Consolidated financial statements (unaudited) 2015

Zurich Insurance Group
Results for the three months to March 31, 2015

Consolidated financial statements (unaudited)

Contents

Consolidated income statements

in USD millions, for the three months ended March 31	Notes	2015	Restated 2014
Revenues			
Gross written premiums		13,767	14,738
Policy fees		645	732
Gross written premiums and policy fees		14,411	15,471
Less premiums ceded to reinsurers		(1,624)	(1,605)
Net written premiums and policy fees		12,787	13,865
Net change in reserves for unearned premiums		(1,726)	(1,720)
Net earned premiums and policy fees		11,061	12,145
Farmers management fees and other related revenues		688	692
Net investment result on Group investments	3	2,133	2,194
Net investment income on Group investments		1,331	1,535
Net capital gains/(losses) and impairments on Group investments		802	658
Net investment result on unit-linked investments		8,673	1,467
Other income		352	375
Total revenues		22,907	16,872
Benefits, losses and expenses			
Insurance benefits and losses, gross of reinsurance		8,684	9,230
Less ceded insurance benefits and losses		(823)	(664)
Insurance benefits and losses, net of reinsurance		7,861	8,566
Policyholder dividends and participation in profits, net of reinsurance	5	8,898	1,900
Underwriting and policy acquisition costs, net of reinsurance		2,158	2,567
Administrative and other operating expense		1,882	1,875
Interest expense on debt		113	138
Interest credited to policyholders and other interest		115	127
Total benefits, losses and expenses		21,027	15,173
Net income before income taxes		1,880	1,699
Income tax (expense)/benefit	9	(609)	(358)
attributable to policyholders	9	(197)	63
attributable to shareholders	9	(412)	(421)
Net income after taxes		**1,271**	**1,341**
attributable to non-controlling interests		52	66
attributable to shareholders		1,219	1,275
in USD			
Basic earnings per share		8.21	8.64
Diluted earnings per share		8.14	8.61
in CHF			
Basic earnings per share		7.82	7.71
Diluted earnings per share		7.75	7.69

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

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
2014			
Comprehensive income for the period, as restated	1,275	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
2015			
Comprehensive income for the period	1,219	863	91
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		1,982	36
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(644)	78
Deferred income tax (before foreign currency translation effects)		(329)	(27)
Foreign currency translation effects		(146)	4

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
16	873	(1)	(41)	(42)	831	2,106	85	2,191
16	1,502	–	(42)	(42)	1,460			
–	(361)	–	–	–	(361)			
–	(269)	(1)	15	14	(255)			
–	1	–	(14)	(14)	(13)			
(1,455)	(501)	–	(104)	(105)	(605)	613	(139)	475
(1,455)	563	–	(313)	(313)	250			
–	(566)	–	–	–	(566)			
–	(356)	–	76	76	(280)			
–	(142)	–	132	132	(9)			

Consolidated financial statements (unaudited) *continued*

Consolidated balance sheets

Assets

in USD millions, as of	Notes	03/31/15	Restated 12/31/14	01/01/14
Investments				
Total Group investments	3	203,244	204,860	207,280
Cash and cash equivalents		11,051	7,600	7,181
Equity securities		18,535	16,099	13,183
Debt securities		148,070	153,648	156,456
Investment property		8,793	8,784	8,745
Mortgage loans		7,480	7,826	9,798
Other loans		9,246	10,834	11,789
Investments in associates and joint ventures		68	70	129
Investments for unit-linked contracts		132,856	134,416	134,267
Total investments		336,099	339,276	341,547
Reinsurers' share of reserves for insurance contracts	4	16,414	16,550	17,978
Deposits made under assumed reinsurance contracts		2,135	2,203	2,645
Deferred policy acquisition costs	6	16,862	17,750	18,724
Deferred origination costs	6	541	595	724
Accrued investment income[1]		1,728	1,912	2,321
Receivables and other assets		17,396	16,946	18,499
Deferred tax assets		1,415	1,561	2,020
Assets held for sale[2]		40	48	223
Property and equipment		1,245	1,273	1,494
Goodwill	7	1,583	1,661	1,852
Other intangible assets	7	6,172	6,754	7,028
Total assets		**401,630**	**406,529**	**415,053**

[1] Accrued investment income on unit-linked investments amounted to USD 187 million and USD 133 million as of March 31, 2015 and December 31, 2014, respectively.
[2] March 31, 2015 included land and buildings formerly classified as investment property amounting to USD 40 million. December 31, 2014 included land and buildings formerly classified as investment property amounting to USD 48 million.

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

Liabilities and equity

in USD millions, as of	Notes	03/31/15	Restated 12/31/14	01/01/14
Liabilities				
Reserve for premium refunds		565	606	571
Liabilities for investment contracts		71,289	70,813	67,113
Deposits received under ceded reinsurance contracts		971	1,022	1,245
Deferred front-end fees		5,233	5,539	5,791
Reserves for insurance contracts	4	247,077	253,719	265,440
Obligations to repurchase securities		1,657	1,451	1,685
Accrued liabilities		2,729	3,065	3,023
Other liabilities		18,699	17,230	17,904
Deferred tax liabilities		5,167	5,020	5,110
Liabilities held for sale		–	–	49
Senior debt	10	5,249	5,379	6,044
Subordinated debt	10	5,632	5,857	6,342
Total liabilities		**364,267**	**369,700**	**380,319**
Equity				
Share capital		11	11	11
Additional paid-in capital		4,895	4,843	6,395
Net unrealized gains/(losses) on available-for-sale investments		4,931	4,068	1,730
Cash flow hedges		397	306	106
Cumulative foreign currency translation adjustment		(7,768)	(6,313)	(4,008)
Revaluation reserve		218	218	195
Retained earnings		32,726	31,602	28,075
Shareholders' equity		35,410	34,735	32,503
Non-controlling interests		1,953	2,095	2,231
Total equity		**37,363**	**36,830**	**34,734**
Total liabilities and equity		**401,630**	**406,529**	**415,053**

