Operating and financial review (unaudited) 2013

Zurich Insurance Group
Results for the three months to March 31, 2013

Operating and financial review

The Operating and financial review is the management analysis of the business performance of Zurich Insurance Group Ltd and its subsidiaries, collectively the Group, for the three months ended March 31, 2013, compared with the same period of 2012. It also explains key aspects of the Group's financial position as of March 31, 2013 compared with December 31, 2012.

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The information contained within the Operating and financial review is unaudited and presents the consolidated results of the Group for the three months ended March 31, 2013 and 2012 and the financial position as of March 31, 2013 and December 31, 2012, respectively. All amounts are shown in U.S. dollars and rounded to the nearest million unless otherwise stated with the consequence that the rounded amounts may not add up to the rounded total in all cases. All ratios and variances are calculated using the underlying amount rather than the rounded amount. This document should be read in conjunction with the Annual Report 2012 of the Group and with its unaudited Consolidated financial statements for the three months to March 31, 2013. Certain comparative figures have been restated, as set out in note 1 of the unaudited Consolidated financial statements.

In addition to the figures stated according to the International Financial Reporting Standards (IFRS), the Group uses business operating profit (BOP), new business measures and other performance indicators to enhance the understanding of its results. Details of these additional measures are set out in the Glossary. These should be viewed as complementary to, and not as substitutes for the IFRS figures. For a reconciliation of BOP to net income after income taxes see note 16 of the unaudited Consolidated financial statements.

Financial highlights

in USD millions, for the three months ended March 31, unless otherwise stated	2013	2012[1]	Change[2]
Business operating profit	**1,351**	1,370	(1%)
Net income attributable to shareholders	**1,062**	1,140	(7%)
General Insurance gross written premiums and policy fees	**10,686**	10,470	2%
Global Life gross written premiums, policy fees and insurance deposits	**6,716**	7,395	(9%)
Farmers Management Services management fees and other related revenues	**702**	710	(1%)
Farmers Re gross written premiums and policy fees	**971**	1,053	(8%)
General Insurance business operating profit	**807**	858	(6%)
General Insurance combined ratio	**94.9%**	94.6%	(0.3 pts)
Global Life business operating profit	**308**	290	6%
Global Life new business annual premium equivalent (APE)	**1,042**	919 [3]	13%
Global Life new business margin, after tax (as % of APE)	**31.9%**	21.4% [3]	10.5 pts
Global Life new business value, after tax	**332**	196 [3]	69%
Farmers business operating profit	**420**	370	14%
Farmers Management Services gross management result	**330**	338	(2%)
Farmers Management Services managed gross earned premium margin	**7.1%**	7.3%	(0.3 pts)
Average Group investments	**208,228**	202,892	3%
Net investment result on Group investments	**1,693**	1,774	(5%)
Net investment return on Group investments[4]	**0.8%**	0.9%	(0.1 pts)
Total return on Group investments[4]	**0.4%**	2.0%	(1.6 pts)
Shareholders' equity[5]	**34,758** [6]	34,505	1%
Swiss Solvency Test capitalization ratio[7]	**185%**	178%	7 pts
Diluted earnings per share (in CHF)	**6.69**	7.14	(6%)
Book value per share (in CHF)[5]	**223.79**	214.86	4%
Return on common shareholders' equity (ROE)	**12.3%**	14.4%	(2.2 pts)
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)	**12.0%**	13.4%	(1.4 pts)

1 March 31, 2012 and December 31, 2012 have been restated as set out in note 1 of the unaudited Consolidated financial statements.
2 Parentheses around numbers represent an adverse variance.
3 March 31, 2012 does not include any contribution from the insurance businesses acquired from Banco Santander S.A. (Zurich Santander) or from the acquisition of Zurich Insurance Malaysia Berhad (ZIMB).
4 Not annualized and calculated on average Group investments.
5 As of March 31, 2013 and December 31, 2012, respectively.
6 The Annual General Meeting approved a gross dividend of CHF 17.00 per share on April 4, 2013. This gross dividend represented a 70 percent payout of 2012 earnings to shareholders, and will be recognized through shareholders' equity during the second quarter of 2013.
7 Ratios as of January 1, 2013 and July 1, 2012, respectively, are calculated based on the Group's internal model which is subject to the review and approval of the Group's regulator, the Swiss Financial Market Supervisory Authority (FINMA).

Operating and financial review *continued*

Performance overview for the three months to March 31, 2013

The Group delivered strong results and high quality underlying performance across all core businesses while also benefiting from the absence of catastrophes. Continued focus on profitability and pricing contributed to a robust insurance performance, which largely offset a decrease in investment income resulting from persistent low investment yields.

The Group's capital and solvency positions remain strong, underpinned by its continued focus on risk management through disciplined investment and underwriting strategies. Shareholders' equity has increased by USD 253 million to USD 34.8 billion since December 31, 2012. The 2012 dividend of CHF 17.00 per share approved by shareholders at the Annual General Meeting on April 4, 2013 will be recognized through shareholders' equity in the second quarter of 2013.

Business operating profit of USD 1.4 billion remained broadly comparable to the strong level achieved in the same period of 2012, in both U.S. dollar terms and on a local currency basis.

- **General Insurance** business operating profit decreased by USD 51 million to USD 807 million, or by 6 percent in U.S. dollar terms and 5 percent on a local currency basis. The underlying loss experience continued to improve and the business benefited from the absence of significant catastrophes for the second consecutive year. The non-technical result also improved compared with the first three months of 2012 as a result of one-off gains. These improvements were offset by lower net releases of reserves established in prior years and by lower investment income.

- **Global Life** business operating profit increased by USD 18 million to USD 308 million, or by 6 percent in U.S. dollar terms and 10 percent on a local currency basis, with increases in Latin America and Europe being partly offset by reductions in North America and Asia-Pacific and Middle East (APME). The increase was mainly driven by expense savings in mature European markets, lower policy acquisition expenses and a higher contribution from Zurich Santander. These positive factors were partly offset by reductions due to persistent low investment yields and less favorable claims experience and developments in reserves established in prior years compared with the first three months of 2012.

- **Farmers** business operating profit increased by USD 51 million to USD 420 million, or by 14 percent, due to an improved underwriting result in Farmers Re. **Farmers Management Services** business operating profit of USD 338 million decreased by USD 14 million, or by 4 percent, mainly driven by lower fees from the Farmers Exchanges, which are owned by their policyholders and managed by Farmers Group, Inc., a wholly owned subsidiary of the Group. **Farmers Re** business operating profit improved by USD 64 million to USD 82 million, driven by an improved loss ratio due to lower underlying and weather-related losses compared with the same period of 2012.

