

# Consolidated financial statements (unaudited) 2014

Zurich Insurance Group  
Results for the three months to March 31, 2014

# Consolidated financial statements (unaudited)

## Contents

Consolidated income statements (unaudited)	3
Consolidated statements of comprehensive income (unaudited)	4
Consolidated balance sheets (unaudited)	6
Consolidated statements of cash flows (unaudited)	8
Consolidated statements of changes in equity (unaudited)	10
1. Basis of presentation	12
2. Acquisitions and divestments	14
3. Investments	15
4. Reserves for insurance contracts and reinsurers' share of reserves for insurance contracts	18
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	28
13. Segment information	32
14. Events after balance sheet date	36

## Consolidated income statements (unaudited)

in USD millions, for the three months ended March 31	Notes	2014	2013
<b>Revenues</b>			
Gross written premiums		14,738	14,871
Policy fees		732	634
Gross written premiums and policy fees		15,471	15,505
Less premiums ceded to reinsurers		(1,605)	(1,722)
Net written premiums and policy fees		13,865	13,783
Net change in reserves for unearned premiums		(1,720)	(2,075)
Net earned premiums and policy fees		12,145	11,708
Farmers management fees and other related revenues		692	702
Net investment result on Group investments	3	2,193	1,693
Net investment income on Group investments		1,535	1,573
Net capital gains/(losses) and impairments on Group investments		658	120
Net investment result on unit-linked investments		1,467	6,419
Other income		375	508
<b>Total revenues</b>		<b>16,871</b>	<b>21,030</b>
<b>Benefits, losses and expenses</b>			
Insurance benefits and losses, gross of reinsurance		9,230	8,651
Less ceded insurance benefits and losses		(664)	(654)
Insurance benefits and losses, net of reinsurance		8,566	7,997
Policyholder dividends and participation in profits, net of reinsurance	5	1,900	6,641
Underwriting and policy acquisition costs, net of reinsurance		2,567	2,381
Administrative and other operating expense		1,878	1,962
Interest expense on debt		138	144
Interest credited to policyholders and other interest		127	161
<b>Total benefits, losses and expenses</b>		<b>15,175</b>	<b>19,286</b>
<b>Net income before income taxes</b>		<b>1,696</b>	<b>1,744</b>
Income tax expense	9	(358)	(587)
attributable to policyholders	9	63	(244)
attributable to shareholders	9	(421)	(343)
<b>Net income after taxes</b>		<b>1,338</b>	<b>1,157</b>
attributable to non-controlling interests		66	95
attributable to shareholders		1,272	1,062
in USD			
Basic earnings per share		8.61	7.22
Diluted earnings per share		8.59	7.20
in CHF			
Basic earnings per share		7.69	6.72
Diluted earnings per share		7.67	6.69

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 three months ended March 31

	Net income attributable to shareholders	Net unrealized gains/(losses) on available- for-sale investments	Cash flow hedges
<b>2013</b>			
Comprehensive income for the period	1,062	(341)	(33)
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		4	(85)
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(303)	51
Reclassification to retained earnings		–	–
Deferred income tax (before foreign currency translation effects)		67	9
Foreign currency translation effects		(109)	(8)
<b>2014</b>			
Comprehensive income for the period	1,272	776	81
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		1,404	81
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(360)	(1)
Deferred income tax (before foreign currency translation effects)		(268)	(1)
Foreign currency translation effects		(1)	2

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

	Cumulative foreign currency translation adjustment	Total other comprehensive income recycled through profit or loss	Revaluation reserve	Net actuarial gains/(losses) on pension plans	Total other comprehensive income not recycled through profit or loss	Total other comprehensive income attributable to shareholders	Total comprehensive income attributable to shareholders	Comprehensive income attributable to non-controlling interests	Total comprehensive income
	(417)	(792)	(5)	(65)	(71)	(863)	199	73	272
	(415)	(496)	–	(174)	(174)	(670)			
	(2)	(255)	–	–	–	(255)			
	–	–	(5)	–	(5)	(5)			
	–	76	–	(6)	(6)	70			
	–	(117)	–	114	114	(4)			
	19	876	(1)	(41)	(42)	834	2,106	85	2,191
	16	1,502	–	(42)	(42)	1,460			
	3	(358)	–	–	–	(358)			
	–	(269)	(1)	15	14	(255)			
	–	1	–	(14)	(14)	(13)			

## Consolidated financial statements (unaudited) *continued*

### Consolidated balance sheets (unaudited)

Assets	in USD millions, as of	Notes	03/31/14	12/31/13
	<b>Investments</b>			
	Total Group investments	3	214,392	207,280
	Cash and cash equivalents		10,963	7,181
	Equity securities		13,899	13,183
	Debt securities		159,141	156,456
	Real estate held for investment		8,766	8,745
	Mortgage loans		9,603	9,798
	Other loans		11,892	11,789
	Investments in associates and joint ventures		129	129
	Investments for unit-linked contracts		135,373	134,267
	<b>Total investments</b>		<b>349,765</b>	<b>341,547</b>
	Reinsurers' share of reserves for insurance contracts	4	17,806	17,978
	Deposits made under assumed reinsurance contracts		2,620	2,645
	Deferred policy acquisition costs	6	18,816	18,724
	Deferred origination costs	6	716	724
	Accrued investment income		2,168	2,321
	Receivables and other assets		20,225	18,499
	Deferred tax assets		1,933	2,020
	Assets held for sale <sup>1</sup>		213	223
	Property and equipment		1,428	1,494
	Goodwill	7	1,859	1,852
	Other intangible assets	7	6,917	7,028
	<b>Total assets</b>		<b>424,467</b>	<b>415,053</b>

<sup>1</sup> March 31, 2014 and December 31, 2013 included assets relating to a subsidiary of Centre Group Holdings Limited amounting to USD 99 million and USD 100 million, respectively (see note 2). March 31, 2014 and December 31, 2013 included land and buildings formerly classified as real estate held for investment amounting to USD 45 million and USD 123 million, respectively. March 31, 2014 also included land and buildings formerly classified as held for own use amounting to USD 70 million.

