Zurich Insurance Group

Half Year Report 2016

Report for the six months to June 30, 2016

About Zurich

Zurich is a leading multi-line insurer that serves its customers in global and local markets. With about 55,000 employees, we provide a wide range of general insurance and life insurance products and services. We serve individuals, small businesses, and mid-sized and large companies, including multinational corporations, in more than 170 countries.

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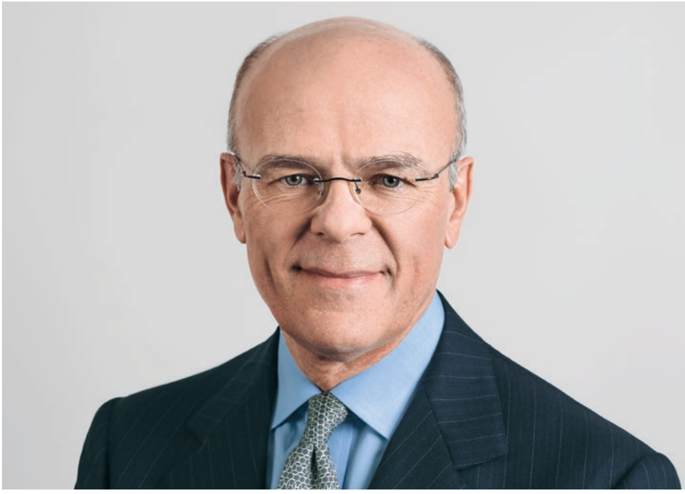
Our cover

We serve individuals, small businesses, and mid-sized and large companies. All of our customers, large and small, rely on us to help them understand and protect themselves from risk.

Message from the Chairman and CEO


Tom de Swaan


Mario Greco

Dear Shareholder,

Our business operating profit (BOP)[1] of USD 2.2 billion for the first six months ended June 30, 2016 was down 2 percent from the same period in 2015. Net income attributable to shareholders (NIAS) of USD 1.6 billion decreased by 22 percent due to a lower level of realized capital gains, restructuring charges related to the Group's turnaround plans, and a higher effective tax rate.

After a disappointing second half in 2015, we have made significant progress over the last six months, with consistent improvement in our underlying performance in the second quarter in the context of an ongoing challenging market environment. General Insurance benefited from reinvigorated underwriting discipline. Both Global Life and Farmers continued the positive momentum of previous quarters. Our efficiency program is beginning to deliver results and we have taken steps to strengthen our position in the U.S., Malaysia and Australia, while exiting several businesses where we saw limited potential.

The Group maintained its resilient capital position. At the end of June, the estimated Zurich Economic Capital Model[2] ratio was within its target range at 107 percent, lower than at the end of 2015 due to financial market movements and the inclusion of Rural Community Insurance Services (RCIS). Cash remittances are still on track to exceed USD 10 billion for our three-year strategy period to the end of 2016.

[1] Business operating profit indicates the underlying performance of the Group's business units by eliminating the impact of financial market volatility and other non-operational variables.

[2] The Zurich Economic Capital Model (Z-ECM) is an internal measure of capital adequacy, which also forms the basis of Zurich's Swiss Solvency Test (SST) model.

General Insurance shows positive trend

General Insurance BOP rose by 3 percent in U.S. dollar terms to USD 1.2 billion, increasing by 10 percent in local currency, as an improvement in the underlying underwriting result offset a decrease in the net investment result and a higher level of catastrophe and weather-related events. The result benefited from currency gains.

Global Life BOP decreased by 1 percent in U.S. dollar terms to USD 667 million, and rose 7 percent on a local currency basis. Gains in local currency in Latin America and Europe, the Middle East and Africa (EMEA) were offset by a lower contribution from North America, where claims rose. The Latin American business benefited from higher volumes, notably in Brazil, currency gains and increased investment returns, while profitability in EMEA was helped by an improved investment margin, expense efficiencies and a one-off benefit in the UK.

Farmers BOP was down 6 percent at USD 678 million. Farmers Re reported a business operating loss of USD 19 million due mainly to weather-related claims in Texas and continuing challenges in the auto insurance sector. Farmers Management Services BOP at USD 697 million was 6 percent higher as the positive growth trend at the Farmers Exchanges[3] continued.

Focus on priority markets

During the first six months of 2016, we completed our acquisition of RCIS, one of the leading providers of crop insurance in the U.S. In Malaysia we acquired MAA Takaful. The addition to our business in that country will enable us to offer Sharia-compliant financial protection, a market that has shown strong growth. We are in the process of acquiring Macquarie Group's retail life insurance protection business in Australia to enhance our life business's scale in that country.

We are exiting some businesses, which will free up capital and allow us to focus more management time and resources on growing our businesses in our core markets. In June we announced we will sell our general insurance businesses in Taiwan and Morocco, and in July the sale of our operations in South Africa and Botswana.

Reshaping our organization

In June we made public our plans to adopt a simpler organization and management structure that will make us more agile and accountable, bringing us closer to customers. The new structure puts work already underway in Switzerland, Germany and Italy on a global footing, combining life and non-life under one leadership team and applying a unified approach to markets.

Leadership appointments

To prepare for our next strategy cycle, we have already taken steps to simplify our management and operating structures. We have created the role of Group Chief Operating Officer and appointed Kristof Terryn, former CEO General Insurance, to this position. This new role combines responsibility for operations and technology with underwriting, claims and reinsurance. This will enhance our ability to keep costs under control and increase efficiency, while supporting the transformation process across the business. Robert Dickie, who was appointed in 2014 as Chief Operations and Technology Officer, has decided to leave Zurich. The Board is grateful to Robert for his excellent contributions.

Outlook

The global economy remains challenging. In this environment it is imperative that we continue to focus on our key priorities to ensure we are best positioned for future success. Our decision to adopt a simpler, more customer-oriented structure will help us to achieve our goals. We are confident that by continuing our improvement actions, we will be able to deliver satisfactory returns to our shareholders in 2016 and in the following years.

We will update you on our progress and our strategy for 2017 and beyond at our Investor Day on November 17, 2016.

We thank you for your continued support.

Tom de Swaan
Chairman of the Board of Directors

Mario Greco
Group Chief Executive Officer

[3] Zurich Insurance Group has no ownership interest in the Farmers Exchanges. Farmers Group, Inc. a wholly-owned subsidiary of the Group, provides certain non-claims administrative and management services to the Farmers Exchanges as attorney-in-fact and receives fees for its services.

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 six months ended June 30, 2016, compared with the same period of 2015.

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The information contained within the operating and financial review is unaudited and is based on the consolidated results of the Group for the six months ended June 30, 2016 and compared with the same period of 2015. 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 always add up to the rounded total. 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 results 2015 of the Group and, in particular, with its consolidated financial statements and embedded value report for the year ended December 31, 2015.

In addition to the figures stated in accordance with 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. 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 (NIAS), see table 13.2 of the unaudited consolidated financial statements.

On June 10, 2016, Zurich announced a planned change in the structure of the Group, effective July 1, 2016, which will lead to a simpler, more customer-oriented structure and reduced complexity. The new business structure will be focused on geographic regions and it will consist of Asia Pacific, Europe, Middle East and Africa (EMEA), Latin America and North America. In addition, the business structure will also include Global Corporate and Farmers. The changes will be implemented over the course of 2016 and the new reporting structure will be reflected in the consolidated financial statements in 2017.

Financial highlights

in USD millions, for the six months ended June 30, unless otherwise stated	2016	2015	Change[1]
Business operating profit	**2,194**	2,238	(2%)
Net income attributable to shareholders	**1,613**	2,059	(22%)
General Insurance gross written premiums and policy fees	**18,517**	18,669	(1%)
Global Life gross written premiums, policy fees and insurance deposits	**15,363**	14,833	4%
Farmers Management Services management fees and other related revenues	**1,422**	1,380	3%
Farmers Re gross written premiums and policy fees	**759**	1,126	(33%)
General Insurance business operating profit	**1,205**	1,166	3%
General Insurance combined ratio	**98.4%**	98.3%	(0.0 pts)
Global Life business operating profit	**667**	673	(1%)
Global Life new business annual premium equivalent (APE)[2]	**2,249**	2,443	(8%)
Global Life new business margin, after tax (as % of APE)[2]	**25.4%**	18.9%	6.5 pts
Global Life new business value, after tax[2]	**495**	411	20%
Farmers business operating profit	**678**	719	(6%)
Farmers Management Services gross management result	**675**	654	3%
Farmers Management Services managed gross earned premium margin	**7.0%**	7.0%	(0.0 pts)
Average Group investments	**195,093**	200,752	(3%)
Net investment result on Group investments	**3,654**	4,023	(9%)
Net investment return on Group investments[3]	**1.9%**	2.0%	(0.1 pts)
Total return on Group investments[3]	**4.7%**	0.1%	4.6 pts
Shareholders' equity[4]	**31,632**	31,178	1%
Swiss Solvency Test capitalization ratio[5]	**189%**	203%	(14.0 pts)
Diluted earnings per share (in USD)	**10.75**	13.73	(22%)
Diluted earnings per share (in CHF)	**10.55**	12.99	(19%)
Book value per share (in CHF)[4]	**206.62**	209.27	(1%)
Return on common shareholders' equity (ROE)[6]	**11.9%**	14.2%	(2.3 pts)
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)[6]	**11.3%**	11.6%	(0.3 pts)

1 Parentheses around numbers represent an adverse variance.
2 Details of the principles for calculating new business are included in the embedded value report in the annual results 2015. New business value and new business margin are calculated after the effect of non-controlling interests, whereas APE is presented before non-controlling interests.
3 Calculated on average Group investments.
4 As of June 30, 2016 and December 31, 2015, respectively.
5 Ratios as of January 1, 2016 and July 1, 2015, respectively. The Swiss Solvency Test (SST) ratio is calculated based on the Group's internal model, which is subject to the approval of the Group's regulator, the Swiss Financial Market Supervisory Authority (FINMA). The ratio is filed with FINMA annually. The July 1, 2015 ratio was calculated excluding a macro equity hedge. For more details please refer to the risk review in the Annual Report 2015.
6 Shareholders' equity used to determine ROE and BOPAT ROE is adjusted for net unrealized gains/(losses) on available-for-sale investments and cash flow hedges.

Operating and financial review *continued*

Performance overview

For the first six months of 2016, the Group has delivered overall business operating profit of USD 2.2 billion, a decrease of USD 44 million or 2 percent in U.S. dollar terms, but an increase of 3 percent on a local currency basis compared with the same period of 2015. The General Insurance result has progressed as anticipated as re-underwriting and pricing actions initiated in the second six months of 2015 have continued to take effect. Global Life continued to achieve a strong result while maintaining its focus on priority markets and on extracting value from in-force business. Farmers Management Services continued its positive momentum from premium growth, though Farmers Re incurred higher losses, mainly as a result of higher catastrophe losses.

Net income attributable to shareholders of USD 1.6 billion decreased by USD 446 million, or 22 percent in U.S dollar terms and 17 percent on a local currency basis. The decrease arose from a reduction of USD 132 million in net capital gains on investments, an increase in restructuring related costs and a higher tax expense attributable to shareholders.

The Group's capital and solvency positions remained strong. Solvency measured on an economic basis as determined under the Swiss Solvency Test was 189 percent as of January 1, 2016, a decrease of 14 percentage points since July 1, 2015, mainly due to foreign exchange movements. Shareholders' equity increased by USD 454 million to USD 31.6 billion during the six months to June 30, 2016. This increase arose from the retention of net income in the period, net unrealized gains on investments and after charging USD 2.6 billion for the dividend of CHF17 per share paid to shareholders, as approved at the Annual General Meeting on March 30, 2016.

Business operating profit decreased by USD 44 million to USD 2.2 billion, or by 2 percent in U.S. dollar terms, but increased 3 percent on a local currency basis.

- **General Insurance** business operating profit increased by USD 40 million to USD 1.2 billion, or 3 percent in U.S. dollar terms and 10 percent on a local currency basis. This resulted from an improvement in the non-technical result, largely due to foreign exchange gains from the devaluation of the Venezuelan bolívar. These gains were partly offset by a decrease in the net investment result, mainly due to hedge fund losses compared with gains in the same period of 2015. Excluding Venezuela, business operating profit in local currency increased by 1 percent.
- **Global Life** business operating profit decreased by USD 6 million to USD 667 million, or 1 percent in U.S. dollar terms, but improved 7 percent on a local currency basis. Improvements on a local currency basis in EMEA and Latin America were offset by a lower contribution from North America. Improvements arose in the fee income, investment margin and lower overall costs, which were partly offset by a deterioration in the technical margin.
- **Farmers** business operating profit decreased by USD 41 million to USD 678 million, or by 6 percent. **Farmers Management Services** business operating profit increased by USD 39 million to USD 697 million, driven by growth in gross earned premiums at the Farmers Exchanges[1]. **Farmers Re** business operating profit deteriorated by USD 80 million to a loss of USD 19 million, mainly due to underwriting losses primarily from catastrophe losses in Texas.
- **Other Operating Businesses** reported a business operating loss of USD 388 million, compared with a loss of USD 330 million in the same period of 2015. The increased loss was primarily due to the impact of less favorable foreign exchange movements.
- **Non-Core Businesses** reported a business operating profit of USD 32 million compared with USD 10 million in the same period of 2015. The improvement arose primarily from the release of long-term reserves as a consequence of a buy-back program for a variable annuity product in the U.S.

[1] Zurich Insurance Group has no ownership interest in the Farmers Exchanges. Farmers Group Inc., a wholly owned subsidiary of the Group, provides certain non-claims administrative and management services to the Farmers Exchanges as attorney-in-fact and receives fees for its services.

Business volumes for the core business segments, comprising gross written premiums, policy fees, insurance deposits and management fees, increased by USD 52 million to USD 36.1 billion, almost flat in U.S. dollar terms, but increased 4 percent on a local currency basis.

- **General Insurance** gross written premiums and policy fees decreased by USD 152 million to USD 18.5 billion, or 1 percent in U.S. dollar terms. On a local currency basis, premiums written increased by 2 percent driven by the inclusion of Rural Community Insurance Services (RCIS) as of April 1, 2016 in the North America Commercial result. Apart from this increase, gross written premiums decreased by 2 percent on a local currency basis across all regions as a result of the focus on profitability and the impact of soft market conditions. Excluding Venezuela, gross written premiums and policy fees in local currency increased by 3 percent.
- **Global Life** gross written premiums, policy fees and insurance deposits increased by USD 531 million to USD 15.4 billion, or 4 percent in U.S. dollar terms and 9 percent on a local currency basis. The increase on a local currency basis occurred predominantly in EMEA, driven by growth in individual savings business in some continental European countries.
- **Farmers Management Services** management fees and other related revenues increased USD 41 million, or 3 percent, due to the growth in gross earned premiums of the Farmers Exchanges. **Farmers Re** gross written premiums and policy fees decreased by USD 367 million to USD 759 million, or by 33 percent, due to lower quota share reinsurance assumed from the Farmers Exchanges.

The **net investment result on Group investments**, before allocations to policyholders, of USD 3.7 billion decreased by USD 369 million, or 9 percent in U.S. dollar terms and by 6 percent on a local currency basis, resulting in a **net investment return on average Group investments** of 1.9 percent compared with 2.0 percent in the same period of 2015. **Net investment income**, predominantly included in the core business results, of USD 2.8 billion increased by USD 10 million, or almost flat in U.S. dollar terms, but 4 percent higher on a local currency basis. **Net capital gains on investments and impairments** included in the net investment result decreased by USD 379 million to USD 835 million, mainly due to the decrease in the value of equities and less active realizations compared with the same period of 2015. **Total return on average Group investments** was 4.7 percent, compared with 0.1 percent for the same period of 2015. Total return includes the net investment return and the improved return from net unrealized investment gains before allocations to policyholders, of USD 5.6 billion compared with losses of USD 3.8 billion in the same period of 2015, neither of which flow through net income. This improvement arose mainly as a result of falling bond yields, offset by equity market volatility during 2016, after bond yields had risen in the same period of 2015.

The U.S. dollar, on average, strengthened during the first six months compared with the same period of 2015 against all of the Group's major trading currencies, except the euro which remained flat. The translation effect of the strengthening of the U.S. dollar during the six months affected many line items in both the consolidated income and cash flow statements, as well as reduced business operating profit by USD 115 million. As of June 30, 2016 compared with December 31, 2015, the U.S. dollar was weaker against major currencies except the British pound, which weakened some 10 percent following the Brexit referendum vote, with most line items in the balance sheet affected.

The **shareholders' effective tax rate** increased to 29.9 percent for the period ended June 30, 2016 compared with 24.5 percent for the same period of 2015. The increase of 5.4 percentage points reflects changes in the geographical profit mix and the effect of several non-recurring charges in 2016, which will not attract tax relief.

