ZURICH

Operating and financial review 2013

Zurich Insurance Group
Annual Report 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 year ended December 31, 2013, compared with 2012. It also explains key aspects of the Group's financial position as of the end of 2013.

Contents

The information contained within the Operating and financial review is unaudited and is based on the consolidated results of the Group for the years ended December 31, 2013 and 2012 and the financial position as of December 31, 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 2013 of the Group and, in particular, with its Consolidated financial statements as of December 31, 2013. Certain comparative figures have been restated, as set out in note 1 of the Consolidated financial statements.

In addition to the figures stated in accordance with 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 Embedded value report. 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 28 of the Consolidated financial statements.

Financial highlights

in USD millions, for the years ended December 31, unless otherwise stated	2013	2012[1]	Change[2]
Business operating profit	**4,680**	4,084	15%
Net income attributable to shareholders	**4,028**	3,887	4%
General Insurance gross written premiums and policy fees	**36,438**	35,610	2%
Global Life gross written premiums, policy fees and insurance deposits	**27,095**	30,259	(10%)
Farmers Management Services management fees and other related revenues	**2,810**	2,846	(1%)
Farmers Re gross written premiums and policy fees	**4,045**	4,361	(7%)
General Insurance business operating profit	**2,859**	2,112	35%
General Insurance combined ratio	**95.5%**	98.4%	2.9 pts
Global Life business operating profit	**1,272**	1,351	(6%)
Global Life new business annual premium equivalent (APE)[3]	**4,418**	4,030	10%
Global Life new business margin, after tax (as % of APE)[3]	**28.3%**	22.1%	6.2 pts
Global Life new business value, after tax[3]	**1,251**	890	41%
Farmers business operating profit	**1,516**	1,402	8%
Farmers Management Services gross management result	**1,353**	1,366	(1%)
Farmers Management Services managed gross earned premium margin	**7.2%**	7.3%	(0.1 pts)
Average Group investments	**208,431**	204,066	2%
Net investment result on Group investments	**7,398**	8,983	(18%)
Net investment return on Group investments[4]	**3.5%**	4.4%	(0.9 pts)
Total return on Group investments[4]	**1.3%**	7.0%	(5.7 pts)
Shareholders' equity	**32,503**	34,505	(6%)
Swiss Solvency Test capitalization ratio[5]	**206%**	185%	21 pts
Diluted earnings per share (in CHF)	**25.23**	24.72	2%
Book value per share (in CHF)	**196.14**	214.86	(9%)
Return on shareholders' equity (ROE)	**12.0%**	11.8%	0.2 pts
Business operating profit (after tax) return on shareholders' equity (BOPAT ROE)	**10.5%**	9.3%	1.2 pts

[1] December 31, 2012 has been restated as set out in note 1 of the 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 Embedded value report for details of these principles. New business amounts for the year ended December 31, 2012 do not include Zurich Santander or new operations in Asia (including Zurich Insurance Malaysia Berhad – ZIMB).
[4] Calculated on average Group investments.
[5] 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 year ended December 31, 2013

The Group delivered solid results in all core businesses with overall business operating profit of USD 4.7 billion, an increase of USD 596 million or 15 percent compared with 2012. These results together with the Group's continued strong capital position have again enabled the Board of Directors to propose an attractive dividend of CHF 17.00 per share.

The performance in the core businesses was achieved through continued focus on profitability, underpinned by the sustained execution of the Group's product, underwriting and pricing strategies. The result also benefited from lower major catastrophe events in 2013, though this benefit was partly offset by a higher level of large and weather-related losses. Overall the performance has more than absorbed the impact of the decrease in investment income resulting from persistent low investment yields.

Improvement in profitability continued while the Group's focus on growth was maintained in its priority markets in both General Insurance and Global Life.

The Group's 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 2.0 billion to USD 32.5 billion during 2013 including net income attributable to shareholders of USD 4.0 billion, and after a decrease in net unrealized gains on investments of USD 2.8 billion, and the dividend of USD 2.7 billion paid in April 2013.

Business operating profit increased by USD 596 million to USD 4.7 billion, or by 15 percent in both U.S. dollar terms and on a local currency basis.

- **General Insurance** business operating profit increased by USD 747 million to USD 2.9 billion, or by 35 percent both in U.S. dollar terms and on a local currency basis. The underlying loss experience and expenses improved in 2013 compared with 2012, with savings initiatives to reduce expenses reflected in a lower expense ratio. The business also benefited from lower major catastrophe events. These improvements were partly offset by an increase in large and weather-related losses. Investment income declined compared with 2012.

- **Global Life** business operating profit decreased by USD 80 million to USD 1.3 billion, or by 6 percent in U.S. dollar terms and 4 percent on a local currency basis. Increases in Latin America were more than offset by reductions in North America, Europe and Asia-Pacific and Middle East (APME). Improvements from the increased contribution from Zurich Santander, after non-controlling interests, and improvements in the expense and risk margins, were largely offset by a significant reduction in the investment margin and a lower level of positive special operating items, which included a charge of USD 30 million resulting from the closure of the agency distribution channel in Hong Kong.

- **Farmers** business operating profit increased by USD 114 million to USD 1.5 billion, or by 8 percent. This was due to an improved underwriting result in Farmers Re, benefiting from rate increases and the re-underwriting of business in the Farmers Exchanges, which are owned by their policyholders and managed by Farmers Group, Inc., a wholly owned subsidiary of the Group. **Farmers Management Services** business operating profit decreased by USD 38 million to USD 1.4 billion, mainly due to a decrease in management fees and other related revenues as well as lower investment income. This decrease was more than offset by the improved underwriting result in **Farmers Re** where business operating profit improved by USD 152 million to USD 125 million.

- **Other Operating Businesses** reported a business operating loss of USD 1.0 billion. This 14 percent deterioration compared with 2012 resulted mainly from decreased investment income in Holding and financing and several non-recurring items in the Headquarters result.

- **Non-Core Businesses** reported a business operating profit of USD 73 million compared with USD 129 million in 2012. This reduction resulted from a one-off gain in 2012 included 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 2.7 billion to USD 70.4 billion, or by 4 percent in U.S. dollar terms and 3 percent on a local currency basis.

