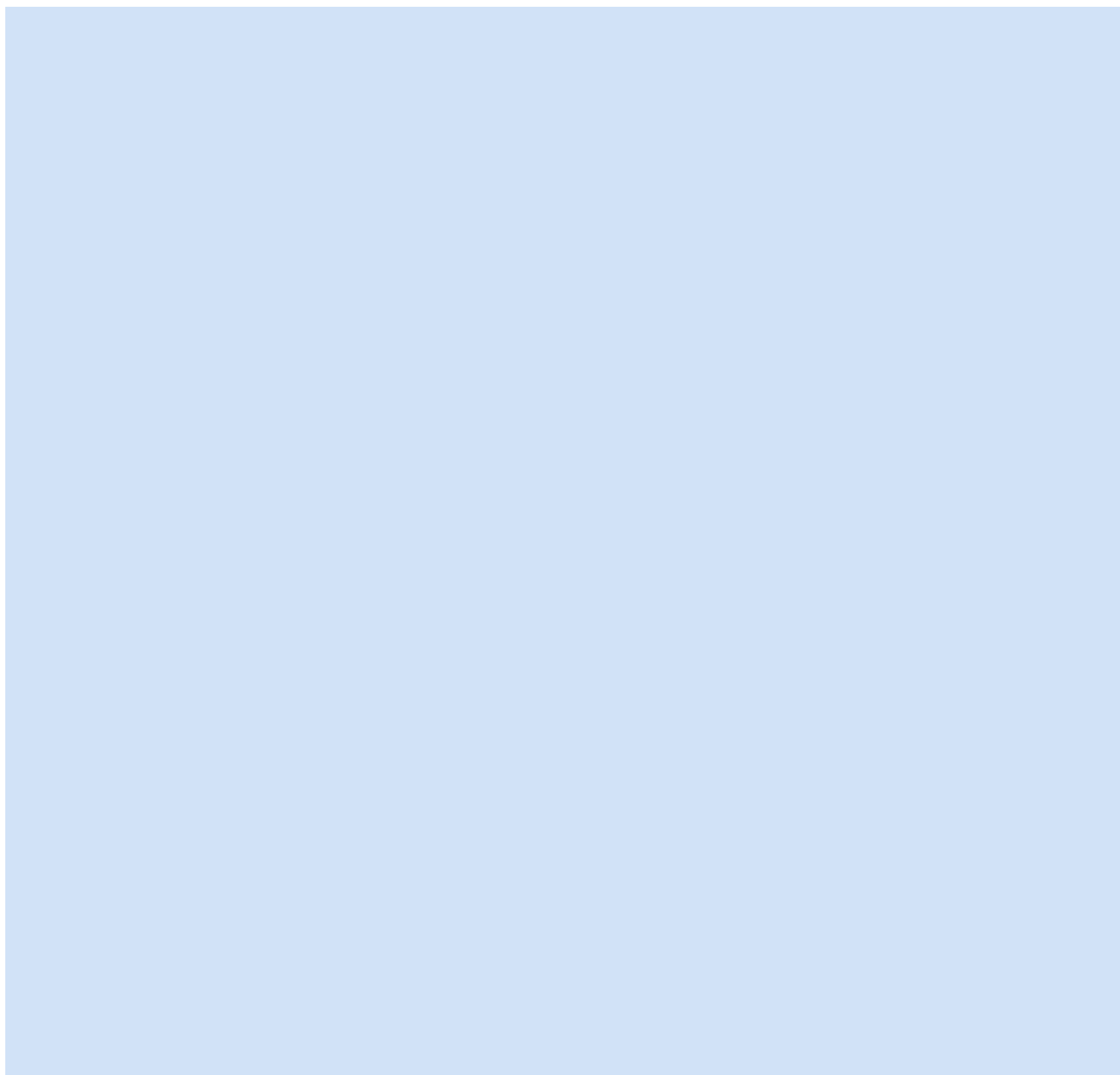


Consolidated financial statements (unaudited)