ROE decreased by 2.3 percentage points to 11.9 percent, largely due to the reduction in net income attributable to shareholders. **BOPAT ROE** decreased by 0.3 percentage points to 11.3 percent, as a result of the decrease in business operating profit. **Diluted earnings per share** in Swiss francs decreased by 19 percent to CHF 10.55 compared with CHF 12.99 in the same period of 2015. Diluted earnings per share in U.S. dollars decreased by 22 percent to USD 10.75 compared with USD 13.73 in the same period of 2015.

Operating and financial review *continued*

General Insurance

in USD millions, for the six months ended June 30	**2016**	2015	Change
Gross written premiums and policy fees	18,517	18,669	(1%)
Net earned premiums and policy fees	13,227	13,928	(5%)
Insurance benefits and losses, net of reinsurance	8,924	9,315	4%
Net underwriting result	216	230	(6%)
Net investment result	996	1,044	(5%)
Net non-technical result (excl. items not included in BOP)	75	(60)	nm
Non-controlling interests	82	49	(68%)
Business operating profit	**1,205**	**1,166**	**3%**
Loss ratio	67.5%	66.9%	(0.6 pts)
Expense ratio	30.9%	31.5%	0.6 pts
Combined ratio	**98.4%**	**98.3%**	**(0.0 pts)**

in USD millions, for the six months ended June 30	**Business operating profit (BOP)**		**Combined ratio**	
	2016	2015	**2016**	2015
Global Corporate	273	214	99.0%	101.0%
North America Commercial	328	469	99.0%	96.4%
Europe, Middle East & Africa (EMEA)	588	426	93.8%	97.2%
International Markets	266	71	93.8%	101.0%
GI Global Functions including Group Reinsurance	(250)	(14)	nm	nm
Total	**1,205**	**1,166**	**98.4%**	**98.3%**

Business operating profit increased by USD 40 million to USD 1.2 billion, or 3 percent in U.S. dollar terms and 10 percent on a local currency basis. This resulted from an improvement in the non-technical result largely due to foreign exchange gains from the devaluation of the Venezuelan bolívar. It was partly offset by a decrease in the net investment result mainly due to hedge fund losses compared with gains in the same period of 2015. Excluding Venezuela, business operating profit in local currency increased by 1 percent.

Gross written premiums and policy fees decreased by USD 152 million to USD 18.5 billion, or 1 percent in U.S. dollar terms. On a local currency basis, premiums written increased by 2 percent driven by the inclusion of Rural Community Insurance Services (RCIS) in the North America Commercial result as of April 1, 2016. Apart from the impact of RCIS, compared with the same period of 2015, gross written premiums decreased by 2 percent on a local currency basis across all regions as a result of the focus on profitability and the impact of soft market conditions. For total General Insurance excluding Venezuela, gross written premiums and policy fees in local currency increased 3 percent. Overall, rates rose by around 2 percent in 2016.

The **net underwriting result** deteriorated by USD 14 million to USD 216 million, with an overall combined ratio of 98.4 percent, which was in line with the same period of 2015. The loss ratio deteriorated by 0.6 percentage points reflecting higher catastrophe and weather events in Global Corporate, North America and some European countries. The favorable development in loss reserves established in prior years was at a similar level as in the same period in 2015. The favorable development in the first six months of 2016 was mainly due to the reductions in Global Corporate, North America Commercial and the UK, partly offset by Group Reinsurance. The expense ratio improved by 0.6 percentage points, reflecting a lower expense base as a result of initiatives to reduce costs across all regions and the effect of positive non-recurring items in the first six months of 2016.

Global Corporate

in USD millions, for the six months ended June 30	2016	2015	Change
Gross written premiums and policy fees	4,251	4,974	(15%)
Net underwriting result	26	(29)	nm
Business operating profit	**273**	**214**	**27%**
Loss ratio	76.9%	77.7%	0.8 pts
Expense ratio	22.1%	23.3%	1.2 pts
Combined ratio	**99.0%**	**101.0%**	**2.0 pts**

Business operating profit increased by USD 59 million to USD 273 million, or 27 percent in U.S. dollar terms and 29 percent on a local currency basis. The increase resulted mainly from the improvement in the net underwriting result. An improvement in the non-technical result was partly offset by a decrease in the net investment result, due to hedge fund losses compared with gains in the same period of 2015.

Gross written premiums and policy fees of USD 4.3 billion decreased by USD 723 million, or 15 percent in U.S. dollar terms and 12 percent on a local currency basis. This reflects the outcome of re-underwriting measures taken to restore profitability from both existing books and new business. Rates overall increased by 1 percent in 2016. The rate environment continued to be under pressure, particularly in North America.

The **net underwriting result** improved by USD 55 million to an underwriting profit of USD 26 million, reflected in the improvement of 2.0 percentage points in the combined ratio to 99.0 percent. The improvement in the loss ratio of 0.8 percentage points was mainly attributable to increased positive development of reserves established in prior years compared with the same period of 2015, partly offset by higher large losses, catastrophe and weather related losses in Europe and North America. The expense ratio improved by 1.2 percentage points mainly as a result of initiatives to reduce costs and the effect of positive non-recurring items in the first six months of 2016.

Operating and financial review *continued*

North America Commercial

in USD millions, for the six months ended June 30	2016	2015	Change
Gross written premiums and policy fees	6,586	5,383	22%
Net underwriting result	38	137	(72%)
Business operating profit	**328**	**469**	**(30%)**
Loss ratio	67.9%	64.1%	(3.8 pts)
Expense ratio	31.1%	32.2%	1.1 pts
Combined ratio	**99.0%**	**96.4%**	**(2.7 pts)**

Business operating profit decreased by USD 141 million to USD 328 million, or by 30 percent, with a deterioration in the net underwriting result, a reduction in the net investment result driven by hedge fund losses compared with gains in the same period of 2015, and a deterioration in the non-technical result driven by foreign currency exchange losses.

Gross written premiums and policy fees increased by USD 1.2 billion to USD 6.6 billion, or by 22 percent. This increase was driven by the completion of the acquisition of RCIS on March 31, 2016 with its results included in North America Commercial from April 1, 2016. RCIS is a provider of agricultural insurance in the U.S. through a federal crop insurance program and other private crop insurance products. The rate environment remained positive with overall rates increased by 1 percent despite market pressures.

The **net underwriting result** decreased by USD 99 million to USD 38 million, reflected in the 2.7 percentage points deterioration in the combined ratio to 99.0 percent. The loss ratio deteriorated by 3.8 percentage points resulting from an increase in the current accident year loss ratio, driven by higher catastrophe and weather related losses and the higher loss ratio pertaining to the RCIS business. The expense ratio improved by 1.1 percentage points, mainly as a result of initiatives to reduce costs and the effect of positive non-recurring items in the first six months of 2016, as well as a lower expense ratio in RCIS.

Europe, Middle East & Africa

in USD millions, for the six months ended June 30	**2016**	2015	Change
Gross written premiums and policy fees	5,958	6,357	(6%)
Net underwriting result	320	149	nm
Business operating profit	**588**	**426**	**38%**
Loss ratio	63.1%	65.8%	2.7 pts
Expense ratio	30.7%	31.5%	0.8 pts
Combined ratio	**93.8%**	**97.2%**	**3.5 pts**

Business operating profit increased by USD 162 million to USD 588 million, or 38 percent in U.S. dollar terms and 43 percent on a local currency basis as a result of an improvement in the net underwriting result.

Gross written premiums and policy fees decreased by USD 399 million to USD 6.0 billion, or by 6 percent in U.S. dollar terms and 4 percent on a local currency basis. Premiums written declined in the markets where competitive pressures were endured. In particular, there was lower new business in the UK in both property and motor lines of business, and also in Italy and Germany in the motor lines of business. In Switzerland, the re-underwriting measures in commercial lines and the exit of an agency business in Netherlands, also resulted in the reduction of premiums.

The **net underwriting result** improved by USD 171 million to USD 320 million, reflected in the positive development in the combined ratio of 3.5 percentage points to 93.8 percent. The improved loss ratio of 2.7 percentage points reflected an improved current accident year loss ratio more than offsetting higher weather related losses mainly from flooding in Germany, Switzerland and Austria. The expense ratio improved by 0.8 percentage points as a result of initiatives to reduce costs and the effect of positive non-recurring items in the first six months of 2016.

Operating and financial review *continued*

International Markets

in USD millions, for the six months ended June 30	2016	2015	Change
Gross written premiums and policy fees	1,813	2,063	(12%)
Net underwriting result	96	(17)	nm
Business operating profit	**266**	**71**	**nm**
Loss ratio	49.6%	57.8%	8.2 pts
Expense ratio	44.1%	43.1%	(1.0 pts)
Combined ratio	**93.8%**	**101.0%**	**7.2 pts**

Business operating profit increased by USD 195 million to USD 266 million, an increase of more than 250 percent in U.S. dollar terms. The increase resulted from improvements in the net underwriting result and the non-technical result. The latter was mainly a result of foreign exchange gains from the devaluation of the Venezuelan bolívar. The increases were partly offset by a lower net investment result, primarily in Australia. Excluding Venezuela, business operating profit in local currency increased significantly.

Gross written premiums and policy fees decreased by USD 250 million to USD 1.8 billion, or 12 percent in U.S. dollar terms, but increased by 2 percent on a local currency basis. On a local currency basis, gross written premiums grew by 8 percent in Latin America due to an increase in the mass consumer business in Brazil and the impact of inflation in the region. Despite growth in some areas of Asia Pacific, premiums decreased overall by 7 percent on a local currency basis due to the impact of underwriting actions taken in Australia. Excluding Venezuela, gross written premiums and policy fees in local currency increased by 6 percent. Overall, International Markets achieved average rate increases of 1 percent in 2016.

The **net underwriting result** improved by USD 113 million to USD 96 million, reflected in the 7.2 percentage points improvement in the combined ratio to 93.8 percent. The loss ratio improved by 8.2 percentage points, mainly as a result of an improvement in the current accident year loss ratio, including lower catastrophe and weather related losses, as well as higher levels of favorable development of loss reserves established in prior years compared with the same period of 2015. The expense ratio deteriorated by 1.0 percentage points due to a shift toward business that carries higher commission rates in Latin America.

Global Life

in USD millions, for the six months ended June 30	2016	2015	Change
Insurance deposits	7,747	7,946	(2%)
Gross written premiums and policy fees	7,616	6,887	11%
Net investment income on Group investments	1,683	1,690	–
Insurance benefits and losses, net of reinsurance	(5,679)	(3,191)	(78%)
Business operating profit	**667**	**673**	**(1%)**
Net policyholder flows[1]	4,521	3,410	33%
Assets under management[2, 3]	258,802	256,657	1%
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts (net reserves)[3]	210,947	207,542	2%

[1] Net policyholder flows are defined as the sum of gross written premiums and policy fees and deposits, less policyholder benefits.
[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] As of June 30, 2016 and December 31, 2015, respectively.

New business – highlights

in USD millions, for the six months ended June 30	2016	2015	Change
New business annual premium equivalent (APE)[1]	**2,249**	**2,443**	**(8%)**
New business margin, after tax[2]	**25.4%**	**18.9%**	**6.5 pts**
New business value, after tax[3]	**495**	**411**	**20%**

[1] APE is shown gross of non-controlling interests.
[2] New business margin is calculated using new business value as a percentage of APE based on figures net of non-controlling interests for both metrics.
[3] New business value is calculated on embedded value principles after the effect of non-controlling interests.

Source of earnings[1]

in USD millions, for the six months ended June 30	2016	2015	Change
Loadings and fees	1,723	1,816	(5%)
Investment margin	273	197	38%
Technical margin	534	693	(23%)
Operating and funding costs	(704)	(822)	14%
Acquisition costs	(1,260)	(1,393)	10%
Impact of deferrals	101	182	(45%)
Business operating profit	**667**	**673**	**(1%)**

[1] Each line represents the Group’s interest after deducting non-controlling interests, amounting in total to USD 122 million (in 2015 USD 124 million) in business operating profit.

Operating and financial review *continued*

Business operating profit decreased by USD 6 million to USD 667 million, or 1 percent in U.S. dollar terms, but improved 7 percent on a local currency basis. Improvements on a local currency basis in EMEA and Latin America were offset by a lower contribution from North America. In EMEA, the main improvement on a local currency basis arose through the investment margin and lower overall costs. This improvement was partly offset by a deterioration in the technical margin from higher claims experience and lower fees from lower market values and the run-off of in-force business. In Latin America, higher volumes, mainly in Brazil, and increased investment returns mainly in Brazil and Argentina were the main contributors on a local currency basis. North America was mainly affected by a higher level of claims, including two large losses.

Loadings and fees deteriorated by USD 93 million to USD 1.7 billion, or by 5 percent in U.S dollar terms, but increased by 1 percent on a local currency basis. The increase in local currency was driven by higher volumes in Latin America and Asia Pacific reduced by lower unit-linked fund based fees in EMEA resulting from lower market values and run-off of in-force books.

Investment margin improved by USD 76 million to USD 273 million, or 38 percent in U.S. dollar terms, and 51 percent on a local currency basis. The improvement largely occurred in EMEA and Latin America. In EMEA the increase arose mainly from lower policyholder crediting rates in Switzerland and Germany and higher asset bases in countries where business has been growing. Improvements in Latin America in local currency were driven by higher investment returns, mostly in Brazil and Argentina.

Technical margin deteriorated by USD 159 million to 534 million, or by 23 percent in U.S dollar terms and 19 percent on a local currency basis. This deterioration was predominantly driven by adverse claims experience in EMEA, North America and the International Group Risk (IGR) business. Both North America and IGR experienced higher levels of large losses than normally expected.

Operating and funding improved by USD 118 million to USD 704 million, or by 14 percent in U.S dollar terms, and 9 percent on a local currency basis. In local currency, the positive impact of disciplined central expense management, expense reductions in the UK, Spain and Germany and the one-off release of a tax provision relating to unit-linked funds in the UK were partly offset by project costs for growth initiatives.

Acquisition costs decreased by USD 133 million to USD 1.3 billion, or by 10 percent in U.S dollar terms, and by 3 percent on a local currency basis. The decrease on a local currency basis reflected lower volumes of business and changes in business mix in EMEA, particularly in Germany, and also in North America. The contribution from the **impact of deferrals** decreased by USD 82 million to USD 101 million, or by 45 percent in U.S. dollar terms and 44 percent on a local currency basis. The negative effect arose mainly in EMEA, partly as a result of a one-off benefit in the same period of 2015 in Germany and from changes in product mix.

Insurance deposits decreased by USD 199 million to USD 7.7 billion, or 2 percent in U.S. dollar terms, but increased by 3 percent on a local currency basis. On a local currency basis, increases in North America and in Latin America were partly offset by reductions in EMEA. The lower volume in EMEA was driven by Corporate Life & Pensions products in Ireland, where a small number of large cases had boosted volumes in the same period of 2015, with a partial offset from higher sales in 2016 of individual savings business in Italy.

Gross written premiums and policy fees increased by USD 729 million to USD 7.6 billion, or 11 percent in U.S. dollar terms, and 16 percent on a local currency basis. The increase on a local currency basis arose in all regions, predominantly from increased sales in EMEA, particularly from Corporate Life & Pensions products in the UK and individual savings in Spain, and in Zurich Santander from an increase in sales of protection products.

Net policyholder flows were positive at USD 4.5 billion and 1.1 billion higher compared with the same period of 2015. The majority of the improvement occurred in the Retail business in EMEA, largely driven by Spain and Italy. **Assets under management** increased by 1 percent in U.S. dollar terms, and by 2 percent on a local currency basis compared with December 31, 2015. The increase was driven by positive net policyholder flows and the favorable impact of lower interest rates on fixed income investments. In U.S. dollar terms, this improvement was partly offset by the impact from the weakening of the British pound against the U.S. dollar just before the end of the reporting period on investments denominated in British pounds. **Net reserves** increased by 2 percent in U.S. dollar terms, and by 3 percent on a local currency basis compared with December 31, 2015, substantially reflecting movements similar to those in the related assets.