Other Operating Businesses reported an improvement in its business operating result of USD 7 million, reducing the loss to USD 221 million, mainly driven by timing of charge outs from Headquarters, partly offset by increased costs of intercompany financing.

Non-Core Businesses reported a business operating profit of USD 37 million compared with USD 81 million in the same period of 2012. The reduction resulted mainly from a 2012 one-off gain in Other run-off.

Business volumes for the core business segments, comprising gross written premiums, policy fees, insurance deposits and management fees, decreased by USD 554 million to USD 19.1 billion, or by 3 percent in U.S. dollar terms and 2 percent on a local currency basis.

- **General Insurance** gross written premiums and policy fees increased by USD 216 million to USD 10.7 billion, or by 2 percent in U.S. dollar terms and 3 percent on a local currency basis. Growth compared with the same period of 2012 was achieved in all businesses except in Europe where economic and competitive pressures continued.

- **Global Life** gross written premiums, policy fees and insurance deposits decreased by USD 679 million to USD 6.7 billion, or by 9 percent in U.S. dollar terms and 8 percent on a local currency basis. Growth in gross written premiums in the higher margin protection business was more than offset by an expected reduction in insurance deposits in the UK from lower margin single premium Private Banking Client Solutions products as well as from Corporate Life & Pensions savings business, for which the first three months of 2012 included significant initial portfolio transfers that were not repeated to the same extent in the first three months of 2013.

- **Farmers Management Services** management fees and other related revenues of USD 702 million decreased by USD 8 million, or by 1 percent. An increase in management fees resulting from the 1 percent growth in gross earned premiums in the Farmers Exchanges was more than offset by a decrease in other related revenues originating from lower levels of new policies. **Farmers Re's** 8 percent decrease to USD 971 million in gross written premiums reflected changes to the quota share reinsurance agreements with the Farmers Exchanges, as well as the 1 percent drop in gross written premiums in the Farmers Exchanges.

Net income attributable to shareholders decreased by USD 78 million to USD 1.1 billion, or by 7 percent, mainly as a result of lower net capital gains after allocations to policyholders, as well as the slightly lower business operating profit. The **shareholders' effective tax rate** was 22.9 percent for the three months ended March 31, 2013, compared with 22.8 percent for the same period of 2012 and 24.7 percent for the year ended December 31, 2012.

ROE of 12.3 percent decreased by 2.2 percentage points from 14.4 percent due to the combined effect of the decrease in net income attributable to shareholders and the increase in shareholders' equity, which unlike last year is before the deduction of the 2012 dividend to be recognized in the second quarter of 2013. **BOPAT ROE** of 12.0 percent decreased by 1.4 percentage points compared with the same period of 2012. **Diluted earnings per share** decreased by 6 percent to CHF 6.69 for the three months ended March 31, 2013, compared with CHF 7.14 for the same period of 2012.

Operating and financial review *continued*

General Insurance

in USD millions, for the three months ended March 31	2013	2012	Change
Gross written premiums and policy fees	10,686	10,470	2%
Net earned premiums and policy fees	7,208	7,104	1%
Insurance benefits and losses, net of reinsurance	(4,882)	(4,793)	(2%)
Net underwriting result	367	384	(4%)
Net investment income	562	658	(15%)
Net non-technical result (excl. items not included in BOP)	(141)	(207)	32%
Business operating profit	**807**	**858**	**(6%)**
Loss ratio	67.7%	67.5%	(0.3 pts)
Expense ratio	27.2%	27.1%	(0.1 pts)
Combined ratio	**94.9%**	**94.6%**	**(0.3 pts)**

in USD millions, for the three months ended March 31	Business operating profit (BOP)		Combined ratio	
	2013	2012	2013	2012
Global Corporate	302	264	87.0%	89.6%
North America Commercial	181	268	99.3%	96.2%
Europe	269	265	93.7%	94.8%
International Markets	69	41	101.9%	98.6%
GI Global Functions including Group Reinsurance	(13)	19	nm	nm
Total	**807**	**858**	**94.9%**	**94.6%**

Business operating profit decreased by USD 51 million to USD 807 million, or by 6 percent in U.S. dollar terms and 5 percent on a local currency basis. The business delivered a strong result for the first three months despite lower investment income as a result of persistent low investment yields, as well as less favorable development of net reserves established in prior years reflected in the underwriting results. The non-technical result improved as well, reflecting the sale of own-use real estate and foreign exchange gains.

Gross written premiums and policy fees increased by USD 216 million to USD 10.7 billion, or by 2 percent in U.S. dollar terms and 3 percent on a local currency basis. Compared with the same period of 2012, growth was achieved in all businesses except Europe, where economic and competitive pressures as well as focused underwriting actions resulted in a decrease in gross written premiums. Premium growth was particularly strong in North America Commercial, and Global Corporate, where improving economic conditions and the market environment continued to support rate increases. Premiums in International Markets have increased as the business executes its growth strategy.

The **net underwriting result** decreased by USD 17 million to USD 367 million, reflected in the deterioration of 0.3 percentage points in the combined ratio to 94.9 percent. The underlying loss experience continued to improve and the business benefited from the absence of significant catastrophes for the second consecutive year. Weather-related losses were also lower compared with the same period of 2012. However, the overall loss ratio deteriorated due to a less favorable net development of reserves established in prior years. Other underwriting expenses improved as the business successfully continued to focus on achieving savings targets in mature markets while investing in targeted growth areas. The commission ratio was higher compared with the same period of 2012, as the business mix continued to shift toward higher commission products and distribution channels.

Global Corporate

in USD millions, for the three months ended March 31	2013	2012	Change
Gross written premiums and policy fees	2,896 [1]	2,693	8%
Net underwriting result	188	140	35%
Business operating profit	**302**	**264**	**14%**
Loss ratio	68.6%	70.6%	2.0 pts
Expense ratio	18.4%	19.0%	0.6 pts
Combined ratio	**87.0%**	**89.6%**	**2.6 pts**

[1] including internal business transfers from North America Commercial

Business operating profit increased by USD 38 million to USD 302 million as a result of improvement in the net underwriting result. Investment income was lower than in the same period of 2012 driven by persistent low investment yields but partially offset by hedge fund gains in the U.S. Non-technical expenses were slightly lower than in the same period of 2012.

Gross written premiums and policy fees increased by USD 202 million to USD 2.9 billion, or by 8 percent in U.S. dollar and local currency terms after internal business transfers from North America Commercial, which accounted for approximately 4 percent of the growth, following strong renewals and new business in both Europe and North America even as the focus on achieving rate increases and profitable underwriting continued. Rates increased by 4 percent across Global Corporate in the first three months of 2013, particularly driven by property, motor and workers' compensation.