- **General Insurance** gross written premiums and policy fees increased by USD 828 million to USD 36.4 billion, or by 2 percent in U.S. dollar terms and 3 percent on a local currency basis, led by markets where the Group has targeted growth.

- **Global Life** gross written premiums, policy fees and insurance deposits decreased by USD 3.2 billion to USD 27.1 billion, or by 10 percent both in U.S. dollar terms and 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, due to discontinuation of low-margin single premium products in Private Banking Client Solutions.

- **Farmers Management Services** management fees and other related revenues of USD 2.8 billion decreased by USD 36 million, or by 1 percent, among other factors due to lower levels of fees on new business policies. **Farmers Re** gross written premiums decreased by 7 percent to USD 4.0 billion, reflecting a reduced participation in the quota share reinsurance agreements with the Farmers Exchanges, as well as a 2 percent reduction in gross written premiums in the Farmers Exchanges.

Net income attributable to shareholders increased to USD 4.0 billion, an increase of USD 141 million or 4 percent compared with 2012. The increase in business operating profit was partly offset by lower net capital gains on investments and by several non-recurring costs relating to the restructuring of business operations. **The shareholders' effective tax rate** was 24.9 percent for the year ended December 31, 2013, compared with 24.7 percent for the year ended December 31, 2012.

ROE of 12.0 percent and **BOPAT ROE** of 10.5 percent improved by 0.2 percentage points and 1.2 percentage points respectively compared with 2012 driven by the increased earnings. **Diluted earnings per share** increased by 2 percent to CHF 25.23 for the year ended December 31, 2013, compared with CHF 24.72 in 2012.

Operating and financial review *continued*

General Insurance

in USD millions, for the years ended December 31	2013	2012	Change
Gross written premiums and policy fees	36,438	35,610	2%
Net earned premiums and policy fees	29,769	29,195	2%
Insurance benefits and losses, net of reinsurance	(20,321)	(20,527)	1%
Net underwriting result	1,347	479	nm
Net investment income	2,217	2,516	(12%)
Net non-technical result (excl. items not included in BOP)	(799)	(901)	11%
Business operating profit	**2,859**	**2,112**	**35%**
Loss ratio	68.3%	70.3%	2.0 pts
Expense ratio	27.2%	28.0%	0.8 pts
Combined ratio	**95.5%**	**98.4%**	**2.9 pts**

in USD millions, for the years ended December 31	Business operating profit (BOP)		Combined ratio	
	2013	2012	2013	2012
Global Corporate	879	498	92.3%	99.1%
North America Commercial	972	699	95.3%	99.7%
Europe	1,009	702	94.5%	97.2%
International Markets	115	165	100.7%	98.7%
GI Global Functions including Group Reinsurance	(116)	49	nm	nm
Total	**2,859**	**2,112**	**95.5%**	**98.4%**

Business operating profit increased by USD 747 million to USD 2.9 billion, or by 35 percent in both U.S. dollar terms and on a local currency basis. The underwriting result improved by USD 868 million to USD 1.3 billion. Persistent low investment yields resulted in a decrease in net investment income, which was partly offset by increased investment capital gains recognized in business operating profit. Non-technical expenses were also lower as a result of several non-recurring items.

Gross written premiums and policy fees increased by USD 828 million to USD 36.4 billion, or by 2 percent in U.S. dollar terms and 3 percent on a local currency basis. Growth was achieved in Global Corporate, North America Commercial and in all International Markets. Premium growth was particularly strong in Global Corporate, both in North America and in Europe, as well as in North America Commercial, with the North American businesses benefiting from improving economic conditions and from the market environment, which continued to support rate increases. Premiums in International Markets, particularly on a local currency basis, increased as these businesses executed growth strategies.

The **net underwriting result** increased by USD 868 million to USD 1.3 billion, reflected in the 2.9 percentage points improvement in the combined ratio to 95.5 percent. The net underwriting result benefited from improvements in the underlying loss experience as well as from lower major catastrophe events. The improvement also reflected a higher level of favorable development of reserves established in prior years. These positive developments were partly offset by an increase in both large and weather-related 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 priority markets.

Global Corporate

in USD millions, for the years ended December 31	2013	2012	Change
Gross written premiums and policy fees	9,264 [1]	8,609	8%
Net underwriting result	466	50	nm
Business operating profit	**879**	**498**	**77%**
Loss ratio	73.6%	78.0%	4.5 pts
Expense ratio	18.8%	21.1%	2.3 pts
Combined ratio	**92.3%**	**99.1%**	**6.8 pts**

[1] including internal business transfers from North America Commercial

Business operating profit increased by USD 381 million to USD 879 million due to the increase in the underwriting result. Persistent low investment yields resulted in a decrease in net investment income, which was partly offset by increased investment capital gains recognized in business operating profit, primarily in the U.S.

Gross written premiums and policy fees increased by USD 655 million to USD 9.3 billion, or by 8 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 this growth. Strong renewals and new business production levels were achieved in both Europe and North America despite a continued focus on achieving rate increases and profitable underwriting. Rates increased by 4 percent in 2013, driven by motor, by workers' compensation in both North America and Europe and by liability in North America.

The **net underwriting result increased** by USD 416 million to USD 466 million, reflected in the improvement of 6.8 percentage points in the combined ratio to 92.3 percent. This improvement arose principally from the loss ratio, which benefited from lower major catastrophe events, in contrast to 2012 which was impacted by storm Sandy. This was partly offset by adverse individual large losses and prior year premiums. The expense ratio also improved by 2.3 percentage points as a result of disciplined expense management and non-recurring one-off items.

Operating and financial review *continued*

North America Commercial

in USD millions, for the years ended December 31	2013	2012	Change
Gross written premiums and policy fees	10,215 [1]	10,003	2%
Net underwriting result	362	26	nm
Business operating profit	**972**	**699**	**39%**
Loss ratio	68.0%	71.4%	3.4 pts
Expense ratio	27.2%	28.2%	1.0 pts
Combined ratio	**95.3%**	**99.7%**	**4.4 pts**

[1] after internal business transfers to Global Corporate

Business operating profit increased by USD 273 million to USD 972 million, or by 39 percent, driven by an increase in the underwriting result. Persistent low investment yields resulted in a decrease in net investment income, which was partly offset by increased investment capital gains recognized in business operating profit and lower non-technical expenses.

