debt is issued. This decrease included the redemption at maturity of the 4.5% EUR 1 billion notes in September 2014, issued by Zurich Finance (USA), Inc., which, as a result of U.S. dollar exchange rate movements over the period, were only partially offset by the issuance of CHF 600 million of senior unsecured notes in three tranches in July 2014 and EUR 500 million in September 2014, all issued by Zurich Insurance Company Ltd under the Group's Euro Medium Term Note (EMTN) Programme. Further decreases included the early repayment of USD 61 million of the 7.5% EUR 152 million loan due December 2035, issued by Zurich Santander Insurance America S.L., and the transfer of USD 72 million of operational non-recourse debt to a third party in July 2014.

ii) Subordinated debt

The decrease was primarily due to the translation effects of the U.S. dollar against the currencies in which subordinated debt is issued. This decrease included the result of the Group exercising its option to redeem the 12.0% EUR 143 million perpetual capital notes at par plus accrued interest in July 2014, which were issued under the Group's EMTN Programme and which, as a result of U.S. dollar exchange rate movements over the period, were only partially offset by the issue of CHF 200 million perpetual capital notes in June 2014 by Zurich Insurance Company Ltd under the Group's EMTN Programme. A further decrease was the transfer of USD 28 million of operational non-recourse debt to a third party in July 2014.

11. Commitments and contingencies, legal proceedings and regulatory investigations

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

Table 11

	in USD millions, as of	09/30/14	12/31/13
Quantifiable commitments and contingencies	Remaining commitments under investment agreements	877	685
	Guarantees and letters of credit ¹	10,051	10,283
	Future operating lease commitments	1,167	884
	Undrawn loan commitments	4	8
	Other commitments and contingent liabilities	573	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.

Consolidated financial statements (unaudited) *continued*

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. On October 21, 2014, the court held a conference to finalize the statement of decision and address next steps in the litigation. The parties will exchange information and return to the court for a conference in January 2015 to discuss further proceedings. 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.

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.

Fair value and carrying value of financial assets and financial liabilities	in USD millions, as of	Total fair value		Total carrying value	
		09/30/14	12/31/13	09/30/14	12/31/13
		Available-for-sale securities			
Equity securities	12,160	9,758	12,160	9,758	
Debt securities	143,288	144,723	143,288	144,723	
Total available-for-sale securities	155,448	154,481	155,448	154,481	
Fair value through profit or loss securities					
Equity securities	3,540	3,425	3,540	3,425	
Debt securities	7,188	7,121	7,188	7,121	
Total fair value through profit or loss securities	10,729	10,546	10,729	10,546	
Derivative assets	1,091	1,142	1,091	1,142	
Held-to-maturity debt securities	4,883	5,172	4,195	4,613	
Investments in associates and joint ventures	72	129	72	129	
Mortgage loans	8,949	10,326	8,353	9,798	
Other loans	12,769	13,365	10,737	11,789	
Total financial assets	193,940	195,159	190,625	192,496	
Derivative liabilities	(384)	(729)	(384)	(729)	
Financial liabilities held at amortized cost					
Liabilities related to investment contracts	(1,038)	(1,163)	(942)	(1,030)	
Liabilities related to investment contracts with DPF	(6,212)	(6,241)	(6,998)	(6,614)	
Senior debt	(5,809)	(6,340)	(5,563)	(6,044)	
Subordinated debt	(6,638)	(6,821)	(6,027)	(6,342)	
Total financial liabilities held at amortized cost	(19,697)	(20,565)	(19,530)	(20,030)	
Total financial liabilities	(20,081)	(21,294)	(19,914)	(20,759)	

Recurring fair value measurements of financial assets and financial liabilities

Fair value hierarchy – current period	in USD millions, as of September 30, 2014	Level 1	Level 2	Level 3	Total
		Available-for-sale securities			
Equity securities	10,898	258	1,004	12,160	
Debt securities	686	139,891	2,711	143,288	
Total available-for-sale securities	11,583	140,150	3,715	155,448	
Fair value through profit or loss securities					
Equity securities	960	257	2,323	3,540	
Debt securities	1	6,991	196	7,188	
Total fair value through profit or loss securities	961	7,248	2,519	10,729	
Derivative assets	8	995	88	1,091	
Total	12,552	148,393	6,322	167,267	
Derivative liabilities	(1)	(337)	(46)	(384)	
Total	(1)	(337)	(46)	(384)	

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

Consolidated financial statements (unaudited) *continued*

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.

