

Operating and financial review (unaudited) 2013

Zurich Insurance Group
Results for the nine months to September 30, 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 nine months ended September 30, 2013, compared with the same period of 2012. It also explains key aspects of the Group's financial position as of September 30, 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 nine months ended September 30, 2013 and 2012 and the financial position as of September 30, 2013 and December 31, 2012. 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 amounts rather than the rounded amounts. This document should be read in conjunction with the Annual Report 2012 of the Group and with its unaudited Consolidated financial statements for the nine months to September 30, 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 in accordance with 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 separately published Glossary and the unaudited New business overview. These should be viewed as complementary to, and not as substitutes for the IFRS figures. For a reconciliation of BOP to net income attributable to shareholders, see note 16 of the unaudited Consolidated financial statements.

Financial highlights

in USD millions, for the nine months ended September 30, unless otherwise stated	2013	2012 ¹	Change ²
Business operating profit	3,567	3,510	2%
Net income attributable to shareholders	2,954	2,898	2%
General Insurance gross written premiums and policy fees	28,182	27,309	3%
Global Life gross written premiums, policy fees and insurance deposits	19,578	21,140	(7%)
Farmers Management Services management fees and other related revenues	2,113	2,134	(1%)
Farmers Re gross written premiums and policy fees	3,094	3,382	(9%)
General Insurance business operating profit	2,124	2,085	2%
General Insurance combined ratio	95.3%	96.3%	1.0 pts
Global Life business operating profit	978	966	1%
Global Life new business annual premium equivalent (APE) ³	3,230	2,973	9%
Global Life new business margin, after tax (as % of APE) ³	28.9%	21.4%	7.6 pts
Global Life new business value, after tax ³	935	635	47%
Farmers business operating profit	1,108	991	12%
Farmers Management Services gross management result	1,023	1,024	–
Farmers Management Services managed gross earned premium margin	7.3%	7.3%	–
Average Group investments	208,216	201,932	3%
Net investment result on Group investments	5,264	6,141	(14%)
Net investment return on Group investments ⁴	2.5%	3.0%	(0.5 pts)
Total return on Group investments ⁴	0.5%	5.3%	(4.7 pts)
Shareholders' equity ⁵	32,062	34,505	(7%)
Swiss Solvency Test capitalization ratio ⁶	206%	185%	21 pts
Diluted earnings per share (in CHF)	18.65	18.49	1%
Book value per share (in CHF) ⁵	196.49	214.86	(9%)
Return on common shareholders' equity (ROE)	11.8%	11.8%	–
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)	10.8%	11.0%	(0.2 pts)

¹ September 30, 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 New business amounts are calculated on embedded value principles before the effect of non-controlling interests. See unaudited New business overview for details of these principles. New business amounts for the first nine months of 2012 do not include Zurich Santander or new operations in Asia (including Zurich Insurance Malaysia Berhad – ZIMB).

⁴ Not annualized and calculated on average Group investments.

⁵ As of September 30, 2013 and December 31, 2012, respectively.

⁶ Ratios as of July 1, 2013 and January 1, 2013, 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 nine months to September 30, 2013

The Group delivered solid results in all core business segments with an overall business operating profit of USD 3.6 billion for the nine months ended September 30, 2013. This performance was achieved through continued focus on profitability, underpinned by the Group's product, underwriting and pricing strategies. The sustained execution of these strategies has resulted in improved underlying loss ratios in General Insurance and Farmers, as well as increased new business value in Global Life. Overall this has enabled the Group to offset the impact of the decrease in investment income resulting from persistent low investment yields. The results were affected by a high level of severe weather-related losses and other large losses. These included losses related to floods in Central and Eastern Europe, as well as tornadoes in the U.S.

The Group's capital position remains strong. Solvency measured on an economic basis as determined under the Swiss Solvency Test improved by 21 percentage points, rising to 206 percent as of July 1, 2013. Shareholders' equity decreased by USD 2.4 billion to USD 32.1 billion from December 31, 2012 reflecting USD 2.7 billion paid for the dividend of CHF 17.00 per share, as approved by shareholders at the Annual General Meeting on April 4, 2013. In addition, shareholders' equity included the net income after taxes attributable to shareholders of USD 3.0 billion partially offset by net unrealized losses on investments of USD 2.1 billion.

Business operating profit increased by USD 57 million to USD 3.6 billion, or by 2 percent in both U.S. dollar terms and on a local currency basis.

- **General Insurance** business operating profit increased by USD 39 million to USD 2.1 billion, or by 2 percent in both U.S. dollar terms and on a local currency basis. The underlying loss experience and expense levels continued to improve, with savings initiatives to reduce expenses reflected in the reduced expense ratio. These improvements were partially offset by larger losses from severe weather-related events, along with other large losses and a continued decline in investment income.
- **Global Life** business operating profit increased by USD 11 million to USD 978 million, or by 1 percent in U.S. dollar terms and 4 percent on a local currency basis, with a significant increase in the contribution from Zurich Santander offset by reductions within other regions. Improvements in the net expense and risk margins coupled with the increased contribution from Zurich Santander were largely offset by a significant reduction in the net investment margin.
- **Farmers** business operating profit increased by USD 117 million to USD 1.1 billion, or by 12 percent, primarily due to an improved underwriting result in Farmers Re. **Farmers Management Services** business operating profit decreased by USD 9 million to USD 1.1 billion, mainly due to lower investment income. **Farmers Re** business operating profit improved by USD 126 million to USD 58 million. This was mainly driven by an improved underlying loss ratio, while weather-related losses remained significantly above historical levels.
- **Other Operating Businesses** reported a business operating loss of USD 683 million. This 5 percent deterioration compared with the same period of 2012, was mainly due to decreased investment income.
- **Non-Core Businesses** reported a business operating profit of USD 41 million compared with USD 118 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 1.0 billion to USD 53.0 billion, or by 2 percent in U.S. dollar terms and 1 percent on a local currency basis.