The **net underwriting result** improved by USD 48 million to a profit of USD 188 million, reflected in the 2.6 percentage points improvement in the combined ratio to 87.0 percent. In the first three months of 2013, earned premium reduced due to premium adjustments relating to policies written in prior years, whereas in the same period of 2012 there was an increase. Adjusting for these effects the underlying loss ratio improved compared with the same period of 2012. Furthermore, the lower loss ratio reflected an increase in favorable development of reserves established in prior years, primarily in property, as well as a decrease in large and weather-related losses, despite losses arising from flooding in Queensland, Australia. The expense ratio improved with lower other underwriting expenses and premium taxes partially offset by higher commissions.

Operating and financial review *continued*

North America Commercial

in USD millions, for the three months ended March 31	2013	2012	Change
Gross written premiums and policy fees	2,452 [1]	2,336	5%
Net underwriting result	13	67	(81%)
Business operating profit	**181**	**268**	**(32%)**
Loss ratio	69.7%	66.3%	(3.4 pts)
Expense ratio	29.5%	29.9%	0.3 pts
Combined ratio	**99.3%**	**96.2%**	**(3.1 pts)**

[1] after internal business transfers to Global Corporate

Business operating profit decreased by USD 87 million to USD 181 million, or by 32 percent driven by both the lower underwriting result and lower investment income resulting from the impact of persistent low investment yields, partially offset by gains from hedge funds in the U.S. and lower non-technical expenses.

Gross written premiums and policy fees increased by USD 115 million to USD 2.5 billion, or by 5 percent. After the internal business transfers to Global Corporate, underlying growth was 9 percent. Premium growth was attributable to the continued improvement in economic and market conditions and the successful execution of growth initiatives targeting the construction, real estate, healthcare and technology industries as well as in special lines products and the captive and auto warranty business. Growth in property lines has been particularly strong, fueled by strategic initiatives and rate increases of almost 6 percent. The rate environment remained favorable in other major lines including workers' compensation and liability, where focus remained on profitable underwriting. Overall, rate increases of 5 percent were achieved across the portfolio during the first three month of 2013.

The **net underwriting result** decreased by USD 55 million to USD 13 million, as reflected in the deterioration of 3.1 percentage points in the combined ratio to 99.3 percent. The underlying loss ratio continued to show improvement compared with the same period of 2012 reflecting the benefits of sustained rate increases in the liability and workers' compensation lines as well as the impact of claims and underwriting initiatives. This was offset by unfavorable development of loss reserves established in prior years and by an increase in large and weather-related losses. A substantial portion of the unfavorable development was related to business that has been discontinued or where no new business has been written, following significant portfolio reshaping efforts over the last several years. The expense ratio improved by 0.3 percentage points reflecting the benefits of efficiency and savings initiatives in lower other underwriting expenses, partially offset by an increase in commissions following a shift towards higher commission business.

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Europe

in USD millions, for the three months ended March 31	2013	2012	Change
Gross written premiums and policy fees	4,085	4,267	(4%)
Net underwriting result	180	155	17%
Business operating profit	**269**	**265**	**1%**
Loss ratio	67.6%	68.5%	0.8 pts
Expense ratio	26.1%	26.4%	0.3 pts
Combined ratio	**93.7%**	**94.8%**	**1.1 pts**

Business operating profit increased by USD 3 million to USD 269 million, or by 1 percent in U.S. dollar terms and 2 percent on a local currency basis. The increase was driven by improvement in the underwriting result, offset by lower investment income driven by a reduction of the asset base and persistent low investment yields. Non-technical expenses were in line with the same period of 2012.

Gross written premiums and policy fees decreased by USD 182 million to USD 4.1 billion, or by 4 percent in both U.S. dollar terms and on a local currency basis. The lower volume was driven by continued focus on profitability through portfolio re-shaping in the challenging economic and competitive environment in most European countries. Overall, average rate increases of 2 percent were achieved in the first three months of 2013.

The **net underwriting result** improved by USD 26 million to USD 180 million, reflected in the improvement in the combined ratio of 1.1 percentage points. The loss ratio improved by 0.8 percentage points following a decrease in weather-related losses compared with the same period of 2012 and improvement in the underlying loss ratio driven by continued profit improvement measures. This was partially offset by an increase in large losses mainly in the UK and lower favorable net development on loss reserves established in prior years. The expense ratio contributed to the combined ratio improvement as a result of lower other underwriting expenses mainly arising in the UK and Spain.

Operating and financial review *continued*

International Markets

in USD millions, for the three months ended March 31	2013	2012	Change
Gross written premiums and policy fees	1,408	1,287	9%
Net underwriting result	(21)	14	nm
Business operating profit	**69**	**41**	**68%**
Loss ratio	64.3%	62.5%	(1.8 pts)
Expense ratio	37.6%	36.1%	(1.5 pts)
Combined ratio	**101.9%**	**98.6%**	**(3.4 pts)**

Business operating profit increased by USD 28 million to USD 69 million, driven mainly by non-technical income including the benefit from the sale of own-use real estate in Taiwan and gains on foreign currency in Latin America as well as slightly higher investment income, which together more than offset the deterioration in the net underwriting result.

Gross written premiums and policy fees increased by USD 121 million to USD 1.4 billion, or by 9 percent in U.S. dollar terms and 17 percent on a local currency basis. Growth in Latin America was 31 percent on a local currency basis, mainly attributable to growth in the Brazil motor lines and mass consumer business, as well as in Mexico following the launch of a new sales strategy and the opening of additional branches. Zurich Santander contributed positively as well, mainly in Mexico. Asia-Pacific achieved growth of 9 percent on a local currency basis with growth in Australia from commercial motor and Hong Kong. Premium volume in Middle East and Africa declined by 2 percent on a local currency basis as the region focused on improving profitability.

The **net underwriting result** deteriorated by USD 36 million to a loss of USD 21 million reflected in the 3.4 percentage points deterioration in the combined ratio to 101.9 percent. The loss ratio deteriorated by 1.8 percentage points to 64.3 percent reflecting the impact of the flooding in Queensland, Australia which contributed around 4.0 percentage points. The expense ratio deteriorated compared with the same period of 2012 driven by higher and partially non-recurring other underwriting expenses in Latin America as well as higher commissions across Latin America and Asia Pacific.

Global Life

in USD millions, for the three months ended March 31	2013	2012	Change
Insurance deposits	2,973	3,948	(25%)
Gross written premiums and policy fees	3,742	3,447	9%
Net investment income on Group investments	978	1,003	(2%)
Insurance benefits and losses, net of reinsurance	(2,528)	(2,547)	1%
Business operating profit	**308**	**290**	**6%**
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts (net reserves)[1]	212,416	213,982	(1%)
Assets under management[1, 2]	253,355	253,509	–
Net policyholder flows[3]	(1)	1,471	nm

[1] As of March 31, 2013 and December 31, 2012, respectively. Restated as set out in note 1 of the unaudited Consolidated financial statements.
[2] Assets under management comprise Group and unit-linked investments that are included in the Global Life balance sheet plus assets that are managed by third parties, on which fees are earned.
[3] Net policyholder flows are defined as the sum of gross written premiums and policy fees and deposits, less policyholder benefits.