NBV, APE, NBM and BOP by region

in USD millions, for the six months ended June 30	New business value, after tax (NBV)[1]		New business annual premium equivalent (APE)[2]		New business margin, after tax (as % of APE) (NBM)[3]		Business operating profit (BOP)	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
North America	57	43	82	88	69.9%	48.5%	69	100
Latin America	56	69	473	505	19.4%	22.7%	121	111
of which:								
Zurich Santander	*49*	*56*	*376*	*399*	*25.7%*	*27.6%*	*101*	*101*
Europe, Middle East & Africa (EMEA)	311	234	1,601	1,744	21.0%	14.0%	460	443
United Kingdom	*121*	*97*	*618*	*710*	*19.5%*	*13.7%*	*91*	*84*
Germany	*15*	*(7)*	*148*	*177*	*9.9%*	*(4.0%)*	*100*	*105*
Switzerland	*63*	*40*	*142*	*194*	*44.3%*	*20.7%*	*117*	*108*
Ireland	*20*	*29*	*172*	*210*	*11.8%*	*13.8%*	*30*	*37*
Spain	*52*	*48*	*247*	*152*	*40.3%*	*57.9%*	*28*	*27*
Italy	*1*	*(7)*	*150*	*122*	*0.4%*	*(5.4%)*	*25*	*19*
Zurich International Life	*39*	*32*	*109*	*165*	*35.4%*	*19.3%*	*37*	*36*
Rest of EMEA	*2*	*2*	*16*	*15*	*9.6%*	*15.1%*	*33*	*28*
Asia Pacific	47	40	73	73	65.2%	56.0%	28	29
Other	23	25	20	34	119.8%	74.2%	(12)	(10)
Total	**495**	**411**	**2,249**	**2,443**	**25.4%**	**18.9%**	**667**	**673**

NBV, APE and NBM by pillar

in USD millions, for the six months ended June 30	New business value, after tax (NBV)[1]		New business annual premium equivalent (APE)[2]		New business margin, after tax (as % of APE) (NBM)[3]	
	2016	2015	**2016**	2015	**2016**	2015
Bank Distribution	122	119	830	793	23.1%	22.7%
Other Retail	165	138	643	750	25.7%	18.5%
Corporate Life & Pensions	208	154	776	900	26.8%	17.1%
Total	**495**	**411**	**2,249**	**2,443**	**25.4%**	**18.9%**

[1] New business value is calculated on embedded value principles after the effect of non-controlling interests.
[2] APE is shown gross of non-controlling interests.
[3] New business margin is calculated using new business value as a percentage of APE based on figures net of non-controlling interests for both metrics.

APE decreased by USD 194 million to USD 2.2 billion, or by 8 percent in U.S. dollar terms, and was flat on a local currency basis. Lower new business in Corporate Life & Pensions in EMEA, particularly in the UK and Switzerland, and retail in Zurich International Life, was partly offset by increased sales from Bank Distribution in Italy and Spain. A 20 percent increase in Latin America on a local currency basis was mostly due to strong sales of individual protection and unit-linked business in Zurich Santander Brazil.

New business value increased by USD 84 million to USD 495 million, or 20 percent in U.S. dollar terms and 28 percent on a local currency basis. The increase was mainly explained by improved business mix across most EMEA countries, in spite of the reduction in APE, in particular in Corporate Life & Pensions in the UK and Switzerland, higher sales in Japan and a refinement in the modeling of policyholder participation in Switzerland.

New business margin increased by 6.5 percentage points to 25.4 percent, despite generally lower interest rates with the increase occurring primarily in EMEA and North America due to changes in product mix and a refinement in the modeling of policyholder participation in Switzerland.

On a **geographical basis**, the new business results were as follows:

In North America, APE decreased by USD 6 million or 6 percent due to lower sales through IFA and Brokers. NBM increased by 21.4 percent from the previous year to 69.9 percent driven by the successful launch of a new protection product in the retail segment. As a consequence, NBV increased by USD 15 million or 35 percent.

Operating and financial review *continued*

Latin America delivered APE of USD 473 million, a decrease of USD 32 million, or 6 percent in U.S. dollar terms, driven by the weakening of Latin American currencies against the U.S. dollar. On a local currency basis, APE increased by 20 percent due to increased sales, most notably in Zurich Santander Brazil. The deterioration of 3.3 percentage points in the margin was mainly explained by changes in business mix and also negative economic variances in Zurich Chile and Zurich Santander Brazil. NBV decreased by USD 13 million or 19 percent in U.S. dollar terms, but increased by USD 3 million, or 5 percent, on a local currency basis.

In EMEA, APE decreased by USD 143 million or by 8 percent in U.S. dollar terms and 5 percent on a local currency basis. The main decrease in sales arose in Corporate Life & Pensions in the UK and Switzerland, as well as from the withdrawal of certain low margin unit-linked products in Zurich International Life. APE increased in Spain and Italy, from increased sales of single premium individual savings products. NBV of USD 311 million increased by USD 77 million or by 33 percent in U.S. dollar terms and 38 percent on a local currency basis; this positive impact was driven by improved margins in Germany and from changes in business mix, particularly in the UK and Switzerland, and from a refinement in the modeling of policyholder participation in Switzerland.

In Asia Pacific, APE remained flat at USD 73 million, but increased by 2 percent on a local currency basis. Strong sales driven by Japan were partly offset by lower volumes in Australia in retail protection business. Margins increased in both Japan and Australia from re-pricing activities, as well as business mix. As a consequence, NBV increased by USD 7 million, or 17 percent in U.S. dollar terms and 16 percent on a local currency basis.

In Other, NBV decreased by USD 2 million, or by 6 percent in U.S. dollar terms and 3 percent on a local currency basis, as a result of a decrease in APE of USD 14 million, or 42 percent in U.S. dollar terms and 40 percent on a local currency basis. This decrease was partly offset by improved margins as a result of business mix.

On a **pillar basis**, the new business results were as follows:

In Bank Distribution, NBV increased by USD 3 million to USD 122 million, or 3 percent in U.S. dollar terms and 16 percent on a local currency basis. The increase on a local currency basis resulted from higher margins in Germany and in the Zurich Santander operations in Mexico, together with higher sales in Zurich Santander Brazil, Zurich International Life and Spain from protection business.

In Other Retail, NBV increased by USD 27 million to USD 165 million, or 19 percent in U.S. dollar terms, and 23 percent on a local currency basis. The increase arose mainly in North America, Germany and Italy mainly due to positive business mix impacts, and in Japan due to improved volumes and business mix.

In Corporate Life & Pensions, NBV increased by USD 54 million to USD 208 million, or 35 percent in U.S. dollar terms, and 42 percent on a local currency basis, benefiting from improved business mix in the UK, and a refinement in the modeling of policyholder participation, as well as improved business mix in Switzerland.

Farmers

Farmers business operating profit decreased by USD 41 million to USD 678 million. An improvement of USD 39 million in Farmers Management Services was more than offset by a reduction in business operating profit of USD 80 million in Farmers Re.

The Farmers Exchanges are owned by their policyholders. Farmers Group Inc., a wholly owned subsidiary of the Group, provides certain non-claims administrative and management services to the Farmers Exchanges as attorney-in-fact and receives fees for its services.

Farmers Management Services

in USD millions, for the six months ended June 30	**2016**	2015	Change
Management fees and other related revenues	1,422	1,380	3%
Management and other related expenses	(746)	(727)	(3%)
Gross management result	675	654	3%
Other net income	22	5	nm
Business operating profit	**697**	**658**	**6%**
Managed gross earned premium margin	7.0%	7.0%	(0.0 pts)

Business operating profit increased by USD 39 million to USD 697 million driven by growth in gross earned premiums at the Farmers Exchanges.

Management fees and other related revenues of USD 1.4 billion increased by USD 41 million, or 3 percent, due to the growth in gross earned premiums across most lines of business of the Farmers Exchanges. **Management and other related expenses** of USD 746 million also grew 3 percent, in line with revenue growth. **Other net income** of USD 22 million increased by USD 17 million primarily due to unrealized gains from a mark-to-market valuation of securities supporting employee benefit liabilities.

The **managed gross earned premium margin** remained unchanged at 7.0 percent.

Operating and financial review *continued*

Farmers Re

in USD millions, for the six months ended June 30	2016	2015	Change
Gross written premiums and policy fees	759	1,126	(33%)
Net underwriting result	(54)	16	nm
Business operating profit	**(19)**	**61**	**nm**
Loss ratio	75.1%	67.7%	(7.5 pts)
Expense ratio	32.0%	30.9%	(1.1 pts)
Combined ratio	**107.1%**	**98.6%**	**(8.6 pts)**

Business operating profit deteriorated by USD 80 million to a loss of USD 19 million due to underwriting losses and lower net investment income resulting from lower invested assets due to a repatriation of capital to the Group at the end of 2015.

Gross written premiums and policy fees decreased by USD 367 million to USD 759 million, or by 33 percent, as a result of lower participation in the reinsurance agreements with the Farmers Exchanges. Participation in the All Lines quota share reinsurance agreement was reduced from 10 percent to 8 percent, effective December 31, 2015. The Auto Physical Damage (APD) quota share reinsurance agreement was terminated, effective January 1, 2016. Participation in the APD quota share reinsurance agreement was USD 250 million in the first six months of 2015.

The **net underwriting result** deteriorated by USD 70 million to a loss of USD 54 million, reflected in the increase of 7.5 percentage points in the **loss ratio**, due to higher assumed catastrophe losses, mainly related to Texas storms, as well as unfavorable prior year development, primarily in the auto lines of business. The **expense ratio**, based on ceded reinsurance commission rates payable to Farmers Exchanges, increased 1.1 percentage points due to the termination of the APD quota share reinsurance agreement which had a lower ceding commission rate.

Farmers Exchanges

Financial information about the Farmers Exchanges, which are owned by their policyholders, is proprietary to the Farmers Exchanges, but is provided to support an understanding of the performance of Farmers Group, Inc. and Farmers Re.

in USD millions, for the six months ended June 30	2016	2015	Change
Gross written premiums	9,883	9,527	4%
Gross earned premiums	9,652	9,338	3%

Gross written premiums in the Farmers Exchanges increased by USD 356 million to USD 9.9 billion, or by 4 percent. Growth in most lines of business from continuing operations was partly offset by decreases due to discontinued 21st Century operations.

Gross earned premiums in the Farmers Exchanges increased by USD 314 million to USD 9.7 billion, or by 3 percent.

Other Operating Businesses

in USD millions, for the six months ended June 30	2016	2015	Change
Business operating profit:			
Holding and Financing	(286)	(216)	(32%)
Headquarters	(103)	(114)	10%
Total business operating profit	**(388)**	**(330)**	**(18%)**

Holding and Financing business operating loss of USD 286 million increased by USD 70 million, or by 32 percent in U.S. dollar terms and 37 percent on a local currency basis. This was primarily driven by less favorable foreign exchange impacts compared with the same period of 2015, when they were higher partly as a result of the Swiss National Bank action to discontinue the link of the Swiss franc to the euro.

Headquarters business operating loss of USD 103 million decreased by USD 12 million, or by 10 percent in U.S. dollar terms and 6 percent on a local currency basis.

Non-Core Businesses

in USD millions, for the six months ended June 30	2016	2015	Change
Business operating profit:			
Zurich Legacy Solutions	6	1	nm
Other run-off	27	9	nm
Total business operating profit	**32**	**10**	**nm**

Zurich Legacy Solutions, which comprise run-off portfolios managed with the intention of proactively reducing risk and releasing capital, reported a business operating profit of USD 6 million. The result was primarily driven by net investment income on the run-off portfolios. The improvement of USD 5 million arose primarily from the impact of both lower adverse development of loss reserves established in prior years and lower loan losses due to the sale of a loan book at the end of 2015.

Other run-off, which largely comprises U.S. life insurance and annuity portfolios, reported a business operating profit of USD 27 million, an improvement of USD 18 million. This arose primarily from the release of long-term reserves as a consequence of a buy-back program for a variable annuity product in the U.S.

Consolidated financial statements (unaudited)

Contents

Consolidated income statements

in USD millions	Notes	**2016 for the three months ended June 30**	2015 for the three months ended June 30	**2016 for the six months ended June 30**	2015 for the six months ended June 30
Revenues					
Gross written premiums		13,044	11,833	25,804	25,599
Policy fees		630	628	1,274	1,273
Gross written premiums and policy fees		13,674	12,461	27,079	26,872
Less premiums ceded to reinsurers		(2,827)	(3,391)	(4,411)	(5,015)
Net written premiums and policy fees		10,847	9,070	22,668	21,857
Net change in reserves for unearned premiums		(67)	(118)	(1,436)	(1,844)
Net earned premiums and policy fees		10,780	8,952	21,231	20,013
Farmers management fees and other related revenues		714	693	1,422	1,380
Net investment result on Group investments	3	1,920	1,890	3,654	4,023
Net investment income on Group investments		1,480	1,478	2,818	2,809
Net capital gains/(losses) and impairments on Group investments		440	412	835	1,214
Net investment result on unit-linked investments		3,664	(3,444)	4,233	5,230
Net gain/(loss) on divestments of businesses[1]		(42)	–	5	–
Other income		260	375	579	727
Total revenues		17,296	8,465	31,124	31,372
Benefits, losses and expenses					
Insurance benefits and losses, gross of reinsurance		9,451	8,073	17,925	16,757
Less ceded insurance benefits and losses		(1,360)	(2,561)	(2,272)	(3,384)
Insurance benefits and losses, net of reinsurance		8,091	5,512	15,654	13,374
Policyholder dividends and participation in profits, net of reinsurance	5	3,743	(2,700)	4,497	6,198
Underwriting and policy acquisition costs, net of reinsurance		2,134	2,275	4,301	4,433
Administrative and other operating expense		1,812	2,053	3,625	3,935
Interest expense on debt		111	111	208	223
Interest credited to policyholders and other interest		132	121	243	236
Total benefits, losses and expenses		16,023	7,372	28,526	28,400
Net income before income taxes		1,273	1,093	2,597	2,973
Income tax (expense)/benefit	9	(436)	(191)	(835)	(800)
attributable to policyholders	9	(72)	102	(83)	(95)
attributable to shareholders	9	(364)	(293)	(752)	(705)
Net income after taxes		**837**	**902**	**1,763**	**2,172**
attributable to non-controlling interests		98	62	149	113
attributable to shareholders		739	840	1,613	2,059
in USD			–		
Basic earnings per share		4.95	5.64	10.81	13.84
Diluted earnings per share		4.92	5.60	10.75	13.73
in CHF					
Basic earnings per share		4.80	5.30	10.61	13.10
Diluted earnings per share		4.77	5.27	10.55	12.99

[1] Net gain/(loss) on divestments of businesses in 2016 includes USD 42 million remeasurement losses related to assets held for sale (see note 2).