- **General Insurance** gross written premiums and policy fees increased by USD 873 million to USD 28.2 billion, or by 3 percent in U.S. dollar terms and 4 percent on a local currency basis. Compared with the same period of 2012, growth was achieved in all businesses except Europe, where economic pressures continued.
- **Global Life** gross written premiums, policy fees and insurance deposits decreased by USD 1.6 billion to USD 19.6 billion, or by 7 percent in U.S. dollar terms and on a local currency basis. Continued 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 single premium Private Banking Client Solutions products.
- **Farmers Management Services** management fees and other related revenues of USD 2.1 billion decreased by USD 21 million, or by 1 percent. An increase in management fees resulting from a 1 percent growth in the 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 as a result of lower levels of new business policies. **Farmers Re** gross written premiums decreased by 9 percent to USD 3.1 billion reflecting reductions in the participation percentage in the quota share reinsurance agreements with the Farmers Exchanges, as well as a 1 percent reduction in gross written premiums in the Farmers Exchanges.

Net income attributable to shareholders increased by USD 56 million to USD 3.0 billion, or by 2 percent, mainly as a result of the higher business operating profit. The **shareholders' effective tax rate** was 24.7 percent, primarily as a result of fluctuations in the geographic mix of profit in the nine months ended September 30, 2013, compared with 23.0 percent for the same period of 2012, and 24.7 percent for the year ended December 31, 2012.

ROE of 11.8 percent and **BOPAT ROE** of 10.8 percent remained broadly flat compared with the same period of 2012. **Diluted earnings per share** increased slightly by 1 percent to CHF 18.65 for the nine months ended September 30, 2013, compared with CHF 18.49 for the same period of 2012.

Operating and financial review *continued*

General Insurance

in USD millions, for the nine months ended September 30	2013	2012 ¹	Change
Gross written premiums and policy fees	28,182	27,309	3%
Net earned premiums and policy fees	21,998	21,539	2%
Insurance benefits and losses, net of reinsurance	(14,989)	(14,749)	(2%)
Net underwriting result	1,039	800	30%
Net investment income	1,652	1,922	(14%)
Net non-technical result (excl. items not included in BOP)	(618)	(654)	6%
Business operating profit	2,124	2,085	2%
Loss ratio	68.1%	68.5%	0.3 pts
Expense ratio	27.1%	27.8%	0.7 pts
Combined ratio	95.3%	96.3%	1.0 pts

¹ restated for Germany (see note 1 of the unaudited Consolidated financial statements)

in USD millions, for the nine months ended September 30	Business operating profit (BOP)		Combined ratio	
	2013	2012 ¹	2013	2012 ¹
Global Corporate	645	734	92.2%	90.6%
North America Commercial	565	721	97.5%	96.5%
Europe	798	445	93.6%	98.6%
International Markets	121	140	100.2%	97.2%
GI Global Functions including Group Reinsurance	(6)	46	nm	nm
Total	2,124	2,085	95.3%	96.3%

¹ restated for Germany (see note 1 of the unaudited Consolidated financial statements)

Business operating profit increased by USD 39 million to USD 2.1 billion, or by 2 percent in U.S. dollar terms and on a local currency basis. The underwriting result increased by USD 239 million, offsetting the continued decline in investment income as low investment yields persisted.

Gross written premiums and policy fees increased by USD 873 million to USD 28.2 billion, or by 3 percent in U.S. dollar terms and 4 percent on a local currency basis. Growth was achieved in all businesses in the first nine months of 2013 except Europe, where economic pressures in key markets as well as a focus on targeted underwriting actions led to a decrease in gross written premiums. Premium growth was particularly strong in Global Corporate, both in Europe and North America, where improving economic conditions and the market environment continued to support rate increases. Premiums in International Markets, particularly on a local currency basis, have increased as these businesses execute growth strategies.

The **net underwriting result** increased by USD 239 million to USD 1.0 billion, reflected in a 1.0 percentage point improvement in the combined ratio to 95.3 percent. The net underwriting result benefited from continued improvement in underlying loss experience. It also reflected the absence of significant reserve strengthening in Germany which occurred in the same period of 2012. These positive developments were partly offset by increased costs related to losses from severe weather-related events along with higher costs from other large losses. The expense ratio improved as the business continued to focus successfully on achieving savings in other underwriting expenses in mature markets while investing in targeted growth areas.

Global Corporate

in USD millions, for the nine months ended September 30	2013	2012	Change
Gross written premiums and policy fees	7,319 ¹	6,659	10%
Net underwriting result	348	379	(8%)
Business operating profit	645	734	(12%)
Loss ratio	73.6%	70.3%	(3.4 pts)
Expense ratio	18.6%	20.3%	1.8 pts
Combined ratio	92.2%	90.6%	(1.6 pts)

¹ including internal business transfers from North America Commercial

Business operating profit decreased by USD 89 million to USD 645 million due to a lower underwriting result and a decrease in investment income tied to persistent low investment yields. This was partially offset by increased hedge fund gains, primarily in the U.S.

Gross written premiums and policy fees increased by USD 660 million to USD 7.3 billion, or by 10 percent in both U.S. dollar terms and on a local currency basis. Internal business transfers from North America Commercial begun in 2012 accounted for approximately 1 percent of the growth. Strong renewals and new business production levels were achieved in both Europe and North America despite the continued focus on achieving rate increases and profitable underwriting. Rates increased by 4.3 percent in the first nine months of 2013, driven by motor, workers' compensation in both North America and Europe, and liability in North America.

The **net underwriting result** decreased by USD 31 million to a profit of USD 348 million, reflected in a 1.6 percentage points deterioration in the combined ratio to 92.2 percent. This deterioration was also seen in the increase in the loss ratio, which resulted from a flood event in Europe and other severe weather-related events in North America, as well as from a reduction in premiums related to policies written in prior years. Expenses were broadly flat compared with the same period of 2012, despite an 11 percent growth in net earned premiums, as focus on expense management continued.