Gross written premiums and policy fees increased by USD 212 million to USD 10.2 billion, or by 2 percent. Underlying growth was 6 percent after adjusting for internal business transfers to Global Corporate and a fronted portfolio that was not renewed. 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. These initiatives also targeted special lines products and the captive and auto warranty businesses. Volume in property lines was particularly strong, fuelled by growth initiatives and rate increases. 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 5 percent were achieved during 2013.

The **net underwriting result** increased by USD 336 million to USD 362 million, which was reflected in the improvement of 4.4 percentage points in the combined ratio to 95.3 percent. The underlying loss ratio continued to show improvement compared with 2012 reflecting the favorable impact of sustained rate increases, as well as the impact of claims and underwriting initiatives. The underwriting result also benefited from lower major catastrophe events compared with 2012 which was impacted by storm Sandy. In 2013, changes in loss reserves established in prior years were negligible compared with favorable development in 2012. The expense ratio improved by 1.0 percentage points, reflecting the benefits of efficiency and savings initiatives which reduced other underwriting expenses. This was partly offset by an increase in the commission ratio following a shift toward business with higher commission rates.

Europe

in USD millions, for the years ended December 31	2013	2012	Change
Gross written premiums and policy fees	11,799	11,882	(1%)
Net underwriting result	640	324	97%
Business operating profit	**1,009**	**702**	**44%**
Loss ratio	67.4%	69.9%	2.5 pts
Expense ratio	27.1%	27.4%	0.3 pts
Combined ratio	**94.5%**	**97.2%**	**2.8 pts**

Business operating profit increased by USD 307 million to USD 1.0 billion, or by 44 percent in U.S. dollar terms and 42 percent on a local currency basis. This improvement reflected a significant increase in the underwriting result, which was partly offset by lower investment income as a result of persistent low investment yields. Non-technical expenses were also lower and benefited from several non-recurring items.

Gross written premiums and policy fees decreased by USD 83 million to USD 11.8 billion, or by 1 percent in U.S. dollar terms and 2 percent on a local currency basis. The lower volume resulted from continued focus on profitability and the impact of the challenging economic environment. Average rate increases of 3 percent were achieved in 2013.

The **net underwriting result** increased by USD 316 million to USD 640 million, which was reflected in the improvement in the combined ratio of 2.8 percentage points to 94.5 percent. The improvement in the loss ratio of 2.5 percentage points stemmed from continued improvements in the underlying loss ratio, particularly in Germany, Italy, the UK and Ireland. This was a result of sustained pricing and underwriting actions and a higher level of favorable development of reserves established in prior years, which in 2012 included the significant reserve strengthening in Germany. These improvements were partly offset by an increase in weather-related losses, including floods in Europe and individual large losses. The expense ratio improved by 0.3 percentage points, reflecting lower commissions and a focus on expense management.

Operating and financial review *continued*

International Markets

in USD millions, for the years ended December 31	2013	2012	Change
Gross written premiums and policy fees	5,700	5,603	2%
Net underwriting result	(29)	54	nm
Business operating profit	**115**	**165**	**(30%)**
Loss ratio	61.7%	60.3%	(1.4 pts)
Expense ratio	38.9%	38.4%	(0.5 pts)
Combined ratio	**100.7%**	**98.7%**	**(1.9 pts)**

Business operating profit decreased by USD 50 million to USD 115 million, or by 30 percent in U.S. dollar terms and 31 percent on a local currency basis. The decrease in the underwriting result was partly offset by a one-off gain included in the non-technical result from the sale of own-use real estate in Taiwan.

Gross written premiums and policy fees increased by USD 97 million to USD 5.7 billion, or by 2 percent in U.S. dollar terms and 12 percent on a local currency basis. Growth in Latin America of 18 percent on a local currency basis was generated mainly in Mexico and Brazil. Asia-Pacific achieved an increase of 8 percent on a local currency basis, with particularly strong growth in Australia, Japan and Hong Kong. Premiums in the Middle East and Africa increased by 2 percent on a local currency basis.

The **net underwriting result** deteriorated by USD 83 million, which was reflected in the 1.9 percentage points deterioration in the combined ratio to 100.7 percent. Losses from floods in Queensland, Australia, higher large losses in Latin America and slightly lower favorable development in loss reserves established in prior years were reflected in the deterioration of 1.4 percentage points in the loss ratio. The expense ratio deteriorated by 0.5 percentage points compared with 2012, a result of higher and partly non-recurring other underwriting expenses in Latin America and higher commissions in Asia-Pacific.

Global Life

in USD millions, for the years ended December 31	2013	2012	Change
Insurance deposits	13,180	16,670	(21%)
Gross written premiums and policy fees	13,916	13,590	2%
Net investment income on Group investments	3,895	3,991	(2%)
Insurance benefits and losses, net of reinsurance	(9,167)	(9,592)	4%
Business operating profit	**1,272**	**1,351**	**(6%)**
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts (net reserves)[1]	226,166	213,982	6%
Assets under management[1, 2]	267,202	253,509	5%
Net policyholder flows[3]	(2,694)	1,431	nm

[1] As of December 31, 2013 and December 31, 2012, respectively. Restated as set out in note 1 of the 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 insurance deposits, less policyholder benefits.

	2013	2012	Change
New business – highlights[1, 2]			
New business annual premium equivalent (APE)	**4,418**	**4,030**	**10%**
Present value of new business premiums (PVNBP)	40,586	35,296	15%
New business margin, after tax (as % of APE)	**28.3%**	**22.1%**	**6.2 pts**
New business margin, after tax (as % of PVNBP)	3.1%	2.5%	0.6 pts
New business value, after tax	**1,251**	**890**	**41%**

[1] New business amounts are calculated on embedded value principles before the effect of non-controlling interests, details of which are included in the Embedded value report.
[2] New business amounts for 2012 did not include Zurich Santander or the new operations in Asia (including Zurich Insurance Malaysia Berhad – ZIMB).