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

in USD millions, for the three months ended March 31	**2015**	Restated 2014
Cash flows from operating activities		
Net income attributable to shareholders	1,219	1,275
Adjustments for:		
(Income)/expense from equity method accounted investments	(1)	(4)
Depreciation, amortization and impairments of fixed and intangible assets	197	224
Other non-cash items	(18)	67
Underwriting activities:	10,968	3,209
Reserves for insurance contracts, gross	*6,297*	*2,319*
Reinsurers' share of reserves for insurance contracts	*(204)*	*198*
Liabilities for investment contracts	*5,176*	*986*
Deferred policy acquisition costs	*(393)*	*(166)*
Deferred origination costs	*11*	*11*
Deposits made under assumed reinsurance contracts	*110*	*26*
Deposits received under ceded reinsurance contracts	*(29)*	*(164)*
Investments:	(8,350)	(263)
Net capital (gains)/losses on total investments and impairments	*(9,073)*	*(1,749)*
Net change in derivatives	*109*	*(134)*
Net change in money market investments	*617*	*(28)*
Sales and maturities		
Debt securities	*23,086*	*28,262*
Equity securities	*16,938*	*15,806*
Other	*2,150*	*1,921*
Purchases		
Debt securities	*(22,697)*	*(27,320)*
Equity securities	*(17,555)*	*(15,970)*
Other	*(1,925)*	*(1,051)*
Net changes in sale and repurchase agreements	279	11
Movements in receivables and payables	(148)	288
Net changes in other operational assets and liabilities	(335)	(407)
Deferred income tax, net	149	(127)
Net cash provided by/(used in) operating activities	3,959	4,275

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	2015	Restated 2014
Cash flows from investing activities		
Disposals of tangible and intangible assets	4	23
Additions to tangible and intangible assets	(126)	(141)
Net cash provided by/(used in) investing activities	(122)	(117)
Cash flows from financing activities		
Dividends paid	(2)	(24)
Issuance of share capital	33	39
Net movement in treasury shares	10	7
Net cash provided by/(used in) financing activities	41	22
Foreign currency translation effects on cash and cash equivalents	(415)	66
Change in cash and cash equivalents	3,463	4,245
Cash and cash equivalents as of January 1	8,776	8,162
Cash and cash equivalents as of March 31	**12,239**	**12,408**
of which:		
– Group investments	11,051	10,963
– Unit-linked	1,188	1,445
Other supplementary cash flow disclosures		
Other interest income received	1,391	1,738
Dividend income received	339	358
Other interest expense paid	(123)	(174)
Income taxes paid	(176)	14

Cash and cash equivalents

in USD millions, as of March 31	2015	2014
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	9,633	8,863
Cash equivalents	2,606	3,545
Total	**12,239**	**12,408**

As of March 31, 2015 and 2014, cash and cash equivalents held to meet local regulatory requirements were USD 690 million and USD 1,890 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

in USD millions	Share capital	Additional paid-in capital
Balance as of December 31, 2013	11	6,395
Issuance of share capital[1]	–	101
Dividends to shareholders	–	–
Share-based payment transactions	–	(47)
Treasury share transactions[2]	–	–
Total comprehensive income for the period, net of tax	–	–
Net income	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–
Cash flow hedges	–	–
Cumulative foreign currency translation adjustment	–	–
Revaluation reserve	–	–
Net actuarial gains/(losses) on pension plans	–	–
Net changes in capitalization of non-controlling interests	–	–
Balance as of March 31, 2014, as restated	11	6,450
Balance as of December 31, 2014, as previously reported	11	4,843
Total adjustments due to restatement	–	–
Balance as of December 31, 2014, as restated	11	4,843
Issuance of share capital[1]	–	180
Dividends to shareholders	–	–
Share-based payment transactions	–	(129)
Treasury share transactions[2]	–	2
Total comprehensive income for the period, net of tax	–	–
Net income	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–
Cash flow hedges	–	–
Cumulative foreign currency translation adjustment	–	–
Revaluation reserve	–	–
Net actuarial gains/(losses) on pension plans	–	–
Net changes in capitalization of non-controlling interests	–	–
Balance as of March 31, 2015	**11**	**4,895**

[1] The number of common shares issued as of March 31, 2015 was 150,320,897 (March 31, 2014: 149,268,169, December 31, 2014: 149,636,836, December 31, 2013: 148,903,222).
[2] The number of treasury shares deducted from equity as of March 31, 2015 amounted to 1,272,711 (March 31, 2014: 1,316,301, December 31, 2014: 1,292,220, December 31, 2013: 1,320,652).

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

Net unrealized gains/(losses) on available-for-sale investments	Cash flow hedges	Cumulative foreign currency translation adjustment	Revaluation reserve	Retained earnings	Shareholders' equity	Non-controlling interests	Total equity
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	16	(1)	1,235	2,106	85	2,191
–	–	–	–	*1,275*	*1,275*		
776	–	–	–	–	*776*		
–	*81*	–	–	–	*81*		
–	–	*16*	–	–	*16*		
–	–	–	*(1)*	–	*(1)*		
–	–	–	–	*(41)*	*(41)*		
–	–	–	–	–	–	(66)	(66)
2,506	186	(3,992)	193	29,316	34,670	2,227	36,897
4,068	306	(6,259)	218	31,548	34,735	2,095	36,830
–	–	(54)	–	54	–	–	–
4,068	306	(6,313)	218	31,602	34,735	2,095	36,830
–	–	–	–	–	180	–	180
–	–	–	–	–	–	(2)	(2)
–	–	–	–	–	(129)	–	(129)
–	–	–	–	8	10	–	10
863	91	(1,455)	–	1,114	613	(139)	475
–	–	–	–	*1,219*	*1,219*		
863	–	–	–	–	*863*		
–	*91*	–	–	–	*91*		
–	–	*(1,455)*	–	–	*(1,455)*		
–	–	–	–	–	–		
–	–	–	–	*(104)*	*(104)*		
–	–	–	–	–	–	–	–
4,931	**397**	**(7,768)**	**218**	**32,726**	**35,410**	**1,953**	**37,363**

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 mainly operates 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 three months to March 31, 2015 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 2014 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 three months to March 31, 2015 should be read in conjunction with the Group's Annual Report 2014.

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 133 million and USD 85 million for the three months ended March 31, 2015 and 2014, respectively. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD 210 million and USD 5 million for the three months ended March 31, 2015 and 2014, respectively.

Principal exchange rates

Table 1.1

USD per foreign currency unit	Consolidated balance sheets at end-of-period exchange rates		Consolidated income statements and cash flows at average exchange rates	
	03/31/15	12/31/14	**03/31/15**	03/31/14
Euro	1.0742	1.2101	1.1291	1.3703
Swiss franc	1.0302	1.0064	1.0504	1.1201
British pound	1.4856	1.5577	1.5157	1.6548
Brazilian real	0.3128	0.3763	0.3519	0.4230

Implementation of new accounting standards

No new accounting standards nor amendments to and interpretations of standards have been implemented for the financial year beginning January 1, 2015.