Development of assets and liabilities classified within level 3 – current period	Available-for-sale securities		Fair value through profit or loss securities		Derivative assets	Derivative liabilities
	Equity securities	Debt securities	Equity securities	Debt securities		
in USD millions						
As of January 1, 2014	1,000	2,775	2,175	219	95	(70)
Realized gains/(losses) recognized in income ¹	23	13	4	2	–	(33)
Unrealized gains/(losses) recognized in income ^{1,2}	(5)	(25)	190	9	(5)	24
Unrealized gains/(losses) recognized in other comprehensive income	87	25	–	–	–	–
Purchases	117	597	280	4	–	(1)
Settlements/sales/redemptions	(193)	(563)	(304)	(39)	–	34
Transfers into level 3	3	10	–	5	–	–
Transfers out of level 3	–	(90)	–	–	–	–
Foreign currency translation effects	(28)	(30)	(21)	(3)	(2)	1
As of September 30, 2014	1,004	2,711	2,323	196	88	(46)

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 nine months ended September 30, 2014, the Group transferred USD 90 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.

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

Table 12.3b

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	35	29	(5)	(1)	–	–
Unrealized gains/(losses) recognized in income ^{1,2}	(1)	(13)	180	1	(33)	78
Unrealized gains/(losses) recognized in other comprehensive income	49	(40)	–	–	–	–
Purchases	98	757	777	–	–	–
Settlements/sales/redemptions	(155)	(841)	(607)	(27)	–	–
Transfers into level 3	–	60	–	–	–	–
Transfers out of level 3	–	(8)	–	–	–	–
Foreign currency translation effects	5	–	4	(2)	–	–
As of September 30, 2013	998	2,735	2,020	217	137	(31)

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 nine months ended September 30, 2013, the Group transferred USD 60 million of available-for-sale debt securities out of level 2 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.

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

The Group has valued USD 542 million and USD 691 million of mortgage loans at fair value on a non-recurring basis as of September 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 2,907 million and USD 2,952 million as of September 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 3,328 million and USD 2,975 million as of September 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.

Consolidated financial statements (unaudited) *continued*

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	as of September 30, 2014		Decrease in reported fair value (in USD millions)	More favorable values (relative change)	Increase in reported fair value (in USD millions)
	Less favorable values (relative change)				
Key assumptions					
Equity levels	-20%		(665)	+20%	665
Discount rates	+20%		(68)	-20%	70
Spread rates	+20%		(58)	-20%	58
Prepayment rates	-20%		(1)	+20%	1

Table 12.4b

Sensitivity analysis of level 3 investments to changes in key assumptions – prior period	as of September 30, 2013		Decrease in reported fair value (in USD millions)	More favorable values (relative change)	Increase in reported fair value (in USD millions)
	Less favorable values (relative change)				
Key assumptions					
Equity levels	-20%		(594)	+20%	594
Discount rates	+20%		(53)	-20%	59
Spread rates	+20%		(50)	-20%	51
Prepayment rates	-20%		(2)	+20%	1

Table 12.5a

Inter-relationship analysis of level 3 investments to changes in key assumptions – current period	as of September 30, 2014		Key assumptions			Increase/decrease in reported fair value (in USD millions)
	Equity Levels	Discount Rates	Spread rates	Prepayment rates		
Scenarios						
Equity levels +10%	+10.0%	+2.1%	+2.1%	+2.1%		282
Equity levels -10%	-10.0%	-1.9%	-1.9%	-1.9%		(283)
Discount rates +10%	+0.5%	+10.0%	+15.0%	-2.0%		(73)
Discount rates -10%	-0.4%	-10.0%	-7.5%	+2.0%		62
Spread rates +10%	0.0%	+7.0%	+10.0%	+0.2%		(51)