	2013	2012	Change
New business – highlights[1, 2]			
New business annual premium equivalent (APE)	**1,042**	**919**	**13%**
Present value of new business premiums (PVNBP)	8,917	8,055	11%
New business margin, after tax (as % of APE)	**31.9%**	**21.4%**	**10.5 pts**
New business margin, after tax (as % of PVNBP)	3.7%	2.4%	1.3 pts
New business value, after tax	**332**	**196**	**69%**

[1] New business amounts are calculated on embedded value principles and are shown before the effect of non-controlling interests. Details are included in the New business overview for the three months to March 31, 2013.
[2] New business amounts for the first three months of 2012 do not include Zurich Santander or Zurich Insurance Malaysia Berhad (ZIMB).

Profit by source[1]

in USD millions, for the three months ended March 31	New business		Business in-force		Total	
	2013	2012	2013	2012	2013	2012
Net expense margin	(302)	(375)	338	370	36	(5)
Net risk margin			172	193	172	193
Net investment margin			105	148	105	148
Other profit margins			95	(23)	95	(23)
BOP before deferrals	(302)	(375)	710	688	407	312
Impact of acquisition deferrals	260	321	(196)	(258)	63	63
BOP before interest, depreciation and amortization	(43)	(54)	513	430	470	375
Interest, depreciation and amortization			(69)	(70)	(69)	(70)
Non-controlling interests			(94)	(15)	(94)	(15)
BOP before special operating items	(43)	(54)	350	345	308	290
Special operating items			–	–	–	–
Business operating profit	**(43)**	**(54)**	**350**	**345**	**308**	**290**

[1] See glossary for an explanation of profit by source.

Operating and financial review *continued*

Business operating profit increased by USD 18 million to USD 308 million or by 6 percent in U.S. dollar terms and 10 percent on a local currency basis with increases in Latin America and Europe partly offset by reductions in North America and APME.

The net expense margin improved overall by USD 41 million, with new business benefiting from lower acquisition expenses. In-force business benefited from targeted expense savings in mature European markets, although this positive impact was more than offset by higher multi-year commissions on the growing protection portfolio, lower fees following lower levels of business in Germany and investments supporting business growth in Latin America and APME. The net risk margin deteriorated by USD 21 million in the first three months of 2013 compared with the same period of 2012, with underlying growth in the protection business affected by less favorable claims experience and developments in reserves established in prior years. Lower yields continued to impact the investment margin, particularly in Germany, which was the largest driver of the decrease in the net investment margin of USD 43 million.

Other profit margins improved by USD 118 million, mainly driven by USD 132 million business operating profit from Zurich Santander in the first three months of 2013, after a one-off expense pertaining to Zurich and before non-controlling interests, reflecting an increase of USD 123 million compared with the same period of 2012.

Insurance deposits decreased by USD 975 million to USD 3.0 billion, or by 25 percent in U.S. dollar terms and 24 percent on a local currency basis compared with the same period of 2012. This decrease occurred predominantly in the UK with lower levels of lower margin single premium products in Private Banking Clients Solutions, following the implementation of new regulation on intermediary commission payments, and a reduction in high volume but low margin Corporate Life & Pensions savings business. In 2012 the business benefited from particularly high initial portfolio transfers that have not repeated.

Gross written premiums and policy fees increased by USD 295 million to USD 3.7 billion, or by 9 percent in U.S. dollar terms and 11 percent on a local currency basis compared with the same period of 2012, benefiting from increased volumes of protection business, particularly in Latin America. This was partially offset by lower levels of single premium business, predominantly in Switzerland.

Net reserves decreased by USD 1.6 billion, or by 1 percent in U.S. dollar terms, but increased 4 percent on a local currency basis compared with December 31, 2012. **Assets under management** remained largely flat in U.S. dollar terms and increased by 4 percent on a local currency basis compared with December 31, 2012, with market growth primarily resulting from gains in equity markets. **Net policyholder flows** decreased by USD 1.5 billion as a result of the lower inflows related to Corporate Life & Pensions savings business in the UK and Switzerland.

NBV, APE, NBM and BOP by region

in USD millions, for the three months ended March 31	New business value, after tax (NBV)		New business annual premium equivalent (APE)		New business margin, after tax (as % of APE) (NBM)		Business operating profit (BOP)	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
North America	29	23	44	30	66.6%	77.5%	44	58
Latin America[1]	96	18	289	79	33.2%	23.3%	62	20
of which:								
Zurich Santander	*71*	–	*199*	–	*35.7%*	–	*47*	*9*
Europe	131	94	536	656	24.5%	14.3%	183	173
United Kingdom	*47*	*28*	*181*	*292*	*25.9%*	*9.4%*	*47*	*41*
Germany	*6*	*12*	*84*	*123*	*7.5%*	*9.5%*	*38*	*49*
Switzerland	*26*	*10*	*111*	*79*	*23.0%*	*12.1%*	*62*	*58*
Ireland	*16*	*15*	*86*	*80*	*18.2%*	*19.2%*	*12*	*2*
Spain	*30*	*22*	*33*	*41*	*88.7%*	*54.9%*	*12*	*9*
Rest of Europe	*7*	*7*	*41*	*40*	*17.6%*	*18.1%*	*13*	*13*
Asia-Pacific and Middle East[1]	33	26	114	107	29.3%	24.6%	28	40
Other	43	34	59	47	72.0%	72.7%	(10)	(1)
Total	**332**	**196**	**1,042**	**919**	**31.9%**	**21.4%**	**308**	**290**

NBV and APE by pillar[1]

in USD millions, for the three months ended March 31	New business value (NBV), after tax		New business annual premium equivalent (APE)		New business margin, after tax (as % of APE)	
	2013	2012	**2013**	2012	**2013**	2012
Bank Distribution	110	36	327	134	33.8%	26.9%
IFA/Brokers	67	44	217	232	30.8%	19.0%
Agents	43	27	100	93	43.1%	28.6%
Total Retail pillars	**220**	**107**	**643**	**458**	**34.2%**	**23.3%**
Corporate Life & Pensions	97	76	328	355	29.6%	21.5%
Private Banking Client Solutions	2	6	54	80	4.5%	8.0%
Direct and Central Initiatives	12	7	17	25	73.2%	27.3%
Total	**332**	**196**	**1,042**	**919**	**31.9%**	**21.4%**

[1] New business amounts are calculated before the effect of non-controlling interests and do not include Zurich Santander and ZIMB for the first three months of 2012.