Results for the six months ended June 30, 2018



Consolidated financial statements

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Consolidated income statements

in USD millions, for the six months ended June 30	Notes	2018	2017
Revenues			
Gross written premiums		25,870	25,168
Policy fees		1,258	1,283
Gross written premiums and policy fees		27,127	26,451
Less premiums ceded to reinsurers		(4,398)	(4,097)
Net written premiums and policy fees		22,729	22,354
Net change in reserves for unearned premiums		(1,882)	(2,279)
Net earned premiums and policy fees		20,848	20,074
Farmers management fees and other related revenues		1,445	1,438
Net investment income on Group investments		2,741	2,602
Net capital gains/(losses) and impairments on Group investments		398	489
Net investment result on Group investments	4	3,139	3,091
Net investment result on unit-linked investments		1,753	5,875
Net gains/(losses) on divestment of businesses	3	(40)	12
Other income		478	555
Total revenues		27,623	31,046
Benefits, losses and expenses			
Insurance benefits and losses, gross of reinsurance		16,675	14,408
Less ceded insurance benefits and losses		(2,420)	(447)
Insurance benefits and losses, net of reinsurance		14,255	13,961
Policyholder dividends and participation in profits, net of reinsurance	6	2,468	6,370
Underwriting and policy acquisition costs, net of reinsurance		4,282	4,390
Administrative and other operating expense		3,502	3,339
Interest expense on debt		195	210
Interest credited to policyholders and other interest		274	267
Total benefits, losses and expenses		24,977	28,538
Net income before income taxes		2,646	2,508
of which: Attributable to non-controlling interests		212	215
Income tax (expense)/benefit	10	(723)	(869)
attributable to policyholders	10	(18)	(79)
attributable to shareholders	10	(704)	(790)
of which: Attributable to non-controlling interests		(79)	(79)
Net income after taxes		1,924	1,638
attributable to non-controlling interests		133	135
attributable to shareholders		1,791	1,503
in USD			
Basic earnings per share		12.05	10.03
Diluted earnings per share		11.97	9.97
in CHF			
Basic earnings per share		11.64	9.97
Diluted earnings per share		11.57	9.91

Consolidated financial statements (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
2017			
Comprehensive income for the period	1,503	323	(3)
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		543	(26)
Reclassification to income statement (before tax, foreign currency translation effects and allocation to policyholders)		(405)	(13)
Reclassification to retained earnings		–	–
Deferred income tax (before foreign currency translation effects)		34	13
Foreign currency translation effects		152	24
2018			
Comprehensive income for the period	1,791	(1,303)	(36)
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		(1,099)	(15)
Reclassification to income statement (before tax, foreign currency translation effects and allocation to policyholders)		(435)	(27)
Reclassification to retained earnings		–	–
Deferred income tax (before foreign currency translation effects)		274	14
Foreign currency translation effects		(43)	(7)

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
825	1,145	(17)	(93)	(109)	1,036	2,539	220	2,759
805	1,321	(4)	120	116	1,438			
20	(399)	–	–	–	(399)			
–	–	(22)	–	(22)	(22)			
–	47	9	(28)	(20)	27			
–	176	–	(184)	(184)	(9)			
(638)	(1,977)	20	588	607	(1,369)	422	(94)	328
(619)	(1,732)	39	655	694	(1,038)			
(20)	(481)	–	–	–	(481)			
–	–	(20)	–	(20)	(20)			
–	287	–	(114)	(114)	173			
–	(50)	–	47	47	(3)			

Consolidated financial statements (continued)