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

Consolidated financial statements (unaudited) *continued*

Consolidated statements of comprehensive income

in USD millions, for the six months ended June 30

	Net income attributable to shareholders	Net unrealized gains/(losses) on available-for-sale investments	Cash flow hedges
2015			
Comprehensive income for the period	2,059	(946)	(23)
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		100	(83)
Reclassification to income statement (before tax, foreign currency translation effects and allocation to policyholders)		(1,281)	51
Deferred income tax (before foreign currency translation effects)		254	(9)
Foreign currency translation effects		(19)	18
2016			
Comprehensive income for the period	1,613	1,891	257
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		2,687	302
Reclassification to income statement (before tax, foreign currency translation effects and allocation to policyholders)		(249)	(6)
Deferred income tax (before foreign currency translation effects)		(545)	(48)
Foreign currency translation effects		(3)	9

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

Cumulative foreign currency translation adjustment	Total other comprehensive income recycled through profit or loss	Revaluation reserve	Net actuarial gains/(losses) on pension plans	Total other comprehensive income not recycled through profit or loss	Total other comprehensive income attributable to shareholders	Total comprehensive income attributable to shareholders	Total comprehensive income attributable to non-controlling interests	Total comprehensive income
(2,076)	(3,045)	–	(319)	(319)	(3,364)	(1,305)	(71)	(1,376)
(2,076)	(2,058)	1	(359)	(358)	(2,416)			
	(1,229)	–	–	–	(1,229)			
–	244	–	61	60	305			
–	(1)	–	(21)	(21)	(22)			
55	2,203	7	(788)	(781)	1,422	3,036	237	3,272
79	3,069	9	(1,182)	(1,173)	1,896			
(24)	(279)	–	–	–	(279)			
–	(592)	(2)	247	246	(347)			
–	6	–	146	146	152			

Consolidated financial statements (unaudited) *continued*

in USD millions, for the three months ended June 30

	Net income attributable to shareholders	Net unrealized gains/(losses) on available-for-sale investments	Cash flow hedges
2015			
Comprehensive income for the period	840	(1,809)	(115)
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		(1,882)	(119)
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(637)	(27)
Deferred income tax (before foreign currency translation effects)		583	18
Foreign currency translation effects		127	13
2016			
Comprehensive income for the period	739	843	87
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		1,409	116
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(186)	(3)
Deferred income tax (before foreign currency translation effects)		(284)	(17)
Foreign currency translation effects		(95)	(10)

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

Cumulative foreign currency translation adjustment	Total other comprehensive income recycled through profit or loss	Revaluation reserve	Net actuarial gains/(losses) on pension plans	Total other comprehensive income not recycled through profit or loss	Total other comprehensive income attributable to shareholders	Total comprehensive income attributable to shareholders	Total comprehensive income attributable to non-controlling interests	Total comprehensive income
(620)	(2,544)	1	(215)	(214)	(2,758)	(1,918)	68	(1,850)
(620)	(2,621)	1	(46)	(45)	(2,666)			
–	(664)	–	–	–	(664)			
–	600	–	(15)	(16)	585			
–	140	–	(153)	(153)	(13)			
(360)	570	3	(514)	(511)	59	798	87	884
(360)	1,165	4	(851)	(847)	318			
–	(189)	–	–	–	(189)			
–	(301)	(1)	167	166	(135)			
–	(105)	–	170	170	65			

Consolidated financial statements (unaudited) *continued*

Consolidated balance sheets

Assets

in USD millions, as of

	Notes	06/30/16	12/31/15
Investments			
Total Group investments	3	198,948	191,238
Cash and cash equivalents		7,345	8,159
Equity securities		17,742	18,873
Debt securities		146,748	137,730
Investment property		10,523	9,865
Mortgage loans		7,086	7,024
Other loans		9,484	9,569
Investments in associates and joint ventures		19	18
Investments for unit-linked contracts		123,338	126,728
Total investments		322,286	317,966
Reinsurers' share of reserves for insurance contracts	4	19,142	17,774
Deposits made under assumed reinsurance contracts		1,790	1,708
Deferred policy acquisition costs	6	17,629	17,677
Deferred origination costs	6	463	506
Accrued investment income[1]		1,701	1,727
Receivables and other assets		20,661	14,930
Deferred tax assets		1,287	1,455
Assets held for sale[2]		1,399	10
Property and equipment		966	1,140
Attorney-in-fact contracts		1,025	1,025
Goodwill	7	1,646	1,289
Other intangible assets	7	4,946	4,766
Total assets		**394,940**	**381,972**

[1] Accrued investment income on unit-linked investments amounts to USD 127 million and USD 106 million as of June 30, 2016 and December 31, 2015, respectively.
[2] As of June 30, 2016, includes USD 1,252 million of assets reclassified based on agreements signed to sell businesses in Morocco, Taiwan, Middle East, and South Africa (see note 2). In addition, assets held for sale includes land and buildings formerly classified as investment property and held for own use amounting to USD 35 million and USD 112 million, respectively. As of December 31, 2015, includes land and buildings formerly classified as investment property amounting to USD 10 million.

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

Liabilities and equity

in USD millions, as of

	Notes	06/30/16	12/31/15
Liabilities			
Reserve for premium refunds		492	537
Liabilities for investment contracts		67,298	70,627
Deposits received under ceded reinsurance contracts		911	903
Deferred front-end fees		5,075	5,299
Reserves for insurance contracts	4	246,722	237,622
Obligations to repurchase securities		1,367	1,596
Accrued liabilities		2,733	2,849
Other liabilities		20,474	15,051
Deferred tax liabilities		4,787	4,498
Liabilities held for sale[1]		859	–
Senior debt	10	4,395	4,471
Subordinated debt	10	6,291	5,614
Total liabilities		**361,404**	**349,069**
Equity			
Share capital		11	11
Additional paid-in capital		1,263	3,245
Net unrealized gains/(losses) on available-for-sale investments		4,447	2,556
Cash flow hedges		551	294
Cumulative foreign currency translation adjustment		(9,292)	(9,347)
Revaluation reserve		235	228
Retained earnings		34,418	34,192
Shareholders' equity		31,632	31,178
Non-controlling interests		1,904	1,725
Total equity		**33,537**	**32,904**
Total liabilities and equity		**394,940**	**381,972**

[1] As of June 30, 2016, includes USD 859 million of liabilities reclassified based on agreements signed to sell businesses in Morocco, Taiwan, Middle East and South Africa (see note 2).

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

Consolidated financial statements (unaudited) *continued*

Consolidated statements of cash flows

in USD millions, for the six months ended June 30	**2016**	2015
Cash flows from operating activities		
Net income attributable to shareholders	1,613	2,059
Adjustments for:		
Net (gain)/loss on divestments of businesses	(5)	–
(Income)/expense from equity method accounted investments	(1)	(6)
Depreciation, amortization and impairments of fixed and intangible assets	386	496
Other non-cash items	169	264
Underwriting activities:	7,103	6,354
Reserves for insurance contracts, gross	*5,934*	*4,953*
Reinsurers' share of reserves for insurance contracts	*(1,340)*	*(2,088)*
Liabilities for investment contracts	*2,929*	*3,923*
Deferred policy acquisition costs	*(373)*	*(633)*
Deferred origination costs	*21*	*21*
Deposits made under assumed reinsurance contracts	*(65)*	*249*
Deposits received under ceded reinsurance contracts	*(3)*	*(71)*
Investments:	(6,197)	(4,022)
Net capital (gains)/losses on total investments and impairments	*(4,151)*	*(5,463)*
Net change in derivatives	*(78)*	*(53)*
Net change in money market investments	*(297)*	*720*
Sales and maturities		
Debt securities	*34,516*	*45,728*
Equity securities	*23,755*	*32,836*
Other	*3,207*	*4,643*
Purchases		
Debt securities	*(35,980)*	*(43,529)*
Equity securities	*(24,015)*	*(34,400)*
Other	*(3,154)*	*(4,504)*
Net changes in sale and repurchase agreements	(145)	249
Movements in receivables and payables	(146)	(779)
Net changes in other operational assets and liabilities	(983)	(481)
Deferred income tax, net	65	59
Net cash provided by/(used in) operating activities	1,860	4,193

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

in USD millions, for the six months ended June 30	**2016**	2015
Cash flows from investing activities		
Disposals of tangible and intangible assets	44	15
Additions to tangible and intangible assets	(267)	(277)
(Acquisitions)/disposals of equity method accounted investments, net	(3)	–
Acquisitions of companies, net of cash acquired	(626)	–
Divestments of companies, net of cash divested	(48)	–
Dividends from equity method accounted investments	–	8
Net cash provided by/(used in) investing activities	(900)	(254)
Cash flows from financing activities		
Dividends paid	(2,643)	(2,729)
Issuance of share capital	21	43
Net movement in treasury shares	13	17
Issuance of debt	2,073	301
Repayment of debt	(1,606)	(321)
Net cash provided by/(used in) financing activities	(2,142)	(2,689)
Foreign currency translation effects on cash and cash equivalents	31	(138)
Change in cash and cash equivalents[1]	(1,151)	1,113
Cash and cash equivalents as of January 1	9,193	8,776
Cash and cash equivalents as of June 30	**8,042**	**9,889**
of which:		
– Group investments	7,345	8,821
– Unit-linked	697	1,068
Other supplementary cash flow disclosures		
Other interest income received	2,557	2,694
Dividend income received	1,024	1,069
Other interest expense paid	(383)	(467)
Income taxes paid	(762)	(787)

[1] The movement for the six months ended June 30, 2016, includes USD 88 million of cash and cash equivalents reclassified to assets held for sale, which has been recognized in net changes in other operational assets and liabilities (see note 2).

Cash and cash equivalents

in USD millions, as of June 30	**2016**	2015
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	6,519	7,944
Cash equivalents	1,523	1,944
Total[1]	**8,042**	**9,889**

[1] Includes cash and cash equivalents for unit-linked contracts of USD 697 million and USD 1,068 million as of June 30, 2016 and 2015, respectively.

As of June 30, 2016 and 2015, cash and cash equivalents held to meet local regulatory requirements were USD 734 million and USD 835 million, respectively.

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

Consolidated financial statements (unaudited) *continued*

Consolidated statements of changes in equity

in USD millions

	Share capital	Additional paid-in capital
Balance as of December 31, 2014	11	4,843
Issuance of share capital[1]	–	203
Dividends to shareholders	–	(1,683)
Share-based payment transactions	–	(61)
Treasury share transactions[2]	–	3
Total comprehensive income for the period, net of tax	–	–
Net income	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–
Cash flow hedges	–	–
Cumulative foreign currency translation adjustment	–	–
Revaluation reserve	–	–
Net actuarial gains/(losses) on pension plans	–	–
Net changes in capitalization of non-controlling interests	–	–
Balance as of June 30, 2015	11	3,306
Balance as of December 31, 2015	11	3,245
Issuance of share capital[1]	–	27
Dividends to shareholders[3]	–	(1,949)
Share-based payment transactions	–	(80)
Treasury share transactions[2]	–	21
Change in ownership interests with no loss of control	–	–
Total comprehensive income for the period, net of tax	–	–
Net income	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–
Cash flow hedges	–	–
Cumulative foreign currency translation adjustment	–	–
Revaluation reserve	–	–
Net actuarial gains/(losses) on pension plans	–	–
Net changes in capitalization of non-controlling interests	–	–
Balance as of June 30, 2016	**11**	**1,263**

1 The number of common shares issued as of June 30, 2016 was 150,530,512 (June 30, 2015: 150,397,053, December 31, 2015: 150,404,964, December 31, 2014: 149,636,836).
2 The number of treasury shares deducted from equity as of June 30, 2016 amounted to 1,207,116 (June 30, 2015: 1,249,799, December 31, 2015: 1,243,931, December 31, 2014: 1,292,220).
3 As approved by the Annual General Meeting on March 30, 2016, the dividend of CHF 17 per share was paid out of the capital contribution reserve on April 5, 2016. The difference between the respective amounts of the dividend at transaction day exchange rates amounting to USD 2,643 million and at historical exchange rates are reflected in the cumulative foreign currency translation adjustment.

Net unrealized gains/(losses) on available-for-sale investments	Cash flow hedges	Cumulative foreign currency translation adjustment	Revaluation reserve	Retained earnings	Shareholders' equity	Non-controlling interests	Total equity
4,068	306	(6,313)	218	31,602	34,735	2,095	36,830
–	–	–	–	–	203	–	203
–	–	–	–	–	(1,683)	(24)	(1,707)
–	–	–	–	(25)	(86)	–	(86)
–	–	–	–	14	17	–	17
(946)	(23)	(2,076)	–	1,740	(1,305)	(71)	(1,376)
–	*–*	*–*	*–*	*2,059*	*2,059*		
(946)	*–*	*–*	*–*	*–*	*(946)*		
–	*(23)*	*–*	*–*	*–*	*(23)*		
–	*–*	*(2,076)*	*–*	*–*	*(2,076)*		
–	*–*	*–*	*–*	*–*	*–*		
–	*–*	*–*	*–*	*(319)*	*(319)*		
–	–	–	–	–	–	(3)	(3)
3,122	283	(8,389)	219	33,331	31,883	1,997	33,880
2,556	294	(9,347)	228	34,192	31,178	1,725	32,904
–	–	–	–	–	27	–	27
–	–	–	–	(653)	(2,602)	–	(2,602)
–	–	–	–	40	(40)	–	(40)
–	–	–	–	11	31	–	31
–	–	–	–	2	2	–	2
1,891	257	55	7	826	3,036	237	3,272
–	*–*	*–*	*–*	*1,613*	*1,613*		
1,891	*–*	*–*	*–*	*–*	*1,891*		
–	*257*	*–*	*–*	*–*	*257*		
–	*–*	*55*	*–*	*–*	*55*		
–	*–*	*–*	*7*	*–*	*7*		
–	*–*	*–*	*–*	*(788)*	*(788)*		
–	–	–	–	–	–	(57)	(57)
4,447	**551**	**(9,292)**	**235**	**34,418**	**31,632**	**1,904**	**33,537**

Consolidated financial statements (unaudited) *continued*

Zurich Insurance Group Ltd and its subsidiaries (collectively the Group) is a provider of insurance products and related services. The Group mainly operates in Europe, North America, Latin America and Asia Pacific through subsidiaries, as well as branch and representative offices.

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

1. Basis of presentation

General information

The unaudited consolidated financial statements for the six months to June 30, 2016 of the Group have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting". The accounting policies used to prepare the unaudited consolidated financial statements comply with International Financial Reporting Standards (IFRS), and are consistent with those set out in the notes to the consolidated financial statements in the Annual Report 2015 of the Group.

The accounting policies applied by the reportable segments are the same as those applied by the Group. The Group accounts for inter-segment revenues and transfers as if the transactions were with third parties at current market prices. Dividends, realized capital gains and losses as well as gains and losses on the transfer of net assets, are eliminated within the segment, whereas all other intercompany gains and losses are eliminated at Group level. In the consolidated financial statements, inter-segment revenues and transfers are eliminated.

The unaudited consolidated financial statements for the six months to June 30, 2016 should be read in conjunction with the Group's Annual Report 2015.

Certain amounts recorded in the unaudited consolidated financial statements reflect estimates and assumptions made by management about insurance liability reserves, investment valuations, interest rates and other factors. Actual results may differ from the estimates and assumptions made. Interim results are not necessarily indicative of full year results.

All amounts in the unaudited consolidated financial statements, unless otherwise stated, are shown in U.S. dollars, rounded to the nearest million with the consequence that the rounded amounts may not add to the rounded total in all cases. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts.

Table 1.1 summarizes the principal exchange rates used for translation purposes. Net gains/(losses) on foreign currency transactions included in the consolidated income statements were USD 117 million and USD 174 million for the six months ended June 30, 2016 and 2015, respectively. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD (118) million and USD 227 million for the six months ended June 30, 2016 and 2015, respectively.

Principal exchange rates

Table 1.1

USD per foreign currency unit	Consolidated balance sheets at end-of-period exchange rates		Consolidated income statements and cash flows at average exchange rates	
	06/30/16	12/31/15	**06/30/16**	06/30/15
Euro	1.1107	1.0862	1.1164	1.1181
Swiss franc	1.0253	0.9988	1.0188	1.0564
British pound	1.3301	1.4749	1.4335	1.5240
Brazilian real	0.3123	0.2525	0.2710	0.3388

Standards, amendments and interpretations effective or early adopted as of January 1, 2016 and relevant for the Group's operations

Table 1.2 shows new accounting standards or amendments to and interpretations of standards relevant to the Group that have been implemented for the financial year beginning January 1, 2016, with no material impact on the Group's financial position or performance. In addition to the standards and amendments listed in table 1.2 the Group also incorporated amendments resulting from the IASB annual improvements project, which relate primarily to disclosure enhancements.

Table 1.2

Standard/ Interpretation

		Effective date
Amended Standards		
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	January 1, 2016
IAS 1	Disclosure initiative	January 1, 2016
IAS 16/IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	January 1, 2016

Standards, amendments and interpretations issued that are not yet effective nor yet adopted by the Group

Table 1.3 shows new accounting standards or amendments to and interpretations of standards relevant to the Group, which are not yet effective and unless stated otherwise are not expected to have a material impact on the Group's financial position or performance.

Table 1.3

Standard/ Interpretation

		Effective date
New Standards		
IFRS 9	Financial Instruments	January 1, 2018
IFRS 15	Revenue from Contracts with Customers	January 1, 2018
IFRS 16	Leases	January 1, 2019
Amended Standards		
IAS 7	Disclosure Initiative	January 1, 2017
IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	January 1, 2017
IFRS 2	Classification and Measurement of Share-based Payment Transactions	January 1, 2018

The implementation of IFRS 9 is expected to result in a significant portion of financial assets currently classified as available-for-sale being re-classified as at fair value through profit or loss. Credit allowances for financial assets carried at amortized cost and debt securities measured at fair value, with changes in fair value recognized in other comprehensive income (OCI), are expected to increase due to the introduction of the expected credit loss methodology. Upon implementation of the revised standard IFRS 4 'Insurance Contracts', more assets may be classified as at fair value through profit or loss under the fair value option. The Group continues to monitor the IASB progress on amendments to IFRS 4 which also introduces a temporary exemption for the implementation of IFRS 9 for reporting entities whose activities predominantly relate to insurance. The Group expects that it will be eligible for this temporary exemption and will consider deferring the implementation of IFRS 9 until a later date, but no later than January 1, 2021.

The Group expects IFRS 16 to impact the accounting on contracts where it acts as a lessee (and intermediate lessor), especially on real estate rental contracts. It is not expected that recognition of a right-of-use asset with a corresponding lease liability will have a material impact on the total amount of assets, liabilities or on net income.