Standard/ Interpretation

Table 1.2

		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] Expected to result in a significant portion of financial assets currently classified as available-for-sale being classified as at fair value through profit or loss. Credit allowances for financial assets carried at amortized cost and debt securities measured at fair value, with changes in fair value recognized in other comprehensive income (OCI), are expected to increase due to the introduction of the expected credit loss methodology. Upon implementation of the revised standard IFRS 4 'Insurance Contracts', more assets might be classified as at fair value through profit or loss under the fair value option.

The Group has not early-adopted the standards shown in table 1.2

Restatements and reclassifications

The Group changed its accounting policy relating to recognition of cumulative foreign currency translation adjustments, moving from an absolute to a proportionate ownership interest method. The impact on the consolidated income statement was a profit of USD 3 million within net investment result on Group investments and administrative and other operating expense for the three months ended March 31, 2014. The impact on the consolidated balance sheet was a reclassification of losses of USD 54 million from retained earnings to cumulative foreign currency translation adjustment as of December 31, 2014.

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 76 million for the three months ended March 31, 2014 had been erroneously classified within operating activities. These have been reclassified to investing activities.

The Group transferred USD 409 million from future life policyholder benefits to policyholder contract deposits and other funds. The reclassification was prospectively recognized in 2015 as the reclassification has no impact on the Group's consolidated balance sheet or income statement. The reclassifications are set out in note 4.

Consolidated financial statements (unaudited) *continued*

2. Acquisitions and divestments

Transactions in 2015

There were no transactions in the three months to March 31, 2015.

Transactions in 2014

Acquisitions

On October 31, 2014, the Group completed the acquisition of an effective 50.0 percent stake in Mediterráneo Seguros Diversos, S.A. (MSD), a general insurance company incorporated in Spain and thus extended the existing cooperation with Banco Sabadell S.A. (Banco Sabadell) entered into during 2008. The Group obtained control over MSD by virtue of the existing shareholders' agreement between the Group and Banco Sabadell.

The initial consideration on a 50.0 percent basis amounted to USD 50 million, including an immaterial purchase price adjustment. In addition to the initial consideration, an uncapped contingent liability based on the future profitability over the term of the distribution agreement was agreed, for which the fair value was estimated to amount to USD 4 million on a 50.0 percent basis. Based on the preliminary purchase accounting, the fair value of net tangible assets acquired amounted to USD 30 million, identifiable intangible assets relating to the distribution agreement amounted to USD 79 million, net of deferred tax and the non-controlling interest amounted to USD 54 million as reflected in the Consolidated financial statements as of the acquisition date.

On May 28, 2014, the Group increased its shareholding in Deutscher Herold AG to 100 percent. This increase was the result of the non-controlling shareholder exercising its put option right over 15.17 percent of the shares and the Group exercising its call option right over 5.0 percent. The total consideration amounted to USD 366 million, of which USD 275 million for 15.17 percent was previously recorded on the balance sheet as a put option liability.

Divestments

On October 30, 2014, the Group closed the sale of its General Insurance retail business in Russia to OLMA Group. The contractually agreed sales price amounted to RUB 1 billion (approximately USD 23 million), subject to a purchase price adjustment. The Group is still in the process of finalizing any purchase price adjustment. A pre-tax loss of USD 247 million has been recorded within net gain/(loss) on divestments of businesses.

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.

Net investment result for Group investments

Table 3.1

in USD millions, for the three months ended March 31	Net investment income		Net capital gains/(losses) and impairments		Net investment result		of which impairments	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
Cash and cash equivalents	9	9	–	–	9	9	–	–
Equity securities	87	49	292	245	379	295	(34)	(6)
Debt securities	994	1,200	558	266	1,552	1,465	(2)	4
Investment property	122	125	9	(1)	131	124	–	–
Mortgage loans	64	87	(15)	(7)	49	81	(15)	(7)
Other loans	115	128	4	59	119	187	–	–
Investments in associates and joint ventures	1	4	–	–	1	4	–	–
Derivative financial instruments[1]	–	–	(46)	96	(46)	96	–	–
Investment result, gross, for Group investments	1,392	1,602	802	658	2,194	2,260	(51)	(9)
Investment expenses for Group investments[2]	(61)	(67)	–	–	(61)	(67)	–	–
Investment result, net, for Group investments	1,331	1,535	802	658	2,133	2,194	(51)	(9)

[1] Net capital gains/(losses) on derivative financial instruments attributable to cash flow hedge ineffectiveness amounted to USD (8) million and USD 7 million for the three months ended March 31, 2015 and 2014, respectively.
[2] Rental operating expenses for investment property included in investment expenses for Group investments amounted to USD 15 million and USD 22 million for the years ended March 31, 2015 and 2014, respectively.

Details of Group investments by category

Table 3.2

as of	03/31/15		12/31/14	
	USD millions	**% of total**	USD millions	% of total
Cash and cash equivalents	11,051	5.4	7,600	3.7
Equity securities:				
Fair value through profit or loss	3,629	1.8	3,619	1.8
Available-for-sale[1]	14,905	7.3	12,480	6.1
Total equity securities	18,535	9.1	16,099	7.9
Debt securities:				
Fair value through profit or loss	7,091	3.5	7,121	3.5
Available-for-sale[1]	137,415	67.6	142,557	69.6
Held-to-maturity	3,564	1.8	3,971	1.9
Total debt securities	148,070	72.9	153,648	75.0
Investment property	8,793	4.3	8,784	4.3
Mortgage loans	7,480	3.7	7,826	3.8
Other loans	9,246	4.5	10,834	5.3
Investments in associates and joint ventures	68	0.0	70	0.0
Total Group investments	**203,244**	**100.0**	**204,860**	**100.0**

[1] As of March 31, 2015, available-for-sale equity securities includes USD 1.5 billion of hybrid instruments, which were previously classified as available-for-sale debt securities.

Investments (including cash and cash equivalents) with a carrying value of USD 6,623 million and USD 6,214 million were held to meet local regulatory requirements as of March 31, 2015 and December 31, 2014, respectively.

Consolidated financial statements (unaudited) *continued*

Net unrealized gains/(losses) on Group investments included in equity

Table 3.3

in USD millions, as of	Total	
	03/31/15	12/31/14
Equity securities: available-for-sale	2,169	1,575
Debt securities: available-for-sale	14,877	12,510
Other	490	371
Gross unrealized gains/(losses) on Group investments	17,535	14,456
Less amount of unrealized gains/(losses) on investments attributable to:		
Life policyholder dividends and other policyholder liabilities	(9,258)	(7,628)
Life deferred acquisition costs and present value of future profits	(1,167)	(995)
Deferred income taxes	(1,722)	(1,421)
Non-controlling interests	(60)	(38)
Total[1]	**5,328**	**4,374**

[1] Net unrealized gains/(losses) on Group investments include net gains arising on cash flow hedges of USD 397 million and USD 306 million as of March 31, 2015 and December 31, 2014, respectively.