Profit by source[1]

in USD millions, for the year ended December 31	New business		Business in-force		Total	
	2013	2012	2013	2012	2013	2012
Net expense margin	(1,340)	(1,434)	1,523	1,410	183	(23)
Net risk margin			821	769	821	769
Net investment margin[2]			579	716	579	716
Other profit margins[2]			19	27	19	27
BOP before deferrals	(1,340)	(1,434)	2,942	2,923	1,602	1,489
Impact of acquisition deferrals	1,074	1,167	(886)	(903)	188	264
BOP before interest, depreciation and amortization	(266)	(266)	2,056	2,019	1,790	1,753
Interest, depreciation and amortization			(291)	(273)	(291)	(273)
Non-controlling interests[3]			(232)	(146)	(232)	(146)
BOP before special operating items	(266)	(266)	1,532	1,600	1,267	1,333
Special operating items			5	18	5	18
Business operating profit	**(266)**	**(266)**	**1,537**	**1,617**	**1,272**	**1,351**

[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 margins. Figures for 2012 have been restated.
[3] Non-controlling interests pertaining to special operating items are excluded from this line and are offset against special operating items.

Operating and financial review *continued*

Business operating profit decreased by USD 80 million to USD 1.3 billion, or by 6 percent in U.S. dollar terms and 4 percent on a local currency basis, with increases in Latin America more than offset by reductions in North America, Europe and APME.

The net expense margin improved overall by USD 206 million. Business in-force reflected significant expense reductions in mature markets, while improvements in fund-based fees were offset by a reduction in premium-based fees as a result of lower levels of business in Germany. New business benefited from lower acquisition expenses, albeit this effect was entirely offset by the lower positive impact of acquisition deferrals. The net risk margin improved by USD 52 million, resulting from the underlying growth in protection business and positive experience in Latin America, which also included a full-year contribution from the social security (SIS) contract in Chile acquired in 2012. Persistently low investment yields continued to affect the investment margin, which decreased by USD 138 million, principally in Germany and North America.

Other profit margins decreased by USD 8 million to USD 19 million. An increase of USD 162 million compared with 2012 related to Zurich Santander, before the effect of non-controlling interests, was more than offset by the cost of business expansion in North America, Latin America and APME, and in Germany the indirect impact of lower investment yields and local statutory requirements, including the ‘Zinszusatzreserve’ (a reserve for supplementary interest).

Non-controlling interests increased by USD 86 million, primarily due to the higher contribution from Zurich Santander. After deducting non-controlling interests, the net contribution to business operating profit from Zurich Santander was USD 182 million, compared with USD 105 million in 2012. The impact of acquisition deferrals declined by USD 76 million, as a result of lower deferrals of new business expenses, partly offset by lower net amortization of deferred expenses on business in-force, driven by movements in equity markets. Special operating items decreased by USD 13 million to USD 5 million. This decrease resulted mainly from a charge for the reassessment of deferred acquisition costs of USD 30 million following the closure of the agency distribution channel in Hong Kong. Special operating items also included a benefit from the reduction of a liability largely offset by the impact of accelerated amortization of deferred acquisition costs, both in the UK.

Insurance deposits decreased by USD 3.5 billion to USD 13.2 billion, or by 21 percent both in U.S. dollar terms and on a local currency basis. This reduction was predominantly in the UK, driven by a reduction of single premium products in Private Banking Client Solutions following the implementation of new regulations on intermediary commission payments from the beginning of 2013.

Gross written premiums and policy fees increased by USD 326 million to USD 13.9 billion, or by 2 percent in U.S. dollar terms and 3 percent on a local currency basis compared with 2012, benefiting from increased volumes of protection business, particularly in Latin America.

Net reserves increased by USD 12.2 billion, or by 6 percent in U.S. dollar terms and 4 percent on a local currency basis, compared with December 31, 2012, primarily reflecting increased values of unit-linked assets. **Assets under management** increased by 5 percent in U.S. dollar terms and 4 percent on a local currency basis compared with December 31, 2012, driven by unit-linked asset growth and favorable exchange rate movements. Total assets under management for unit-linked portfolios increased by 8 percent on a local currency basis, primarily as a result of increases in equity markets in Europe. Net policyholder flows were a net outflow of USD 2.7 billion compared with a net inflow of USD 1.4 billion in 2012, as a result of a combination of lower inflows from insurance deposits in the UK and higher net outflows from traditional portfolios in Germany.

NBV, APE, NBM and BOP by region

in USD millions, for the years ended December 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	117	109	162	125	72.4%	87.1%	173	243
Latin America[1, 2]	368	99	1,178	755	31.2%	13.2%	245	155
of which:								
Zurich Santander	*268*	–	*821*	–	*32.6%*	–	*182*	*105*
Europe	490	453	2,376	2,538	20.6%	17.9%	778	819
United Kingdom	*167*	*195*	*1,019*	*1,194*	*16.4%*	*16.4%*	*169*	*306*
Germany	*43*	*37*	*363*	*453*	*11.8%*	*8.2%*	*185*	*140*
Switzerland	*60*	*25*	*225*	*220*	*26.7%*	*11.5%*	*241*	*259*
Ireland	*68*	*66*	*420*	*355*	*16.1%*	*18.5%*	*51*	*26*
Spain	*117*	*94*	*155*	*149*	*75.4%*	*62.9%*	*42*	*14*
Rest of Europe	*35*	*36*	*195*	*167*	*17.9%*	*21.5%*	*88*	*74*
APME[1, 2]	177	125	530	464	33.5%	26.9%	83	134
Other	99	103	173	147	57.4%	70.1%	(7)	–
Total	**1,251**	**890**	**4,418**	**4,030**	**28.3%**	**22.1%**	**1,272**	**1,351**

NBV and APE by pillar[1, 2]

in USD millions, for the years ended December 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	435	134	1,348	485	32.3%	27.6%
IFA/Brokers	274	233	1,003	972	27.3%	24.0%
Agents	203	152	473	428	42.9%	35.6%
Total Retail pillars	**912**	**519**	**2,824**	**1,885**	**32.3%**	**27.5%**
Corporate Life & Pensions	293	285	1,409	1,703	20.8%	16.7%
Private Banking Client Solutions	4	24	118	319	3.6%	7.4%
Direct and Central Initiatives	41	61	68	122	60.4%	50.2%
Total	**1,251**	**890**	**4,418**	**4,030**	**28.3%**	**22.1%**

1 New business amounts are calculated before the effect of non-controlling interests and, for 2012, did not include Zurich Santander and the new operations in Asia (including ZIMB).
2 Zurich Santander and ZIMB new business amounts for the full year 2012 were not included in the Embedded value report nor subjected to audit. Estimates of those figures are as follows: Zurich Santander NBV: USD 182 million, APE: USD 701 million, NBM: 26.0 percent; ZIMB NBV: USD 13 million, APE: USD 35 million, NBM: 36.6 percent.