Consolidated balance sheets

Assets	in USD millions, as of	Notes	06/30/18	12/31/17
Assets:				
Cash and cash equivalents			5,879	8,228
Total Group investments		4	188,021	194,084
Equity securities			18,136	17,787
Debt securities			143,098	148,261
Investment property			12,126	12,238
Mortgage loans			6,735	7,047
Other loans			7,889	8,730
Investments in associates and joint ventures			37	21
Investments for unit-linked contracts			116,330	120,699
Total investments			304,352	314,782
Reinsurers' share of liabilities for insurance contracts		5	21,589	20,918
Deposits made under reinsurance contracts			1,025	1,269
Deferred policy acquisition costs		7	19,475	18,663
Deferred origination costs		7	439	460
Receivables and other assets			20,444	18,195
Deferred tax assets			1,083	1,076
Assets held for sale ¹		3	27,941	29,371
Property and equipment			977	961
Attorney in fact contracts		8	1,025	1,025
Goodwill		8	2,384	2,353
Other intangible assets		8	4,444	4,762
Total assets			411,058	422,065

¹ The Group reclassified USD 28 billion and USD 29 billion of assets to held for sale based on agreements to sell certain businesses in the UK as of June 30, 2018 and December 31, 2017, respectively (see note 3). In addition, assets held for sale include land and buildings formerly classified as investment property or held for own use amounting to USD 36 million and USD 50 million as of June 30, 2018 and December 31, 2017, respectively.

Liabilities
and equity

in USD millions, as of	Notes	06/30/18	12/31/17
Liabilities			
Liabilities for investment contracts		54,719	55,627
Deposits received under ceded reinsurance contracts		507	512
Deferred front-end fees		5,307	5,429
Liabilities for insurance contracts	5	258,845	263,805
Obligations to repurchase securities		1,745	1,394
Other liabilities		15,144	15,993
Deferred tax liabilities		4,017	4,357
Liabilities held for sale ¹	3	27,917	29,271
Senior debt	11	4,555	3,846
Subordinated debt	11	6,830	6,938
Total liabilities		379,586	387,172
Equity			
Share capital		11	11
Additional paid-in capital		1,086	1,162
Net unrealized gains/(losses) on available-for-sale investments		1,775	3,078
Cash flow hedges		374	410
Cumulative foreign currency translation adjustment		(9,400)	(8,762)
Revaluation reserve		248	228
Retained earnings		35,637	36,936
Shareholders' equity		29,729	33,062
Non-controlling interests		1,742	1,831
Total equity		31,472	34,893
Total liabilities and equity		411,058	422,065

¹ The Group reclassified USD 28 billion and USD 29 billion of liabilities to held for sale based on agreements to sell certain businesses in the UK as of June 30, 2018 and December 31, 2017, respectively (see note 3).

Consolidated financial statements (continued)

Consolidated statements of cash flows

in USD millions, for the six months ended June 30	2018	2017
Cash flows from operating activities		
Net income attributable to shareholders	1,791	1,503
Adjustments for:		
Net (gains)/losses on divestment of businesses	40	(12)
(Income)/expense from equity method accounted investments	(1)	(2)
Depreciation, amortization and impairments of fixed and intangible assets	406	376
Other non-cash items	(228)	226
Underwriting activities:	1,420	8,190
Liabilities for insurance contracts, gross	3,170	5,395
Reinsurers' share of liabilities for insurance contracts	(883)	143
Liabilities for investment contracts	120	3,102
Deferred policy acquisition costs	(1,218)	(428)
Deferred origination costs	9	7
Deposits made under assumed reinsurance contracts	222	(33)
Deposits received under ceded reinsurance contracts	-	4
Investments:	(484)	(6,347)
Net capital (gains)/losses on total investments and impairments	(1,129)	(5,603)
Net change in derivatives	(12)	(98)
Net change in money market investments	284	(540)
Sales and maturities		
Debt securities	31,789	39,220
Equity securities	30,345	22,785
Other	3,901	4,106
Purchases		
Debt securities	(32,193)	(40,263)
Equity securities	(30,354)	(22,208)
Other	(3,116)	(3,746)
Net changes in sale and repurchase agreements	402	298
Movements in receivables and payables	(1,683)	(1,027)
Net changes in other operational assets and liabilities	(792)	(577)
Deferred income tax, net	(66)	(42)
Net cash provided by/(used in) operating activities	807	2,586