Operating and financial review *continued*

North America Commercial

in USD millions, for the nine months ended September 30	2013	2012	Change
Gross written premiums and policy fees	7,775 ¹	7,560	3%
Net underwriting result	140	197	(29%)
Business operating profit	565	721	(22%)
Loss ratio	69.9%	68.0%	(1.9 pts)
Expense ratio	27.6%	28.5%	0.9 pts
Combined ratio	97.5%	96.5%	(1.0 pts)

¹ after internal business transfers to Global Corporate

Business operating profit decreased by USD 156 million to USD 565 million, or by 22 percent, driven by a lower net underwriting result and lower investment income that resulted from the impact of persistent low investment yields. This was partially offset by increased gains from hedge fund investments and lower non-technical expenses.

Gross written premiums and policy fees increased by USD 215 million to USD 7.8 billion, or by 3 percent. Underlying growth was 6 percent after adjusting for internal business transfers to Global Corporate begun in 2012. This underlying premium growth arose from the continued improvement in economic and market conditions in North America and the successful execution of growth initiatives targeting the construction, real estate, healthcare and technology industries, as well as special lines products and the captive and auto warranty businesses. Growth in property lines was particularly strong, fuelled by strategic initiatives and rate increases of more than 4 percent. The rate environment also remained favorable in other major lines, including workers' compensation and liability, where focus remained on profitable underwriting. Overall, rate increases of 4.6 percent were achieved during the first nine months of 2013.

The **net underwriting result** decreased by USD 57 million to USD 140 million, which was reflected in a deterioration of 1.0 percentage points in the combined ratio to 97.5 percent. The underlying loss ratio continued to show improvement compared with the same period of 2012 reflecting the favorable impact of sustained rate increases in the liability and workers' compensation lines, as well as the impact of claims and underwriting initiatives. This improvement was offset by an increase in severe weather-related losses that were higher than in the same period of 2012, and by an adverse development of loss reserves established in prior years. This unfavorable development was, however, substantially related to business that has been discontinued or where no new business has been written after significant portfolio reshaping efforts over the last several years. The expense ratio improved by 0.9 percentage points, reflecting the benefits of efficiency and savings initiatives in reducing other underwriting expenses, partially offset by an increase in commissions following a shift towards higher commission business.

Europe

in USD millions, for the nine months ended September 30

	2013	2012 ¹	Change
Gross written premiums and policy fees	9,225	9,424	(2%)
Net underwriting result	550	121	nm
Business operating profit	798	445	79%
Loss ratio	66.8%	71.0%	4.2 pts
Expense ratio	26.8%	27.6%	0.8 pts
Combined ratio	93.6%	98.6%	5.0 pts

¹ restated for Germany (see note 1 of the unaudited Consolidated financial statements)

Business operating profit increased by USD 353 million to USD 798 million, or by 79 percent in both U.S. dollar terms and on a local currency basis. This improvement benefited from a significant increase in the underwriting result, which was partly offset by lower investment income tied to reductions in the asset base and the persistent low investment yields. Non-technical expenses were slightly increased due to higher project costs in Germany.

Gross written premiums and policy fees decreased by USD 199 million to USD 9.2 billion, or by 2 percent in U.S. dollar terms and 3 percent on a local currency basis. The lower volume was due to reduced business, a result of a continued focus on profitability that led to portfolio re-shaping in a challenging economic environment in most European countries. Average rate increases of 2.6 percent were achieved in the first nine months of 2013.

The **net underwriting result** increased by USD 429 million to USD 550 million, which was reflected in an improvement in the combined ratio of 5.0 percentage points. The improvement in the loss ratio stemmed from continued improvements in the underlying loss ratio, particularly in Germany, Italy, the UK and Ireland, as a result of the sustained pricing and underwriting actions and a higher level of favorable development of reserves established in prior year following the significant reserve strengthening in Germany in the same period of 2012. These improvements were partially offset by an increase in weather-related losses, including floods in Europe, and other large losses. The expense ratio improved by 0.8 percentage points driven by a further focus on expense management.

Operating and financial review *continued*

International Markets

in USD millions, for the nine months ended September 30	2013	2012	Change
Gross written premiums and policy fees	4,327	4,039	7%
Net underwriting result	(8)	85	nm
Business operating profit	121	140	(14%)
Loss ratio	61.7%	60.5%	(1.2 pts)
Expense ratio	38.5%	36.7%	(1.8 pts)
Combined ratio	100.2%	97.2%	(3.0 pts)

Business operating profit decreased by USD 19 million, or by 14 percent in U.S. dollar terms and 11 percent on a local currency basis, to USD 121 million. The decrease in the underwriting result was substantially offset by a one-off gain included in the non-technical result from the sale of own-use real estate in Taiwan, and slightly higher investment income.

Gross written premiums and policy fees increased by USD 288 million to USD 4.3 billion, or by 7 percent in U.S. dollar terms and 17 percent on a local currency basis. Growth in Latin America of 30 percent on a local currency basis was mainly generated in Mexico and Brazil. Asia-Pacific achieved an increase of 7 percent on a local currency basis, with particularly strong growth in Australia, Japan and Hong Kong. Premium volume in the Middle East and Africa increased by 2 percent on a local currency basis, as the region continued to focus on improving profitability.

The **net underwriting result** decreased by USD 93 million, which was reflected in the 3.0 percentage points deterioration in the combined ratio to 100.2 percent. Losses from the floods in Queensland, Australia in the first three months of 2013 and less favorable development on loss reserves established in prior years were reflected in the deterioration of 3.5 percentage points in the loss ratio for Asia-Pacific. The expense ratio deteriorated 1.8 percentage points compared with the same period of 2012, a result of higher and partially non-recurring other underwriting expenses in Latin America, and higher commissions across Latin America and Asia-Pacific.

Global Life

in USD millions, for the nine months ended September 30	2013	2012	Change
Insurance deposits	9,527	11,666	(18%)
Gross written premiums and policy fees	10,051	9,474	6%
Net investment income on Group investments	2,912	3,001	(3%)
Insurance benefits and losses, net of reinsurance	(6,495)	(6,710)	3%
Business operating profit	978	966	1%
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts (net reserves) ¹	220,333	213,982	3%
Assets under management ^{1,2}	260,206	253,509	3%
Net policyholder flows ³	(1,818)	1,069	nm

¹ As of September 30, 2013 and December 31, 2012, respectively.