Global Life continued to benefit from its acquisitions and investment in organic growth in priority 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. Zurich Santander and ZIMB new business has been included in 2013, but was not reported in 2012.

New business value increased by USD 361 million to USD 1.3 billion, or by 41 percent in U.S. dollar terms and 43 percent on a local currency basis. This increase was driven by the first-time inclusion of Zurich Santander, which contributed USD 268 million, as well as by strong performance in all regions led by volume growth in protection products.

In North America, the IFA/Brokers pillar continued to gain momentum. This led to an overall APE growth of 29 percent and an increase in new business value of 7 percent. Changes in business mix resulted in a lower but still high new business margin of 72.4 percent.

Operating and financial review *continued*

In Europe, the overall increase of USD 36 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 from higher-margin protection products. These positive impacts were partly offset by a decrease in the UK following the implementation of the new regulations.

In APME, new business value grew in all countries, with the most significant increase coming from protection business in the Middle East. The first-time inclusion in 2013 of new operations in Asia also had a positive impact.

APE increased by USD 388 million to USD 4.4 billion, or by 10 percent in U.S. dollar terms and 11 percent on a local currency basis, benefiting from the first time inclusion of USD 821 million from Zurich Santander. This was partly offset by lower levels of single premium products in Private Banking Client Solutions, following the implementation of new regulations in the UK, and a reduction of APE in Chile, where 2012 included the impact from the successful participation in the biennial Social Security (SIS) bid process. No additional APE was recorded on this contract in 2013. On a comparable basis, excluding these large impacts as well as the contribution from Zurich Santander, APE increased by 6 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 6.2 percentage points to 28.3 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, the impact of the SIS contract which reduced margin in 2012 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 393 million to USD 912 million, or by 76 percent in U.S. dollar terms and 79 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 2013.

In **Corporate Life & Pensions**, new business value increased by USD 8 million to USD 293 million benefiting particularly from higher-margin corporate protection business and volumes in Europe. This more than offset decreases in Latin America related to the SIS transaction in Chile and from the transitional impact arising from a change in methodology for corporate protection business.

Farmers

Farmers business operating profit increased by USD 114 million to USD 1.5 billion, or by 8 percent. This was due to an improved underwriting result in Farmers Re, which benefited from the actions taken on rate increases and re-underwriting of business in the Farmers Exchanges, which are owned by their policyholders and managed by Farmers Group, Inc., a wholly owned subsidiary of the Group. This increase was partly offset by lower business operating profit in Farmers Management Services, also partly reflecting the actions taken in the Farmers Exchanges.

Farmers Management Services

in USD millions, for the years ended December 31	**2013**	2012	Change
Management fees and other related revenues	2,810	2,846	(1%)
Management and other related expenses	(1,457)	(1,480)	2%
Gross management result	1,353	1,366	(1%)
Other net income	38	62	(39%)
Business operating profit	**1,390**	**1,428**	**(3%)**
Managed gross earned premium margin	7.2%	7.3%	–

Business operating profit of USD 1.4 billion decreased by USD 38 million, or by 3 percent, primarily due to a decrease in management fees and other related revenues, as well as lower investment income.

Management fees and other related revenues of USD 2.8 billion decreased by USD 36 million, or by 1 percent, among other factors due to lower levels of fees on new business policies. **Management and other related expenses** of USD 1.5 billion decreased by USD 23 million, as a result of the impact of disciplined expense management, a one-off benefit to employee costs and reduced facilities expenses. **Other net income and expenses** of USD 38 million decreased by USD 24 million due to a reduction in investment income resulting from lower interest rates, as well as reduced real estate investment income compared with 2012. In addition, 2012 benefited from a one-time gain related to the settlement of a portion of the pension liability for vested plan participants who are no longer employed by the company.

The **gross management result** of USD 1.4 billion decreased by USD 13 million, or by 1 percent, and the **managed gross earned premium margin** was 7.2 percent compared with 7.3 percent in 2012.

Operating and financial review *continued*

Farmers Re

in USD millions, for the years ended December 31	2013	2012	Change
Gross written premiums and policy fees	4,045	4,361	(7%)
Net underwriting result	(9)	(163)	94%
Business operating profit	**125**	**(26)**	**nm**
Loss ratio	68.9%	72.4%	3.5 pts
Expense ratio	31.3%	31.3%	–
Combined ratio	**100.2%**	**103.7%**	**3.5 pts**

Business operating profit of USD 125 million improved by USD 152 million, mainly due to a lower underlying loss ratio.

Gross written premiums and policy fees decreased by USD 316 million, or by 7 percent, to USD 4.0 billion. This was a result of changes in the quota share reinsurance agreements, as well as the 2 percent decrease in gross written premiums in the Farmers Exchanges due to actions taken to improve profitability. The changes in the reinsurance agreements comprised a reduction in the All Lines quota share reinsurance agreement with the Farmers Exchanges from 20.0 percent to 18.5 percent effective December 31, 2012 and a reduction from 18.5 percent to 18.0 percent effective December 31, 2013. The Auto Physical Damage quota share reinsurance agreement with the Farmers Exchanges was reduced from USD 1.0 billion of ceded premium in 2012 to USD 925 million, effective January 1, 2013.

The **net underwriting result** improved by USD 154 million to a loss of USD 9 million. This improvement was mainly a result of lower non-weather-related losses assumed from the Farmers Exchanges in 2013, demonstrating the impact of rate and underwriting actions taken in 2012 and 2013.

The **loss ratio** improved by 3.5 percentage points compared with 2012. This improvement was largely due to a reduced underlying loss ratio reflecting better underwriting results in the Farmers Exchanges. Weather-related losses remained above historical levels, but were slightly lower compared with 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 years ended December 31	2013	2012[1]	Change
Gross written premiums	18,643	18,935	(2%)
Gross earned premiums	18,757	18,703	–

[1] Including the return of USD 74 million of premiums as a result of the anticipated settlement of a lawsuit with the State of Texas.

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 292 million to USD 18.6 billion, or by 2 percent. This decline occurred in most lines of business except home and specialty lines. It resulted from the rate and underwriting actions begun in 2012 to improve profitability, which have impacted both levels of new business and renewals subsequent to the rate increases.