in USD millions, for the six months ended June 30	2018	2017
Cash flows from investing activities		
Additions to tangible and intangible assets	(258)	(241)
Disposals of tangible and intangible assets	13	20
(Acquisitions)/disposals of equity method accounted investments, net	(17)	(14)
Acquisitions of companies, net of cash acquired	(28)	(522)
Divestments of companies, net of cash divested	(13)	220
Dividends from equity method accounted investments	1	–
Net cash provided by/(used in) investing activities	(302)	(537)
Cash flows from financing activities		
Dividends paid	(2,812)	(2,553)
Issuance of share capital	2	52
Net movement in treasury shares	(908)	17
Issuance of debt	1,814	–
Repayment of debt	(1,024)	(505)
Net cash provided by/(used in) financing activities	(2,929)	(2,988)
Foreign currency translation effects on cash and cash equivalents	(168)	306
Change in cash and cash equivalents	(2,592)	(632)
Cash and cash equivalents as of January 1	8,850	7,948
Total Cash and cash equivalents as of June 30	6,258	7,316
of which: Cash and cash equivalents	5,879	6,598
of which: Unit-linked	379	717
Other supplementary cash flow disclosures		
Other interest income received	2,498	2,475
Dividend income received	1,083	830
Other interest expense paid	(401)	(427)
Income taxes paid	(903)	(699)

Cash and cash equivalents

in USD millions, as of June 30	2018	2017
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	5,711	6,649
Cash equivalents	547	667
Total	6,258	7,316

For the periods ended June 30, 2018 and 2017, cash and cash equivalents held to meet local regulatory requirements were USD 766 million and USD 734 million, respectively.

Consolidated financial statements (continued)

Consolidated statements of changes in equity

in USD millions

	Share capital	Additional paid-in capital
Balance as of December 31, 2016	11	1,348
Issuance of share capital	–	197
Dividends to shareholders	–	(510)
Share-based payment transactions	–	(76)
Treasury share transactions	–	132
of which: share buy-back program	–	–
Reclassification from revaluation reserves	–	–
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, 2017	11	1,091
Balance as of December 31, 2017	11	1,162
Issuance of share capital	–	2
Dividends to shareholders	–	(14)
Share-based payment transactions	–	(64)
Treasury share transactions	–	–
of which: share buy-back program	–	–
Reclassification from revaluation reserves	–	–
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, 2018	11	1,086

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

	Net unrealized gains/(losses) on available-for-sale investments	Cash flow hedges	Cumulative foreign currency translation adjustment	Revaluation reserve	Retained earnings	Shareholders' equity	Non-controlling interests	Total equity
	2,809	418	(9,973)	235	35,812	30,660	1,813	32,473
	-	-	-	-	-	197	-	197
	-	-	-	-	(2,129)	(2,639)	(1)	(2,640)
	-	-	-	-	5	(71)	-	(71)
	-	-	-	-	(115)	17	-	17
	-	-	-	-	-	-	-	-
	-	-	-	-	14	14	-	14
	323	(3)	825	(17)	1,410	2,539	220	2,759
	-	-	-	-	1,503	1,503	-	-
	323	-	-	-	-	323	-	-
	-	(3)	-	-	-	(3)	-	-
	-	-	825	-	-	825	-	-
	-	-	-	(17)	-	(17)	-	-
	-	-	-	-	(93)	(93)	-	-
	-	-	-	-	-	-	(9)	(9)
	3,133	415	(9,148)	218	34,997	30,717	2,023	32,740
	-	3,078	410	(8,762)	228	36,936	1,831	34,893
	-	-	-	-	-	2	-	2
	-	-	-	-	(2,790)	(2,805)	(7)	(2,812)
	-	-	-	-	21	(44)	-	(44)
	-	-	-	-	(908)	(908)	-	(908)
	-	-	-	-	(555)	(555)	-	(555)
	-	-	-	-	-	-	-	-
	-	(1,303)	(36)	(638)	20	2,379	422	(94)
	-	-	-	-	1,791	1,791	-	-
	-	(1,303)	-	-	-	(1,303)	-	-
	-	-	(36)	-	-	(36)	-	-
	-	-	-	(638)	-	(638)	-	-
	-	-	-	-	20	20	-	-
	-	-	-	-	588	588	-	-
	-	-	-	-	-	-	13	13
	-	1,775	374	(9,400)	248	35,637	1,742	31,472

Consolidated financial statements (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 ended June 30, 2018, 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 2017 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 ended June 30, 2018, should be read in conjunction with the Group's Annual Report 2017.