Consolidated financial statements (unaudited) *continued*

2. Acquisitions and divestments

Transactions in 2016

Acquisitions

MAA Takaful Berhad

On June 30, 2016, the Group completed the acquisition of 100 percent of MAA Takaful Berhad, a family and general takaful operator incorporated in Malaysia from MAA Group Berhad (MAA) and Solidarity Group Holding BSC (Closed). The purchase price amounts to USD 131 million subject to a purchase price adjustment post closing. From the total purchase price, an amount of USD 31 million will be retained for three years. The Group is still in the process of completing the initial purchase accounting and assessing recognition of certain takaful fund balances. The Group consolidated financial statements as of June 30, 2016, include all operator and takaful fund balances resulting in other intangible assets of USD 73 million, other assets of USD 273 million and other liabilities of USD 247 million, reflecting the cash payment of USD 99 million.

Rural Community Insurance Services

On March 31, 2016 the Group completed the acquisition of 100 percent of Rural Community Insurance Agency, Inc. (RCIA) and its fully owned subsidiary Rural Community Insurance Company (RCIC) from Wells Fargo & Company (Wells Fargo). RCIA and RCIC are collectively known as Rural Community Insurance Services (RCIS), a provider of agricultural insurance in the United States through a federal crop insurance program and other private crop insurance products.

The initial consideration paid in cash by the Group amounted to USD 698 million, which is subject to final purchase price and other adjustments.

Based on the initial purchase accounting, the fair value of net tangible assets acquired is estimated to be approximately USD 232 million and identifiable intangible assets estimated at USD 101 million which mainly consists of the agent relationships. Residual goodwill amounted to USD 365 million, which will be deductible for tax purposes. The Group has reassessed the fair value and the classification of assets and liabilities using additional information. Certain balances have been reclassified to show a net presentation in receivables and other assets, as these balances will be settled on a net basis.

The goodwill represents the value of the RCIS workforce and management, the capabilities and related know-how of RCIS to participate in the federal crop insurance program and future growth opportunities. A 25 percent quota share reinsurance contract was in place between RCIS and the Group before the transaction.

Table 2.1 shows the main balance sheet line items as of the acquisition date, representing the preliminary fair value of RCIS net tangible assets acquired, intangible assets and goodwill, excluding the impact of the 25 percent quota share reinsurance contract.

Table 2.1

RCIS preliminary Balance Sheet as of the acquisition date

in USD millions, as of	**03/31/16**
Cash and cash equivalents	183
Reinsurers' share of reserves for insurance contracts	235
Receivables and other assets[1]	2,131
Deferred tax assets	2
Property and equipment	12
Goodwill	365
Other intangible assets	101
Assets acquired	**3,027**
Reserves for insurance contracts	289
Accrued liabilities	4
Other liabilities	2,036
Liabilities acquired	**2,329**
Total acquisition costs	**698**

[1] Includes USD 980 million of balances which will be settled net and are reclassified from reserves for insurance contracts.

Table 2.2 represents the result for the three months since acquisition date included in the Group consolidated income statement for the six months ended June 30, 2016 and the pro forma unaudited US GAAP results of RCIS on a full year basis, as IFRS information is not available. The information is deemed to be a reasonable approximation to using IFRS standards, and does not adjust for the impact of the 25 percent quota share reinsurance contract between RCIS and the Group that existed prior to the acquisition.

The seasonal nature of crop insurance results in the majority of gross written premiums being written in the first half of the year, however, the premiums are earned during the second half of the year.

Table 2.2

Income statement information

in USD millions, information for the three months from acquisition ended June 30, 2016	**Total**
Gross written premiums	1,408
Net income after taxes	(23)
in USD millions, pro forma information for the twelve months ended December 31, 2015	
Gross written premiums	1,940
Net income after taxes	32

For the six months ended June 30, 2016, the Group incurred transaction related costs of USD 1 million included in other administrative expenses which have been excluded from BOP. For the year ended December 31, 2015, USD 6 million transaction related costs are included in other administrative expenses and are excluded from BOP.

Macquarie Life Insurance Business
On March 4, 2016, the Group signed an agreement to acquire part of the Australian Macquarie Life insurance business from the Macquarie Group, a financial group based in Australia. The transaction involves the transfer of Macquarie's retail life insurance protection business together with its assets, liabilities and employees for a total consideration of approximately USD 298 million subject to a price adjustment mechanism. The transaction is subject to regulatory and court approvals and is expected to complete in the second six months of 2016.

Kono Insurance Limited
On January 29, 2016, the Group completed the acquisition of 100 percent of Kono Insurance Limited, a general insurance company incorporated in Hong Kong, for approximately USD 27 million subject to a purchase price adjustment post closing. Based on the preliminary purchase accounting, net tangible assets acquired amounted to USD 13 million and identifiable intangible assets amounted to USD 1 million. Residual goodwill of USD 13 million reflects the expected future growth opportunities.

Loss of control
On February 12, 2016, the Group entered into a forward sale agreement, for its controlling interest in a UK based distributor of the Global Life business, for a fixed sales price of USD 1 to be completed by March 1, 2020 at the latest. Therefore, the Group is deemed to have lost control of this business from an accounting perspective and has derecognized the assets and liabilities at their carrying amount. A USD 47 million gain has been recorded within net gain/(loss) on divestments of businesses.

Divestments
During the six months ended June 30, 2016, the Group entered into various agreements to sell its insurance operations in Morocco, Taiwan and the Middle East, mainly comprising of general insurance operations. In addition, on July 1, 2016 the Group entered into an agreement to sell its insurance operations in South Africa. These transactions are subject to customary closing conditions, including regulatory approvals. The respective assets and liabilities have been reclassified to held for sale as of June 30, 2016. The total assets and total liabilities reclassified were USD 1,252 million and USD 859 million, respectively. The majority of the transactions are expected to close in the second six months of 2016.

Consolidated financial statements (unaudited) *continued*

Transactions in 2015

In September 2015, the Group increased its shareholding in Zurich Insurance Company South Africa Limited (ZICSA) from 84.05 percent to 100 percent for a total consideration of approximately USD 34 million. Subsequently the ZICSA shares were delisted from the Johannesburg Stock Exchange.

3. Group investments

Group investments are those for which the Group bears part or all of the investment risk. They also include investments related to investment contracts with discretionary participation features.

Net investment result on Group investments

Table 3.1

in USD millions, for the six months ended June 30	Net investment income		Net capital gains/(losses) and impairments		Net investment result		of which impairments	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
Cash and cash equivalents	3	15	–	–	3	15	–	–
Equity securities	303	271	2	488	305	759	(146)	(58)
Debt securities	2,031	2,049	634	748	2,665	2,796	(1)	(2)
Investment property	270	246	172	3	442	249	–	–
Mortgage loans	111	127	–	(35)	111	92	–	(35)
Other loans	220	223	(1)	4	220	228	(1)	–
Investments in associates and joint ventures	1	6	(3)	–	(2)	6	–	–
Derivative financial instruments[1]	–	–	31	6	31	6	–	–
Investment result, gross, for Group investments	2,940	2,938	835	1,214	3,775	4,152	(147)	(95)
Investment expenses for Group investments[2]	(122)	(129)	–	–	(122)	(129)	–	–
Investment result, net, for Group investments	2,818	2,809	835	1,214	3,654	4,023	(147)	(95)

[1] Net capital gains/(losses) on derivative financial instruments attributable to cash flow hedge ineffectiveness amounted to USD (27) million and USD 2 million for the six months ended June 30, 2016 and 2015, respectively.
[2] Rental operating expenses for investment property included in investment expenses for Group investments amounted to USD 36 million and USD 37 million for the six months ended June 30, 2016 and 2015, respectively.

Details of Group investments by category

Table 3.2

as of	06/30/16		12/31/15	
	USD millions	**% of total**	USD millions	% of total
Cash and cash equivalents	7,345	3.7	8,159	4.3
Equity securities:				
Fair value through profit or loss	3,323	1.7	3,519	1.8
Available-for-sale	14,419	7.2	15,354	8.0
Total equity securities	17,742	8.9	18,873	9.9
Debt securities:				
Fair value through profit or loss	6,057	3.0	6,180	3.2
Available-for-sale	137,876	69.3	128,181	67.0
Held-to-maturity	2,815	1.4	3,369	1.8
Total debt securities	146,748	73.8	137,730	72.0
Investment property	10,523	5.3	9,865	5.2
Mortgage loans	7,086	3.6	7,024	3.7
Other loans	9,484	4.8	9,569	5.0
Investments in associates and joint ventures	19	0.0	18	0.0
Total Group investments	**198,948**	**100.0**	**191,238**	**100.0**

Investments (including cash and cash equivalents) with a carrying value of USD 6,596 million and USD 6,492 million were held to meet local regulatory requirements as of June 30, 2016 and December 31, 2015, respectively.

Consolidated financial statements (unaudited) *continued*

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

Table 3.3

in USD millions, as of	Total	
	06/30/16	12/31/15
Equity securities: available-for-sale	590	1,219
Debt securities: available-for-sale	14,606	8,724
Other	706	366
Gross unrealized gains/(losses) on Group investments	15,901	10,309
Less amount of unrealized gains/(losses) on investments attributable to:		
Life policyholder dividends and other policyholder liabilities	(8,309)	(5,814)
Life deferred acquisition costs and present value of future profits	(967)	(654)
Deferred income taxes	(1,578)	(968)
Non-controlling interests	(50)	(23)
Total[1]	**4,998**	**2,850**

1 Net unrealized gains/(losses) on Group investments include net gains arising on cash flow hedges of USD 551 million and USD 294 million as of June 30, 2016 and December 31, 2015, respectively.

Securities lending, repurchase and reverse repurchase agreements

Table 3.4

in USD millions, as of	06/30/16	12/31/15
Securities lending agreements		
Securities lent under securities lending agreements[1]	3,492	4,527
Collateral received for securities lending	3,777	4,909
of which: Cash collateral	220	93
of which: Non cash collateral[2]	3,558	4,815
Liabilities for cash collateral received for securities lending	220	93
Repurchase agreements		
Securities sold under repurchase agreements[3]	1,374	1,596
Obligations to repurchase securities	1,367	1,596
Reverse repurchase agreements		
Securities purchased under reverse repurchase agreements[4]	222	194
Receivables under reverse repurchase agreements	220	193

1 The Group's counterparties had the right to sell or repledge, in the absence of default, assets pledged as collateral with a fair value of USD 3,492 million and USD 4,527 million as of June 30, 2016 and December 31, 2015, respectively. The majority of these assets were debt securities.
2 The Group had the right to sell or repledge, in the absence of default by its counterparties, securities received as collateral with a fair value of USD 3,509 million and USD 4,573 million as of June 30, 2016 and December 31, 2015, respectively.
3 The Group's counterparties had the right to sell or repledge, in the absence of default, assets pledged as collateral with a fair value of USD 796 million and USD 997 million as of June 30, 2016 and December 31, 2015, respectively. The majority of these assets were debt securities.
4 The Group had the right to sell or repledge, in the absence of default by its counterparties, securities received as collateral with a fair value of nil and USD 99 million as of June 30, 2016 and December 31, 2015, respectively.

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

Reserves for insurance contracts

Table 4.1

in USD millions, as of	Gross		Ceded		Net	
	06/30/16	12/31/15	**06/30/16**	12/31/15	**06/30/16**	12/31/15
Reserves for losses and loss adjustment expenses[1]	63,033	62,971	(9,720)	(9,231)	53,313	53,739
Reserves for unearned premiums	18,402	16,230	(3,591)	(2,681)	14,812	13,549
Future life policyholder benefits	75,254	71,952	(3,961)	(4,016)	71,293	67,935
Policyholder contract deposits and other funds	24,492	22,076	(1,959)	(1,956)	22,533	20,121
Reserves for unit-linked contracts	65,542	64,393	–	–	65,542	64,393
Total reserves for insurance contracts[2]	**246,722**	**237,622**	**(19,230)**	**(17,885)**	**227,492**	**219,737**

[1] Includes on a net basis USD 2.6 billion and USD 2.5 billion of discounted reserves for losses and loss adjustment expenses as of June 30, 2016 and December 31, 2015, respectively.
[2] Total reserves for insurance contracts ceded are gross of allowances for uncollectible amounts of USD 89 million and USD 111 million as of June 30, 2016 and December 31, 2015, respectively.

Development of reserves for losses and loss adjustment expenses

Table 4.2

in USD millions	Gross		Ceded		Net	
	2016	2015	**2016**	2015	**2016**	2015
As of January 1	62,971	64,472	(9,231)	(9,770)	53,739	54,703
Losses and loss adjustment expenses incurred:						
Current year	11,609	11,739	(1,894)	(1,465)	9,715	10,274
Prior years	(271)	(240)	90	50	(181)	(190)
Total incurred	11,338	11,499	(1,803)	(1,415)	9,534	10,085
Losses and loss adjustment expenses paid:						
Current year	(2,699)	(2,992)	226	172	(2,473)	(2,820)
Prior years	(8,199)	(8,205)	1,182	1,265	(7,017)	(6,941)
Total paid	(10,898)	(11,197)	1,408	1,437	(9,490)	(9,760)
Acquisitions/(divestments) and transfers[1]	(263)	–	(101)	(44)	(364)	(44)
Foreign currency translation effects	(114)	(919)	8	184	(107)	(735)
As of June 30	**63,033**	**63,855**	**(9,720)**	**(9,607)**	**53,313**	**54,248**

[1] The 2016 net movement includes USD 29 million relating to the acquisition of RCIS, USD 40 million relating to the acquisition of Kono Insurance Limited and USD (433) million reclassification to assets and liabilities held for sale (see note 2). The 2015 net movement includes USD (44) million relating to a reinsurance agreement which transferred the benefits and risks of some of the Group's general insurance portfolio to a third party.

The Group establishes loss reserves, which are estimates of future payments of reported and unreported claims for losses and related expenses, with respect to insured events that have occurred. Reserving is a complex process dealing with uncertainty, requiring the use of informed estimates and judgments. Any changes in estimates or judgments are reflected in the results of operations in the period in which estimates and judgments are changed.

Significant delays may occur in the notification and settlement of claims, and a substantial measure of experience and judgment is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as of the balance sheet date. The reserves for losses and loss adjustment expenses are determined on the basis of information currently available. However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

The decrease of USD 426 million during the first six months of 2016 in net reserves for losses and loss adjustment expenses is driven by the transfer of net reserves of USD 433 million for entities classified as held for sale (see note 2) as well as a decrease of USD 107 million due to foreign currency translation effects. In addition, for the first six months of 2016 net favorable reserve development emerged from reserves established in prior years amounting to USD 181 million. The main reductions were in Global Corporate, North America Commercial and the UK, partially offset by Group Reinsurance.

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The decrease of USD 455 million during the first six months of 2015 in net reserves for losses and loss adjustment expenses is mostly driven by a decrease of USD 735 million for foreign currency translation effects. In addition, favorable reserve development arising from reserves established in prior years amounted to USD 190 million for the first six months of 2015, mainly driven by a reduction in medium and large losses in the UK, a reduction in case reserves in motor third party liability in Switzerland and favorable claims experience in Italy. In addition, there is favorable prior year development mainly relating to large losses in surety in North America Commercial, offset by a deterioration in run-off businesses in North America.

Development of future life policyholder benefits

Table 4.3

in USD millions	Gross		Ceded		Net	
	2016	2015	**2016**	2015	**2016**	2015
As of January 1	71,952	77,652	(4,016)	(2,441)	67,935	75,211
Premiums	6,507	5,752	(415)	(2,022)	6,093	3,730
Claims	(4,484)	(4,495)	311	272	(4,173)	(4,222)
Fee income and other expenses	(1,711)	(1,810)	36	82	(1,675)	(1,728)
Interest and bonuses credited to policyholders	1,437	988	(87)	(32)	1,350	955
Changes in assumptions	62	301	–	–	62	300
Acquisitions/(divestments) and transfers[1]	(49)	(878)	5	–	(44)	(878)
Increase/(decrease) recorded in other comprehensive income	190	(506)	–	–	190	(506)
Foreign currency translation effects	1,350	(2,823)	206	(8)	1,556	(2,831)
As of June 30	**75,254**	**74,180**	**(3,961)**	**(4,148)**	**71,293**	**70,032**

[1] The 2016 net movement of USD (44) million relates to reclassifications to assets and liabilities held for sale (see note 2). The 2015 net movement relates to USD (472) million transferred to Banco Santander S.A., which was previously managed on a fiduciary and ring-fenced basis, and USD (406) million reclassified to policyholder contract deposits and other funds.