Global Life continued to benefit from its acquisitions and investment in organic growth in target markets, while maintaining focus on shifting its product mix from traditional savings business towards protection and unit-linked products and on leveraging its global bank distribution and corporate life relationships. Zurich Santander and Zurich Insurance Malaysia Berhad (ZIMB) new business has been included in the first three months of 2013, but was not reported in the same period of 2012.

New business value increased by USD 136 million to USD 332 million, or by 69 percent in U.S. dollar terms and 71 percent on a local currency basis. This was driven by strong performance in all regions with protection business growth, as well as the inclusion of Zurich Santander, which contributed USD 71 million, driving up new business margin and new business value.

APE increased by USD 123 million to USD 1.0 billion, or by 13 percent in U.S. dollar terms and 14 percent on a local currency basis, also benefiting from the inclusion of USD 199 million for Zurich Santander. APE increased in all regions except Europe, where the first three months of 2013 were impacted by lower levels of initial portfolio transfers for low margin Corporate Life & Pensions savings business in the UK, compared with the same period of 2012.

New business margin increased by 10.5 percentage points to 31.9 percent due primarily to product mix effects with strong growth of higher margin protection business in all regions, including Zurich Santander, and lower volumes of lower margin savings business in Europe.

Operating and financial review *continued*

In Europe, the overall increase of USD 37 million in new business value was primarily driven by Switzerland and the UK. Product mix changes and management actions in Switzerland reduced exposure to interest rate guarantees and this, together with strong volume growth in Corporate Life & Pensions business, led to higher margins and an increase in new business value of USD 16 million. New business value for Corporate Life & Pensions business also grew in the UK with a strong result from protection products more than offsetting the reduction from the lower levels of initial portfolio transfers from savings products compared with the same period of 2012. In the UK, there was a net positive impact in new business value driven by regulatory changes. Higher than normal levels of individual protection products positively impacted new business value during the transition into the newly established EU Gender Directive, which introduces unisex pricing for insurance products, partly offset by the anticipated reduction in lower margin single premium unit-linked products for Private Banking Clients Solutions as a result of the new regulation on intermediary commission payments.

In North America, the expansion strategy focused on growth in the Corporate Life & Pensions and IFA/Broker pillars, continued to gain traction. Coupled with solid performance in the Agents pillar, this led to an overall APE growth of 45 percent and an increase in new business value of 25 percent, partially impacted by a reduction in new business margin due to business mix, which remains at a high level of 66.6 percent.

In **Retail pillars**, new business value increased by USD 114 million to USD 220 million, or by 107 percent in U.S. dollar terms and 108 percent on a local currency basis. The strong growth in Retail pillars arose in all regions, with the largest part of this increase occurring in Bank Distribution due to the first time inclusion of Zurich Santander, which generated exceptionally strong protection volumes in Brazil during the first three months of 2013.

In **Corporate Life & Pensions**, new business value increased by USD 21 million to USD 97 million benefiting particularly from higher corporate protection business in Europe and in Other. The reduction in corporate savings new business APE in the UK drove the overall decrease in APE.

Farmers

Farmers business operating profit increased by USD 51 million to USD 420 million, or by 14 percent, driven by an improved underwriting result in Farmers Re compared with the same period of 2012. This increase was partially offset by lower business operating profit in Farmers Management Services primarily due to lower revenues.

Farmers Management Services

in USD millions, for the three months ended March 31	**2013**	2012	Change
Management fees and other related revenues	702	710	(1%)
Management and other related expenses	(372)	(371)	–
Gross management result	330	338	(2%)
Other net income	8	14	(41%)
Business operating profit	**338**	**352**	**(4%)**
Managed gross earned premium margin	7.1%	7.3%	(0.3%)

Business operating profit of USD 338 million decreased by USD 14 million, or by 4 percent, primarily due to a decrease in revenues.

Management fees and other related revenues of USD 702 million decreased by USD 8 million, or by 1 percent. An increase in management fees reflecting the 1 percent growth in gross earned premiums in the Farmers Exchanges, which are owned by their policyholders and managed by Farmers Group, Inc., a wholly owned subsidiary of the Group, was more than offset by a decrease in other related revenues arising from lower levels of new policies. **Management and other related expenses** of USD 372 million remained flat compared with the same period of 2012. **Other net income and expenses** of USD 8 million decreased by USD 6 million due in part to lower investment yields as well as reduced real estate investment income compared with the same period of 2012.

The **gross management result** of USD 330 million decreased by USD 8 million, while the **managed gross earned premium margin** dropped to 7.1 percent for the first three months of 2013 compared with 7.3 percent in the same period of 2012.

Operating and financial review *continued*

Farmers Re

in USD millions, for the three months ended March 31	2013	2012	Change
Gross written premiums and policy fees	971	1,053	(8%)
Net underwriting result	48	(17)	nm
Business operating profit	**82**	**18**	**nm**
Loss ratio	63.9%	70.3%	6.4 pts
Expense ratio	31.3%	31.2%	(0.1 pts)
Combined ratio	**95.3%**	**101.5%**	**6.3 pts**

Business operating profit of USD 82 million increased by USD 64 million driven mainly by a lower loss ratio as a result of improving underlying and weather-related losses. This was partially offset by a decrease in the gross written premiums and policy fees reflecting the changes to the quota share reinsurance agreements with the Farmers Exchanges.

Gross written premiums and policy fees decreased by USD 82 million, or by 8 percent, to USD 971 million mainly due to a decrease in the quota share reinsurance agreements, as well as the 1 percent drop in gross written premiums in the Farmers Exchanges. The changes were a reduction in the All Lines quota share agreement with the Farmers Exchanges (All Lines agreement) from 20.0 percent to 18.5 percent effective December 31, 2012 and a reduction in the Auto Physical Damage quota share reinsurance agreement with the Farmers Exchanges (APD agreement) from USD 1.0 billion per calendar year to USD 925 million per calendar year effective January 1, 2013.

The **net underwriting result** improved by USD 65 million to a profit of USD 48 million. This improvement, which was offset in part by the decreased participation rate in the All Lines agreement and the APD agreement, was mainly due to lower assumed losses from the Farmers Exchanges in 2013.

The **loss ratio** decreased by 6.4 percentage points compared with the first three months of 2012. The improvement was mainly driven by a reduced underlying loss ratio reflecting the restored profitability of the Farmers Exchanges and favorable weather-related losses when compared with the same period in 2012. The **expense ratio** remained broadly flat.