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 summarizes the principal exchange rates used for translation purposes. Net gains/(losses) on foreign currency transactions included in the consolidated income statements were USD 39 million and USD 76 million for the six months ended June 30, 2018 and 2017, respectively. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD 10 million and USD 59 million for the six months ended June 30, 2018 and 2017, respectively. For its Venezuela business, the Group had net gains/(losses) on foreign currency transactions of USD 30 million and USD 72 million for the six months ended June 30, 2018 and 2017, respectively, and a cumulative foreign currency translation adjustment loss of USD 258 million in equity as of June 30, 2018 (both before non-controlling interests). The functional currencies of the Group's entities in Venezuela have been changed from Bolivar Fuerte (VEF) to USD as of January 1, 2018, to reflect the currency in which the Venezuela business mainly operates.

Table 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	
	06/30/18	12/31/17	06/30/18	06/30/17
	Euro	1.1667	1.2007	1.2105
Swiss franc	1.0065	1.0260	1.0348	1.0058
British pound	1.3195	1.3515	1.3764	1.2590
Brazilian real	0.2595	0.3023	0.2931	0.3147

Principal exchange rates

Reclassifications**Changes in presentation**

Insurance liabilities towards policyholders and reinsurers in the total amount of USD 2.5 billion at December 31, 2017, have been reclassified from other liabilities to liabilities for insurance contracts. In addition, some revenues related to administrative and other operating services provided between Group entities have been moved from other income to administrative and other operating expenses. Prior year comparative figures have been revised accordingly (see note 5 and 14, respectively).

Consolidated financial statements (continued)

2. New accounting standards and amendments to published accounting standards

Standards, amendments and interpretations effective or early adopted as of January 1, 2018 and relevant for the Group's operations

Table 2.1 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, 2018, with no material impact on the Group's financial position or performance.

Table 2.1

Standard/ Interpretation		Effective date
New standards/ interpretations		
IFRS 15	Revenue from Contracts with Customers	January 1, 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018
Amended standards		
IFRS 2	Classification and Measurement of Share-based Payment Transactions	January 1, 2018
IFRS 4	Applying IFRS 9 with IFRS 4	January 1, 2018
IAS 40	Transfers of Investment Property	January 1, 2018

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 "Revenue from Contracts with Customers" establishes the principles that are applied when reporting information about the nature, amount, timing and uncertainty of revenue and cash flows from a contract with a customer. IFRS 15 does not apply to revenues relating to insurance contracts, lease contracts and financial instruments. The Group has assessed the impact of revenue recognition for insurance related services and other services in scope of IFRS 15 such as administrative, claims, risk engineering and asset management services. Based on the analysis performed by the Group, there is no material impact on the Group's financial position or performance.

Standards, amendments and interpretations issued that are not yet effective or adopted by the Group

Table 2.2 shows new accounting standards or amendments to and interpretations of standards relevant to the Group, which are not yet effective or adopted by the Group.

Table 2.2

Standard/ Interpretation		Effective date
New standards/ interpretations		
IFRS 16	Leases	January 1, 2019
IFRS 9	Financial Instruments	January 1, 2021
IFRS 17	Insurance Contracts	January 1, 2021
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019
Amended standards		
IAS 19	Plan Amendment, Curtailment or Settlement	January 1, 2019
IAS 28	Long-term Interests in Associates and Joint Ventures	January 1, 2019
IFRS 9	Prepayment Features with Negative Compensation	January 1, 2021

IFRS 16 "Leases"

IFRS 16 "Leases" will have an impact on the accounting for contracts where the Group acts as a lessee (and intermediate lessor), especially on real estate rental contracts, resulting in recognition of almost all leases on the balance sheet. Based on the volume of in-force non-cancellable operating leases as of June 30, 2018 the recognition of a right-of-use asset and a corresponding lease liability under IFRS 16 would result in an increase of both assets and liabilities of the Group of less than USD 2 billion. No material impact is expected in the consolidated statements of comprehensive income.