Liabilities and equity	in USD millions, as of	Notes	03/31/14	12/31/13
<b>Liabilities</b>				
	Reserve for premium refunds		628	571
	Liabilities for investment contracts		68,645	67,113
	Deposits received under ceded reinsurance contracts		1,084	1,245
	Deferred front-end fees		5,808	5,791
	Reserves for insurance contracts	4	270,087	265,440
	Obligations to repurchase securities		1,707	1,685
	Accrued liabilities		3,093	3,023
	Other liabilities		18,850	17,904
	Deferred tax liabilities		5,154	5,110
	Liabilities held for sale <sup>1</sup>		58	49
	Senior debt	10	6,101	6,044
	Subordinated debt	10	6,356	6,342
	<b>Total liabilities</b>		<b>387,570</b>	<b>380,319</b>
<b>Equity</b>				
	Share capital		11	11
	Additional paid-in capital		6,450	6,395
	Net unrealized gains/(losses) on available-for-sale investments		2,506	1,730
	Cash flow hedges		186	106
	Cumulative foreign currency translation adjustment		(3,989)	(4,008)
	Revaluation reserve		193	195
	Retained earnings		29,313	28,075
	Shareholders' equity		34,670	32,503
	Non-controlling interests		2,227	2,231
	<b>Total equity</b>		<b>36,897</b>	<b>34,734</b>
	<b>Total liabilities and equity</b>		<b>424,467</b>	<b>415,053</b>

<sup>1</sup> March 31, 2014 and December 31, 2013 included liabilities relating to a subsidiary of Centre Group Holdings Limited amounting to USD 58 million and 49 million, respectively (see note 2).

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

## Consolidated financial statements (unaudited) *continued*

### Consolidated statements of cash flows (unaudited)

in USD millions, for the three months ended March 31	2014	2013
<b>Cash flows from operating activities</b>		
Net income attributable to shareholders	1,272	1,062
Adjustments for:		
(Income)/expense from equity method accounted investments	(4)	(1)
Depreciation, amortization and impairments of fixed and intangible assets	224	248
Other non-cash items	(6)	(156)
Underwriting activities:	3,209	7,704
<i>Reserves for insurance contracts, gross</i>	2,319	3,541
<i>Reinsurers' share of reserves for insurance contracts</i>	198	546
<i>Liabilities for investment contracts</i>	986	4,073
<i>Deferred policy acquisition costs</i>	(166)	(357)
<i>Deferred origination costs</i>	11	10
<i>Deposits made under assumed reinsurance contracts</i>	26	78
<i>Deposits received under ceded reinsurance contracts</i>	(164)	(186)
Investments:	(262)	(8,187)
<i>Net capital (gains)/losses on total investments and impairments</i>	(1,748)	(6,200)
<i>Net change in trading securities and derivatives</i>	(105)	(114)
<i>Net change in money market investments</i>	279	489
<i>Sales and maturities</i>		
<i>Debt securities</i>	28,242	26,953
<i>Equity securities</i>	18,213	17,356
<i>Other</i>	6,934	7,222
<i>Purchases</i>		
<i>Debt securities</i>	(27,319)	(30,809)
<i>Equity securities</i>	(18,421)	(16,534)
<i>Other</i>	(6,337)	(6,551)
Proceeds from sale and repurchase agreements	11	45
Movements in receivables and payables	288	(190)
Net changes in other operational assets and liabilities	(407)	(937)
Deferred income tax, net	(127)	103
<b>Net cash provided by/(used in) operating activities</b>	<b>4,199</b>	<b>(309)</b>

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



in USD millions, for the three months ended March 31	2014	2013
<b>Cash flows from investing activities</b>		
Sales of property and equipment	13	21
Purchases of property and equipment	(55)	(35)
<b>Net cash provided by/(used in) investing activities</b>	<b>(42)</b>	<b>(14)</b>
<b>Cash flows from financing activities</b>		
Dividends paid	(24)	–
Issuance of share capital	39	20
Net movement in treasury shares	7	6
Issuance of debt	–	1,024
Repayment of debt	–	(107)
<b>Net cash provided by/(used in) financing activities</b>	<b>22</b>	<b>943</b>
Foreign currency translation effects on cash and cash equivalents	66	(335)
<b>Change in cash and cash equivalents</b>	<b>4,245</b>	<b>285</b>
Cash and cash equivalents as of January 1	8,162	10,208
<b>Cash and cash equivalents as of March 31</b>	<b>12,408</b>	<b>10,493</b>
of which:		
– cash and cash equivalents – Group investments	10,963	9,230
– cash and cash equivalents – unit linked	1,445	1,263
<b>Other supplementary cash flow disclosures</b>		
Other interest income received	1,738	1,733
Dividend income received	358	269
Other interest expense paid	(174)	(208)
Income taxes paid	(14)	(186)

Cash and cash equivalents	in USD millions, as of March 31	2014	2013
	Cash and cash equivalents comprise the following:		
	Cash at bank and in hand	8,863	6,168
	Cash equivalents	3,545	4,325
	<b>Total</b>	<b>12,408</b>	<b>10,493</b>

As of March 31, 2014 and 2013, cash and cash equivalents held to meet local regulatory requirements were USD 1,890 million and USD 1,182 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 <sup>1</sup>	–	120
Share-based payment transactions	–	(78)
Treasury share transactions <sup>2</sup>	–	6
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 March 31, 2013	11	8,220
Balance as of December 31, 2013	11	6,395
Issuance of share capital <sup>1</sup>	–	101
Dividends to shareholders	–	–
Share-based payment transactions	–	(47)
Treasury share transactions <sup>2</sup>	–	–
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	–	–
<b>Balance as of March 31, 2014</b>	<b>11</b>	<b>6,450</b>

<sup>1</sup> The number of common shares issued as of March 31, 2014 was 149,268,169 (March 31, 2013: 148,779,500, December 31, 2013: 148,903,222, December 31, 2012: 148,300,123).

<sup>2</sup> The number of treasury shares deducted from equity as of March 31, 2014 amounted to 1,316,301 (March 31, 2013: 1,343,210, 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
	-	-	-	-	-	120	-	120
	-	-	-	-	-	(78)	-	(78)
	-	-	-	-	-	6	-	6
	-	-	-	-	5	5	-	5
	(341)	(33)	(417)	(5)	996	199	73	272
	-	-	-	-	1,062	1,062		
	(341)	-	-	-	-	(341)		
	-	(33)	-	-	-	(33)		
	-	-	(417)	-	-	(417)		
	-	-	-	(5)	-	(5)		
	-	-	-	-	(65)	(65)		
	-	-	-	-	-	-	-	-
	4,182	205	(3,440)	175	25,405	34,758	2,442	37,199
	1,730	106	(4,008)	195	28,075	32,503	2,231	34,734
	-	-	-	-	-	101	-	101
	-	-	-	-	-	-	(24)	(24)
	-	-	-	-	-	(47)	-	(47)
	-	-	-	-	7	7	-	7
	776	81	19	(1)	1,231	2,106	85	2,191
	-	-	-	-	1,272	1,272		
	776	-	-	-	-	776		
	-	81	-	-	-	81		
	-	-	19	-	-	19		
	-	-	-	(1)	-	(1)		
	-	-	-	-	(41)	(41)		
	-	-	-	-	-	-	(66)	(66)
	<b>2,506</b>	<b>186</b>	<b>(3,989)</b>	<b>193</b>	<b>29,313</b>	<b>34,670</b>	<b>2,227</b>	<b>36,897</b>

## Consolidated financial statements (unaudited) *continued*

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

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

### 1. Basis of presentation

#### General information

The unaudited Consolidated financial statements for the three months to March 31, 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 on Group level. In the unaudited Consolidated financial statements inter-segment revenues and transfers are eliminated.