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 insurance deposits, less policyholder benefits.

	2013	2012	Change
New business – highlights^{1,2}			
New business annual premium equivalent (APE)	3,230	2,973	9%
Present value of new business premiums (PVNBP)	30,290	24,481	24%
New business margin, after tax (as % of APE)	28.9%	21.4%	7.6 pts
New business margin, after tax (as % of PVNBP)	3.1%	2.6%	0.5 pts
New business value, after tax	935	635	47%

¹ New business amounts are calculated on embedded value principles before the effect of non-controlling interests. See unaudited New business overview for details of these principles.

² New business amounts for the first nine months of 2012 do not include Zurich Santander or new operations in Asia (including Zurich Insurance Malaysia Berhad – ZIMB).

Profit by source¹

in USD millions, for the nine months ended September 30	New business		Business in-force		Total	
	2013	2012	2013	2012	2013	2012
Net expense margin	(953)	(1,050)	1,126	1,111	172	61
Net risk margin			592	566	592	566
Net investment margin ²			428	518	428	518
Other profit margins ²			(17)	(113)	(17)	(113)
BOP before deferrals	(953)	(1,050)	2,128	2,082	1,175	1,032
Impact of acquisition deferrals	772	884	(616)	(711)	156	172
BOP before interest, depreciation and amortization	(181)	(166)	1,512	1,371	1,331	1,205
Interest, depreciation and amortization			(209)	(197)	(209)	(197)
Non-controlling interests			(179)	(80)	(179)	(80)
BOP before special operating items	(181)	(166)	1,124	1,094	943	927
Special operating items			35	39	35	39
Business operating profit	(181)	(166)	1,159	1,132	978	966

¹ See Glossary for an explanation of profit by source.

² Following a change in the relative weight of margins in Germany, policyholder impacts which relate to more than one margin have been reclassified from investment margin into other profit margin. Figures for the same period of 2012 have been restated for comparative purposes.

Operating and financial review *continued*

Business operating profit increased by USD 11 million to USD 978 million, or by 1 percent in U.S. dollar terms and 4 percent on a local currency basis, with an increase in Zurich Santander offset by reductions within other regions. Improvements in the net expense and risk margins together with the increase in Zurich Santander were largely offset by a significant reduction in the net investment margin.

The net expense margin improved overall by USD 112 million. The new business expense margin improved by USD 97 million benefiting from lower acquisition expenses, while the in-force expense margin benefited from targeted expense savings in Europe and higher fund-based fees. These positive impacts were partly offset by a reduction in premium based fees resulting from lower levels of business in Germany and the cost of supporting business growth in Latin America and in Asia-Pacific and Middle East. The net risk margin improved by USD 25 million reflecting underlying growth in protection business. Persistently low investment yields affected the net investment margin in all regions, leading to a total reduction of USD 90 million, the largest part of which occurred in North America and the larger European operations of the UK, Germany and Switzerland.

Other profit margins improved by USD 96 million compared with the same period of 2012, and included an increase of USD 158 million related to Zurich Santander, before the effect of non-controlling interests, which was partly offset by indirect negative impacts from local regulatory requirements in Germany. Non-controlling interests increased by USD 99 million, primarily as a result of the higher contribution from Zurich Santander. After non-controlling interests the net contribution to business operating profit from Zurich Santander was USD 129 million, compared with USD 63 million in the same period of 2012.

The net impact of acquisition deferrals declined by USD 16 million, with favorable developments in amortization of business in-force in Europe and Latin America largely offsetting the reduction due to lower new business expenses. Special operating items were broadly flat overall. In 2013, in the UK accelerated amortization of deferred acquisition costs was offset by the release of a liability. The same period of 2012 included a one-off charge in Germany that was largely offset by positive effects in the UK.

Insurance deposits decreased by USD 2.1 billion to USD 9.5 billion, or by 18 percent in both U.S. dollar terms and on a local currency basis. This decrease occurred predominantly in the UK as a result of lower levels of single premium products in Private Banking Clients Solutions, following the implementation of new regulations in the UK.

Gross written premiums and policy fees increased by USD 0.6 billion to USD 10.1 billion, or by 6 percent in U.S. dollar terms and 7 percent on a local currency basis, benefiting from increased volumes of protection business, particularly in Zurich Santander and the UK.

Net reserves increased by USD 6.4 billion, or by 3 percent in both U.S. dollar terms and on a local currency basis, compared with December 31, 2012, primarily reflecting increased values of unit-linked assets. **Assets under management** increased by 3 percent in U.S. dollar terms and 2 percent on a local currency basis compared with December 31, 2012. This was driven by unit-linked asset growth, with total assets under management for unit-linked portfolios increasing by 6 percent on a local currency basis, primarily as a result of increases in equity markets in Europe. **Net policyholder flows** showed a net outflow of USD 1.8 billion, compared with a net inflow of USD 1.1 billion in the same period of 2012, which was due to a combination of lower inflows from insurance deposits in the UK and higher net outflows in the traditional portfolios in Germany.