Gross earned premiums in the Farmers Exchanges were broadly flat. The effect of rate and underwriting actions begun in 2012 to improve profitability is flowing through to gross earned premiums. Decreases in non-standard auto and business insurance lines of business were offset by increases in the specialty, home, and standard auto lines of business.

Other Operating Businesses

in USD millions, for the years ended December 31	2013	2012	Change
Business operating profit:			
Holding and financing	(843)	(735)	(15%)
Headquarters	(196)	(175)	(12%)
Total business operating profit	**(1,039)**	**(910)**	**(14%)**

Holding and financing business operating loss deteriorated by USD 108 million to USD 843 million. This was mainly due to lower investment income, a result of special dividends received in 2012, and also the persistent low yield environment.

Headquarters business operating loss increased to USD 196 million, USD 22 million higher than in 2012. This deterioration was driven by several non-recurring items.

Non-Core Businesses

in USD millions, for the years ended December 31	2013	2012	Change
Business operating profit:			
Centrally managed businesses	27	29	(8%)
Other run-off	46	100	(54%)
Total business operating profit	**73**	**129**	**(44%)**

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 27 million.

Other run-off, which largely comprises U.S. life insurance and annuity portfolios, reported a business operating profit of USD 46 million. The decline of USD 54 million resulted from 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	
	12/31/13	12/31/12[1]	**12/31/13**	12/31/12[1]
Cash and cash equivalents	7,181	9,098	982	1,110
Equity securities:	13,183	12,341	111,954	99,478
Common stocks, including equity unit trusts	10,706	9,388	91,203	77,996
Unit trusts (debt securities, real estate and short-term investments)	1,919	2,418	20,750	21,482
Common stock portfolios backing participating with-profit policyholder contracts	558	534	–	–
Debt securities	156,456	155,594	11,605	11,646
Real estate held for investment	8,745	8,561	3,661	3,401
Mortgage loans	9,798	10,519	–	–
Other loans	11,789	13,385	6,066	8,279
Investments in associates and joint ventures	129	85	–	–
Total	**207,280**	**209,582**	**134,267**	**123,913**

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

Group investments decreased by USD 2.3 billion to USD 207.3 billion, or by 1 percent in U.S. dollar terms during the year. On a local currency basis, total Group investments decreased by USD 5.1 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 partly offset by new cash flows invested in debt and equity securities.

Unit-linked investments increased by USD 10.4 billion to USD 134.3 billion, or by 8 percent in both U.S. dollar terms and on a local currency basis during the year, 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 limit 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 years ended December 31	**2013**	2012	Change
Net investment income[1]	6,240	6,782	(8%)
Net capital gains/(losses) on investments and impairments	1,157	2,201	(47%)
of which: net capital gains/(losses) on investments and impairments attributable to shareholders	588	1,687	(65%)
Net investment result on Group investments[1]	7,398	8,983	(18%)
Net investment return on Group investments[2]	**3.5%**	**4.4%**	**(0.9 pts)**
Movements in net unrealized gains/(losses) on investments included in total equity	(4,670)	5,349	nm
Total investment result on Group investments[1]	**2,727**	**14,332**	**(81%)**
Average Group investments	208,431	204,066	2%
Total return on Group investments[2]	**1.3%**	**7.0%**	**(5.7 pts)**

[1] After deducting investment expenses of USD 256 million and USD 252 million for the years ended December 31, 2013 and 2012, respectively.
[2] Calculated on average Group investments.

Total **net investment income** decreased by 8 percent in both U.S. dollar terms and on a local currency basis to USD 6.2 billion, compared with USD 6.8 billion in 2012, reflecting persistent low investment yields on debt securities.

Total **net capital gains on investments and impairments** were USD 1.2 billion compared with USD 2.2 billion in 2012. The decrease of USD 1.0 billion was primarily due to negative asset revaluations.

Asset revaluations resulted in losses of USD 636 million, compared with gains of USD 286 million in 2012. The deterioration was due to negative revaluations of debt securities booked at fair value through profit or loss and to increased losses on derivative financial instruments used for hedging underlying business or investment risks.

Net capital gains from active management were USD 2.0 billion, a decrease of USD 128 million compared with 2012. The decrease was mainly due to lower gains from sales of debt securities, partly offset by gains of USD 692 million from the disposal of all of the Group's remaining shares in New China Life Insurance Company Ltd.

Impairments of USD 201 million were USD 7 million lower compared with 2012.

Net investment return on Group investments was 3.5 percent, 0.9 percentage points lower than in 2012, a result of both the decrease in the net investment result and an increase in average Group investments.

Net unrealized gains on investments included in total equity decreased by USD 4.7 billion from December 31, 2012, mainly due to a reduction of USD 4.2 billion in net unrealized gains on debt securities. This was a result of a significant rise in yields on debt securities. Net unrealized gains on equity securities declined by USD 252 million compared with December 31, 2012, as the positive effects of rising equity markets were offset by the recognition of realized capital gains from active management, including the sale of all of the Group's remaining shares in New China Life Insurance Company Ltd.

Total return on Group investments was 1.3 percent compared with 7.0 percent in 2012, primarily reflecting the reduction in net unrealized gains in 2013 from rising yields on debt securities.

Debt securities, which are invested to match the Group's insurance liability profiles, returned 0.5 percent. Equity securities and other investments returned 11.7 percent and 1.9 percent, respectively.

Performance of unit-linked investments

in USD millions, for the years ended December 31	**2013**	2012	Change
Net investment income	1,717	1,820	(6%)
Net capital (losses)/gains on investments and impairments	11,088	8,373	32%
Net investment result, net of investment expenses[1]	12,805	10,193	26%
Average investments	129,090	117,912	9%
Total return on unit-linked investments[2]	**9.9%**	**8.6%**	**1.3 pts**

[1] After deducting investment expenses of USD 575 million and USD 508 million for the years ended December 31, 2013 and 2012, respectively.
[2] Calculated on average Group investments.