The unaudited Consolidated financial statements for the three months to March 31, 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 85 million and USD 14 million for the three months ended March 31, 2014 and 2013, respectively. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD 5 million and USD (35) million for the three months ended March 31, 2014 and 2013, respectively.

Table 1.1

Principal exchange rates	USD per foreign currency unit	Consolidated balance sheets		Consolidated income statements and cash flows	
		03/31/14	12/31/13	03/31/14	03/31/13
		Euro	1.3776	1.3778	1.3703
Swiss franc	1.1312	1.1228	1.1201	1.0755	
British pound	1.6675	1.6568	1.6548	1.5540	

### 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.

Table 1.2		
Standard/ interpretation		Effective date
<b>New standards</b>		
IFRIC 21	Levies	January 1, 2014
<b>Amended standards</b>		
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.

Table 1.3		
Standard/ interpretation		Effective date
<b>New standards</b>		
IFRS 9	Financial Instruments <sup>1</sup>	January 1, 2018

<sup>1</sup> 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.

### 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 47 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.

## Consolidated financial statements (unaudited) *continued*

---

### 2. Acquisitions and divestments

#### Transactions in 2014

There were no transactions in the three months ended March 31, 2014.

#### 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 99 million (initially USD 100 million) and total liabilities of USD 58 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	Table 3.1		Net capital gains/ (losses) on investments and impairments		Net investment result		of which impairments	
	in USD millions, for the three months ended March 31							
	2014	2013	2014	2013	2014	2013	2014	2013
Cash and cash equivalents	9	9	–	–	9	8	–	–
Equity securities	49	57	245	252	295	310	(6)	(13)
Debt securities	1,200	1,202	266	114	1,465	1,317	4	11
Real estate held for investment	125	122	(1)	7	124	129	–	–
Mortgage loans	87	99	(7)	(29)	81	69	(7)	(29)
Other loans	128	144	59	47	187	191	–	–
Investments in associates and joint ventures	4	1	(1)	2	3	2	–	–
Derivative financial instruments <sup>1</sup>	–	–	96	(272)	96	(272)	–	–
Investment result, gross, for Group investments	1,602	1,634	658	120	2,260	1,754	(9)	(31)
Investment expenses for Group investments	(67)	(61)	–	–	(67)	(61)	–	–
<b>Investment result, net, for Group investments</b>	<b>1,535</b>	<b>1,573</b>	<b>658</b>	<b>120</b>	<b>2,193</b>	<b>1,693</b>	<b>(9)</b>	<b>(31)</b>

<sup>1</sup> Net capital gains/(losses) on derivatives attributable to cash flow hedge ineffectiveness amounted to USD 7 million and USD (36) million for the three months ended March 31, 2014 and 2013, respectively.

Rental operating expenses for real estate held for investment included in investment expenses for Group investments amounted to USD 22 million and USD 28 million for the three months ended March 31, 2014 and 2013, respectively.

## Consolidated financial statements (unaudited) *continued*

Details of Group investments by category	as of	03/31/14		12/31/13	
		USD millions	% of total	USD millions	% of total
Cash and cash equivalents		10,963	5.1	7,181	3.5
Equity securities:					
Fair value through profit or loss		3,435	1.6	3,425	1.7
Available-for-sale		10,464	4.9	9,758	4.7
<b>Total equity securities</b>		<b>13,899</b>	<b>6.5</b>	<b>13,183</b>	<b>6.4</b>
Debt securities:					
Fair value through profit or loss		7,345	3.4	7,121	3.4
Available-for-sale		147,344	68.7	144,723	69.8
Held-to-maturity		4,452	2.1	4,613	2.2
<b>Total debt securities</b>		<b>159,141</b>	<b>74.2</b>	<b>156,456</b>	<b>75.5</b>
Real estate held for investment		8,766	4.1	8,745	4.2
Mortgage loans		9,603	4.5	9,798	4.7
Other loans		11,892	5.5	11,789	5.7
Investments in associates and joint ventures		129	0.1	129	0.1
<b>Total Group investments</b>		<b>214,392</b>	<b>100.0</b>	<b>207,280</b>	<b>100.0</b>

Investments (including cash and cash equivalents) with a carrying value of USD 6,218 million and USD 5,853 million were held to meet local regulatory requirements as of March 31, 2014 and December 31, 2013, respectively.

Net unrealized gains/(losses) on Group investments included in equity	in USD millions, as of	Total	
		03/31/14	12/31/13
Equity securities: available-for-sale		1,379	1,427
Debt securities: available-for-sale		7,488	4,431
Other		207	130
<b>Gross unrealized gains/(losses) on Group investments</b>		<b>9,074</b>	<b>5,988</b>
Less amount of unrealized gains/(losses) on investments attributable to:			
Life policyholder dividends and other policyholder liabilities		(4,711)	(2,948)
Life deferred acquisition costs and present value of future profits		(642)	(460)
Deferred income taxes		(1,012)	(738)
Non-controlling interests		(18)	(6)
<b>Total<sup>1</sup></b>		<b>2,692</b>	<b>1,835</b>

<sup>1</sup> Net unrealized gains/(losses) included net gains arising on cash flow hedges of USD 186 million and USD 106 million as of March 31, 2014 and December 31, 2013, respectively.



**Securities under security lending and repurchase agreements**

As of March 31, 2014 and December 31, 2013, respectively, investments included USD 9,432 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 223 million and USD 332 million as of March 31, 2014 and December 31, 2013, respectively. Non-cash collateral received for loaned securities comprised mainly equity and debt securities, and amounted to USD 10,038 million and USD 10,474 million as of March 31, 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 March 31, 2014 and December 31, 2013, respectively, debt securities with a carrying value of USD 1,715 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 1,707 million and USD 1,685 million as of March 31, 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 March 31, 2014 and December 31, 2013, respectively, securities with a carrying value of USD 279 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 275 million and USD 678 million as of March 31, 2014 and December 31, 2013, respectively.