Policyholder contract deposits and other funds gross

Table 4.4

in USD millions, as of	**06/30/16**	12/31/15
Universal life and other contracts	12,348	12,120
Policyholder dividends	12,144	9,957
Total	**24,492**	**22,076**

Development of policyholder contract deposits and other funds

Table 4.5

in USD millions	Gross		Ceded		Net	
	2016	2015	**2016**	2015	**2016**	2015
As of January 1	22,076	23,415	(1,956)	(1,994)	20,121	21,421
Premiums	573	569	(28)	(27)	545	541
Claims	(573)	(617)	66	91	(507)	(525)
Fee income and other expenses	(233)	(248)	(4)	(2)	(236)	(250)
Interest and bonuses credited to policyholders	290	944	(38)	(38)	253	906
Acquisitions/(divestments) and transfers[1]	(8)	406	–	–	(8)	406
Increase/(decrease) recorded in other comprehensive income	2,092	(1,287)	–	–	2,092	(1,287)
Foreign currency translation effects	273	(948)	–	–	273	(948)
As of June 30	**24,492**	**22,234**	**(1,959)**	**(1,969)**	**22,533**	**20,265**

[1] The 2016 net movement of USD (8) million relates to reclassifications to liabilities held for sale (see note 2). The 2015 net movement relates to USD 406 million reclassified from future life policyholder benefits.

5. Policyholder dividends and participation in profits

Policyholder dividends and participation in profits

Table 5

in USD millions, for the six months ended June 30	**2016**	2015
Change in policyholder contract deposits and other funds	204	914
Change in reserves for unit-linked products	2,184	2,693
Change in liabilities for investment contracts – unit-linked	2,086	2,578
Change in liabilities for investment contracts – other	112	102
Change in unit-linked liabilities related to UK capital gains tax	(89)	(89)
Total policyholder dividends and participation in profits	**4,497**	**6,198**

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6. Deferred policy acquisition costs and deferred origination costs

Development of deferred policy acquisition costs

Table 6.1

in USD millions	General Insurance		Global Life		Other segments[1]		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
As of January 1	4,226	3,984	13,298	13,584	153	182	17,677	17,750
Acquisition costs deferred	2,110	1,933	816	961	204	234	3,130	3,128
Amortization	(1,863)	(1,593)	(688)	(670)	(205)	(233)	(2,756)	(2,495)
Impairments	(1)	–	–	–	–	–	(1)	–
Amortization (charged)/ credited to other comprehensive income	–	–	(287)	205	–	–	(287)	205
Acquisitions/(divestments) and transfers[2]	(28)	–	(16)	–	20	–	(24)	–
Foreign currency translation effects	120	(81)	(230)	(455)	–	–	(109)	(536)
As of June 30	**4,564**	**4,242**	**12,894**	**13,626**	**171**	**183**	**17,629**	**18,052**

[1] Net of eliminations from inter-segment transactions.
[2] The 2016 General Insurance movement of USD 28 million includes USD 24 million reclassified to assets held for sale (see note 2) and a portfolio transfer of USD 4 million to Non-Core Business. The 2016 Global Life movement of USD 16 million relates to the portfolio transfer of Zurich Life Insurance Singapore Pte Ltd to Non-Core Business.

As of June 30, 2016, December 31, 2015 and June 30, 2015, deferred policy acquisition costs relating to non-controlling interests were USD 399 million, USD 326 million and USD 386 million, respectively.

Development of deferred origination costs

Table 6.2

in USD millions	**2016**	2015
As of January 1	506	595
Origination costs deferred	18	26
Amortization	(39)	(47)
Foreign currency translation effects	(22)	(16)
As of June 30	**463**	**558**

7. Attorney-in-fact contracts, goodwill and other intangible assets

Intangible assets – current period

Table 7.1

in USD millions	Attorney-in-fact relationships	Goodwill	PVFP	Distribution agreements	Software	Other	Total
Gross carrying value as of January 1, 2016	**1,025**	**1,667**	**2,501**	**3,715**	**4,672**	**173**	**13,753**
Less: accumulated amortization/ impairments	–	(378)	(2,035)	(963)	(3,167)	(130)	(6,673)
Net carrying value as of January 1, 2016	**1,025**	**1,289**	**466**	**2,752**	**1,505**	**43**	**7,080**
Additions and acquisitions	–	378	–	3	182	173	736
Divestments and transfers	–	(33)	–	(4)	(15)	(3)	(55)
Amortization [1]	–	–	(34)	(93)	(163)	(4)	(293)
Amortization charged to other comprehensive income	–	–	(13)	–	–	–	(13)
Impairments	–	–	–	–	(8)	–	(8)
Foreign currency translation effects	–	12	1	164	(4)	(2)	171
Net carrying value as of June 30, 2016	**1,025**	**1,646**	**420**	**2,821**	**1,498**	**207**	**7,618**
Plus: accumulated amortization/ impairments	–	335	2,015	1,106	3,131	126	6,713
Gross carrying value as of June 30, 2016	**1,025**	**1,981**	**2,436**	**3,927**	**4,628**	**333**	**14,330**

[1] Amortization of distribution agreements is included within underwriting and policy acquisition costs.

As of June 30, 2016, intangible assets relating to non-controlling interests were USD 87 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1,245 million for distribution agreements and USD 15 million for software.

As a result of the acquisition of RCIS intangible assets increased by USD 465 million of which USD 365 million related to goodwill and USD 101 million to other intangible assets (see note 2). An additional increase of goodwill of USD 13 million relates to the acquisition of Kono Insurance Limited (see note 2).

For the six months ended June 30, 2016, divestments and transfers include USD 8 million reclassification to assets held for sale and remeasurements of goodwill and distribution agreements for Zurich Insurance Middle East of USD 33 million and USD 3 million, respectively (see note 2).

Following a review, software was identified, which was not utilized as originally expected, resulting in USD 8 million of impairments, primarily in General Insurance.

Intangible assets by segment – current period

Table 7.2

in USD millions, as of June 30, 2016	Attorney-in-fact relationships	Goodwill	PVFP	Distribution agreements	Software	Other	Total
General Insurance	–	822	–	719	642	133	2,316
Global Life	–	5	420	2,102	376	1	2,904
Farmers	1,025	819	–	–	361	–	2,205
Other Operating Businesses	–	–	–	–	120	73	193
Net carrying value as of June 30, 2016	**1,025**	**1,646**	**420**	**2,821**	**1,498**	**207**	**7,618**

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Intangible assets – prior period

Table 7.3

in USD millions	Attorney-in-fact relationships	Goodwill	PVFP	Distribution agreements	Software	Other	Total
Gross carrying value as of January 1, 2015	**1,025**	**1,778**	**2,701**	**4,480**	**4,588**	**186**	**14,760**
Less: accumulated amortization/impairments	–	(117)	(2,145)	(903)	(3,046)	(133)	(6,344)
Net carrying value as of January 1, 2015	**1,025**	**1,661**	**556**	**3,577**	**1,543**	**53**	**8,415**
Additions and acquisitions	–	–	–	4	178	–	182
Amortization	–	–	(37)	(109)	(166)	(4)	(316)
Amortization charged to shareholders' equity	–	–	12	–	–	–	12
Impairments	–	(49)	–	(1)	(44)	(1)	(94)
Foreign currency translation effects	–	(61)	(26)	(332)	(12)	(1)	(433)
Net carrying value as of June 30, 2015	**1,025**	**1,552**	**505**	**3,140**	**1,498**	**47**	**7,767**
Plus: accumulated amortization/impairments	–	164	2,118	927	3,149	134	6,492
Gross carrying value as of June 30, 2015	**1,025**	**1,715**	**2,623**	**4,067**	**4,648**	**181**	**14,259**

As of June 30, 2015, intangible assets relating to non-controlling interests were USD 102 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1,364 million for distribution agreements and USD 14 million for software.

Following a review of a subsidiary in Global Life, the Group reassessed the recoverability of the goodwill and concluded that USD 49 million was fully impaired.

Following restructuring decisions, mainly in Global Life, certain IT assets will no longer be required, which resulted in an impairment of USD 34 million. In addition, software was identified, which was not utilized as originally expected, resulting in USD 10 million of impairments.

Intangible assets by segment – prior period

Table 7.4

in USD millions, as of December 31, 2015	Attorney-in-fact relationships	Goodwill	PVFP	Distribution agreements	Software	Other	Total
General Insurance	–	465	–	713	629	42	1,849
Global Life	–	5	466	2,039	394	1	2,905
Farmers	1,025	819	–	–	353	–	2,197
Other Operating Businesses	–	–	–	–	129	–	129
Net carrying value as of December 31, 2015	**1,025**	**1,289**	**466**	**2,752**	**1,505**	**43**	**7,080**

8. Restructuring provisions

Restructuring provisions

Table 8

in USD millions	2016	2015
As of January 1	386	125
Provisions made during the period	53	11
Increase of provisions set up in prior years	67	5
Provisions used during the period	(165)	(42)
Provisions reversed during the period	(9)	(3)
Foreign currency translation effects	11	(3)
As of June 30	**343**	**94**

During the six months ended June 30, 2016, restructuring programs were initiated with estimated costs of USD 53 million impacting mainly General Insurance in North America and Europe. In addition, net adjustments were made of USD 58 million to provisions for restructuring programs initiated in prior years.

During the six months ended June 30, 2015, restructuring programs were initiated with estimated costs of USD 11 million impacting General Insurance, Global Life and Other Operating Businesses. In addition, net adjustments were made of USD 2 million to provisions for restructuring programs initiated in the years prior to 2015. The Group also recorded USD 34 million of software impairments (see note 7), resulting from restructuring decisions.

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9. Income taxes

Income tax expense – current/deferred split

Table 9.1

in USD millions, for the six months, ended June 30	2016	2015
Current	769	741
Deferred	65	59
Total income tax expense/(benefit)	**835**	**800**

Expected and actual income tax expense

Table 9.2

in USD millions, for the six months ended June 30	Rate	2016	Rate	2015
Net income before income taxes		2,597		2,973
less: income tax (expense)/benefit attributable to policyholders		(83)		(95)
Net income before income taxes attributable to shareholders		2,515		2,877
Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%	553	22.0%	633
Increase/(reduction) in taxes resulting from:				
Tax rate differential in foreign jurisdictions		*173*		*138*
Tax exempt and lower taxed income		*(27)*		*(38)*
Non-deductible expenses		*53*		*22*
Tax losses not recognized		*(53)*		*(2)*
Prior year adjustments and other		*53*		*(47)*
Actual income tax expense attributable to shareholders	**29.9%**	**752**	**24.5%**	**705**
plus: income tax expense/(benefit) attributable to policyholders		83		95
Actual income tax expense	32.1%	835	26.9%	800

Table 9.2 sets out the factors that cause the actual income tax expense to differ from the expected expense computed by applying the Swiss statutory tax rate of 22.0 percent, which is the rate applicable in the jurisdiction where the ultimate parent company is resident.

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

10. Senior and subordinated debt

Senior and subordinated debt

Table 10

in USD millions, as of		**06/30/16**	12/31/15
Senior debt			
Zurich Insurance Company Ltd	Floating rate CHF 200 million notes, due June 2016[3]	–	200
	2.25% CHF 500 million notes, due July 2017[3]	512	498
	2.375% CHF 525 million notes, due November 2018[3]	536	522
	1.50% CHF 400 million notes, due June 2019[2,3]	428	415
	1.125% CHF 400 million notes, due September 2019[2,3]	433	420
	0.625% CHF 250 million notes, due July 2020[2,3]	269	259
	2.875% CHF 250 million notes, due July 2021[3]	254	247
	3.375% EUR 500 million notes, due June 2022[2,3,4]	597	587
	1.875% CHF 100 million notes, due September 2023[2,3]	119	111
	1.750% EUR 500 million notes, due September 2024[2,3,4]	571	545
	1.500% CHF 150 million notes, due July 2026[2,3]	179	164
Zurich Holding Comp. of America Inc	Euro Commercial Paper Notes, due in less than 3 months	399	400
Zurich Santander Insurance America S.L.	7.5% EUR 61 million loan, due December 2035	67	74
Other	Various debt instruments	29	29
Senior debt		4,395	4,471
Subordinated debt			
Zurich Insurance Company Ltd	4.25% CHF 700 million perpetual notes, first callable May 2016[3]	–	698
	8.25% USD 500 million perpetual capital notes, first callable January 2018[3,4]	498	498
	4.625% CHF 500 million perpetual notes, first callable May 2018[3]	510	496
	7.5% EUR 425 million notes, due July 2039, first callable July 2019[3,4]	470	460
	2.75% CHF 225 million perpetual capital notes, first callable June 2021[3]	230	–
	2.75% CHF 200 million perpetual capital notes, first callable September 2021[2,3]	219	209
	4.25% EUR 1 billion notes, due October 2043, first callable October 2023[3,4]	1,100	1,075
	4.25% USD 300 million notes, due October 2045, first callable October 2025[3,4]	299	298
	5.625% USD 1 billion notes, due June 2046, first callable June 2026[3]	995	–
	3.5% EUR 750 million notes, due 1st October 2046, first callable October 2026[2,3]	835	–
Zurich Finance (UK) plc	6.625% GBP 450 million perpetual notes, first callable October 2022[3]	593	658
ZFS Finance (USA) Trust II	Series II 6.45% USD 700 million Trust Preferred Securities (ECAPS), due December 2065, first callable June 2016	–	680
ZFS Finance (USA) Trust V	Series V 6.5% USD 501 million Trust Preferred Securities, due May 2067, first callable May 2017[1]	501	501
Other	Various debt instruments	40	41
Subordinated debt		6,291	5,614
Total senior and subordinated debt		**10,686**	**10,086**

[1] The holders of these notes benefit from the Replacement Capital Covenant which states that if Series V Fixed/Floating Trust Preferred Securities, issued by ZFS Finance (USA) Trust V, are called before 2047, the Group will issue a replacement debt instrument with terms and provisions that will be as or more equity-like than the replaced notes.
[2] The Group applied the fair value hedge methodology either partially or in full to hedge the interest rate exposure.
[3] Issued under the Group's Euro Medium Term Note Programme (EMTN Programme).
[4] These bonds are part of a qualifying net investment hedge to hedge the foreign currency exposure.

None of the debt instruments listed in table 10 were in default as of June 30, 2016 or December 31, 2015.

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11. Commitments and contingencies, legal proceedings and regulatory investigations

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

Table 11

Quantifiable commitments and contingencies

in USD millions, as of	**06/30/16**	12/31/15
Remaining commitments under investment agreements	1,346	1,431
Guarantees and letters of credit[1]	805	895
Future operating lease commitments	1,487	1,512
Undrawn loan commitments	12	8
Other commitments and contingent liabilities[2]	851	574

[1] Guarantee features embedded in life insurance products are not included.
[2] Includes an agreement to acquire the retail life insurance protection business of the Macquarie Group amounting to USD 298 million as of June 30, 2016 (see note 2).

Legal, compliance and regulatory developments

In recent years there has been an increase in the number of legislative initiatives that require information gathering and tax reporting regarding the Group's customers and their contracts, including the U.S. Foreign Account Tax Compliance Act (FATCA) and the expected introduction of other automatic tax information exchange regimes based on the Common Reporting Standard (CRS). The Group's compliance activities in this area could result in higher compliance costs, remedial actions and other related expenses for its life insurance, savings and pension business. There has also been increased scrutiny by various tax and law enforcement officials into cross-border business activities, including in particular by U.S. government authorities looking into U.S. taxpayers with investments held outside the U.S. and the non-U.S. financial institutions that hold such investments.

The Group, on its own initiative, undertook an internal review of the life insurance, savings and pension business sold by its non-U.S. operating companies with relevant cross-border business to customers with a nexus to the U.S. The Group engaged outside counsel and other advisors to assist in this review, which was focused on assessing compliance with relevant U.S. tax laws. The review confirmed that the Group's cross-border business with U.S. persons was very limited and of a legacy nature, with the large majority of sales having occurred more than a decade ago. The review also confirmed that the Group's U.S. operating companies were not involved in or connected to those activities.

The Group has voluntarily disclosed the results of the review and the regulatory issues presented by sales to U.S. residents to the Swiss Financial Market Supervisory Authority (FINMA), the U.S. Department of Justice (DOJ) and other authorities. The Group is cooperating with these authorities.

While at this stage in the process, it is unclear whether the Group will have any liability related to these matters, the Group does not currently believe this matter will have a material adverse effect on the Group's business or the Group's consolidated financial condition.