Securities lending, repurchase and reverse repurchase agreements

Table 3.4

in USD millions, as of	**03/31/15**	12/31/14
Securities lending agreements		
Securities lent under securities lending agreements[1]	6,458	7,668
Collateral received for securities lending	6,971	8,266
of which: Cash collateral	227	229
of which: Non cash collateral[2]	6,743	8,036
Liabilities for cash collateral received for securities lending	227	229
Repurchase agreements		
Securities sold under repurchase agreements[3]	1,658	1,455
Obligations to repurchase securities	1,657	1,451
Reverse repurchase agreements		
Securities purchased under reverse repurchase agreements[4]	339	294
Receivables under reverse repurchase agreements	335	290

[1] The Group's counterparties had the right to sell or repledge, in the absence of default, assets pledged as collateral with a fair value of USD 6,458 million and USD 7,668 million as of March 31, 2015 and December 31, 2014, respectively. The majority of these assets were debt securities.
[2] The Group had the right to sell or repledge, in the absence of default by its counterparties, securities received as collateral with a fair value of USD 6,137 million and USD 7,344 million as of March 31, 2015 and December 31, 2014, respectively.
[3] The Group's counterparties had the right to sell or repledge, in the absence of default, assets pledged as collateral with a fair value of USD 1,131 million and USD 1,307 million as of March 31, 2015 and December 31, 2014, respectively. The majority of these assets were debt securities.
[4] The Group had the right to sell or repledge, in the absence of default by its counterparties, securities received as collateral with a fair value of nil as of both March 31, 2015 and December 31, 2014.

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	
	03/31/15	12/31/14	**03/31/15**	12/31/14	**03/31/15**	12/31/14
Reserves for losses and loss adjustment expenses	62,516	64,472	(9,497)	(9,770)	53,019	54,703
Reserves for unearned premiums	18,011	16,779	(2,647)	(2,446)	15,363	14,333
Future life policyholder benefits	72,827	77,652	(2,385)	(2,441)	70,442	75,211
Policyholder contract deposits and other funds	24,285	23,415	(1,979)	(1,994)	22,305	21,421
Reserves for unit-linked contracts	69,439	71,400	–	–	69,439	71,400
Total reserves for insurance contracts[1]	**247,077**	**253,719**	**(16,508)**	**(16,650)**	**230,569**	**237,069**

[1] Total reserves for insurance contracts ceded are gross of allowances for uncollectible amounts of USD 94 million and USD 100 million as of March 31, 2015 and December 31, 2014, respectively.

Table 4.2

Development of reserves for losses and loss adjustment expenses

in USD millions	Gross		Ceded		Net	
	2015	2014	**2015**	2014	**2015**	2014
As of January 1	64,472	68,312	(9,770)	(10,993)	54,703	57,319
Losses and loss adjustment expenses incurred:						
Current year	5,693	6,344	(693)	(693)	5,000	5,651
Prior years	(129)	(269)	19	210	(111)	(59)
Total incurred	5,564	6,076	(674)	(484)	4,890	5,592
Losses and loss adjustment expenses paid:						
Current year	(978)	(1,212)	33	62	(945)	(1,150)
Prior years	(4,586)	(4,909)	709	775	(3,877)	(4,134)
Total paid	(5,564)	(6,121)	742	837	(4,822)	(5,284)
Acquisitions/(divestments) and transfers[1]	–	47	(44)	2	(44)	48
Foreign currency translation effects	(1,957)	86	249	(1)	(1,707)	85
As of March 31	**62,516**	**68,399**	**(9,497)**	**(10,639)**	**53,019**	**57,760**

[1] The 2015 net movement includes USD (44) million relating to a reinsurance agreement which transferred the benefits and risks of some of the Group's general insurance portfolio to a third party. 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 decrease of USD 1,683 million during the first three months of 2015 in net reserves for losses and loss adjustment expenses is mostly driven by a decrease of USD 1,707 million for foreign currency translation effects. Favorable reserve development arising from reserves established in prior years amounted to USD 111 million for the first three months of 2015, mainly driven by a reduction in large losses in the UK, a reduction in case reserves in motor third party liability in Switzerland and favorable claims experience in Italy. In addition, there is favorable prior year development relating to large losses in surety in North America Commercial.

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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.

Development of future life policyholder benefits

Table 4.3

in USD millions	Gross		Ceded		Net	
	2015	2014	**2015**	2014	**2015**	2014
As of January 1	77,652	84,476	(2,441)	(2,501)	75,211	81,975
Premiums	3,078	3,090	(148)	(164)	2,929	2,926
Claims	(2,316)	(2,381)	122	126	(2,194)	(2,255)
Fee income and other expenses	(724)	(1,019)	17	27	(707)	(992)
Interest and bonuses credited to policyholders	703	831	(31)	(35)	672	797
Changes in assumptions	80	71	–	(1)	80	70
Acquisitions/(divestments) and transfers[1]	(899)	(99)	–	–	(899)	(99)
Increase/(decrease) recorded in other comprehensive income	387	329	–	–	387	329
Foreign currency translation effects	(5,134)	231	95	(10)	(5,039)	220
As of March 31	**72,827**	**85,530**	**(2,385)**	**(2,558)**	**70,442**	**82,972**

[1] The 2015 net movement relates to USD (490) million transferred to Banco Santander S.A., which was previously managed on a fiduciary and ring-fenced basis, and USD (409) million reclassified to policyholder contract deposits and other funds (see note 1). 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 of the Consolidated financial statements 2014).

Policyholder contract deposits and other funds gross

Table 4.4

in USD millions, as of	**03/31/15**	12/31/14
Universal life and other contracts	12,158	12,626
Policyholder dividends	12,127	10,789
Total	**24,285**	**23,415**

Development of policyholder contract deposits and other funds

Table 4.5

in USD millions	Gross		Ceded		Net	
	2015	2014	**2015**	2014	**2015**	2014
As of January 1	23,415	20,162	(1,994)	(2,036)	21,421	18,126
Premiums	270	350	(14)	(13)	256	337
Claims	(298)	(340)	47	46	(251)	(294)
Fee income and other expenses	(102)	(80)	(1)	2	(102)	(79)
Interest and bonuses credited to policyholders	335	287	(18)	(19)	317	269
Acquisitions/(divestments) and transfers[1]	409	–	–	–	409	–
Increase/(decrease) recorded in other comprehensive income	1,807	1,209	–	–	1,807	1,209
Foreign currency translation effects	(1,551)	20	–	–	(1,551)	20
As of March 31	**24,285**	**21,609**	**(1,979)**	**(2,021)**	**22,305**	**19,587**

[1] The 2015 net movement relates to USD 409 million reclassified from future life policyholder benefits (see note 1).