## Consolidated financial statements (unaudited) *continued*

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

Table 4.1

Reserves for insurance contracts	in USD millions, as of					
	Gross		Ceded		Net	
	03/31/14	12/31/13	03/31/14	12/31/13	03/31/14	12/31/13
Reserves for losses and loss adjustment expenses	68,399	68,312	(10,639)	(10,993)	57,760	57,319
Reserves for unearned premiums	19,460	17,616	(2,709)	(2,576)	16,751	15,040
Future life policyholders' benefits	85,530	84,476	(2,558)	(2,501)	82,972	81,975
Policyholders' contract deposits and other funds	21,609	20,162	(2,021)	(2,036)	19,587	18,126
Reserves for unit-linked contracts	75,089	74,873	–	–	75,089	74,873
<b>Total reserves for insurance contracts<sup>1</sup></b>	<b>270,087</b>	<b>265,440</b>	<b>(17,927)</b>	<b>(18,107)</b>	<b>252,160</b>	<b>247,333</b>

<sup>1</sup> The total reserves for insurance contracts ceded are gross of allowances for uncollectible amounts of USD 121 million and USD 129 million as of March 31, 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
As of January 1	68,312	69,986	(10,993)	(12,601)	57,319	57,385
Losses and loss adjustment expenses incurred:						
Current year	6,344	6,249	(693)	(680)	5,651	5,569
Prior years	(269)	(147)	210	130	(59)	(17)
Total incurred	6,076	6,102	(484)	(550)	5,592	5,552
Losses and loss adjustment expenses paid:						
Current year	(1,212)	(1,188)	62	50	(1,150)	(1,138)
Prior years	(4,909)	(6,161)	775	1,333	(4,134)	(4,828)
Total paid	(6,121)	(7,350)	837	1,383	(5,284)	(5,967)
Acquisitions/(divestments) and transfers <sup>1</sup>	47	–	2	–	48	–
Foreign currency translation effects	86	(1,262)	(1)	88	85	(1,174)
<b>As of March 31</b>	<b>68,399</b>	<b>67,476</b>	<b>(10,639)</b>	<b>(11,679)</b>	<b>57,760</b>	<b>55,797</b>

<sup>1</sup> The 2014 net movement includes USD 47 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 442 million during the first three months of 2014 in net reserves for losses and loss adjustment expenses is mostly driven by Global Corporate and also an increase of USD 85 million for foreign currency translation effects. Favorable reserve development arising from reserves established in prior years amounted to USD 59 million for the first three months of 2014, in part due to favorable releases in Switzerland offset by strengthening of reserves for asbestos and environmental claims in the UK.

The decrease of USD 1,588 million during the first three months of 2013 in net reserves for losses and loss adjustment expenses is mostly driven by the foreign currency translation effects of USD 1,174 million. Favorable reserve development emerging from reserves established in prior years amounted to USD 17 million. An increase in reserves in North America Commercial from prior accident years was offset by reductions in case reserves in the UK and Switzerland.

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	3,090	2,558	(164)	(150)	2,926	2,408	
Claims	(2,381)	(2,225)	126	110	(2,255)	(2,115)	
Fee income and other expenses	(1,019)	(467)	27	29	(992)	(437)	
Interest and bonuses credited to policyholders	831	507	(35)	11	797	518	
Changes in assumptions	71	(59)	(1)	3	70	(56)	
Acquisitions/(divestments) and transfers <sup>1</sup>	(99)	–	–	–	(99)	–	
(Decreases)/increases recorded in other comprehensive income	329	(8)	–	–	329	(8)	
Foreign currency translation effects	231	(2,234)	(10)	54	220	(2,180)	
<b>As of March 31</b>	<b>85,530</b>	<b>81,879</b>	<b>(2,558)</b>	<b>(2,449)</b>	<b>82,972</b>	<b>79,430</b>	

<sup>1</sup> The 2014 net movement relates to USD (52) million reclassified to reserves for unit-linked contracts and USD (47) million reclassified to reserves for losses and loss adjustment expenses (see note 1).

Policyholders' contract deposits and other funds gross	in USD millions, as of	03/31/14	12/31/13
		Universal life and other contracts	12,960
Policyholder dividends		8,649	7,329
<b>Total</b>		<b>21,609</b>	<b>20,162</b>

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	350	329	(13)	(18)	337	310	
Claims	(340)	(347)	46	64	(294)	(282)	
Fee income and other expenses	(80)	(67)	2	(2)	(79)	(69)	
Interest and bonuses credited to policyholders	287	360	(19)	(20)	269	341	
(Decrease)/increase recorded in other comprehensive income	1,209	(181)	–	–	1,209	(181)	
Foreign currency translation effects	20	(389)	–	–	20	(389)	
<b>As of March 31</b>	<b>21,609</b>	<b>19,729</b>	<b>(2,021)</b>	<b>(2,082)</b>	<b>19,587</b>	<b>17,647</b>	

## Consolidated financial statements (unaudited) *continued*

### 5. Policyholder dividends and participation in profits

Table 5		2014	2013
Policyholder dividends and participation in profits	in USD millions, for the three months ended March 31		
	Change in policyholders' contract deposits and other funds	341	380
	Change in reserves for unit-linked products	832	3,323
	Change in liabilities for investment contracts – unit-linked	656	3,095
	Change in liabilities for investment contracts – other	94	72
	Change in unit-linked liabilities related to UK capital gains tax	(24)	(230)
	<b>Total policyholder dividends and participation in profits</b>	<b>1,900</b>	<b>6,641</b>

## 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 <sup>1</sup>		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	955	986	505	607	190	198	1,649	1,791		
Amortization	(793)	(829)	(487)	(397)	(203)	(212)	(1,483)	(1,437)		
Impairments	–	–	(1)	–	–	–	(1)	–		
Amortization (charged)/ credited to other comprehensive income	–	–	(158)	55	–	–	(157)	55		
Foreign currency translation effects	13	(72)	70	(547)	–	–	84	(619)		
<b>As of March 31</b>	<b>3,970</b>	<b>3,628</b>	<b>14,536</b>	<b>14,185</b>	<b>310</b>	<b>323</b>	<b>18,816</b>	<b>18,136</b>		

<sup>1</sup> Net of eliminations from inter-segment transactions.

As of March 31, 2014, December 31, 2013 and March 31, 2013, deferred policy acquisition costs relating to non-controlling interests were USD 627 million, USD 614 million and USD 618 million, respectively.