Farmers Exchanges

Farmers Exchanges

in USD millions, for the three months ended March 31	2013	2012	Change
Gross written premiums	4,673	4,699	(1%)
Gross earned premiums	4,684	4,621	1%

Gross written premiums in the Farmers Exchanges decreased by USD 26 million to USD 4.7 billion, or by 1 percent. This decrease was predominantly due to decreases in non-standard auto and business insurance as a result of the ongoing rate and underwriting actions started in 2012 to improve profitability.

Gross earned premiums in the Farmers Exchanges increased by USD 63 million to USD 4.7 billion, or by 1 percent, reflecting increases in standard auto, home, and specialty. Partially offsetting these gains were decreases in non-standard auto and business insurance resulting from the ongoing rate and underwriting actions taken in 2012 to improve profitability, which have slowed growth but improved profitability in the Farmers Exchanges.

Other Operating Businesses

in USD millions, for the three months ended March 31	2013	2012	Change
Business operating profit:			
Holding and financing	(219)	(202)	(8%)
Headquarters	(3)	(26)	89%
Total business operating profit	**(221)**	**(229)**	**3%**

Other operating businesses loss decreased by USD 7 million to USD 221 million during the first three months of 2013. **Holding and financing** business operating loss increased by USD 16 million to USD 219 million, primarily driven by an increase in the net cost of intercompany financing. **Headquarters** business operating loss reduced to USD 3 million, some USD 24 million lower than in the same period of 2012, mainly due to timing of charge outs at Headquarters and a reduction in media and brand spend.

Non-Core Businesses

in USD millions, for the three months ended March 31	2013	2012	Change
Business operating profit:			
Centrally managed businesses	3	(14)	nm
Other run-off	34	96	(64%)
Total business operating profit	**37**	**81**	**(54%)**

Centrally managed businesses, which comprise run-off portfolios that are managed with the intention of pro-actively reducing risk and release capital, reported a business operating profit of USD 3 million compared with a loss of USD 14 million in the same period of 2012. This improvement was mainly driven by recognizing profit from the reinsurance of a UK general insurance run-off portfolio.

Other run-off, which largely comprises U.S. life insurance and annuity portfolios, reported a business operating profit of USD 34 million. The USD 61 million reduction compared with the same period of 2012 was driven mainly by a one-off gain in 2012 from the reassessment of liabilities on certain life run-off policies.

Operating and financial review *continued*

Investment position and performance

Details of total investments by category

in USD millions, as of	Group investments		Unit-linked investments	
	03/31/13	12/31/12[1]	**03/31/13**	12/31/12[1]
Cash and cash equivalents	9,230	9,098	1,263	1,110
Equity securities:	11,768	12,341	101,182	99,478
Common stocks, including equity unit trusts	9,030	9,388	80,134	77,996
Unit trusts (debt securities, real estate and short-term investments)	2,222	2,418	21,048	21,482
Common stock portfolios backing participating with-profit policyholder contracts	516	534	–	–
Debt securities	154,805	155,594	11,860	11,646
Real estate held for investment	8,176	8,561	3,130	3,401
Mortgage loans	9,930	10,519	–	–
Other loans	12,882	13,385	7,407	8,279
Investments in associates and joint ventures	84	85	–	–
Total	**206,874**	**209,582**	**124,842**	**123,913**

[1] Restated as set out in note 1 of the Consolidated financial statements.

Group investments have decreased by USD 2.7 billion to USD 206.9 billion, or by 1 percent in U.S. dollar terms since December 31, 2012 mainly due to the dollar strengthening against the main European currencies. On a local currency basis, total Group investments have increased by USD 2.5 billion, or by 1 percent due mainly to net positive cash-flows invested in debt securities.

Unit-linked investments increased by USD 928 million to USD 124.8 billion, or by 1 percent in U.S. dollar terms and 7 percent on a local currency basis, mostly benefiting from favorable equity market movements on investments in Europe.

The Group's asset and liability management focused strategy remains disciplined. The Group continues to reduce risks which it believes are not rewarded, such as foreign currency, interest rate and concentration risks. The quality of the Group's investment portfolio remains high with investment grade securities comprising 98 percent of the Group's debt securities.

Performance of Group investments

in USD millions, for the three months ended March 31	2013	2012	Change
Net investment income[1]	1,573	1,729	(9%)
Net capital gains on investments and impairments	120	45	nm
of which: net capital gains/(losses) on investments and impairments attributable to shareholders	(70)	18	nm
Net investment result on Group investments[1]	1,693	1,774	(5%)
Net investment return on Group investments[2]	**0.8%**	**0.9%**	**(0.1 pts)**
Movements in net unrealized gains/(losses) on investments included in total equity	(879)	2,359	nm
Total investment result on Group investments[1]	**814**	**4,133**	**(80%)**
Average Group investments	208,228	202,892	3%
Total return on Group investments[2]	**0.4%**	**2.0%**	**(1.6 pts)**

[1] After deducting investment expenses of USD 61 million and USD 60 million for the three months ended March 31, 2013 and 2012.
[2] Not annualized and calculated on average Group investments.

Total **net investment income** decreased by 9 percent in both U.S. dollar terms and on a local currency basis to USD 1.6 billion compared with USD 1.7 billion in the same period of 2012, reflecting persistent low investment yields on debt securities.

Total **net capital gains on investments and impairments** were USD 120 million compared with USD 45 million in the same period of 2012.

Net capital gains from active management were USD 345 million, an increase of USD 122 million compared with the same period of 2012, largely as a result of equity securities sales. A significant amount of these net capital gains was allocated to policyholders.

Asset revaluations on investments booked at fair value through profit and loss contributed losses of USD 195 million, compared with losses of USD 127 million in the same period of 2012. The deterioration was due mainly to higher losses from derivatives used for hedging.

Impairments at USD 31 million were USD 21 million lower compared with the same period of 2012.

Net investment return on Group investments was 0.8 percent, 0.1 percentage points lower than in the same period of 2012.

Net unrealized gains/(losses) on investments included in total equity have decreased by USD 879 million since December 31, 2012, driven mainly by lower net unrealized gains on debt securities of USD 952 million; this was a result of the slight increase in yields on government securities in some markets and a widening of credit spreads, especially in the euro zone. Rising equity markets have contributed net unrealized gains on equities of USD 119 million since December 31, 2012.

Total return net of investment expenses on average Group investments was 0.4 percent, a decrease of 1.6 percentage points compared with the same period of 2012, primarily reflecting the net unrealized losses in the three months ended March 31, 2013 compared with gains in the same period of 2012.

Debt securities, which are invested to match the Group's insurance liability profiles, returned 0.2 percent. Equity securities returned 3.6 percent and other investments returned 0.2 percent.