5. Policyholder dividends and participation in profits

Table 5

Policyholder dividends and participation in profits

in USD millions, for the three months ended March 31	2015	2014
Change in policyholder contract deposits and other funds	294	341
Change in reserves for unit-linked products	4,169	832
Change in liabilities for investment contracts – unit-linked	4,525	656
Change in liabilities for investment contracts – other	70	94
Change in unit-linked liabilities related to UK capital gains tax	(159)	(24)
Total policyholder dividends and participation in profits	**8,898**	**1,900**

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6. Deferred policy acquisition costs and deferred origination costs

Development of deferred policy acquisition costs

Table 6.1

in USD millions	General Insurance		Global Life		Farmers		Total	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
As of January 1	3,984	3,794	13,584	14,606	182	323	17,750	18,724
Acquisition costs deferred	1,040	955	478	505	111	190	1,628	1,649
Amortization	(829)	(793)	(290)	(487)	(116)	(203)	(1,235)	(1,483)
Impairments	–	–	–	(1)	–	–	–	(1)
Amortization (charged)/ credited to other comprehensive income	–	–	(254)	(158)	–	–	(254)	(157)
Foreign currency translation effects	(115)	13	(910)	70	–	–	(1,026)	84
As of March 31	**4,078**	**3,970**	**12,607**	**14,536**	**177**	**310**	**16,862**	**18,816**

As of March 31, 2015, December 31, 2014 and March 31, 2014, deferred policy acquisition costs relating to non-controlling interests were USD 372 million, USD 422 million and USD 627 million, respectively.

Development of deferred origination costs

Table 6.2

in USD millions	**2015**	2014
As of January 1	595	724
Origination costs deferred	11	16
Amortization	(22)	(27)
Foreign currency translation effects	(43)	3
As of March 31	**541**	**716**

7. Goodwill and other intangible assets

Intangible assets – current period

Table 7.1

in USD millions	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other	Total
Gross carrying value as of January 1, 2015	**1,778**	**2,701**	**4,480**	**1,025**	**4,588**	**186**	**14,760**
Less: accumulated amortization/impairments	(117)	(2,145)	(903)	–	(3,046)	(133)	(6,344)
Net carrying value as of January 1, 2015	**1,661**	**556**	**3,577**	**1,025**	**1,543**	**53**	**8,415**
Additions and transfers	–	–	4	–	72	–	76
Amortization	–	(17)	(57)	–	(80)	(1)	(155)
Amortization charged to other comprehensive income	–	(15)	–	–	–	–	(15)
Foreign currency translation effects	(78)	(40)	(395)	–	(49)	(4)	(566)
Net carrying value as of March 31, 2015	**1,583**	**484**	**3,129**	**1,025**	**1,484**	**48**	**7,755**
Plus: accumulated amortization/impairments	108	2,052	853	–	2,983	125	6,121
Gross carrying value as of March 31, 2015	**1,691**	**2,537**	**3,982**	**1,025**	**4,467**	**173**	**13,876**

As of March 31, 2015, intangible assets relating to non-controlling interests were USD 103 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1,356 million for distribution agreements and USD 14 million for software.

Intangible assets by segment – current period

Table 7.2

in USD millions, as of March 31, 2015	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other	Total
General Insurance	486	–	856	–	592	44	1,977
Global Life	278	484	2,274	–	378	4	3,419
Farmers	819	–	–	1,025	328	–	2,173
Other Operating Businesses	–	–	–	–	186	–	186
Net carrying value as of March 31, 2015	**1,583**	**484**	**3,129**	**1,025**	**1,484**	**48**	**7,755**

Consolidated financial statements (unaudited) *continued*

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, 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 to other comprehensive income	–	(22)	–	–	–	–	(22)
Impairments	–	–	–	–	(14)	–	(14)
Foreign currency translation effects	8	–	9	–	7	–	24
Net carrying value as of March 31, 2014	**1,859**	**680**	**3,537**	**1,025**	**1,596**	**78**	**8,777**
Plus: accumulated amortization/impairments	318	2,246	859	–	3,154	144	6,722
Gross carrying value as of March 31, 2014	**2,177**	**2,926**	**4,397**	**1,025**	**4,750**	**222**	**15,499**

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.

Intangible assets by segment – prior period

Table 7.4

in USD millions, as of December 31, 2014	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other	Total
General Insurance	533	–	989	–	613	47	2,182
Global Life	309	556	2,588	–	406	6	3,865
Farmers	819	–	–	1,025	328	–	2,173
Other Operating Businesses	–	–	–	–	195	–	195
Net carrying value as of December 31, 2014	**1,661**	**556**	**3,577**	**1,025**	**1,543**	**53**	**8,415**

8. Restructuring provisions

Restructuring provisions

Table 8

in USD millions	2015	2014
As of January 1	125	188
Provisions made during the period	–	7
Increase of provisions set up in prior years	4	13
Provisions used during the period	(24)	(40)
Provisions reversed during the period	(3)	(1)
Foreign currency translation effects	(5)	–
As of March 31	**95**	**167**

During the three months ended March 31, 2015, no new restructuring programs were initiated. Net increases of provisions for restructuring which were initiated in prior years were nil.

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.

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9. Income taxes

Income tax expense – current/deferred split

Table 9.1

in USD millions, for the three months ended March 31	**2015**	2014
Current	461	494
Deferred	149	(136)
Total income tax expense/(benefit)	**609**	**358**

Expected and actual income tax expense

Table 9.2

in USD millions, for the three months ended March 31	**Rate**	**2015**	**Rate**	**2014**
Net income before income taxes		1,880		1,699
less: income tax (expense)/benefit attributable to policyholders		(197)		63
Net income before income taxes attributable to shareholders		1,683		1,762
Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%	370	22.0%	388
Increase/(reduction) in taxes resulting from:				
Tax rate differential in foreign jurisdictions		*77*		*56*
Tax exempt and lower taxed income		*(28)*		*(26)*
Non-deductible expenses		*14*		*15*
Tax losses previously unrecognized or no longer recognized		*(3)*		*(3)*
Prior year adjustments and other		*(18)*		*(8)*
Actual income tax expense attributable to shareholders	**24.5%**	**412**	**23.9%**	**421**
plus: income tax expense/(benefit) attributable to policyholders		197		(63)
Actual income tax expense	32.4%	609	21.1%	358