Total return on unit-linked investments delivered 9.9 percent, an increase of 1.3 percentage points compared with 2012. Capital gains, particularly from the rise in equity markets in Europe, were partly offset by a reduction of USD 102 million in net investment income, 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	23,128	23,769	20,323	20,547
Current year	23,885	24,340	21,042	21,131
Prior years	(757)	(571)	(720)	(584)
Net losses and loss adjustment expenses paid	(23,404)	(23,378)	(20,635)	(20,412)
Current year	(9,605)	(9,853)	(7,603)	(7,621)
Prior years	(13,799)	(13,525)	(13,032)	(12,791)
Acquisitions/(divestments) and transfers	(49)	960	(65)	1,300
Foreign currency translation effects	258	693	244	682
As of December 31				
Net reserves for losses and loss adjustment expenses	**57,319**	**57,385**	**55,102**	**55,234**
Reinsurers' share	(10,993)	(12,601)	(10,528)	(11,308)
Gross reserves for losses and loss adjustment expenses	68,312	69,986	65,629	66,542

As of December 31, 2013, the **net reserves for losses and loss adjustment expenses** for the total Group decreased by USD 66 million to USD 57.3 billion compared with December 31, 2012. Foreign currency translation increased the reserves by USD 258 million. Favorable net reserve development arose from reserves established in prior years and amounted to USD 757 million for the full year 2013, reflecting favorable developments in Switzerland and in the Global Corporate business.

During 2012, the increase of USD 2.0 billion for the total Group in net reserves for losses and loss adjustment expenses included USD 693 million related to the positive effect of foreign currency translation and a transfer of USD 1.2 billion from policyholders' contract deposits and other funds to reserves for losses and loss adjustment expenses, shown in acquisitions/(divestments) and transfers. Favorable reserve developments of USD 571 million on reserves established in prior years included the strengthening of reserves for long-tail liability business in Germany.

Details of reserve developments emerging from reserves established in prior years are set out in note 8 of the Consolidated financial statements.

Development of cumulative net loss ratio

	2004	2005	2006	2007	2008	2009	2010	2011	2012	**2013**
In the year	68.3%	73.3%	69.6%	72.7%	74.6%	72.3%	73.5%	74.2%	71.3%	69.4%
One year later	64.2%	68.1%	66.2%	71.7%	74.1%	72.0%	73.2%	74.0%	70.0%	
Two years later	63.5%	66.6%	64.8%	70.6%	72.4%	70.7%	72.1%	73.7%		
Three years later	63.7%	65.0%	63.3%	69.4%	72.3%	70.6%	71.6%			
Four years later	62.9%	63.8%	62.6%	68.6%	72.1%	70.6%				
Five years later	62.2%	63.2%	61.6%	68.0%	71.6%					
Six years later	62.1%	62.6%	61.0%	67.9%						
Seven years later	61.9%	62.3%	60.9%							
Eight years later	61.9%	62.4%								
Nine years later	61.9%									

This table represents the loss ratio development for individual accident years for the Group, with General Insurance the primary driver. Individual accident years are affected by the level of large catastrophe losses which had the following impact on the loss ratios in the year that the event occurred:

- 2004: Hurricanes Charley, Frances, Jeanne and Ivan in the U.S. increased the loss ratio by 2.8 percentage points;
- 2005: Hurricanes Katrina, Rita and Wilma in the U.S. and floods in Europe increased the loss ratio by 4.6 percentage points;
- 2007: Winter storm Kyrill in Europe and floods in the UK increased the loss ratio by 2.5 percentage points;
- 2008: Hurricanes Gustav and Ike in the U.S. increased the loss ratio by 1.8 percentage points;
- 2010: The earthquake in Chile and floods in Australia increased the loss ratio by 0.8 percentage points;
- 2011: Floods in Australia, earthquakes in New Zealand, the earthquake and subsequent tsunami in Japan, Hurricane Irene in the U.S. and floods in Thailand increased the loss ratio by 2.6 percentage points, after the Group's aggregate catastrophe reinsurance recovery;
- 2012: Storm Sandy in the U.S. increased the loss ratio by 2.5 percentage points.

The development of 2004 and each subsequent year demonstrates the Group's philosophy of taking a prudent view on reserving.

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	12,184	18,680	(868)	(1,238)	11,316	17,442
Net reserves as of December 31	**226,166**	**213,982**	**15,921**	**16,789**	**242,087**	**230,771**

[1] Restated as set out in note 1 of the 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	14,633	18,234	9,425	9,138	24,058	27,372
Claims	(16,433)	(17,423)	(10,691)	(9,360)	(27,124)	(26,782)
Fee income and other expenses	(2,137)	(1,898)	(1,992)	(1,780)	(4,130)	(3,678)
Interest and bonuses credited to policyholders	12,829	10,318	3,542	3,496	16,371	13,814
Change in assumptions	–	–	101	(100)	101	(100)
Acquisitions/(divestments) and transfers	–	4	–	998	–	1,002
Increases/(decreases) recorded in other comprehensive income	94	4	(1,113)	2,425	(1,019)	2,429
Foreign currency translation effects	1,475	2,795	2,451	1,829	3,926	4,623
As of December 31						
Net reserves	**130,141**	**119,680**	**96,025**	**94,302**	**226,166**	**213,982**
Reinsurers' share	–	–	(2,078)	(1,988)	(2,078)	(1,988)
Gross reserves	130,141	119,680	98,103	96,290	228,244	215,970

[1] Restated as set out in note 1 of the Consolidated financial statements.
[2] Includes reserves for unit-linked contracts, the net amounts of which were USD 63 billion and USD 62.2 billion, and liabilities for investment contracts, the net amounts of which were USD 67.1 billion and USD 57.4 billion as of December 31, 2013 and 2012, respectively
[3] Includes reserves for future life policyholders' benefits, the net amounts of which were USD 78.2 billion and USD 76.7 billion and policyholders' contract deposits and other funds, the net amounts of which were USD 17.8 billion and USD 17.6 billion as of December 31, 2013 and 2012, respectively