Table 6.2

Development of deferred origination costs	in USD millions	
	2014	2013
As of January 1	724	770
Origination costs deferred	16	17
Amortization	(27)	(27)
Foreign currency translation effects	3	(41)
<b>As of March 31</b>	<b>716</b>	<b>719</b>

## 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	–	–	21	–	53	–	75
Amortization	–	(27)	(46)	–	(90)	(2)	(165)
Amortization (charged)/credited to other comprehensive income	–	(22)	–	–	–	–	(22)
Impairments	–	–	–	–	(14)	–	(14)
Foreign currency translation effects	8	–	9	–	7	–	24
<b>Net carrying value as of March 31, 2014</b>	<b>1,859</b>	<b>680</b>	<b>3,537</b>	<b>1,025</b>	<b>1,596</b>	<b>78</b>	<b>8,777</b>
Plus: accumulated amortization/impairments	318	2,246	859	–	3,154	144	6,722
<b>Gross carrying value as of March 31, 2014</b>	<b>2,177</b>	<b>2,926</b>	<b>4,397</b>	<b>1,025</b>	<b>4,750</b>	<b>222</b>	<b>15,499</b>

As of March 31, 2014, intangible assets relating to non-controlling interests were USD 156 million for present value of future profits (PVFP) of acquired insurance contracts, USD 1,643 million for distribution agreements and USD 12 million for software.

Additions of USD 21 million related to new distribution agreements entered into by General Insurance in Brazil.

A review of existing IT platforms in General Insurance in Switzerland identified software, which was not utilized as originally expected, resulting in a USD 13 million impairment.

Table 7.2

Intangible assets by segment – current period	in USD millions, as of March 31, 2014						
	Goodwill	PVFP	Distribution agreements	Attorney- in-fact relationships	Software	Other	Total
General Insurance	593	–	698	–	602	68	1,961
Global Life	447	680	2,840	–	405	10	4,382
Farmers	819	–	–	1,025	336	–	2,181
Other Operating Businesses	–	–	–	–	253	–	253
<b>Net carrying value as of March 31, 2014</b>	<b>1,859</b>	<b>680</b>	<b>3,537</b>	<b>1,025</b>	<b>1,596</b>	<b>78</b>	<b>8,777</b>

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		–	–	5	–	73	–	77
Amortization		–	(36)	(48)	–	(93)	(3)	(179)
Amortization (charged)/credited to other comprehensive income		–	15	–	–	–	–	15
Impairments		–	–	–	–	(20)	–	(20)
Foreign currency translation effects		(32)	(16)	(13)	–	(43)	(4)	(109)
<b>Net carrying value as of March 31, 2013</b>		<b>2,075</b>	<b>806</b>	<b>3,759</b>	<b>1,025</b>	<b>1,586</b>	<b>87</b>	<b>9,339</b>
Plus: accumulated amortization/impairments		130	1,990	650	–	2,766	122	5,658
<b>Gross carrying value as of March 31, 2013</b>		<b>2,205</b>	<b>2,796</b>	<b>4,409</b>	<b>1,025</b>	<b>4,352</b>	<b>209</b>	<b>14,997</b>

As of March 31, 2013, intangible assets relating to non-controlling interests were USD 189 million for present value of future profits (PVFP) of acquired insurance contracts, USD 1,763 million for distribution agreements and USD 11 million for software.

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 20 million impairment.

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
<b>Net carrying value as of December 31, 2013</b>		<b>1,852</b>	<b>729</b>	<b>3,553</b>	<b>1,025</b>	<b>1,640</b>	<b>81</b>	<b>8,880</b>

## Consolidated financial statements (unaudited) *continued*

### 8. Restructuring provisions

Table 8		2014	2013
Restructuring provisions	in USD millions		
	As of January 1	188	297
	Provisions made during the period	7	21
	Increase of provisions set up in prior years	13	1
	Provisions used during the period	(40)	(51)
	Provisions reversed during the period	(1)	(3)
	Foreign currency translation effects	–	(9)
	<b>As of March 31</b>	<b>167</b>	<b>258</b>

During the three months ended March 31, 2014, restructuring programs with estimated costs of USD 7 million for the current year impacted Global Life in Asia-Pacific and Middle East. USD 12 million related to net increases of provisions for restructuring which were initiated in prior years.

During the three months ended March 31, 2013, the restructuring programs primarily impacted the UK within Global Life with estimated costs of USD 21 million for restructuring announced in 2013. USD 2 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 three months ended March 31		2014	2013
Income tax expense – current/deferred split	Current	494	462
	Deferred	(136)	125
	<b>Total income tax expense</b>	<b>358</b>	<b>587</b>

Table 9.2

in USD millions, for the three months ended March 31		Rate	2014	Rate	2013
Expected and actual income tax expense	Net income before income taxes		1,696		1,744
	less: income tax (expense)/benefit attributable to policyholders		63		(244)
	Net income before income taxes attributable to shareholders		1,759		1,500
	Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%	387	22.0%	330
	Increase/(reduction) in taxes resulting from:				
	<i>Tax rate differential in foreign jurisdictions</i>		56		42
	<i>Tax exempt and lower taxed income</i>		(26)		(29)
	<i>Non-deductible expenses</i>		15		12
	<i>Tax losses previously unrecognized or no longer recognized</i>		(3)		6
	<i>Prior year adjustments and other</i>		(8)		(17)
	<b>Actual income tax expense attributable to shareholders</b>	<b>23.9%</b>	<b>421</b>	<b>22.9%</b>	<b>343</b>
	plus: income tax expense/(benefit) attributable to policyholders		(63)		244
	Actual income tax expense	21.1%	358	33.7%	587

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.

## Consolidated financial statements (unaudited) *continued*

### 10. Senior and subordinated debt

Table 10

Indebtedness	in USD millions, as of	Senior debt		Subordinated debt		Total	
		03/31/14	12/31/13	03/31/14	12/31/13	03/31/14	12/31/13
Operational debt <sup>1</sup>		72	72	28	28	100	100
Financial debt		6,029	5,972	6,328	6,314	12,356	12,286
<b>Total</b>		<b>6,101</b>	<b>6,044</b>	<b>6,356</b>	<b>6,342</b>	<b>12,456</b>	<b>12,386</b>

<sup>1</sup> Relates to non-recourse debt.

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

#### i) Senior debt

No senior debt instruments were issued in the three months ended March 31, 2014. The increase was primarily due to the translation effects of the U.S. dollar against the currencies in which the notes were issued.