NBV, APE, NBM and BOP by region

in USD millions, for the nine months ended September 30

	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	86	76	119	88	72.7%	86.7%	130	198
Latin America ¹	280	78	863	654	32.4%	12.0%	180	99
of which:								
Zurich Santander	207	–	599	–	34.6%	–	129	63
Europe	361	303	1,728	1,763	20.9%	17.2%	569	583
United Kingdom	138	146	795	847	17.4%	17.3%	133	263
Germany	23	25	244	311	9.4%	8.0%	123	67
Switzerland	45	4	184	145	24.3%	2.6%	178	181
Ireland	49	49	297	251	16.5%	19.6%	37	21
Spain	87	62	91	104	95.4%	59.3%	33	5
Rest of Europe	20	17	118	104	16.9%	16.7%	65	45
Asia-Pacific and Middle East ¹	129	91	384	352	33.6%	25.9%	102	102
Other	78	86	136	117	57.4%	73.7%	(3)	(15)
Total	935	635	3,230	2,973	28.9%	21.4%	978	966

NBV and APE by pillar¹

in USD millions, for the nine months ended September 30

	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	322	94	962	339	33.5%	27.7%
IFA/Brokers	197	162	699	697	28.2%	23.3%
Agents	143	99	321	290	44.5%	34.0%
Total Retail pillars	662	355	1,981	1,325	33.4%	26.8%
Corporate Life & Pensions	237	214	1,096	1,296	21.6%	16.5%
Private Banking Client Solutions	3	20	101	254	2.7%	7.9%
Direct and Central Initiatives	33	46	51	97	64.4%	47.5%
Total	935	635	3,230	2,973	28.9%	21.4%

¹ New business amounts are calculated before the effect of non-controlling interests and do not include Zurich Santander and new operations in Asia (including ZIMB) for the first nine 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 toward protection and unit-linked products and on leveraging its global bank distribution and corporate life relationships. New business from Zurich Santander and the new operations in Asia has been included in the first nine months of 2013, but was not reported in the same period of 2012.

New business value increased by USD 300 million to USD 935 million, or by 47 percent in U.S. dollar terms and 49 percent on a local currency basis. This increase was driven by the first-time inclusion of Zurich Santander, which contributed USD 207 million of the increase, as well as strong performance in all regions led by growth in protection business.

In North America, the expansion strategy focused on growth in the IFA/Brokers pillar, continued to gain traction. This led to overall APE growth of 35 percent and an increase in new business value of 13 percent. Changes in business mix resulted in a lower new business margin, which however remained at a high level of 72.7 percent.

In Europe, the overall increase of USD 58 million in new business value was primarily driven by Switzerland and Spain. Changes in product mix and management actions in Switzerland continued to reduce exposure to interest rate guarantees and this, together with strong volume growth in corporate business, led to higher margins and an increase in new business value. New business value grew in Spain following volume and margin increases in higher margin protection business, despite an overall reduction in APE as a result of continued lower sales of lower margin savings business.

Operating and financial review *continued*

In Asia-Pacific and Middle East, there was new business value growth in all countries with the most significant increase arising from protection business in the Middle East. There was a further positive impact from the first-time inclusion in 2013 of the new operations in Asia.

APE increased by USD 257 million to USD 3.2 billion, or by 9 percent in U.S. dollar terms and on a local currency basis, benefiting from the first time inclusion of USD 599 million from Zurich Santander. This was partly offset by lower levels of single premium products in Private Banking Clients Solutions, following the implementation of new regulations in the UK, and a reduction of APE in Chile, where the same period of 2012 included the effect from the successful participation in the Social Security (SIS) bid process, as the contracts are only awarded every two years. On a comparable basis, excluding these large impacts as well as the contribution from Zurich Santander, APE increased by 9 percent in U.S. dollar terms with increases in protection and corporate savings business offset by reductions in unit-linked savings business in the UK and Germany.

New business margin increased by 7.6 percentage points to 28.9 percent, primarily due to the effects of changes in product mix, reflecting strong volume growth of higher margin protection business in all regions, including Zurich Santander, and lower volumes of lower margin savings and unit-linked business in Europe. In Switzerland and Spain, new business margin increased significantly following changes in product mix and management actions.

In **Retail pillars**, new business value overall increased by USD 307 million to USD 662 million, or by 87 percent in U.S. dollar terms and 90 percent on a local currency basis. Growth was reported across all regions, with the largest increase occurring in Bank Distribution as a result of the first time inclusion of Zurich Santander, which generated exceptionally strong protection business volumes in Brazil during the first nine months of 2013.

In **Corporate Life & Pensions**, new business value increased by USD 23 million to USD 237 million benefiting particularly from higher margin corporate protection business and volumes in Europe. This more than offset a decrease in Latin America which included the SIS transaction in Chile in the same period of 2012.

Farmers

Farmers business operating profit increased by USD 117 million to USD 1.1 billion, or by 12 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.

Farmers Management Services

in USD millions, for the nine months ended September 30	2013	2012	Change
Management fees and other related revenues	2,113	2,134	(1%)
Management and other related expenses	(1,089)	(1,110)	2%
Gross management result	1,023	1,024	–
Other net income	27	35	(23%)
Business operating profit	1,050	1,059	(1%)
Managed gross earned premium margin	7.3%	7.3%	–

Business operating profit of USD 1.1 billion decreased by USD 9 million, or by 1 percent, primarily due to a decrease in investment income.

Management fees and other related revenues of USD 2.1 billion decreased by USD 21 million, or by 1 percent. An increase in management fees was more than offset by a decrease in other related revenues arising from lower levels of new business policies. The increase in management fees reflected 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. **Management and other related expenses** of USD 1.1 billion decreased by USD 21 million, reflecting disciplined expense management and one-time benefits in employee benefits and facilities expenses. **Other net income and expenses** of USD 27 million decreased by USD 8 million due to lower investment income resulting from lower interest rates as well as reduced real estate investment income compared with the same period of 2012.

The **gross management result** of USD 1.0 billion and the **managed gross earned premium margin** of 7.3 percent remained flat compared with the same period of 2012.

Operating and financial review *continued*

Farmers Re

in USD millions, for the nine months ended September 30	2013	2012	Change
Gross written premiums and policy fees	3,094	3,382	(9%)
Net underwriting result	(43)	(171)	75%
Business operating profit	58	(68)	nm
Loss ratio	70.1%	73.9%	3.8 pts
Expense ratio	31.3%	31.3%	–
Combined ratio	101.4%	105.2%	3.8 pts

Business operating profit of USD 58 million improved by USD 126 million. This mainly resulted from lower underlying losses.

Gross written premiums and policy fees decreased by USD 288 million, or by 9 percent, to USD 3.1 billion. This was due mainly to changes in the quota share reinsurance agreements, as well as the 1 percent decrease in gross written premiums in the Farmers Exchanges. These changes comprised a reduction in the All Lines quota share reinsurance 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 of ceded premiums in 2012 to USD 925 million, effective January 1, 2013.