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	
	12/31/13	12/31/12[1]	**12/31/13**	12/31/12[1]	**12/31/13**	12/31/12[1]
North America	1,125	1,021	5,473	5,307	6,598	6,329
Latin America	9,977	10,709	5,336	5,204	15,313	15,913
Europe	103,745	94,124	82,007	80,468	185,752	174,592
of which:						
United Kingdom	*61,943*	*58,468*	*5,001*	*5,200*	*66,944*	*63,667*
Germany	*13,439*	*11,130*	*43,728*	*43,084*	*57,166*	*54,214*
Switzerland	*868*	*786*	*20,074*	*19,741*	*20,942*	*20,528*
Ireland	*16,369*	*13,215*	*1,971*	*1,727*	*18,340*	*14,942*
Spain	*4,799*	*4,874*	*6,189*	*5,981*	*10,989*	*10,855*
Rest of Europe	*6,328*	*5,651*	*5,044*	*4,734*	*11,371*	*10,385*
Asia-Pacific and Middle East	11,830	11,315	2,860	3,035	14,689	14,350
Other	3,464	2,511	350	284	3,814	2,795
Eliminations	–	–	–	4	–	4
Total	**130,141**	**119,680**	**96,025**	**94,302**	**226,166**	**213,982**

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

Total reserves and liabilities for insurance and investment contracts, net of reinsurance, increased by USD 12.2 billion, or by 6 percent in U.S. dollar terms and 4 percent on a local currency basis compared with December 31, 2012.

Unit-linked insurance and investment contracts, net of reinsurance, increased by USD 10.5 billion, or by 9 percent in U.S. dollar terms and 8 percent on a local currency basis, compared with December 31, 2012, driven by growth in unit-linked assets under management reflecting the rise in equity markets in Europe.

Other life insurance liabilities, net of reinsurance, increased by USD 1.7 billion, or by 2 percent in U.S. dollar terms and decreased by 1 percent on a local currency basis, compared with December 31, 2012.

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[1]	11	1	12
As of December 31, 2012, as restated	**34,505**	**2,369**	**36,874**
Proceeds from issuance of share capital	152	–	152
Proceeds from treasury share transactions	15	–	15
Dividends	(1,933)	(238)	(2,171)
Share-based payment transactions	(4)	–	(4)
Reclassification from revaluation reserves	6	–	6
Total comprehensive income	(237)	122	(115)
Net income after taxes	4,028	231	4,259
Net other recognized income and expenses	(4,265)	(109)	(4,374)
Net changes in capitalization and non-controlling interests	–	(22)	(22)
As of December 31, 2013	**32,503**	**2,231**	**34,734**

Total equity decreased by USD 2.1 billion to USD 34.7 billion, or by 6 percent compared with December 31, 2012. Non controlling interests overall decreased by USD 138 million with the remainder of the decrease ocurring in shareholders' equity. Shareholders' equity decreased as net income after taxes of USD 4.0 billion for the year ended December 31, 2013 was more than offset by net other recognized income and expenses in total comprehensive income and by the dividend paid to shareholders in April 2013.

Net other recognized income and expenses decreased primarily as a result of a decrease in net unrealized gains on available-for-sale investments of USD 2.8 billion following the slight upturn in interest rates, negative cumulative foreign currency translation adjustments of USD 986 million including USD 718 million relating to the dividend, and net actuarial losses on pension plans of USD 367 million. The total 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 was paid out of the capital contribution reserve, with USD 1.9 billion shown as dividends and USD 718 million included in other comprehensive income as a negative cumulative foreign currency translation adjustment.

Under the Swiss Solvency Test (SST) the Group is required to use a company-specific internal economic capital model to calculate risk-bearing and target capital, and to file SST reports biannually. As of 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, which has been approved by FINMA. The filing as of July 1, 2013 is subject to review by FINMA and the final approval of the Group's internal model continues to be outstanding.

The Group also continues to be subject to Solvency I requirements based on the Swiss Insurance Supervision Law. The Solvency I ratio as of December 31, 2013 decreased to 258 percent from 278 percent as of December 31, 2012.

Cash flows

Summary of cash flows

in USD millions, for the years ended December 31	2013	Restated 2012
Net cash provided by/(used in) operating activities	1,443	2,868
Net cash provided by/(used in) investing activities	(239)	(233)
Net cash provided by/(used in) financing activities	(3,233)	(2,318)
Foreign currency translation effects on cash and cash equivalents	(17)	187
Change in cash and cash equivalents	(2,046)	503
Cash and cash equivalents as of January 1	10,208	9,705
Cash and cash equivalents as of December 31	**8,162**	**10,208**

Net **cash and cash equivalents** decreased by USD 2.0 billion for the year ended December 31, 2013, compared with an increase of USD 503 million in 2012.

Net cash provided by operating activities, which included cash movements in and out of, as well as within total investments, was USD 1.4 billion compared with USD 2.9 billion in 2012. Net cash used in investing activities of USD 239 million, compared with USD 233 million in 2012, related mainly to net sales and purchases of property and equipment. Net cash used in financing activities for the year ended December 31, 2013 of USD 3.2 billion was primarily related to the payment of dividends of USD 2.9 billion and a net repayment of debt of USD 403 million. In 2012, the net movement of cash used in financing activities of USD 2.3 billion included dividends of USD 2.7 billion offset by a net issuance of debt of USD 260 million.

Cash flow details are set out in the consolidated statements of cash flows in the 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 year ended December 31, 2013	in USD millions	in %
Gross written premiums and policy fees	(502)	(1%)
Insurance benefits and losses, gross of reinsurance	55	–
Net income attributable to shareholders	6	–
Business operating profit	(22)	–

The consolidated income statements are translated at average exchange rates. Throughout 2013, the U.S. dollar was on average weaker against the euro and Swiss franc, but stronger against the British pound compared with 2012. The net impact on the result from these major currencies was offset by the weakening of the Brazilian real and Japanese yen against the U.S. dollar. The overall net impact on the result was minimal.

Selected Group balance sheet line items

variance over December 31, 2012, as of December 31, 2013	in USD millions	in %
Total investments	3,899	1%
Reserves for insurance contracts, gross	2,399	1%
Cumulative foreign currency translation adjustment in shareholders' equity	(986)	(3%)

The consolidated balance sheets are translated at end-of-period rates. The U.S. dollar weakened against the euro, Swiss franc and British pound but strengthened against the Japanese yen, the Australian dollar and Latin American currencies, in particular the Brazilian real, as of December 31, 2013 compared with December 31, 2012, resulting in a small net increase in U.S. dollar terms for most balance sheet items.

The cumulative foreign currency translation adjustment (CTA) included an adjustment of USD 718 million relating to the payment of the dividend and the net effect of currency movements on capital held in foreign currencies.

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