Operating and financial review *continued*

Performance of unit-linked investments

in USD millions, for the three months ended March 31	2013	2012	Change
Net investment income	340	390	(13%)
Net capital (losses)/gains on investments and impairments	6,080	5,275	15%
Net investment result, net of investment expenses[1]	6,419	5,665	13%
Average investments	124,377	116,179	7%
Total return on unit-linked investments[2]	**5.2%**	**4.9%**	**0.3 pts**

[1] After deducting investment expenses of USD 125 million and USD 116 million for the three months ended March 31, 2013 and 2012.
[2] Not annualized and calculated on average Group investments.

Total return on unit-linked investments delivered 5.2 percent compared with 4.9 percent in the same period of 2012. The improvement in the total return was due to net capital gains of 6.1 billion compared with USD 5.3 billion in 2012, reflecting stronger equity markets. Net investment income decreased by USD 50 million, reflecting persistent low investment yields.

Insurance and investment contract liabilities

Reserves for losses and loss adjustment expenses

The majority of the Group's reserves for losses and loss adjustment expenses are attributable to General Insurance. The remaining reserves mostly relate to Farmers Re and to Non-Core Businesses.

in USD millions	Total Group		of which General Insurance	
	2013	2012	**2013**	2012
As of January 1				
Gross reserves for losses and loss adjustment expenses	69,986	67,762	66,542	64,311
Reinsurers' share	(12,601)	(12,421)	(11,308)	(11,195)
Net reserves for losses and loss adjustment expenses	**57,385**	**55,341**	**55,234**	**53,116**
Net losses and loss adjustment expenses incurred	5,552	5,574	4,882	4,789
Current year	5,569	5,723	4,906	4,927
Prior years	(17)	(149)	(24)	(138)
Net losses and loss adjustment expenses paid	(5,967)	(5,445)	(5,353)	(4,783)
Current year	(1,138)	(1,227)	(841)	(861)
Prior years	(4,828)	(4,219)	(4,512)	(3,922)
Acquisitions/(divestments) and transfers	–	–	(65)	78
Foreign currency translation effects	(1,174)	744	(1,154)	733
As of March 31				
Net reserves for losses and loss adjustment expenses	**55,797**	**56,214**	**53,544**	**53,933**
Reinsurers' share	(11,679)	(12,513)	(10,892)	(11,360)
Gross reserves for losses and loss adjustment expenses	67,476	68,727	64,436	65,293

As of March 31, 2013, the Group's **net reserves for losses and loss adjustment expenses** decreased by USD 1.6 billion to USD 55.8 billion compared with December 31, 2012 of which USD 1.2 billion related to the effects of foreign currency translation. The decrease in the total net reserves was further driven by the payment in the United States of previously reserved claims mainly related to crop and to a lesser extent Storm Sandy. Favorable developments from the settlement of certain large claims and from the motor book in Switzerland were mostly offset by adverse development in North America Commercial.

The increase of USD 873 million during the first three months of 2012 in net reserves for losses and loss adjustment expenses was mostly driven by foreign currency translation effects of USD 744 million and also included USD 149 million of favorable reserve development emerging from reserves established in prior years from various regions and lines of business, in particular from Switzerland's motor line of business and in the UK, across many lines of business, except employers' liability due to adverse development from deafness claims.

Operating and financial review *continued*

Reserves for life insurance contracts and liabilities for investment contracts

The majority of the Group's reserves for life insurance contracts and liabilities for investment contracts are attributable to Global Life. Life insurance reserves in other segments relate predominantly to businesses that are in run-off or are centrally managed, and are included only in this first table.

Group reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts

in USD millions	Global Life		Other segments		Total Group	
	2013	2012[1]	2013	2012	2013	2012[1]
Net reserves as of January 1	213,982 [1]	195,302	16,789	18,027	230,771 [1]	213,329
Movements in net reserves	(1,566)	12,379	(58)	155	(1,624)	12,535
Net reserves as of March 31	**212,416**	**207,681**	**16,731**	**18,182**	**229,147**	**225,864**

[1] Restated as set out in note 1 of the unaudited Consolidated financial statements.

The following provides further detail on the development and composition of reserves and liabilities in the **Global Life** business.

Global Life – Development of reserves and liabilities

in USD millions	Unit-linked insurance and investment contracts[2]		Other life insurance liabilities[3]		Total reserves and liabilities	
	2013	2012[1]	2013	2012	2013	2012[1]
As of January 1						
Gross reserves	119,680 [1]	107,646	96,290	89,731	215,970 [1]	197,378
Reinsurers' share	–	–	(1,988)	(2,076)	(1,988)[1]	(2,076)
Net reserves	**119,680** [1]	**107,646**	**94,302**	**87,656**	**213,982** [1]	**195,302**
Premiums	3,340	4,299	2,643	2,536	5,983	6,835
Claims	(3,733)	(3,591)	(2,276)	(2,204)	(6,009)	(5,795)
Fee income and other expenses	(458)	(736)	(485)	(574)	(943)	(1,311)
Interest and bonuses credited to policyholders	6,730	5,501	982	833	7,713	6,334
Change in assumptions	–	–	(17)	(96)	(17)	(96)
Increases/(decreases) recorded in other comprehensive income	–	–	(180)	723	(180)	722
Foreign currency translation effects	(5,547)	3,094	(2,566)	2,596	(8,113)	5,690
As of March 31						
Net reserves	**120,013**	**116,213**	**92,403**	**91,468**	**212,416**	**207,681**
Reinsurers' share	–	–	(1,969)	(2,141)	(1,969)	(2,141)
Gross reserves	120,013	116,213	94,373	93,609	214,385	209,822

[1] Restated as set out in note 1 of the unaudited Consolidated financial statements.
[2] Includes reserves for unit-linked contracts, the net amounts of which were USD 61.5 billion and USD 61.8 billion, and liabilities for investment contracts, the net amounts of which were USD 58.5 billion and USD 54.4 billion as of March 31, 2013 and 2012, respectively
[3] Includes reserves for future life policyholders' benefits, the net amounts of which were USD 75.1 billion and USD 76 billion and policyholders' contract deposits and other funds, the net amounts of which were USD 17.3 billion and USD 15.4 billion as of March 31, 2013 and 2012, respectively

Total reserves and liabilities for insurance and investment contracts, net of reinsurance, decreased by USD 1.6 billion, or by 1 percent in U.S. dollar terms, but increased by 4 percent on a local currency basis compared with December 31, 2012. The increase on a local currency basis was mainly driven by the impact of favorable equity market movements on investments in Europe.