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

10. Senior and subordinated debt

Senior and subordinated debt

Table 10

in USD millions, as of		03/31/15	12/31/14
Senior debt			
Zurich Insurance Company Ltd	Floating rate CHF 200 million notes, due June 2016[4]	206	201
	2.25% CHF 500 million notes, due July 2017[4]	514	501
	2.375% CHF 525 million notes, due November 2018[4]	538	525
	1.50% CHF 400 million notes, due June 2019[3,4,5]	430	414
	1.125% CHF 400 million notes, due September 2019[3,4,5]	435	419
	0.625% CHF 250 million notes, due July 2020[3,4,5]	267	256
	2.875% CHF 250 million notes, due July 2021[4]	255	249
	3.375% EUR 500 million notes, due June 2022[3,4,5]	587	656
	1.875% CHF 100 million notes, due September 2023[3,4,5]	116	110
	1.750% EUR 500 million notes, due September 2024[4,5]	547	609
	1.500% CHF 150 million notes, due July 2026[3,4,5]	171	161
Zurich Finance (USA), Inc.	Euro Commercial Paper Notes, due in less than 1 year	400	400
	6.50% EUR 600 million notes, due October 2015[1,4,5]	644	726
Zurich Santander Insurance America S.L.	7.5% EUR 93 million loan, due December 2035	100	113
Other	Various debt instruments	40	40
Senior debt		5,249	5,379
Subordinated debt			
Zurich Insurance Company Ltd	4.25% CHF 700 million perpetual notes, first callable May 2016[4]	719	702
	8.25% USD 500 million perpetual capital notes, first callable January 2018[4,6]	497	497
	4.625% CHF 500 million perpetual notes, first callable May 2018[4]	511	499
	7.5% EUR 425 million notes, due July 2039, first callable July 2019[4]	454	512
	2.75% CHF 200 million perpetual capital notes, first callable September 2021[3,4,5]	215	206
	4.25% EUR 1 billion notes, due October 2043, first callable October 2023[4,6]	1,062	1,196
Zurich Finance (UK) plc	6.625% GBP 450 million perpetual notes, first callable October 2022[2,4]	662	694
Zurich Finance (USA), Inc.	4.5% EUR 269 million notes, due June 2025, first callable June 2015[3,4,5]	291	330
ZFS Finance (USA) Trust II	Series II 6.45% USD 700 million Trust Preferred Securities (ECAPS), due December 2065, first callable June 2016	680	680
ZFS Finance (USA) Trust V	Series V 6.5% USD 1 billion Trust Preferred Securities, due May 2067, first callable May 2017	501	501
Other	Various debt instruments	40	41
Subordinated debt		5,632	5,857
Total senior and subordinated debt		**10,881**	**11,236**

1 The bond is part of a qualifying cash flow hedge (100 percent).
2 The holders of these notes benefit from the Replacement Capital Covenant which states that if Series V Fixed/Floating Trust Preferred Securities, issued by ZFS Finance (USA) Trust V, are called before 2047, the Group will issue a replacement debt instrument with terms and provisions that will be as or more equity-like than the replaced notes.
3 These bonds are part of qualifying fair value hedges (100 percent).
4 Issued under the Group's Euro Medium Term Note Programme (EMTN Programme).
5 The Group applied the cash flow hedge methodology to hedge the foreign currency exposure and deferred the attributable basis spreads in shareholders' equity, whereas the fair value hedge methodology was used to hedge the interest rate exposure with changes in the fair value being recorded through the income statement.
6 These bonds are part of a qualifying net investment hedge (100 percent).

None of the debt instruments listed in table 10 were in default as of March 31, 2015 or December 31, 2014.

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11. Commitments and contingencies, legal proceedings and regulatory investigations

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

Quantifiable commitments and contingencies

Table 11

in USD millions, as of	**03/31/15**	12/31/14
Remaining commitments under investment agreements	830	871
Guarantees and letters of credit[1]	9,202	9,661
Future operating lease commitments	1,252	1,222
Undrawn loan commitments	4	3
Other commitments and contingent liabilities	546	538

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

Legal, compliance and regulatory developments

In recent years there has been an increase in the number of legislative initiatives that require information gathering and tax reporting regarding the Group's customers and their contracts, including the U.S. Foreign Account Tax Compliance Act ("FATCA") and the expected introduction of other automatic tax information exchange regimes based on the Common Reporting Standard ("CRS"). The Group's compliance activities in this area, as well as actions by local tax and law enforcement officials (including inquiries and investigations into cross-border business activities), could result in higher compliance costs, remedial actions and other related expenses for its life insurance, saving and pension business. As with the industry more generally, it is also possible that implementation of automatic tax information exchange and other developments relating to cross-border life, saving and pension business could give rise to inquiries by legal, tax and/or regulatory authorities in the future.

Legal proceedings and regulatory investigations

The Group's business is subject to extensive supervision, and the Group 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.

Following 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 final Statement of Decision for Phase 1A was filed on February 27, 2015). 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. In early 2015, certain plaintiffs committed to voluntarily dismiss their claims with prejudice in exchange for an agreement that the defendants will not pursue them for litigation costs. Requests for dismissal with prejudice of their claims were filed with the Court. The Group maintains that the Fuller-Austin Case is without merit and intends to continue to defend itself vigorously against the claims of any plaintiff that remains in the case.

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 measurement

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

Table 12.1

Fair value and carrying value of financial assets and financial liabilities

in USD millions, as of	Total fair value		Total carrying value	
	03/31/15	12/31/14	**03/31/15**	12/31/14
Available-for-sale securities				
Equity securities	14,905	12,480	14,905	12,480
Debt securities	137,415	142,557	137,415	142,557
Total available-for-sale securities	152,320	155,037	152,320	155,037
Fair value through profit or loss securities				
Equity securities	3,629	3,619	3,629	3,619
Debt securities	7,091	7,121	7,091	7,121
Total fair value through profit or loss securities	10,721	10,740	10,721	10,740
Derivative assets	1,552	1,230	1,552	1,230
Held-to-maturity debt securities	4,455	4,747	3,564	3,971
Investments in associates and joint ventures	68	70	68	70
Mortgage loans	8,118	8,452	7,480	7,826
Other loans	11,341	12,943	9,246	10,834
Total financial assets	**188,574**	**193,219**	**184,951**	**189,706**
Derivative liabilities	(656)	(429)	(656)	(429)
Financial liabilities held at amortized cost				
Liabilities related to investment contracts	(1,177)	(977)	(903)	(843)
Liabilities related to investment contracts with DPF	(5,800)	(6,195)	(6,902)	(7,006)
Senior debt	(5,466)	(5,626)	(5,249)	(5,379)
Subordinated debt	(6,312)	(6,483)	(5,632)	(5,857)
Total financial liabilities held at amortized cost	(18,755)	(19,282)	(18,686)	(19,084)
Total financial liabilities	**(19,411)**	**(19,710)**	**(19,342)**	**(19,513)**