The **net underwriting result** improved by USD 128 million to a loss of USD 43 million. This was mainly a result of lower assumed non-weather-related losses from the Farmers Exchanges in 2013 demonstrating the impact of the rate and underwriting actions taken during 2012 and 2013.

The **loss ratio** improved by 3.8 percentage points compared with the same period of 2012. This was largely due to a reduced underlying loss ratio, reflecting improved underwriting results in the Farmers Exchanges. Weather-related losses, including losses from two severe tornadoes that hit the Oklahoma City Metropolitan Area, remained significantly above historical levels. The overall impact of weather-related losses was slightly higher when compared with the same period of 2012. The **expense ratio**, based on ceded reinsurance commission rates payable to Farmers Exchanges, remained flat.

Farmers Exchanges

Farmers Exchanges	in USD millions, for the nine months ended September 30	2013	2012	Change
	Gross written premiums	14,276	14,476	(1%)
	Gross earned premiums	14,101	14,025	1%

Gross written premiums in the Farmers Exchanges, which are owned by their policyholders and managed by Farmers Group, Inc., a wholly owned subsidiary of the Group, declined by USD 200 million to USD 14.3 billion, or by 1 percent. This decline was due to decreases in most lines of business, except the home and specialty lines, as a result of the ongoing rate and underwriting actions begun in 2012 to improve profitability.

Gross earned premiums in the Farmers Exchanges increased by USD 76 million to USD 14.1 billion, or by 1 percent, mainly in the standard auto, home, and specialty lines of businesses. Partially offsetting this growth were decreases in non-standard auto, 21st Century, and business insurance resulting from the ongoing rate and underwriting actions begun in 2012 to improve profitability, which have slowed growth but improved profitability in the Farmers Exchanges.

Other Operating Businesses

in USD millions, for the nine months ended September 30

	2013	2012	Change
Business operating profit:			
Holding and financing	(630)	(530)	(19%)
Headquarters	(53)	(120)	56%
Total business operating profit	(683)	(650)	(5%)

Holding and financing business operating loss deteriorated by USD 101 million to USD 630 million. This deterioration was primarily due to lower third party investment income, as a result of special dividends received in the same period of the prior year. It also reflected lower external interest income, as a consequence of the current market environment, as well as an increased net cost of intercompany financing.

Headquarters' business operating loss reduced to USD 53 million, USD 67 million lower than in the same period of 2012. This was related mainly to the timing of media and brand expenses.

Non-Core Businesses

in USD millions, for the nine months ended September 30

	2013	2012	Change
Business operating profit:			
Centrally managed businesses	13	11	20%
Other run-off	28	107	(74%)
Total business operating profit	41	118	(66%)

Centrally managed businesses, which comprise run-off portfolios that are managed with the intention to proactively reduce risk and release capital, reported a business operating profit of USD 13 million.

Other run-off, which largely comprises U.S. life insurance and annuity portfolios, reported a business operating profit of USD 28 million. The decline of USD 80 million compared with the same period of 2012 reflected 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	
		09/30/13	12/31/12 ¹	09/30/13	12/31/12 ¹
Cash and cash equivalents		7,788	9,098	1,466	1,110
Equity securities:		12,384	12,341	106,648	99,478
Common stocks, including equity unit trusts		9,621	9,388	85,540	77,996
Unit trusts (debt securities, real estate and short-term investments)		2,245	2,418	21,108	21,482
Common stock portfolios backing participating with-profit policyholder contracts		517	534	–	–
Debt securities		155,913	155,594	11,736	11,646
Real estate held for investment		8,402	8,561	3,431	3,401
Mortgage loans		9,866	10,519	–	–
Other loans		12,372	13,385	6,287	8,279
Investments in associates and joint ventures		125	85	–	–
Total		206,849	209,582	129,569	123,913

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

Group investments decreased by USD 2.7 billion to USD 206.8 billion, or by 1 percent in U.S. dollar terms, compared with December 31, 2012. On a local currency basis, total Group investments decreased by USD 3.7 billion, or by 2 percent. The decline in total Group investments was primarily driven by the impact of rising yields on the value of debt securities.

Unit-linked investments increased by USD 5.7 billion to USD 129.6 billion, or by 5 percent in both U.S. dollar terms and on a local currency basis compared with December 31, 2012, driven by increases in equity markets mainly in Europe.

The Group maintains a disciplined strategy focused on asset and liability management. The Group continues to reduce risks that 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 nine months ended September 30	2013	2012	Change
Net investment income ¹		4,659	5,153	(10%)
Net capital gains/(losses) on investments and impairments		605	988	(39%)
of which: net capital gains/(losses) on investments and impairments attributable to shareholders		123	651	(81%)
Net investment result on Group investments ¹		5,264	6,141	(14%)
Net investment return on Group investments²		2.5%	3.0%	(0.5 pts)
Movements in net unrealized gains/(losses) on investments included in total equity		(4,119)	4,551	nm
Total investment result on Group investments¹		1,145	10,692	(89%)
Average Group investments		208,216	201,932	3%
Total return on Group investments²		0.5%	5.3%	(4.7 pts)

¹ After deducting investment expenses of USD 199 million and USD 186 million for the nine months ended September 30, 2013 and 2012, respectively.

² Not annualized and calculated on average Group investments.

Total **net investment income** decreased by 10 percent in both U.S. dollar terms and on a local currency basis to USD 4.7 billion, compared with USD 5.2 billion in the same period of 2012, reflecting persistent low investment yields on debt securities. Excluding the impact of certain reclassifications, the decrease in net investment income would be 8%.

Total **net capital gains on investments and impairments** were USD 605 million compared with USD 988 million in the same period of 2012. The decline of USD 383 million was primarily due to increased losses on derivative financial instruments, as well as negative revaluations of securities classified at fair value through profit and loss, partially offset by higher active realizations.