IFRS 17 "Insurance contracts" and IFRS 9 "Financial Instruments"

IFRS 17 "Insurance contracts" provides comprehensive guidance on accounting for insurance contracts and investment contracts with discretionary participation features and is expected to have a significant impact on accounting for insurance contracts and presentation of the insurance revenue and insurance service result. The Group decided to defer the full implementation of IFRS 9 until IFRS 17 becomes effective to better align the measurement approaches for the financial assets held and the insurance liabilities where appropriate. The Group will present additional disclosures of indicative effects from adoption of IFRS 9 required by IFRS 4 "Applying IFRS 9 with IFRS 4" during the period of deferral in the Annual Report 2018.

The Group continues to assess the impact of the application of both IFRS 17 and IFRS 9. At the date of publication of these unaudited consolidated financial statements, it was not practicable to quantify what the potential impact would be on the Group consolidated financial statements once these standards will be adopted.

Other standards, amendments and interpretations shown in table 2.2 are expected to have no or only an insignificant impact on the Group's financial position or performance.

Consolidated financial statements (continued)

3. Acquisitions and divestments

Transactions in 2018

Acquisitions

EuroAmerica portfolio in Chile

On April 20, 2018, the Group announced it had entered into an agreement to acquire the individual and group life insurance portfolios as well as the long-term savings operations of EuroAmerica in Chile. Both parties expect the transaction, which is subject to regulatory approvals, to be completed by the end of 2018.

Travel Ace and Universal Assistance

On March 12, 2018, the Group announced the acquisition of Travel Ace and Universal Assistance, the leading providers of traveler assistance in Latin America. The transaction encompasses 19 legal entities operating throughout Latin America, most notably in Argentina, Brazil, Chile, Colombia and Mexico. Based on the initial purchase price accounting goodwill amounted to USD 80 million.

QBE Latin America

On February 24, 2018, the Group entered into an agreement to acquire the Latin American operations of the Australian insurer QBE Insurance Group Limited (QBE) with operations in Argentina, Brazil, Colombia, Ecuador and Mexico for an estimated aggregate price of USD 409 million subject to closing adjustments and regulatory approvals. On July 2, 2018, the acquisitions of Argentina and Brazil were closed, with the other acquisitions expected to be completed by the end of 2018.

Transactions in 2017

Acquisitions

Bright Box

On December 22, 2017, the Group announced the acquisition of 100 percent of the shares of Bright Box HK Limited (Bright Box) and its subsidiaries, a provider of telematics solutions linking vehicle drivers, dealers and manufacturers. The purchase price amounted to USD 75 million, of which USD 25 million are dependent on meeting certain criteria. The net tangible assets acquired amounted to minus USD 2 million and intangible assets amounted to USD 25 million. Goodwill amounted to USD 52 million, and mainly reflects business know-how as well as technical capabilities. Bright Box was reported for the first time in 2018.

ANZ's life and consumer credit insurance businesses

On December 11, 2017, the Group announced it has entered into an agreement to acquire 100 percent of the Australian life insurance and consumer credit businesses (OnePath Life) of Australia and New Zealand Banking Group Limited (ANZ) for AUD 2.85 billion (USD 2 billion) subject to a purchase price adjustment, to be completed in early 2019.

Cover-More

On April 13, 2017, the Group completed the acquisition of all the shares in Cover-More Group Limited (Cover-More), a travel insurance and assistance solutions provider listed on the Australian Securities Exchange, with main operations in Australia, India and the U.S. In conjunction with this acquisition, the Group also acquired Halo Insurance Services Limited (Halo), a distributor of vehicle-hire-related insurance in the UK.