Recurring fair value measurements of assets and liabilities

Table 12.2a

Fair value hierarchy – non unit-linked – current period

in USD millions, as of March 31, 2015	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Equity securities	12,158	1,821	927	14,905
Debt securities	133	133,521	3,761	137,415
Total available-for-sale securities	12,291	135,342	4,688	152,320
Fair value through profit or loss securities				
Equity securities	1,094	102	2,433	3,629
Debt securities	–	6,916	175	7,091
Total fair value through profit or loss securities	1,094	7,018	2,609	10,721
Derivative assets	4	1,079	468	1,552
Total	**13,389**	**143,438**	**7,765**	**164,592**
Derivative liabilities	(3)	(550)	(103)	(656)
Total	**(3)**	**(550)**	**(103)**	**(656)**

For the three months ended March 31, 2015, no material transfers between level 1 and level 2 occurred.

Fair value hierarchy – non unit-linked – prior period

Table 12.2b

in USD millions, as of December 31, 2014	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Equity securities	11,291	259	929	12,480
Debt securities	362	139,431	2,764	142,557
Total available-for-sale securities	11,653	139,691	3,693	155,037
Fair value through profit or loss securities				
Equity securities	978	223	2,417	3,619
Debt securities	1	6,934	185	7,121
Total fair value through profit or loss securities	979	7,157	2,603	10,740
Derivative assets	2	853	375	1,230
Total	**12,634**	**147,701**	**6,671**	**167,006**
Derivative liabilities	(18)	(350)	(61)	(429)
Total	**(18)**	**(350)**	**(61)**	**(429)**

For the year ended December 31, 2014, no material transfers between level 1 and 2 occurred.

Development of assets and liabilities classified within level 3 – non unit-linked – current period

Table 12.3a

in USD millions	Available-for-sale securities		Fair value through profit or loss securities			
	Equity securities	Debt securities	Equity securities	Debt securities	Derivative assets	Derivative liabilities
As of January 1, 2015	929	2,764	2,417	185	375	(61)
Realized gains/(losses) recognized in income[1]	24	3	30	–	(6)	–
Unrealized gains/(losses) recognized in income[1,2]	(5)	(20)	22	–	96	(46)
Unrealized gains/(losses) recognized in other comprehensive income	(5)	21	–	–	–	–
Purchases	47	1,509	89	–	–	–
Settlements/sales/redemptions	(49)	(320)	(126)	(4)	–	–
Transfers into level 3	–	1	–	–	–	–
Transfers out of level 3	–	(149)	–	–	–	–
Foreign currency translation effects	(14)	(48)	1	(6)	3	4
As of March 31, 2015	**927**	**3,761**	**2,433**	**175**	**468**	**(103)**

[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 three months ended March 31, 2015, the Group transferred USD 149 million of available-for-sale debt securities out of level 3. The transfers were mainly the result of 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 – non unit-linked – prior period

in USD millions	Available-for-sale securities		Fair value through profit or loss securities			
	Equity securities	Debt securities	Equity securities	Debt securities	**Derivative assets**	**Derivative liabilities**
As of January 1, 2014	1,000	2,775	2,175	219	95	(70)
Realized gains/(losses) recognized in income[1]	12	(1)	2	–	–	–
Unrealized gains/(losses) recognized in income[1,2]	(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	–	–
As of March 31, 2014	**1,037**	**2,621**	**2,222**	**210**	**91**	**(66)**

[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 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.

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

The Group has valued USD 405 million and USD 477 million of mortgage loans at fair value on a non-recurring basis as of March 31, 2015 and December 31, 2014, 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 (ABS) amounting to USD 3,936 million and USD 2,831 million as of March 31, 2015 and 2014, respectively.

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 3,360 million and USD 3,258 million for Group investments as of March 31, 2015 and 2014, 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.

Sensitivity analysis of level 3 investments to changes in key assumptions – current period

Table 12.4a

as of March 31, 2015	Less favorable values (relative change)	Decrease in reported fair value (in USD millions)	More favorable values (relative change)	Increase in reported fair value (in USD millions)
Key assumptions				
Equity levels	–20%	(672)	+20%	672
Discount rates	+20%	(86)	–20%	90
Spread rates	+20%	(70)	–20%	72
Prepayment rates	–20%	(2)	+20%	2

Sensitivity analysis of level 3 investments to changes in key assumptions – prior period

Table 12.4b

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)
Key assumptions				
Equity levels	–20%	(652)	+20%	652
Discount rates	+20%	(72)	–20%	74
Spread rates	+20%	(61)	–20%	61
Prepayment rates	–20%	–	+20%	–

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

Table 12.5a

as of March 31, 2015	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%	+1.3%	+1.3%	+1.3%	323
Equity levels –10%	–10.0%	–1.0%	–1.0%	–1.0%	(325)
Discount rates +10%	+0.2%	+10.0%	+15.0%	–2.0%	(88)
Discount rates –10%	–0.2%	–10.0%	–7.5%	+2.0%	75
Spread rates +10%	+0.2%	+7.0%	+10.0%	+0.2%	(67)

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

Table 12.5b

as of March 31, 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%	+2.0%	+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)

Consolidated financial statements (unaudited) *continued*

13. Segment Information

From January 1, 2015, the UK asbestos business, which was previously managed by General Insurance, is now managed by Non-Core Businesses and has been reclassified accordingly. This change had no impact on the Group. Comparative figures have been restated to reflect this change.