#### ii) Subordinated debt

No subordinated debt instruments were issued in the three months ended March 31, 2014. The increase was primarily due to the translation effects of the U.S. dollar against the currencies in which the notes were issued.

## 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	03/31/14	12/31/13
Quantifiable commitments and contingencies	Remaining commitments under investment agreements	719	685
	Guarantees and letters of credit <sup>1</sup>	10,352	10,283
	Future operating lease commitments	1,418	884
	Undrawn loan commitments	6	8
	Other commitments and contingent liabilities	72	72

<sup>1</sup> Guarantee features embedded in life 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 business practices, alter ego and agency liability relating to the recapitalization of Home, which occurred in 1995 following regulatory review and approval. The plaintiffs allege that pursuant to the recapitalization and subsequent transactions, various Zurich entities took assets of Home without giving adequate consideration in return, and contend that this forced Home into liquidation. The plaintiffs further allege that the defendants should be held responsible for Home's alleged obligations under their Home policies. The trial judge designated the plaintiffs' claims for constructive fraudulent transfer for adjudication before all other claims; he subsequently ordered an initial bench trial on certain threshold elements of those fraudulent transfer claims and on certain of defendants' affirmative defenses. The trial commenced on November 1, 2010. Closing arguments were heard on February 22 and 23, 2012.

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

On March 6, 2014, the court held a hearing to consider the effect of the initial decision on the plaintiffs' remaining claims. The Court has asked the parties to submit proposed statements of decision, after which the Court will issue a decision. The Group maintains that the Fuller-Austin Case is without merit and intends to continue to defend itself vigorously.

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

## Consolidated financial statements (unaudited) *continued*

### 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.

Table 12.1		Total fair value		Total carrying value	
Fair value and carrying value of financial assets and financial liabilities	in USD millions, as of	03/31/14	12/31/13	03/31/14	12/31/13
		Available-for-sale securities			
Equity securities		10,464	9,758	10,464	9,758
Debt securities		147,344	144,723	147,344	144,723
<b>Total available-for-sale securities</b>		<b>157,808</b>	<b>154,481</b>	<b>157,808</b>	<b>154,481</b>
Fair value through profit or loss securities					
Equity securities		3,435	3,425	3,435	3,425
Debt securities		7,345	7,121	7,345	7,121
<b>Total fair value through profit or loss securities</b>		<b>10,781</b>	<b>10,546</b>	<b>10,781</b>	<b>10,546</b>
Derivative assets		1,236	1,142	1,236	1,142
Held-to-maturity debt securities		5,092	5,172	4,452	4,613
Investments in associates and joint ventures		129	129	129	129
Mortgage loans		10,190	10,326	9,603	9,798
Other loans		13,650	13,365	11,892	11,789
<b>Total financial assets</b>		<b>198,885</b>	<b>195,159</b>	<b>195,900</b>	<b>192,496</b>
Derivative liabilities		(425)	(729)	(425)	(729)
Financial liabilities held at amortized cost					
Liabilities related to investment contracts		(1,176)	(1,163)	(1,031)	(1,030)
Liabilities related to investment contracts with DPF		(6,431)	(6,241)	(6,999)	(6,614)
Senior debt		(6,380)	(6,340)	(6,101)	(6,044)
Subordinated debt		(6,968)	(6,821)	(6,356)	(6,342)
<b>Total financial liabilities held at amortized cost</b>		<b>(20,955)</b>	<b>(20,565)</b>	<b>(20,486)</b>	<b>(20,030)</b>
<b>Total financial liabilities</b>		<b>(21,380)</b>	<b>(21,294)</b>	<b>(20,911)</b>	<b>(20,759)</b>

#### Recurring fair value measurements of financial assets and financial liabilities

Table 12.2a		Level 1	Level 2	Level 3	Total
Fair value hierarchy – current period	in USD millions, as of March 31, 2014				
	Available-for-sale securities				
	Equity securities	9,030	397	1,037	10,464
	Debt securities	591	144,132	2,621	147,344
	<b>Total available-for-sale securities</b>	<b>9,621</b>	<b>144,529</b>	<b>3,658</b>	<b>157,808</b>
	Fair value through profit or loss securities				
	Equity securities	971	243	2,222	3,435
	Debt securities	1	7,134	210	7,345
	<b>Total fair value through profit or loss securities</b>	<b>972</b>	<b>7,376</b>	<b>2,432</b>	<b>10,781</b>
	Derivative assets	4	1,142	91	1,236
	<b>Total</b>	<b>10,597</b>	<b>153,047</b>	<b>6,181</b>	<b>169,825</b>
	Derivative liabilities	(5)	(354)	(66)	(425)
	<b>Total</b>	<b>(5)</b>	<b>(354)</b>	<b>(66)</b>	<b>(425)</b>

For the three months ended March 31, 2014, no material transfers between level 1 and level 2 occurred.

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
	<b>Total available-for-sale securities</b>	<b>8,542</b>	<b>142,164</b>	<b>3,774</b>	<b>154,481</b>
	Fair value through profit or loss securities				
	Equity securities	1,006	245	2,175	3,425
	Debt securities	66	6,836	219	7,121
	<b>Total fair value through profit or loss securities</b>	<b>1,072</b>	<b>7,080</b>	<b>2,394</b>	<b>10,546</b>
	Derivative assets	1	1,046	95	1,142
	<b>Total</b>	<b>9,615</b>	<b>150,291</b>	<b>6,263</b>	<b>166,168</b>
	Derivative liabilities	(22)	(637)	(70)	(729)
	<b>Total</b>	<b>(22)</b>	<b>(637)</b>	<b>(70)</b>	<b>(729)</b>

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

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		
Development of assets and liabilities classified within level 3 – current period	As of January 1, 2014	1,000	2,775	2,175	219	95	(70)
	Realized gains/(losses) recognized in income <sup>1</sup>	12	(1)	2	–	–	–
	Unrealized gains/(losses) recognized in income <sup>1,2</sup>	(1)	(8)	29	6	(4)	5
	Unrealized gains/(losses) recognized in other comprehensive income	15	23	–	–	–	–
	Purchases	42	139	105	–	–	–
	Settlements/sales/redemptions	(36)	(247)	(96)	(15)	–	–
	Transfers into level 3	3	–	–	–	–	–
	Transfers out of level 3	–	(65)	–	–	–	–
	Foreign currency translation effects	1	4	6	1	–	–
	<b>As of March 31, 2014</b>	<b>1,037</b>	<b>2,621</b>	<b>2,222</b>	<b>210</b>	<b>91</b>	<b>(66)</b>