Asset revaluations on investments booked at fair value through profit and loss resulted in losses of USD 531 million, compared with gains of USD 217 million in the same period of 2012. The deterioration was due to losses on derivative financial instruments used for hedging underlying business or investment risks, and to negative revaluations of debt securities booked at fair value through profit and loss.

Net capital gains from active management were USD 1.3 billion, an increase of USD 339 million compared with the same period of 2012, largely resulting from sales of equity securities. These sales included a gain of USD 154 million from the sale of shares in New China Life Insurance Co., Ltd., reducing the Group's participation from 12.5 percent to 9.4 percent.

Impairments of USD 126 million were USD 25 million lower compared with the same period of 2012, reflecting improvements in equity markets.

Net capital gains were to a significant extent allocated to policyholders.

Net investment return on Group investments was 2.5 percent, 0.5 percentage points lower than in the same period of 2012, a result of both the decrease in the net investment result and an increase in average Group investments.

Net unrealized gains/(losses) on investments included in total equity decreased by USD 4.1 billion from December 31, 2012, mainly due to a reduction in net unrealized gains on debt securities of USD 3.8 billion. This was a result of the significant rise in yields on debt securities and the widening of credit spreads during the three months ended June 30, 2013, especially in the U.S. Net unrealized gains on equity securities declined by USD 171 million compared with December 31, 2012, as the positive effects of rising equity markets were offset by a reduction relating to the Group's shares in New China Life Insurance Co., Ltd.

Total return on Group investments was 0.5 percent compared with 5.3 percent in the same period of 2012, primarily reflecting the reduction in net unrealized gains in the nine months ended September 30, 2013 compared with an increase in the same period of 2012.

Debt securities, which are invested to match the Group's insurance liability profiles, returned negative 0.1 percent. Equity securities and other investments returned positive 6.6 percent and 1.6 percent, respectively.

Performance of unit-linked investments	in USD millions, for the nine months ended September 30	2013	2012	Change
	Net investment income	1,302	1,347	(3%)
	Net capital (losses)/gains on investments and impairments	7,285	6,598	10%
	Net investment result, net of investment expenses ¹	8,587	7,946	8%
	Average investments	126,741	116,138	9%
	Total return on unit-linked investments²	6.8%	6.8%	(0.1 pts)

¹ After deducting investment expenses of USD 395 million and USD 377 million for the nine months ended September 30, 2013 and 2012.

² Not annualized and calculated on average unit-linked investments.

Total return on unit-linked investments of 6.8 percent was unchanged compared with the same period of 2012. Capital gains, particularly in equity markets in Europe, were partly offset by a reduction of USD 45 million in net investment income reflecting lower investment income from fixed interest securities, as yields have continued to decline.

Operating and financial review *continued*

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	17,157	17,194	14,989	14,750
Current year	17,731	17,568	15,552	15,124
Prior years	(574)	(373)	(563)	(374)
Net losses and loss adjustment expenses paid	(17,379)	(16,849)	(15,131)	(14,702)
Current year	(6,307)	(6,412)	(4,857)	(4,806)
Prior years	(11,071)	(10,437)	(10,274)	(9,895)
Acquisitions/(divestments) and transfers	–	1,174	(65)	1,284
Foreign currency translation effects	(110)	287	(116)	278
As of September 30				
Net reserves for losses and loss adjustment expenses	57,054	57,147	54,912	54,727
Reinsurers' share	(11,628)	(12,123)	(10,869)	(11,019)
Gross reserves for losses and loss adjustment expenses	68,682	69,270	65,781	65,746

As of September 30, 2013, the **net reserves for losses and loss adjustment expenses** for the total Group decreased by USD 332 million to USD 57.1 billion compared with December 31, 2012, of which USD 110 million related to the negative effect of foreign currency translation. Favorable reserve development arising from reserves established in prior years amounted to USD 574 million for the first nine months of 2013, in part due to favorable releases in Switzerland and in Global Corporate business.

The increase of USD 1.8 billion for the total Group during the first nine months of 2012 in net reserves for losses and loss adjustment expenses included USD 287 million related to the positive effect of foreign currency translation and a reclassification of annuity reserves related to claims that had previously been included as policyholders' contract deposits and other funds shown in acquisition/divestments and transfers. Favorable reserve developments of USD 373 million on reserves established in prior years included the strengthening of reserves for long-tail liability business in Germany.

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		6,350	11,687	(727)	(1,058)	5,624	10,629
Net reserves as of September 30		220,333	206,989	16,062	16,970	236,395	223,958

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		119,680¹	107,646	94,302	87,656	213,982¹	195,302
Premiums		10,668	12,727	6,771	6,382	17,439	19,109
Claims		(12,155)	(12,402)	(7,245)	(6,357)	(19,399)	(18,759)
Fee income and other expenses		(1,573)	(1,408)	(1,522)	(1,486)	(3,095)	(2,895)
Interest and bonuses credited to policyholders		8,708	7,830	2,813	2,504	11,521	10,334
Change in assumptions		–	–	23	84	23	84
Acquisitions/(divestments) and transfers		–	–	–	843	–	843
Increases/(decreases) recorded in other comprehensive income		12	(5)	(1,109)	1,642	(1,098)	1,636
Foreign currency translation effects		(286)	1,374	1,244	(40)	958	1,334
As of September 30							
Net reserves		125,054	115,762	95,278	91,227	220,333	206,989
Reinsurers' share		–	–	(2,059)	(1,974)	(2,059)	(1,974)
Gross reserves		125,054	115,762	97,338	93,201	222,392	208,963

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 61.6 billion and USD 60.8 billion, and liabilities for investment contracts, the net amounts of which were USD 63.4 billion and USD 55 billion as of September 30, 2013 and 2012, respectively

³ Includes reserves for future life policyholders' benefits, the net amounts of which were USD 77.6 billion and USD 74.9 billion and policyholders' contract deposits and other funds, the net amounts of which were USD 17.7 billion and USD 16.3 billion as of September 30, 2013 and 2012, respectively