Business operating profit by segment

Table 13.1

in USD millions, for the three months ended March 31	General Insurance		Global Life	
	2015	2014	**2015**	2014
Revenues				
Direct written premiums[1]	9,621	10,141	3,007	3,043
Assumed written premiums	482	493	95	109
Gross Written Premiums	10,103	10,634	3,102	3,152
Policy fees	–	–	575	635
Gross written premiums and policy fees	10,103	10,634	3,677	3,787
Less premiums ceded to reinsurers	(1,482)	(1,464)	(159)	(161)
Net written premiums and policy fees	8,620	9,170	3,518	3,627
Net change in reserves for unearned premiums	(1,669)	(1,742)	(74)	(24)
Net earned premiums and policy fees	6,951	7,428	3,444	3,603
Farmers management fees and other related revenues	–	–	–	–
Net investment result on Group investments	537	560	1,202	1,140
Net investment income on Group investments	475	534	807	964
Net capital gains/(losses) and impairments on Group investments	61	27	395	176
Net investment result on unit-linked investments	–	–	8,450	1,391
Other income	221	168	267	270
Total BOP revenues	7,709	8,156	13,363	6,404
of which: inter-segment revenues	*(141)*	*(81)*	*(101)*	*(98)*
Benefits, losses and expenses				
Insurance benefits and losses, net[1]	4,541	4,877	2,768	2,767
Losses and loss adjustment expenses, net	4,540	4,874	–	–
Life insurance death and other benefits, net[1]	–	3	2,768	2,767
Policyholder dividends and participation in profits, net	1	–	8,653	1,760
Income tax expense/(benefit) attributable to policyholders	–	–	197	(63)
Underwriting and policy acquisition costs, net	1,406	1,498	579	762
Administrative and other operating expense (excl. depreciation/amortization)	860	769	576	620
Interest credited to policyholders and other interest	29	5	93	108
Restructuring provisions and other items not included in BOP	40	(10)	26	(28)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	6,877	7,140	12,892	5,926
Business operating profit (before interest, depreciation and amortization)	**832**	**1,017**	**471**	**478**
Depreciation and impairments of property and equipment	22	21	7	8
Amortization and impairments of intangible assets	53	52	71	91
Interest expense on debt	27	30	19	5
Business operating profit before non-controlling interests	730	913	374	374
Non-controlling interests	24	34	55	55
Business operating profit	**706**	**880**	**319**	**319**

[1] Global Life included approximately USD 427 million and USD 177 million of gross written premiums and future life policyholder benefits for certain universal life-type contracts in the Group's Spanish operations for the three months ended March 31, 2015 and 2014, respectively (see note 3 of the Consolidated financial statements 2014).

Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
–	–	–	–	16	22	–	–	12,644	13,206
539	933	14	8	24	27	(31)	(38)	1,123	1,533
539	933	14	8	41	49	(31)	(38)	13,767	14,738
–	–	–	–	70	97	–	–	645	732
539	933	14	8	111	146	(31)	(38)	14,411	15,471
–	–	(10)	(13)	(4)	(5)	31	38	(1,624)	(1,605)
539	933	3	(5)	106	141	–	–	12,787	13,865
18	48	(2)	(2)	–	–	–	–	(1,726)	(1,720)
558	981	2	(7)	106	141	–	–	11,061	12,145
688	692	–	–	–	–	–	–	688	692
13	19	113	80	182	211	(161)	(143)	1,886	1,867
13	19	113	80	84	82	(161)	(143)	1,331	1,535
–	–	–	–	98	129	–	–	555	331
–	–	–	–	223	76	–	–	8,673	1,467
17	20	221	203	15	4	(388)	(291)	352	375
1,275	1,711	335	276	526	432	(549)	(434)	22,660	16,545
(4)	*(9)*	*(293)*	*(237)*	*(9)*	*(9)*	*549*	*434*		
346	631	–	(8)	207	300	–	–	7,861	8,566
346	631	–	–	4	88	–	–	4,890	5,592
–	–	–	(8)	203	212	–	–	2,972	2,974
–	–	–	–	244	140	–	–	8,898	1,900
–	–	–	–	–	–	–	–	197	(63)
173	307	–	–	2	2	(2)	(2)	2,158	2,567
338	326	249	193	23	30	(359)	(284)	1,686	1,654
–	–	–	1	23	19	(30)	(6)	115	127
–	3	(5)	3	–	–	–	–	62	(31)
857	1,266	245	189	498	490	(391)	(292)	20,978	14,719
418	**445**	**91**	**87**	**28**	**(58)**	**(157)**	**(143)**	**1,682**	**1,826**
9	11	2	2	–	–	–	–	41	42
17	19	14	17	–	–	–	–	156	180
–	–	222	244	2	3	(157)	(143)	113	138
391	415	(148)	(176)	25	(61)	–	–	1,373	1,466
–	–	(2)	(4)	–	–	–	–	78	85
391	**415**	**(146)**	**(172)**	**25**	**(61)**	**–**	**–**	**1,295**	**1,381**

Consolidated financial statements (unaudited) *continued*

Reconciliation of BOP to net income after income taxes

Table 13.2

in USD millions, for the three months ended March 31	General Insurance		Global Life	
	2015	2014	**2015**	2014
Business operating profit	**706**	**880**	**319**	**319**
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	157	153	39	168
Restructuring provisions	–	–	(1)	(20)
Net income/(expense) on intercompany loans[1]	(5)	(3)	(4)	(1)
Change in estimates of earn-out liabilities	1	(6)	(6)	(4)
Other adjustments	45	–	37	(3)
Add back:				
Business operating profit attributable to non-controlling interests	24	34	55	55
Net income before shareholders' taxes	928	1,057	439	515
Income tax expense/(benefit) attributable to policyholders	–	–	197	(63)
Net income before income taxes	**928**	**1,057**	**636**	**452**
Income tax (expense)/benefit				
attributable to policyholders				
attributable to shareholders				
Net income after taxes				
attributable to non-controlling interests				
attributable to shareholders				

[1] The impact on Group level relates to foreign currency translation differences.

	Farmers		Other Operating Businesses		Non-Core Businesses		Total	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
	391	**415**	**(146)**	**(172)**	**25**	**(61)**	**1,295**	**1,381**
	7	4	41	1	5	–	247	327
	1	1	–	–	–	–	–	(19)
	–	–	8	4	–	–	(1)	–
	–	–	–	–	–	–	(5)	(10)
	(1)	2	(13)	–	–	–	69	(2)
	–	–	(2)	(4)	–	–	78	85
	398	421	(111)	(171)	30	(60)	1,683	1,762
	–	–	–	–	–	–	197	(63)
	398	**421**	**(111)**	**(171)**	**30**	**(60)**	**1,880**	**1,699**
							(609)	(358)
							(197)	63
							(412)	(421)
							1,271	**1,341**
							52	66
							1,219	1,275

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 1, 2015. This gross dividend represented a 71 percent payout of 2014 net income attributable to shareholders, and was paid out from the capital contribution reserve within shareholders' equity during the second quarter of 2015.

On April 16, 2015, Zurich Insurance Company Ltd issued USD 300 million of subordinated notes, which mature in October 2045, and are first callable in October 2025. The annual coupon is fixed at 4.25% until the first call date. Thereafter, the holders of the subordinated notes will receive a floating rate coupon.

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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.

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