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

<sup>2</sup> 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 three months ended March 31, 2014, the Group transferred USD 65 million of available-for-sale debt securities out of level 3. 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 <sup>1</sup>	6	8	(1)	–	–	–
Unrealized gains/(losses) recognized in income <sup>1,2</sup>	(1)	(1)	87	2	2	(21)
Unrealized gains/(losses) recognized in other comprehensive income	37	2	–	–	–	–
Purchases	65	341	206	–	–	–
Settlements/sales/redemptions	(67)	(404)	(121)	(13)	–	–
Transfers into level 3	–	58	–	–	–	–
Transfers out of level 3	(1)	–	–	–	–	–
Foreign currency translation effects	(14)	(57)	(19)	(12)	(1)	–
<b>As of March 31, 2013</b>	<b>992</b>	<b>2,736</b>	<b>1,824</b>	<b>222</b>	<b>170</b>	<b>(130)</b>

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

<sup>2</sup> 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 three months ended March 31, 2013, the Group transferred USD 58 million of available-for-sale debt securities into level 3. The transfers were mainly the result of higher price volatility and credit rating downgrades of certain asset-backed securities, resulting in a reduction of market activity in the instruments.

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

The Group has valued USD 648 million and USD 691 million of mortgage loans at fair value on a non-recurring basis as of March 31, 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 2,831 million and USD 2,958 million as of March 31, 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 3,258 million and USD 2,816 million as of March 31, 2014 and 2013, respectively. These investments are valued based on regular reports from the issuing funds, and their fair values are reviewed by a team of in-house investment professionals and may be adjusted based on their understanding of the circumstances of individual investments.

The key assumptions driving the valuation of these investments include equity levels, discount rates, credit spread rates and prepayment rates. The effect on reported fair values of using reasonably possible alternative values for each of these assumptions, while the other key assumptions remain unchanged, is disclosed in tables 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	as of March 31, 2014	Less favorable values (relative change)	Decrease in reported fair value (in USD millions)	More favorable values (relative change)	Increase in reported fair value (in USD millions)
	<b>Key assumptions</b>				
	Equity levels	-20%	(652)	+20%	652
	Discount rates	+20%	(72)	-20%	74
	Spread rates	+20%	(61)	-20%	61
	Prepayment rates	-20%	-	+20%	-

Table 12.4b					
Sensitivity analysis of level 3 investments to changes in key assumptions - prior period	as of March 31, 2013	Less favorable values (relative change)	Decrease in reported fair value (in USD millions)	More favorable values (relative change)	Increase in reported fair value (in USD millions)
	<b>Key assumptions</b>				
	Equity levels	-20%	(561)	+20%	561
	Discount rates	+20%	(66)	-20%	67
	Spread rates	+20%	(59)	-20%	60
	Prepayment rates	-20%	(2)	+20%	2

Table 12.5a						
Inter-relationship analysis of level 3 investments to changes in key assumptions - current period	as of March 31, 2014	Key assumptions				Increase / decrease in reported fair value (in USD millions)
		Equity Levels	Discount Rates	Spread rates	Prepayment rates	
	<b>Scenarios</b>					
	Equity levels +10%	+10.0%	+2.1%	+2.0%	+0.1%	317
	Equity levels -10%	-10.0%	-2.0%	-2.0%	-0.1%	(319)
	Discount rates +10%	-0.2%	+10.0%	+11.0%	-0.2%	(84)
	Discount rates -10%	+0.3%	-10.0%	-4.0%	+0.2%	74
Spread rates +10%	+0.1%	+7.0%	+10.0%	+0.2%	(61)	

Table 12.5b						
Inter-relationship analysis of level 3 investments to changes in key assumptions - prior period	as of March 31, 2013	Key assumptions				Increase / decrease in reported fair value (in USD millions)
		Equity Levels	Discount Rates	Spread rates	Prepayment rates	
	<b>Scenarios</b>					
	Equity levels +10%	+10.0%	+1.2%	+1.2%	+1.2%	274
	Equity levels -10%	-10.0%	-1.2%	-1.3%	-1.3%	(272)
	Discount rates +10%	-1.0%	+10.0%	+12.2%	-2.0%	(78)
	Discount rates -10%	+1.0%	-10.0%	-6.9%	+2.0%	66
Spread rates +10%	+0.1%	+7.0%	+10.0%	+0.2%	(55)	

## Consolidated financial statements (unaudited) *continued*

### 13. Segment information

Table 13.1

Business operating profit by business segment

in USD millions, for the three months ended March 31

	General Insurance		Global Life	
	2014	2013	2014	2013
<b>Revenues</b>				
Direct written premiums <sup>1</sup>	10,141	10,185	3,043	3,151
Assumed written premiums	493	501	109	21
Gross Written Premiums	10,634	10,686	3,152	3,172
Policy fees	–	–	635	571
Gross written premiums and policy fees	10,634	10,686	3,787	3,742
Less premiums ceded to reinsurers	(1,464)	(1,566)	(161)	(179)
Net written premiums and policy fees	9,170	9,119	3,627	3,563
Net change in reserves for unearned premiums	(1,742)	(1,911)	(24)	(215)
Net earned premiums and policy fees	7,428	7,208	3,603	3,348
Farmers management fees and other related revenues	–	–	–	–
Net investment result on Group investments	573	614	1,140	1,152
Net investment income on Group investments	546	562	964	978
Net capital gains/(losses) and impairments on Group investments	27	53	176	173
Net investment result on unit-linked investments	–	–	1,391	6,313
Other income	168	226	270	328
<b>Total BOP revenues</b>	<b>8,169</b>	<b>8,048</b>	<b>6,404</b>	<b>11,141</b>
<i>of which: inter-segment revenues</i>	<i>(81)</i>	<i>(90)</i>	<i>(98)</i>	<i>(74)</i>
<b>Benefits, losses and expenses</b>				
Insurance benefits and losses, net <sup>1</sup>	4,922	4,882	2,767	2,528
Losses and loss adjustment expenses, net	4,919	4,882	–	–
Life insurance death and other benefits, net <sup>1</sup>	3	–	2,767	2,528
Policyholder dividends and participation in profits, net	–	1	1,760	6,502
Income tax expense/(benefit) attributable to policyholders	–	–	(63)	244
Underwriting and policy acquisition costs, net	1,498	1,413	762	648
Administrative and other operating expense (excl. depreciation/amortization)	771	795	620	622
Interest credited to policyholders and other interest	5	5	108	132
Restructuring provisions and other items not included in BOP	(10)	(5)	(28)	(50)
<b>Total BOP benefits, losses and expenses (before interest, depreciation and amortization)</b>	<b>7,187</b>	<b>7,090</b>	<b>5,926</b>	<b>10,626</b>
<b>Business operating profit (before interest, depreciation and amortization)</b>	<b>982</b>	<b>958</b>	<b>478</b>	<b>515</b>
Depreciation and impairments of property and equipment	21	21	8	8
Amortization and impairments of intangible assets	52	59	91	100
Interest expense on debt	30	37	5	5
<b>Business operating profit before non-controlling interests</b>	<b>879</b>	<b>840</b>	<b>374</b>	<b>402</b>
Non-controlling interests	34	33	55	94
<b>Business operating profit</b>	<b>845</b>	<b>807</b>	<b>319</b>	<b>308</b>