Table 12.5b

Inter-relationship analysis of level 3 investments to changes in key assumptions – prior period	as of September 30, 2013		Key assumptions			Increase/decrease in reported fair value (in USD millions)
	Equity Levels	Discount Rates	Spread rates	Prepayment rates		
Scenarios						
Equity levels +10%	+10.0%	+1.4%	+1.3%	+1.3%		255
Equity levels -10%	-10.0%	-1.5%	-1.5%	-1.5%		(257)
Discount rates +10%	0.0%	+10.0%	+15.0%	-2.0%		(62)
Discount rates -10%	-0.1%	-10.0%	-7.5%	+2.0%		54
Spread rates +10%	+0.1%	+7.0%	+10.0%	+0.2%		(50)

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Consolidated financial statements (unaudited) *continued*

13. Segment Information

Table 13.1

Business operating profit by business segment

in USD millions, for the nine months ended September 30	General Insurance		Global Life	
	2014	2013	2014	2013
Revenues				
Direct written premiums ¹	26,867	26,527	8,606	7,998
Assumed written premiums	1,505	1,655	182	85
Gross Written Premiums	28,373	28,182	8,788	8,084
Policy fees	–	–	1,742	1,968
Gross written premiums and policy fees	28,373	28,182	10,530	10,051
Less premiums ceded to reinsurers	(4,273)	(4,711)	(515)	(520)
Net written premiums and policy fees	24,099	23,471	10,015	9,532
Net change in reserves for unearned premiums	(1,472)	(1,473)	56	(229)
Net earned premiums and policy fees	22,627	21,998	10,071	9,303
Farmers management fees and other related revenues	–	–	–	–
Net investment result on Group investments	1,759	1,757	3,765	3,414
Net investment income on Group investments	1,691	1,652	2,929	2,912
Net capital gains/(losses) and impairments on Group investments	68	105	836	502
Net investment result on unit-linked investments	–	–	6,741	8,614
Other income	559	553	916	892
Total BOP revenues	24,945	24,308	21,493	22,224
<i>of which: inter-segment revenues</i>	<i>(246)</i>	<i>(271)</i>	<i>(302)</i>	<i>(251)</i>
Benefits, losses and expenses				
Insurance benefits and losses, net ¹	15,008	14,989	7,655	6,495
Losses and loss adjustment expenses, net	15,007	14,989	–	–
Life insurance death and other benefits, net ¹	1	–	7,655	6,495
Policyholder dividends and participation in profits, net	5	3	8,059	9,629
Income tax expense/(benefit) attributable to policyholders	–	–	19	148
Underwriting and policy acquisition costs, net	4,482	4,275	2,023	2,184
Administrative and other operating expense (excl. depreciation/amortization)	2,766	2,607	2,068	1,961
Interest credited to policyholders and other interest	24	13	300	318
Restructuring provisions and other items not included in BOP	(109)	(72)	(169)	(7)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	22,176	21,814	19,955	20,727
Business operating profit (before interest, depreciation and amortization)	2,769	2,494	1,538	1,497
Depreciation and impairments of property and equipment	63	65	24	23
Amortization and impairments of intangible assets	151	143	347	301
Interest expense on debt	104	108	25	16
Business operating profit before non-controlling interests	2,450	2,178	1,142	1,157
Non-controlling interests	75	55	177	179
Business operating profit	2,376	2,124	965	978