Operating and financial review *continued*

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	
	09/30/13	12/31/12 ¹	09/30/13	12/31/12 ¹	09/30/13	12/31/12 ¹
North America	1,087	1,021	5,444	5,307	6,530	6,329
Latin America	10,121	10,709	5,363	5,204	15,484	15,913
Europe	99,051	94,124	81,281	80,468	180,332	174,592
<i>of which:</i>						
<i>United Kingdom</i>	59,612	58,468	4,925	5,200	64,537	63,667
<i>Germany</i>	12,568	11,130	43,738	43,084	56,305	54,214
<i>Switzerland</i>	842	786	19,854	19,741	20,696	20,528
<i>Ireland</i>	15,179	13,215	1,874	1,727	17,053	14,942
<i>Spain</i>	4,853	4,874	6,053	5,981	10,906	10,855
<i>Rest of Europe</i>	5,997	5,651	4,838	4,734	10,835	10,385
Asia-Pacific and Middle East	11,569	11,315	2,872	3,035	14,442	14,350
Other	3,226	2,511	319	284	3,545	2,795
Eliminations	–	–	–	4	–	4
Total	125,054	119,680	95,278	94,302	220,333	213,982

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

Total reserves and liabilities for insurance and investment contracts, net of reinsurance, increased by USD 6.4 billion, or by 3 percent in both U.S. dollar terms and on a local currency basis compared with December 31, 2012.

Unit-linked insurance and investment contracts, net of reinsurance, increased by USD 5.4 billion, or by 4 percent in U.S. dollar terms and by 5 percent on a local currency basis, compared with December 31, 2012, driven by growth in unit-linked assets under management reflecting increases in equity markets in Europe.

Other life insurance liabilities, net of reinsurance, increased by USD 1.0 billion, or by 1 percent in U.S. dollar terms and remained flat on a local currency basis, compared with December 31, 2012.

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	149	–	149
Proceeds from treasury share transactions	13	–	13
Dividends	(1,933)	(166)	(2,099)
Share-based payment transactions	(45)	–	(45)
Reclassification from revaluation reserves	5	–	5
Total comprehensive income	(632)	100	(531)
Net income after taxes	2,954	183	3,137
Net other recognized income and expenses	(3,586)	(83)	(3,669)
Net changes in capitalization and non-controlling interests	–	4	4
As of September 30, 2013	32,062	2,306	34,369

Total equity decreased by USD 2.5 billion to USD 34.4 billion, or by 7 percent compared with December 31, 2012. This decrease was primarily due to the payment of USD 2.7 billion for the dividend of CHF 17.00 per share, approved by shareholders at the Annual General Meeting on April 4, 2013, which was paid out of the capital contribution reserve. Of the USD 2.7 billion, USD 1.9 billion was included in dividends, while USD 718 million was included in other comprehensive income as a cumulative foreign currency translation adjustment.

Net income after taxes attributable to shareholders of USD 3.0 billion for the nine months ended September 30 was more than offset by net other recognized expenses, which primarily comprised net unrealized losses on investments of USD 2.1 billion, net actuarial losses on pension plans of USD 500 million, and the total cumulative foreign currency translation adjustment losses of USD 917 million, including the cumulative translation adjustment relating to the dividend.

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 July 1, 2013 the Group filed, on a consolidated basis, an SST capitalization ratio of 206 percent. The SST capitalization ratio as of January 1, 2013 was 185 percent. The filings as of both January 1 and July 1, 2013 are 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 September 30, 2013 decreased to 261 percent from 278 percent as of December 31, 2012.

Operating and financial review *continued*

Cash flows

Summary of cash flows

in USD millions, for the nine months ended September 30			Restated
		2013	2012
Net cash provided by/(used in) operating activities		1,754	1,732
Net cash used in investing activities		(171)	(182)
Net cash provided by/(used in) financing activities		(2,480)	(2,308)
Foreign currency translation effects on cash and cash equivalents		(56)	61
Change in cash and cash equivalents		(954)	(696)
Cash and cash equivalents as of January 1		10,208	9,705
Cash and cash equivalents as of September 30		9,254	9,009

Net **cash and cash equivalents** decreased by USD 954 million in the first nine months of 2013 compared with a decrease of USD 696 million in the same period of 2012.

Net cash provided by operating activities, which included cash movements in and out of, as well as within total investments, was USD 1.8 billion compared with USD 1.7 billion for the same period of 2012. Net cash used in investing activities of USD 171 million, compared with USD 182 million for the same period of 2012, related mainly to net sales and purchases of property and equipment. Net cash used in financing activities for the nine months 2013 of USD 2.5 billion were primarily related to the payment of the Group dividend of USD 2.7 billion, partially offset by a net issuance of debt of USD 283 million. In the same period of 2012, a net movement of cash used of USD 2.3 billion included the Group dividend of USD 2.7 billion offset by a net issuance of debt of USD 275 million in financing activities.

Cash flow details are set out in the consolidated statements of cash flows in the unaudited Consolidated financial statements.

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 nine months ended September 30, 2013	in USD	
		millions	in %
	Gross written premiums and policy fees	(413)	(1%)
	Insurance benefits and losses, gross of reinsurance	87	–
	Net income attributable to shareholders	(12)	–
	Business operating profit	(23)	(1%)

The consolidated income statements are translated at average exchange rates. In the first nine months of 2013, the U.S. dollar was on average weaker against the euro and the Swiss franc, but stronger against the British pound compared with the same period of 2012. The net impact on the result from these major currencies was more than offset by the weakening of the Brazilian real and Japanese yen against the U.S. dollar. The overall net impact on the result was 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 December 31, 2012, as of September 30, 2013	in USD	
		millions	in %
	Total investments	462	–
	Reserves for insurance contracts, gross	458	–
	Cumulative translation adjustment in shareholders' equity ¹	(917)	(3%)

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, Brazilian real and Japanese yen but weakened against the euro and the Swiss franc as of September 30, 2013 compared with December 31, 2012, resulting in a marginal decrease in U.S. dollar terms for most balance sheet items.

Operating and financial review *continued*

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