<sup>1</sup> Global Life includes approximately USD 177 million and USD 120 million of gross written premiums and future life policyholders' benefits for certain universal life-type contracts in the Group's Spanish operations for the three months ended March 31, 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
	-	-	-	-	22	31	-	-	13,206	13,367
	933	971	8	33	27	26	(38)	(48)	1,533	1,504
	933	971	8	33	49	57	(38)	(48)	14,738	14,871
	-	-	-	-	97	63	-	-	732	634
	933	971	8	33	146	121	(38)	(48)	15,471	15,505
	-	-	(13)	(13)	(5)	(12)	38	48	(1,605)	(1,722)
	933	971	(5)	21	141	109	-	-	13,865	13,783
	48	53	(2)	(2)	-	-	-	-	(1,720)	(2,075)
	981	1,024	(7)	19	141	109	-	-	12,145	11,708
	692	702	-	-	-	-	-	-	692	702
	19	26	80	81	199	(103)	(143)	(155)	1,867	1,615
	19	26	80	81	70	82	(143)	(155)	1,535	1,573
	-	-	-	-	129	(184)	-	-	331	41
	-	-	-	-	76	106	-	-	1,467	6,419
	20	22	203	180	4	31	(291)	(280)	375	508
	1,711	1,773	276	280	419	144	(434)	(434)	16,545	20,951
	(9)	(16)	(237)	(241)	(9)	(13)	434	434	-	-
	631	655	(8)	17	254	(84)	-	-	8,566	7,997
	631	655	-	1	42	16	-	(1)	5,592	5,552
	-	-	(8)	16	212	(100)	-	1	2,974	2,445
	-	-	-	-	140	138	-	-	1,900	6,641
	-	-	-	-	-	-	-	-	(63)	244
	307	321	-	-	2	2	(2)	(2)	2,567	2,381
	326	345	195	206	28	21	(284)	(268)	1,656	1,719
	-	-	1	1	19	24	(6)	-	127	161
	3	(1)	1	3	-	-	-	-	(34)	(52)
	1,266	1,320	189	226	443	100	(292)	(271)	14,719	19,091
	<b>445</b>	<b>454</b>	<b>87</b>	<b>53</b>	<b>(24)</b>	<b>43</b>	<b>(143)</b>	<b>(163)</b>	<b>1,826</b>	<b>1,860</b>
	11	12	2	2	-	-	-	-	42	43
	19	21	17	19	-	-	-	-	180	199
	-	-	244	259	3	6	(143)	(163)	138	144
	415	420	(176)	(226)	(26)	37	-	-	1,466	1,473
	-	-	(4)	(5)	-	-	-	-	85	123
	<b>415</b>	<b>420</b>	<b>(172)</b>	<b>(221)</b>	<b>(26)</b>	<b>37</b>	<b>-</b>	<b>-</b>	<b>1,381</b>	<b>1,351</b>

## Consolidated financial statements (unaudited) *continued*

Table 13.2

in USD millions, for the three months ended March 31

Reconciliation of  
BOP to net income  
after income taxes

	General Insurance		Global Life	
	2014	2013	2014	2013
<b>Business operating profit</b>	<b>845</b>	<b>807</b>	<b>319</b>	<b>308</b>
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	153	94	168	(6)
Restructuring provisions	–	–	(20)	(19)
Net income/(expense) on intercompany loans	(3)	(3)	(1)	–
Change in estimates of earn-out liabilities	(6)	–	(4)	–
Other adjustments	–	(2)	(3)	(30)
Business operating profit attributable to non-controlling interests	34	33	55	94
Net income before shareholders' taxes	1,022	930	515	346
Income tax expense/(benefit) attributable to policyholders	–	–	(63)	244
<b>Net income before income taxes</b>	<b>1,022</b>	<b>930</b>	<b>452</b>	<b>589</b>
Income tax expense				
attributable to policyholders				
attributable to shareholders				
<b>Net income after taxes</b>				
attributable to non-controlling interests				
attributable to shareholders				

	Farmers		Other Operating Businesses		Non-Core Businesses		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	<b>415</b>	<b>420</b>	<b>(172)</b>	<b>(221)</b>	<b>(26)</b>	<b>37</b>	<b>1,381</b>	<b>1,351</b>
	4	4	1	(16)	–	3	326	79
	1	(1)	–	–	–	–	(19)	(19)
	–	–	4	3	–	–	–	–
	–	–	–	–	–	–	(10)	–
	2	–	(3)	–	–	–	(4)	(33)
	–	–	(4)	(5)	–	–	85	123
	421	424	(174)	(239)	(26)	40	1,759	1,500
	–	–	–	–	–	–	(63)	244
	<b>421</b>	<b>424</b>	<b>(174)</b>	<b>(239)</b>	<b>(26)</b>	<b>40</b>	<b>1,696</b>	<b>1,744</b>
							(358)	(587)
							63	(244)
							(421)	(343)
							<b>1,338</b>	<b>1,157</b>
							66	95
							1,272	1,062

## Consolidated financial statements (unaudited) *continued*

---

### 14. Events after the balance sheet date

The Annual General Meeting approved a gross dividend of CHF 17.00 per share on April 2, 2014. This gross dividend represented a 69 percent payout of 2013 earnings to shareholders, and was paid out from the capital contribution reserve within shareholders' equity during the second quarter of 2014.

Further progress was made during April 2014 on the Group's initiative for organizational alignment to reduce both complexity and costs. This will result in a loss of a maximum of approximately 800 jobs throughout the global organization. Related consultation processes are about to be closed. The changes are expected to lead to restructuring provisions of approximately USD 100 million, largely impacting 2014.

## Disclaimer & Cautionary Statement

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

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

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

Persons requiring advice should consult an independent adviser.

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

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