¹ Global Life included approximately USD 963 million and USD 337 million of gross written premiums and future life policyholders' benefits for certain universal life-type contracts in the Group's Spanish operations for the nine months ended September 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
	-	-	-	-	69	81	-	-	35,543	34,607
	2,996	3,094	34	94	70	78	(89)	(153)	4,698	4,852
	2,996	3,094	34	94	140	159	(89)	(153)	40,241	39,459
	-	-	-	-	234	217	-	-	1,976	2,185
	2,996	3,094	34	94	374	376	(89)	(153)	42,217	41,643
	-	-	(39)	(41)	(13)	(27)	89	153	(4,750)	(5,145)
	2,996	3,094	(5)	53	361	349	-	-	37,466	36,498
	(37)	(15)	2	2	-	-	-	-	(1,451)	(1,714)
	2,958	3,079	(3)	55	362	349	-	-	36,015	34,784
	2,089	2,113	-	-	-	-	-	-	2,089	2,113
	55	80	272	246	527	(342)	(467)	(457)	5,910	4,698
	55	80	272	246	290	226	(467)	(457)	4,770	4,659
	-	-	-	-	237	(569)	-	-	1,140	39
	-	-	-	-	194	(27)	-	-	6,935	8,587
	78	58	626	559	24	113	(925)	(895)	1,278	1,280
	5,180	5,330	894	859	1,106	93	(1,391)	(1,352)	52,227	51,461
	(27)	(48)	(777)	(741)	(41)	(41)	1,391	1,352	-	-
	2,014	2,157	(9)	47	600	(107)	-	-	25,268	23,580
	2,014	2,157	(1)	-	44	11	-	-	17,064	17,157
	-	-	(8)	47	556	(119)	-	-	8,204	6,423
	-	-	-	-	298	(37)	-	-	8,361	9,594
	-	-	-	-	-	-	-	-	19	148
	927	965	-	-	12	5	(7)	(7)	7,439	7,422
	983	1,007	834	762	80	101	(886)	(851)	5,844	5,586
	-	-	3	3	101	71	(29)	(17)	398	387
	4	(11)	(72)	(100)	-	2	-	-	(346)	(189)
	3,928	4,118	757	712	1,091	34	(922)	(876)	46,984	46,530
	1,252	1,211	137	147	15	59	(469)	(477)	5,243	4,932
	35	36	5	8	-	-	-	-	127	133
	64	67	74	54	-	-	-	-	636	564
	-	1	742	780	8	17	(469)	(477)	411	445
	1,153	1,108	(685)	(695)	7	42	-	-	4,068	3,790
	-	-	(11)	(12)	1	1	-	-	241	223
	1,153	1,108	(674)	(683)	6	41	-	-	3,826	3,567

Consolidated financial statements (unaudited) *continued*

Table 13.2

Reconciliation of
BOP to net income
after income taxes

in USD millions, for the nine months ended September 30

	General Insurance		Global Life	
	2014	2013	2014	2013
Business operating profit	2,376	2,124	965	978
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	440	384	387	67
Net gain/(loss) on divestments of businesses	–	–	–	–
Restructuring provisions	(15)	(7)	(44)	(20)
Net income/(expense) on intercompany loans	(9)	(9)	(2)	(1)
Impairments of goodwill	–	–	(82)	–
Change in estimates of earn-out liabilities	(27)	(52)	(30)	34
Other adjustments ¹	(57)	(4)	(11)	(20)
Add back:				
Business operating profit attributable to non-controlling interests	75	55	177	179
Net income before shareholders' taxes	2,782	2,490	1,360	1,216
Income tax expense/(benefit) attributable to policyholders	–	–	19	148
Net income before income taxes	2,782	2,490	1,379	1,364
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 nine months ended September, 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 nine months ended September 30, 2013.

	Farmers		Other Operating Businesses		Non-Core Businesses		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	1,153	1,108	(674)	(683)	6	41	3,826	3,567
	12	5	(5)	120	1	(9)	836	566
	-	-	-	(1)	(13)	-	(13)	(1)
	2	(11)	(39)	-	-	-	(95)	(38)
	-	-	10	10	-	-	-	-
	-	-	-	-	-	-	(82)	-
	-	-	-	-	-	-	(58)	(19)
	2	-	(44)	(110)	-	2	(110)	(132)
	-	-	(11)	(12)	1	1	241	223
	1,170	1,102	(761)	(676)	(4)	34	4,546	4,166
	-	-	-	-	-	-	19	148
	1,170	1,102	(761)	(676)	(4)	34	4,565	4,315
							(1,356)	(1,177)
							(19)	(148)
							(1,337)	(1,029)
							3,209	3,137
							172	183
							3,037	2,954

Consolidated financial statements (unaudited) *continued*

14. Events after the balance sheet date

On October 30, 2014, the Group successfully closed the sale of its General Insurance retail business in Russia to OLMA Group. The sales price amounted to RUB 1 billion (about USD 23 million), subject to purchase price adjustments. The transaction generates a loss through net income of approximately USD 300 million, primarily due to the release of cumulative foreign currency translation losses previously recognized within Group equity.

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.

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