Global Life – Reserves and liabilities, net of reinsurance, by region

in USD millions, as of	Unit-linked insurance and investment contracts		Other life insurance liabilities		Total reserves and liabilities	
	03/31/13	12/31/12[1]	03/31/13	12/31/12[1]	03/31/13	12/31/12[1]
North America	1,060	1,021	5,351	5,307	6,411	6,329
Latin America	11,081	10,709	5,598	5,204	16,679	15,913
Europe	93,715	94,124	78,153	80,468	171,868	174,592
of which:						
United Kingdom	*57,544*	*58,468*	*4,863*	*5,200*	*62,407*	*63,667*
Germany	*11,444*	*11,130*	*41,895*	*43,084*	*53,338*	*54,214*
Switzerland	*788*	*786*	*19,300*	*19,741*	*20,088*	*20,528*
Ireland	*13,677*	*13,215*	*1,691*	*1,727*	*15,368*	*14,942*
Spain	*4,744*	*4,874*	*5,811*	*5,981*	*10,555*	*10,855*
Rest of Europe	*5,518*	*5,651*	*4,593*	*4,734*	*10,111*	*10,385*
Asia-Pacific and Middle East	11,468	11,315	3,008	3,035	14,476	14,350
Other	2,689	2,511	288	284	2,977	2,795
Eliminations	–	–	6	4	6	4
Total	**120,013**	**119,680**	**92,403**	**94,302**	**212,416**	**213,982**

[1] Restated as set out in note 1 of the unaudited Consolidated financial statements.

Unit-linked insurance and investment contracts, net of reinsurance, increased by USD 333 million, remaining broadly flat in U.S. dollar terms and increased 5 percent on a local currency basis, compared with December 31, 2012, mainly driven by the impact of favorable equity market movements on investments in Europe.

Other life insurance liabilities, net of reinsurance, decreased by USD 1.9 billion, or by 2 percent in U.S. dollar terms, but increased by 2 percent on a local currency basis, compared with December 31, 2012, driven by the impact of favorable equity market movements on investments in Europe.

Operating and financial review *continued*

Capitalization

in USD millions	Shareholders' equity	Non-controlling interests	Total equity
As of December 31, 2012, as previously reported	34,494	2,368	36,862
Total adjustments due to restatement	11	1	12
As of December 31, 2012, as restated	**34,505**	**2,369**	**36,874**
Proceeds from issuance of share capital	120	–	120
Proceeds from treasury share transactions	6	–	6
Share-based payment transactions	(78)	–	(78)
Reclassification from revaluation reserves	5	–	5
Total comprehensive income	199	73	272
Net income after taxes	1,062	95	1,157
Net other recognized income and expenses	(863)	(22)	(885)
As of March 31, 2013	**34,758**	**2,442**	**37,199**

Total equity increased by USD 325 million to USD 37.2 billion, or by 1 percent. This increase was generated principally from total comprehensive income of USD 272 million comprising USD 1.2 billion from net income after taxes and USD 885 million of net other recognized expenses. The movement in net other recognized expenses was driven primarily by net unrealized losses on investments of USD 342 million and cumulative foreign currency translation adjustment losses of USD 438 million. Non-controlling interests increased by USD 73 million mainly as a result of their contribution to net income after taxes.

The Annual General Meeting approved a gross dividend of CHF 17.00 per share on April 4, 2013. This gross dividend represented a 70 percent payout of 2012 earnings to shareholders, and will be recognized through shareholders' equity during the second quarter of 2013.

Under the Swiss Solvency Test (SST) the Group is required to use a company-specific internal model to calculate risk-bearing and target capital and to file SST reports biannually. For January 1, 2013 the Group filed, on a consolidated basis, an improved SST capitalization ratio of 185 percent, while the SST capitalization ratio as of July 1, 2012 amounted to 178 percent. The filing as of January 1, 2013 is subject to review by FINMA as is the final approval of the Group's internal model.

The Group also continues to be subject to Solvency I requirements based on the Swiss Insurance Supervision Law. The Solvency I ratio as of March 31, 2013, decreased to 276 percent from 278 percent as of December 31, 2012.

Cash flows

Summary of cash flows

in USD millions, for the three months ended March 31	2013	2012[1]
Net cash provided by/(used in) operating activities	(309)	346
Net cash used in investing activities	(14)	(54)
Net cash provided by/(used in) financing activities	943	572
Foreign currency translation effects on cash and cash equivalents	(335)	279
Change in cash and cash equivalents	285	1,143
Cash and cash equivalents as of January 1	10,208	9,705
Cash and cash equivalents as of March 31	**10,493**	**10,848**

[1] Restated as set out in note 1 of the unaudited Consolidated financial statements.

Net **cash and cash equivalents** increased by USD 285 million in the first three months compared with an increase of USD 1.1 billion in the same period of 2012. Net cash used in operating activities, which included cash movements in and out of, as well as within total investments, was USD 309 million for the three months ended March 31, 2013. Net cash used in investing activities of USD 14 million related to sales and purchases of property and equipment. Net cash inflows from financing activities of USD 943 million were primarily related to the net issuance of debt of USD 917 million.

Cash flow details of underwriting activities and investments are set out in the Consolidated statements of cash flows in the unaudited Consolidated financial statements.

Operating and financial review *continued*

Currency translation impact

The Group operates worldwide in multiple currencies and seeks to match foreign exchange exposures on an economic basis.

As the Group has chosen the U.S. dollar as its presentation currency, differences arise when functional currencies are translated into the Group's presentation currency. The table below shows the effect of foreign currency rates on the translation of selected line items.

Selected Group income statement line items

variance over the prior period, for the three months ended March 31, 2013	in USD millions	in %
Gross written premiums and policy fees	(182)	(1%)
Insurance benefits and losses, gross of reinsurance	68	1%
Net income attributable to shareholders	(3)	–
Business operating profit	(14)	(1%)

The consolidated income statements are translated at average exchange rates. In the first three months of 2013, the U.S. dollar has on average been stronger against the Swiss franc and the British pound but weaker against the euro compared with the same period of 2012. Additionally, depreciation of the Brazilian real and Japanese yen against the U.S. dollar during the same period impacted the results significantly. The net impact on the result has been a reduction in U.S. dollar terms with a decrease in gross written premiums and policy fees partially offset by a decrease in U.S. dollar terms in insurance benefits and losses.

Selected Group balance sheet line items

variance over March 31, 2012, as of March 31, 2013	in USD millions	in %
Total investments	(10,669)	(3%)
Reserves for insurance contracts, gross	(7,029)	(3%)
Cumulative translation adjustment in shareholders' equity[1]	(417)	(1%)

[1] Restated as set out in note 1 of the unaudited Consolidated financial statements.

The consolidated balance sheets are translated at end-of-period rates. The U.S. dollar strengthened against the British pound, euro and the Swiss franc as of March 31, 2013 compared with December 31, 2012, resulting in a decrease in U.S. dollar terms for most balance sheet items.

Disclaimer & Cautionary Statement

Certain statements in this document are forward-looking statements, including, but not limited to, statements that are predications 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.

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