Legal proceedings and regulatory investigations

The Group's business is subject to extensive supervision, and the Group is in regular contact with various regulatory authorities. The Group is continuously involved in legal proceedings, claims and regulatory investigations arising, for the most part, in the ordinary course of its business operations. Specifically, certain companies within the Group are engaged in the following legal proceedings:

An action entitled Fuller-Austin Asbestos Settlement Trust, et al. v. Zurich American Insurance Company (ZAIC), et al., was filed in May 2004 in the Superior Court for San Francisco County, California. Three other similar actions were filed in 2004 and 2005 and have been coordinated with the Fuller-Austin action (collectively, the Fuller-Austin Case). In addition to ZAIC and four of its insurance company subsidiaries, Zurich Insurance Company Ltd and Orange Stone Reinsurance Dublin (Orange Stone) are named as defendants. The plaintiffs, who are historical policyholders of the Home Insurance Company (Home), plead claims for, inter alia, fraudulent transfer, tortious interference, unfair competition, alter ego and agency liability relating to the recapitalization of Home, which occurred in 1995 following regulatory review and approval. The plaintiffs allege that pursuant to the recapitalization and subsequent transactions, various Zurich entities took assets from Home without giving adequate consideration in return, and contend that this forced Home into liquidation. The plaintiffs further allege that the defendants should be held responsible for Home's alleged obligations under their Home policies. The trial judge designated the plaintiffs' claims for constructive fraudulent transfer for adjudication before all other claims; he subsequently ordered an initial bench trial on certain threshold elements of those fraudulent transfer claims and on certain of defendants' affirmative defenses (Phase 1).

The Phase 1 trial commenced on November 1, 2010 and the court issued its Statement of Decision for Phase 1 on December 27, 2013. While the court found that the plaintiffs had established that Home transferred certain assets to one of the defendants in connection with the 1995 recapitalization transaction, it held that the plaintiffs' fraudulent transfer claims, which all related to transfers allegedly made as part of the 1995 recapitalization, were time-barred. The court further held that Home's liquidator had exclusive standing to bring fraudulent transfer claims involving Home's assets. In addition, the court accepted the defendants' arguments that the findings made by the regulators in approving the recapitalization transaction are binding on the plaintiffs in the Fuller-Austin Case.

Following a hearing to consider the effect of the initial decision on the plaintiffs' remaining claims, on February 27, 2015, the court issued its Statement of Decision for Phase 1A. The court ruled that all of the plaintiffs' fraudulent transfer causes of action were barred, and plaintiffs later confirmed on the record that their unfair competition claims were also barred as a result of the Decision for Phase 1A). The court allowed the plaintiffs' remaining claims to proceed, but held that the plaintiffs are bound by the insurance regulators' determinations that the 1995 recapitalization was fair and in the best interests of Home's policyholders, including the plaintiffs.

Beginning in early 2015, certain plaintiffs voluntarily dismissed their claims with prejudice in exchange for an agreement that the defendants will not pursue them for litigation costs and such dismissals have been filed with the Court. As a result of these dismissals only one of the four coordinated actions remains pending; there has been no recent litigation activity in the remaining action. The Group maintains that the Fuller-Austin Case is without merit and intends to continue to defend itself vigorously against the claims of any plaintiff that remain in the case.

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

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12. Fair value measurement

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

Fair value and carrying value of financial assets and financial liabilities

Table 12.1

in USD millions, as of	Total fair value		Total carrying value	
	06/30/16	12/31/15	**06/30/16**	12/31/15
Available-for-sale securities				
Equity securities	14,419	15,354	14,419	15,354
Debt securities	137,876	128,181	137,876	128,181
Total available-for-sale securities	152,296	143,535	152,296	143,535
Fair value through profit or loss securities				
Equity securities	3,323	3,519	3,323	3,519
Debt securities	6,057	6,180	6,057	6,180
Total fair value through profit or loss securities	9,380	9,699	9,380	9,699
Derivative assets	**1,738**	**1,120**	**1,738**	**1,120**
Held-to-maturity debt securities	**3,709**	**4,086**	**2,815**	**3,369**
Investments in associates and joint ventures	**19**	**18**	**19**	**18**
Mortgage loans	**7,831**	**7,603**	**7,086**	**7,024**
Other loans	**11,623**	**11,279**	**9,484**	**9,569**
Total financial assets	**186,596**	**177,341**	**182,818**	**174,335**
Derivative liabilities	**(587)**	**(362)**	**(587)**	**(362)**
Financial liabilities held at amortized cost				
Liabilities related to investment contracts	(896)	(913)	(685)	(754)
Liabilities related to investment contracts with DPF	(7,621)	(6,447)	(8,793)	(7,629)
Senior debt	(4,554)	(4,596)	(4,395)	(4,471)
Subordinated debt	(6,673)	(5,983)	(6,291)	(5,614)
Total financial liabilities held at amortized cost	(19,743)	(17,940)	(20,164)	(18,468)
Total financial liabilities	**(20,330)**	**(18,302)**	**(20,751)**	**(18,830)**

Recurring fair value measurements of assets and liabilities

Fair value hierarchy – non unit-linked – current period

Table 12.2a

in USD millions, as of June 30, 2016	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Equity securities	10,922	2,522	974	14,419
Debt securities	404	131,256	6,216	137,876
Total available-for-sale securities	**11,327**	**133,778**	**7,191**	**152,296**
Fair value through profit or loss securities				
Equity securities	970	38	2,315	3,323
Debt securities	–	5,900	157	6,057
Total fair value through profit or loss securities	**970**	**5,938**	**2,472**	**9,380**
Derivative assets	**5**	**1,147**	**586**	**1,738**
Total	**12,301**	**140,863**	**10,249**	**163,413**
Derivative liabilities	**–**	**(550)**	**(36)**	**(587)**
Total	**–**	**(550)**	**(36)**	**(587)**

For the six months ended June 30, 2016 no material transfers between level 1 and level 2 occurred.

Fair value hierarchy – non unit-linked – prior period

Table 12.2b

in USD millions, as of December 31, 2015	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Equity securities	12,143	2,252	959	15,354
Debt securities	495	121,724	5,962	128,181
Total available-for-sale securities	**12,638**	**123,977**	**6,921**	**143,535**
Fair value through profit or loss securities				
Equity securities	1,017	82	2,419	3,519
Debt securities	–	6,034	146	6,180
Total fair value through profit or loss securities	**1,017**	**6,116**	**2,565**	**9,699**
Derivative assets	**1**	**591**	**529**	**1,120**
Total	**13,656**	**130,683**	**10,015**	**154,354**
Derivative liabilities	**(5)**	**(258)**	**(99)**	**(362)**
Total	**(5)**	**(258)**	**(99)**	**(362)**

For the year ended December 31, 2015 no material transfers between level 1 and level 2 occurred.

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

Table 12.3a

in USD millions	Available-for-sale securities		Fair value through profit or loss securities			
	Equity securities	Debt securities	Equity securities	Debt securities	Derivative assets	Derivative liabilities
As of January 1, 2016	959	5,962	2,419	146	529	(99)
Realized gains/(losses) recognized in income[1]	47	13	–	–	–	–
Unrealized gains/(losses) recognized in income[1,2]	1	(20)	2	(2)	(22)	11
Unrealized gains/(losses) recognized in other comprehensive income	(12)	92	–	–	228	53
Purchases	101	938	169	32	2	–
Settlements/sales/redemptions	(108)	(523)	(283)	(5)	–	–
Transfers into level 3	–	30	–	–	–	–
Transfers out of level 3	–	(240)	–	(6)	(162)	–
Foreign currency translation effects	(14)	(35)	9	(9)	12	(1)
As of June 30, 2016	**974**	**6,216**	**2,315**	**157**	**586**	**(36)**

[1] Presented as net capital gains/(losses) and impairments on Group investments in the consolidated income statements.
[2] Unrealized gains/(losses) recognized in income for available-for-sale securities relate to impairments.

For the six months ended June 30, 2016, the Group transferred USD 240 million of available-for-sale debt securities out of level 3 into level 2. The transfers were mainly due to credit rating upgrades of certain asset-backed securities resulting in an increase in market activity of these instruments and a review of the classification of certain corporate bonds due to the observability of the inputs used in the valuation techniques to determine its fair value. The Group also transferred derivatives with a market value of USD 162 million out of level 3 into level 2. The transfers resulted from an increase in significance of certain observable input parameters used to derive the fair value.

Consolidated financial statements (unaudited) *continued*

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

Table 12.3b

in USD millions	Available-for-sale securities		Fair value through profit or loss securities			
	Equity securities	Debt securities	Equity securities	Debt securities	Derivative assets	Derivative liabilities
As of January 1, 2015	929	2,764	2,417	185	375	(61)
Realized gains/(losses) recognized in income[1]	60	4	42	–	(3)	–
Unrealized gains/(losses) recognized in income[1,2]	(8)	(36)	6	(1)	(3)	(16)
Unrealized gains/(losses) recognized in other comprehensive income	(43)	(32)	–	–	38	(70)
Purchases	90	1,083	190	7	–	–
Settlements/sales/redemptions	(114)	(347)	(197)	(11)	(3)	–
Transfers into level 3	60	1,909	–	–	2	–
Transfers out of level 3	–	(46)	–	–	(5)	–
Foreign currency translation effects	6	(8)	21	1	16	1
As of June 30, 2015	**981**	**5,290**	**2,479**	**180**	**417**	**(146)**

[1] Presented as net capital gains/(losses) and impairments on Group investments in the consolidated income statements.
[2] Unrealized gains/(losses) recognized in income for available-for-sale securities relate to impairments.

For the six months ended June 30, 2015, the Group transferred USD 1,909 million of available-for-sale debt securities out of level 2 into level 3 as a result of a review of the classification of certain collateralized loan obligations and privately placed securities. The fair value of these securities is obtained from third party pricing providers, who use significant unobservable inputs and expert judgment in their valuation models.

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

The Group has valued USD 2 million and USD 4 million of mortgage loans at fair value on a non-recurring basis as of June 30, 2016 and December 31, 2015, respectively. These are classified within level 3 as the fair value measurement is based on internal pricing models, using significant unobservable inputs.

Sensitivity of fair values reported for level 3 instruments to changes to key assumptions
Within level 3, the Group classified non-agency ABS/MBS, CLOs, and private debt placements amounting to USD 6,373 million and USD 6,108 million for Group investments as of June 30, 2016 and December 31, 2015, respectively.

Within level 3, the Group also classified investments in private equity funds, certain hedge funds and other securities which are not quoted on an exchange amounting to USD 3,289 million and USD 3,378 million for Group investments as of June 30, 2016 and December 31, 2015, respectively. These investments are valued based on regular reports from the issuing funds, and their fair values are reviewed by a team of in-house investment professionals and may be adjusted based on their understanding of the circumstances of individual investments.

The key assumptions driving the valuation of these investments include equity levels, discount rates, credit spread rates and prepayment rates. The effect on reported fair values of using reasonably possible alternative values for each of these assumptions, while the other key assumptions remain unchanged, is disclosed in tables 12.4a and 12.4b. While these tables illustrate the overall effect of changing the values of unobservable inputs by a set percentage, the significance of the impact and the range of reasonably possible alternative assumptions may differ significantly between investments, given their different terms and circumstances. Inter-relationships between those unobservable inputs are disclosed in tables 12.5a and 12.5b. The correlation is based on the historical correlation matrix derived from the risk factors which are assigned to each of the level 3 exposures (equity and debt securities). The main market drivers are equity markets and rate indicators and the impact of such changes on the other factors. The spread scenario has been added to analyze the impact of an increase of borrowing cost for entities.

The sensitivity analysis is intended to reflect the uncertainty inherent in the valuation of these investments under current market conditions, and its results cannot be extrapolated due to non-linear effects that changes in valuation assumptions may have on the fair value of these investments. Furthermore, the analysis does not indicate a probability of such changes occurring and it does not necessarily represent the Group's view of expected future changes in the fair value of these investments. Any management actions that may be taken to mitigate the inherent risks are not reflected in this analysis.

Table 12.4a

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

as of June 30, 2016	Less favorable values (relative change)	Decrease in reported fair value (in USD millions)	More favorable values (relative change)	Increase in reported fair value (in USD millions)
Key assumptions				
Equity levels	–20%	(658)	+20%	658
Discount rates	+20%	(163)	–20%	165
Spread rates	+20%	(162)	–20%	164
Prepayment rates	–20%	(1)	+20%	1

Table 12.4b

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

as of June 30, 2015	Less favorable values (relative change)	Decrease in reported fair value (in USD millions)	More favorable values (relative change)	Increase in reported fair value (in USD millions)
Key assumptions				
Equity levels	–20%	(692)	+20%	692
Discount rates	+20%	(140)	–20%	141
Spread rates	+20%	(149)	–20%	150
Prepayment rates	–20%	2	+20%	(2)

Table 12.5a

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

as of June 30, 2016	Key assumptions				Increase/decrease in reported fair value (in USD millions)
	Equity Levels	Discount Rates	Spread rates	Prepayment rates	
Scenarios					
Equity levels +10%	+10.0%	+8.8%	+8.8%	+8.8%	205
Equity levels –10%	–10.0%	–8.8%	–8.8%	–8.8%	(203)
Discount rates +10%	+0.7%	+10.0%	+7.5%	–2.0%	(118)
Discount rates –10%	–0.7%	–10.0%	–7.5%	+2.0%	118
Spread rates +10%	+0.7%	+7.5%	+10.0%	+0.2%	(118)

Table 12.5b

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

as of June 30, 2015	Key assumptions				Increase/decrease in reported fair value (in USD millions)
	Equity Levels	Discount Rates	Spread rates	Prepayment rates	
Scenarios					
Equity levels +10%	+10.0%	–1.4%	–1.4%	–1.4%	325
Equity levels –10%	–10.0%	+1.3%	+1.3%	+1.3%	(334)
Discount rates +10%	+0.5%	+10.0%	+7.5%	–2.0%	(109)
Discount rates –10%	–0.4%	–10.0%	–7.5%	+2.0%	110
Spread rates +10%	+0.5%	+7.0%	+10.0%	+0.2%	(110)

Consolidated financial statements (unaudited) *continued*

13. Segment Information

Business operating profit by segment

Table 13.1

in USD millions, for the six months ended June 30	General Insurance		Global Life	
	2016	2015	**2016**	2015
Revenues				
Direct written premiums[1]	17,797	17,732	6,323	5,609
Assumed written premiums	720	937	163	145
Gross Written Premiums	18,517	18,669	6,486	5,754
Policy fees	–	–	1,131	1,133
Gross written premiums and policy fees	18,517	18,669	7,616	6,887
Less premiums ceded to reinsurers	(4,001)	(2,999)	(436)	(2,045)
Net written premiums and policy fees	14,516	15,670	7,180	4,842
Net change in reserves for unearned premiums	(1,289)	(1,743)	(165)	(97)
Net earned premiums and policy fees	13,227	13,928	7,014	4,745
Farmers management fees and other related revenues	–	–	–	–
Net investment result on Group investments	996	1,044	1,907	2,503
Net investment income on Group investments	1,020	988	1,683	1,690
Net capital gains/(losses) and impairments on Group investments	(24)	57	224	812
Net investment result on unit-linked investments	–	–	3,866	5,107
Other income	319	442	443	595
Total BOP revenues	14,542	15,414	13,230	12,949
of which: inter-segment revenues	*(185)*	*(301)*	*(174)*	*(191)*
Benefits, losses and expenses				
Insurance benefits and losses, net[1]	8,924	9,315	5,679	3,191
Losses and loss adjustment expenses, net	8,924	9,314	–	–
Life insurance death and other benefits, net[1]	–	1	5,679	3,191
Policyholder dividends and participation in profits, net	3	2	4,084	6,024
Income tax expense/(benefit) attributable to policyholders	–	–	83	95
Underwriting and policy acquisition costs, net	2,835	2,871	1,224	1,215
Administrative and other operating expense (excl. depreciation/amortization)	1,396	1,712	1,127	1,212
Interest credited to policyholders and other interest	53	55	230	226
Restructuring provisions and other items not included in BOP	(120)	32	(83)	(33)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	13,090	13,988	12,344	11,931
Business operating profit (before interest, depreciation and amortization)	**1,452**	**1,427**	**886**	**1,019**
Depreciation and impairments of property and equipment	52	46	11	14
Amortization and impairments of intangible assets	64	114	81	200
Interest expense on debt	48	52	5	7
Business operating profit before non-controlling interests	1,288	1,215	789	797
Non-controlling interests	82	49	122	124
Business operating profit	**1,205**	**1,166**	**667**	**673**

[1] Global Life includes approximately USD 1,700 million and USD 1,018 million of gross written premiums and future life policyholder benefits for certain universal life-type contracts in the Group's Spanish operations for the six months ended June 30, 2016 and 2015, respectively (see note 3 of the consolidated financial statements 2015).

Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
–	–	–	–	31	37	–	–	24,151	23,378
759	1,126	24	24	42	46	(54)	(56)	1,654	2,221
759	1,126	24	24	73	82	(54)	(56)	25,804	25,599
–	–	–	–	144	140	–	–	1,274	1,273
759	1,126	24	24	217	222	(54)	(56)	27,079	26,872
–	–	(21)	(21)	(7)	(7)	54	56	(4,411)	(5,015)
759	1,126	3	3	210	215	–	–	22,668	21,857
(7)	(5)	–	–	25	–	–	–	(1,436)	(1,844)
752	1,122	3	3	235	215	–	–	21,231	20,013
1,422	1,380	–	–	–	–	–	–	1,422	1,380
20	24	152	153	421	26	(200)	(216)	3,297	3,534
20	24	152	153	142	169	(200)	(216)	2,818	2,809
–	–	–	–	279	(143)	–	–	479	726
–	–	–	–	367	123	–	–	4,233	5,230
42	26	475	543	24	35	(723)	(914)	579	727
2,236	2,552	631	699	1,047	399	(923)	(1,130)	30,762	30,884
(15)	*(8)*	*(546)*	*(611)*	*(2)*	*(19)*	*923*	*1,130*		
565	759	–	(1)	486	110	–	–	15,654	13,374
565	759	–	(1)	46	13	–	–	9,534	10,085
–	–	–	–	440	97	–	–	6,119	3,289
–	–	–	–	411	173	–	–	4,497	6,198
–	–	–	–	–	–	–	–	83	95
241	346	–	–	6	4	(4)	(4)	4,301	4,433
693	670	611	539	64	53	(559)	(745)	3,333	3,442
–	–	63	68	43	46	(147)	(158)	243	236
(2)	–	(38)	(18)	–	–	–	–	(242)	(18)
1,497	1,776	637	589	1,010	384	(711)	(908)	27,867	27,759
739	**776**	**(6)**	**110**	**37**	**15**	**(212)**	**(222)**	**2,895**	**3,124**
17	20	3	4	–	–	–	–	84	84
44	37	20	59	–	–	–	–	208	410
–	–	362	382	4	5	(212)	(222)	208	223
678	719	(391)	(334)	32	10	–	–	2,396	2,407
–	–	(3)	(4)	–	–	–	–	202	169
678	**719**	**(388)**	**(330)**	**32**	**10**	**–**	**–**	**2,194**	**2,238**

Consolidated financial statements (unaudited) *continued*

Reconciliation of BOP to net income after income taxes

Table 13.2

in USD millions, for the six months ended June 30	General Insurance		Global Life	
	2016	2015	**2016**	2015
Business operating profit	**1,205**	**1,166**	**667**	**673**
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	220	272	131	99
Net gain/(loss) on divestments of businesses[1]	(42)	–	47	–
Restructuring provisions	(67)	(5)	(19)	(2)
Net income/(expense) on intercompany loans[2]	(6)	(10)	(7)	(9)
Impairments of goodwill	–	–	–	(49)
Change in estimates of earn-out liabilities	2	11	(18)	(6)
Other adjustments[3]	(48)	37	(39)	32
Add back:				
Business operating profit attributable to non-controlling interests	82	49	122	124
Net income before shareholders' taxes	1,347	1,519	884	863
Income tax expense/(benefit) attributable to policyholders	–	–	83	95
Net income before income taxes	**1,347**	**1,519**	**967**	**958**
Income tax (expense)/benefit				
attributable to policyholders				
attributable to shareholders				
Net income after taxes				
attributable to non-controlling interests				
attributable to shareholders				

1 For the six months ended June 30, 2016, USD 42 million of losses in General Insurance relate to remeasurements of assets held for sale and USD 47 million of gains in Global Life relate to a forward sale agreement of a UK based distributor (see note 2).
2 The impact on Group level relates to foreign currency translation differences.
3 The total includes non-operating charges of USD 85 million and accounting and other restructuring charges of USD 31 million for the six months ended June 30, 2016. The total includes accounting and other restructuring charges of USD 63 million (of which USD 34 million relates to software impairments, see note 7) relating to initiatives announced at the 2015 Investor Day, and foreign currency gains of USD 113 million for the six months ended June 30, 2015.

	Farmers		Other Operating Businesses		Non-Core Businesses		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
	678	**719**	**(388)**	**(330)**	**32**	**10**	**2,194**	**2,238**
	6	14	(7)	99	6	5	356	488
	–	–	(1)	–	–	–	5	–
	(2)	1	(24)	(7)	–	–	(112)	(13)
	–	–	15	18	–	–	1	(1)
	–	–	–	–	–	–	–	(49)
	–	–	–	–	–	–	(16)	5
	–	(1)	(29)	(29)	–	–	(116)	39
	–	–	(3)	(4)	–	–	202	169
	682	733	(436)	(253)	38	15	2,515	2,877
	–	–	–	–	–	–	83	95
	682	**733**	**(436)**	**(253)**	**38**	**15**	**2,597**	**2,973**
							(835)	(800)
							(83)	(95)
							(752)	(705)
							1,763	**2,172**
							149	113
							1,613	2,059

Consolidated financial statements (unaudited) *continued*

14. Events after the balance sheet date

On July 13, 2016, the Group announced the successful placement of USD 1 billion of undated subordinated notes (the "Notes") which are first callable in January 2022. The Notes will be issued by Zurich Insurance Company Ltd under its Euro Medium Term Note Programme. The coupon is fixed at 4.75%.

On July 1, 2016, the Group signed an agreement to sell the Group's General Insurance business in South Africa and Botswana. This business was classified as held for sale as of June 30, 2016. The transaction is subject to customary closing conditions, including regulatory approvals. Closing of the transaction is expected in the final three months of 2016.

On June 10, 2016, Zurich announced a planned change in the structure of the Group, effective July 1, 2016, which will lead to a simpler, more customer-oriented structure and reduced complexity. The new business structure will be focused on geographic regions and it will consist of Asia Pacific, Europe, Middle East and Africa (EMEA), Latin America and North America. In addition, the business structure will also include Global Corporate and Farmers. The changes will be implemented over the course of 2016 and the new reporting structure will be reflected in the consolidated financial statements in 2017.

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Review report of the auditors

Review report of the auditors

To the Board of Directors of Zurich Insurance Group Ltd

Introduction
We have reviewed the accompanying unaudited Consolidated financial statements (consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity and related notes on pages 21 to 59) of Zurich Insurance Group Ltd for the period ended June 30, 2016. The Board of Directors is responsible for the preparation and presentation of these unaudited Consolidated financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these unaudited Consolidated financial statements based on our review.

Scope of Review
We conducted our review in accordance with Swiss Auditing Standard 910 and International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Swiss Auditing Standards and International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the unaudited Consolidated financial statements have not been prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers AG

Mark Humphreys
Audit expert

Stephen O'Hearn
Global relationship partner

Zurich, August 10, 2016

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Shareholder information

Contents

Zurich Insurance Group Ltd registered share data

Key indicators

	06/30/2016	06/30/2015
Number of shares issued[1]	150,404,964	149,636,836
Number of dividend-bearing shares[2]	150,404,964	149,636,836
Market capitalization (in CHF millions at end of period)	36,007	42,587
Authorized capital, number of shares	10,000,000	10,000,000
Contingent capital, number of shares	10,890,295	11,658,423

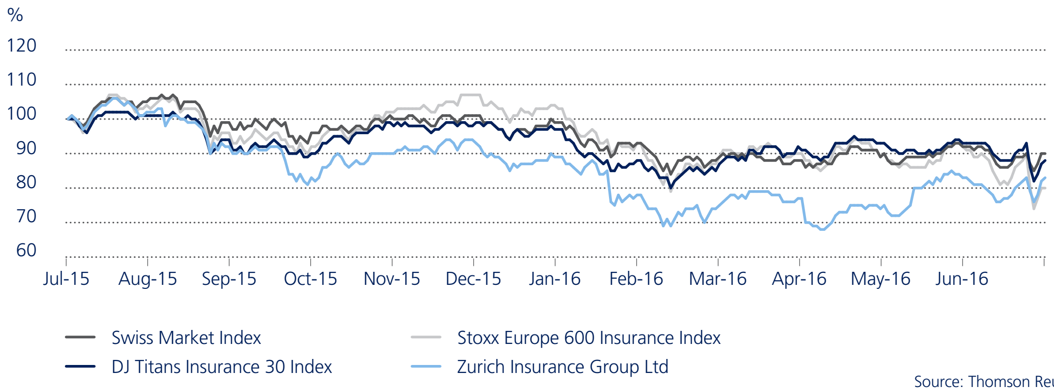
[1] Register of commerce
[2] Treasury shares are not entitled to dividends.

Per share data

in CHF	06/30/2016	06/30/2015
Gross dividend[1]	17.00	17.00
Basic earnings per share	10.61	13.10
Diluted earnings per share	10.55	12.99
Book value per share, as of June 30	206.62	209.27
Nominal value per share	0.10	0.10
Price at end of period	239.40	284.60
Price period high	258.40	332.90
Price period low	196.00	280.00

[1] Gross dividend per registered share; payment date was from April 5, 2016

Zurich share performance (indexed) over one year, ending June 2016



Source: Thomson Reuters Datastream

Shareholder information *continued*

Financial calendar

Results for the nine months to September 30, 2016
November 10, 2016

Investor Day
November 17, 2016

Annual Results 2016
February 9, 2017

Annual General Meeting 2017
March 29, 2017

Results for the three months to March 31, 2017
May 11, 2017

Half year results 2017
August 10, 2017

Results for the nine months to September 30, 2017
November 9, 2017

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American Depositary Receipts (ADR)
Zurich Insurance Group Ltd has an ADR program with The Bank of New York Mellon. For information relating to an ADR account, please contact BNY Mellon Shareowner Services, P.O. Box 30170, College Station, TX 77842-3170
Telephone: +1 888-269-2377
(toll-free number in the U.S.)
Telephone: +1 201 680 6825 (international)
Website: www.mybnymdr.com
Email:
shrrelations@cpushareownerservices.com
General information on the company's ADR program can be obtained from The Bank of New York Mellon at www.adrbnymellon.com

Glossary

Group

Book value per share
is a measure that is calculated by dividing shareholders' equity by the number of shares issued less the number of treasury shares as of the period end.

Business operating profit (BOP)
is a measure that is the basis on which the Group manages all of its business units. It indicates the underlying performance of the Group's business units, after non-controlling interests, by eliminating the impact of financial market volatility and other non-operational variables. BOP reflects adjustments for shareholders' taxes, net capital gains/(losses) and impairments on investments (except for the capital markets and property lending/banking operations included in Non-Core Businesses, investments in hedge funds, certain securities held for specific economic hedging purposes and policyholders' share of investment results for the life businesses) and non-operational foreign exchange movements. Significant items arising from special circumstances, including restructuring charges, charges for litigation outside the ordinary course of business, gains and losses on divestments of businesses, impairments of goodwill and changes in estimates of earn-out liabilities (except experience adjustments, which remain within BOP) are also excluded from BOP. **Business operating profit before interest, depreciation and amortization (BOPBIDA)** is BOP before interest expense on debt, depreciation and impairments of property and equipment and amortization and impairments of intangible assets, but including amortization of deferred policy acquisition costs and deferred origination costs.

Business operating profit (after-tax) return on shareholders' equity (BOPAT ROE)
indicates the level of BOP relative to resources provided by shareholders. It is calculated as BOP, annualized on a linear basis and adjusted for taxes, divided by the average value of shareholders' equity, adjusted for net unrealized gains/(losses) on available-for-sale investments and cash flow hedges, using the value at the beginning and end of each quarter within the period. The average shareholders' equity for each quarter is then added together and divided by the number of quarters. If the dividend is approved at the Annual General Meeting within the first ten working days in April, then the dividend is deducted from the second quarter opening shareholders' equity.

Investments
Total investments in the consolidated balance sheets include Group investments and investments for unit-linked contracts. **Group investments** are those for which the Group bears part or all of the investment risk. They also include investments related to investment contracts with discretionary participation features. Average invested assets exclude cash collateral received for securities lending. The Group manages its diversified investment portfolio to optimize benefits for both shareholders and policyholders while ensuring compliance with local regulatory and business requirements under the guidance of the Group's Asset/Liability Management and Investment Committee. **Investments for unit-linked contracts** include investments where the policyholder bears the investment risk, and are held for liabilities related to unit-linked investment contracts and reserves for unit-linked contracts. They are managed in accordance with the investment objectives of each unit-linked fund. The investment result for unit-linked products is passed to policyholders through a charge to policyholder dividends and participation in profits.

Return on shareholders' equity (ROE)
is a measure that indicates the level of profit or loss relative to resources provided by shareholders. It is calculated as net income after taxes attributable to shareholders, annualized on a linear basis, divided by the average value of shareholders' equity, adjusted for net unrealized gains/(losses) on available-for-sale investments and cash flow hedges, using the value at the beginning and end of each quarter within the period. The average shareholders' equity for each quarter is then added together and divided by the number of quarters. If the dividend is approved at the Annual General Meeting within the first ten working days in April, then the dividend is deducted from the second quarter opening shareholders' equity.

General Insurance

The following General Insurance measures are net of reinsurance.

Net underwriting result
is calculated as the difference between net earned premiums and policy fees and the sum of net insurance benefits and losses and net technical expenses.

Total net technical expenses
includes underwriting and policy acquisition costs, as well as the technical elements of administrative and other operating expenses, amortization of intangible assets, interest credited to policyholders and other interest, and other income.

Combined ratio
is a performance measure that indicates the level of claims and net technical expenses during the period relative to net earned premiums and policy fees. It is calculated as the sum of the loss ratio and the expense ratio.

Loss ratio

is a performance measure that indicates the level of claims during the period relative to net earned premiums and policy fees. It is calculated as insurance benefits and losses net, which include paid claims, claims incurred but not reported (IBNR) and claims handling costs, divided by net earned premiums and policy fees.

Expense ratio

is a performance measure that indicates the level of technical expenses during the period relative to net earned premiums and policy fees. It is calculated as the sum of net technical expenses and policyholder dividends and participation in profits, divided by net earned premiums and policy fees.

Net non-technical result

includes expenses or income not directly linked to insurance operating performance, such as gains/losses on foreign currency translation and interest expense on debt. It includes the impact of financial market volatility and other non-operational variables that distort the ongoing business performance.

Global Life

Embedded value (EV) principles

is a methodology using a "bottom-up" market consistent approach, which explicitly allows for market risk. In particular, asset and liability cash flows are valued using risk discount rates consistent with those applied to similar cash flows in the capital markets. A liquidity premium, which increases risk discount rates, has been applied to certain lines of business consistent with the CFO Forum principles. Options and guarantees are valued using market consistent models calibrated to observable market prices.

Insurance deposits

are deposits, similar to customer account balances, not recorded as revenues. However, the fees charged on insurance deposits are recorded as revenue within gross written premiums and policy fees. These deposits arise from investment contracts and insurance contracts that are accounted for under deposit accounting. They represent the pure savings part, which is invested.

New business annual premium equivalent (APE)

is calculated as new business annual premiums plus 10 percent of single premiums, before the effect of non-controlling interests. **Present value of new business premiums (PVNBP)** is calculated as the value of new business premiums discounted at the risk-free rate, before the effect of non-controlling interests.

New business value, after tax

is a measure that reflects the value added by new business written during the period, including allowances for frictional costs, time value of options and guarantees, and the cost of non-market risk, and is valued at the point of sale. It is calculated as the present value of the projected after-tax profit from life insurance contracts sold during the period using a valuation methodology consistent with the EV principles, after the effect of non-controlling interests.

Source of earnings (SOE)

reporting presents the key drivers of Global Life BOP identifying specific profit sources. This information provides the shareholders' view of earnings, thereby the components attributable to policyholders and non-controlling interests are included in each line item and are not separately identified.

Loadings and fees include fund and non-fund based fees. The investment margin is the spread between the investment result and interest credited to policyholders, plus the return on free surplus. The technical margin shows the mortality, morbidity, and longevity premiums less benefits to the policyholders together with the reinsurance result.

Operating and funding costs include administrative and operating expenses, interest expense on debt, depreciation and amortization of fixed assets and non-acquisition related intangible assets. Acquisition expenses include commissions and other new business expenses, as well as costs related to business combinations, including amortization of acquisition related intangible assets. The impact of deferrals is the net effect of deferral and amortization of policy acquisition and origination costs and front-end fees, which may be affected by movements in financial markets and changes in assumptions as well.

Farmers

Gross management result

is a performance measure of Farmers Management Services calculated as management fees and other related revenues minus management and other related expenses, including amortization and impairments of intangible assets.

Managed gross earned premium margin

is a performance measure calculated as the gross operating profit of Farmers Management Services divided by the gross earned premiums of the Farmers Exchanges, which are owned by their policyholders. Farmers Group, Inc., a wholly owned subsidiary of the Group, provides certain non-claims administrative and management services as attorney-in-fact and receives fees for its services.

Disclaimer and cautionary statement

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

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

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

Persons requiring advice should consult an independent adviser.

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