The final purchase price for Cover-More and Halo amounted to USD 580 million gross of a pre-closing dividend of USD 14 million. Based on the initial purchase accounting, the fair value of net tangible assets acquired amounted to minus USD 99 million and identifiable intangible assets estimated at USD 163 million, gross of related deferred tax liabilities of USD 33 million. Residual goodwill amounted to USD 549 million which represents the future growth potential of the travel insurance assistance business, the value of the workforce with their distribution capabilities and related know-how and synergies with the Group.

Table 3.1 shows the main balance sheet line items as of the acquisition date, representing the fair value of Cover-More and Halo net tangible assets acquired, intangible assets and goodwill.

Cover-More balance sheet as of the acquisition date
Table 3.1

in USD millions, as of April 13, 2017

	Total
Cash and cash equivalents	38
Receivables and other assets	34
Property and equipment	4
Goodwill	549
Other intangible assets	163
Assets acquired	787
Other liabilities	182
Deferred tax liabilities	24
Liabilities acquired	206
Net assets acquired	581
Non-controlling interests	(1)
Total acquisition costs	580

Cover-More's net income after taxes for the nine months since the acquisition date, as included in the Group consolidated income statements for the year ended December 31, 2017, amounts to USD 17 million including transaction-related costs. Pro-forma net income after taxes for the full twelve months ended December 31, 2017, amounts to approximately USD 24 million, adjusted for transaction-related costs incurred by Cover-More.

In addition, the Group incurred transaction-related costs of approximately USD 10 million in non-technical expenses in BOP. The majority has been incurred in 2017.

Divestments
Held for sale

During the twelve months ended December 31, 2017, the Group entered into various agreements to sell Property & Casualty and Life businesses in the UK. On January 2, 2018, the Group announced the sale of the Endsleigh Limited companies to A-Plan Holdings (except for EFS Financial Services Limited and Endsleigh Pension Trustee Limited). On October 12, 2017, the Group announced a strategic deal under which Lloyds Banking Group (LBG) will acquire the UK workplace pensions and savings business. The assets and liabilities of both transactions have been reclassified to held for sale. As of December 31, 2017, the total assets and total liabilities reclassified were USD 29 billion and USD 29 billion, respectively. Re-measurements of assets held for sale resulted in a pre-tax loss of USD 97 million which is recorded within net gains/(losses) on divestment of businesses.

Endsleigh Limited

On March 29, 2018, the Group completed the sale of Endsleigh Limited companies to A-Plan. A pre-tax loss of USD 116 million has been recorded within net gains/losses on divestment of businesses, of which USD 97 million were recognized in December 2017 at the time the sale was announced.

Middle East operations

On June 19, 2017, the Group closed the sale of its Property & Casualty insurance operations in the Middle East to Cigna International Corporation for a sales price of approximately USD 48 million subject to a purchase price adjustment. A pre-tax gain of USD 10 million has been recorded within net gains/(losses) on divestment of businesses.

Taiwan operations

On January 17, 2017, the Group closed the sale of its Property & Casualty insurance operations in Taiwan to Hotai Motor Co., Ltd for a sales price of approximately USD 213 million. A pre-tax loss of USD 9 million has been recorded within net gains/(losses) on divestment of businesses.

Consolidated financial statements (continued)

4. 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 includes investment-related cash, which is included in cash and cash equivalents on the consolidated balance sheets.

Table 4.1

Net investment result on Group investments

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	
	2018	2017	2018	2017	2018	2017	2018	2017
Investment cash	2	5	–	–	2	5	–	–
Equity securities	255	225	391	473	646	698	(51)	(33)
Debt securities	2,039	1,952	(8)	160	2,031	2,112	–	(1)
Investment property ¹	255	233	58	49	313	282	–	–
Mortgage loans	96	98	–	–	97	98	–	–
Other loans	198	192	(3)	1	196	192	(5)	–
Investments in associates and joint ventures	1	2	–	–	1	2	–	–
Derivative financial instruments	–	–	(40)	(194)	(40)	(194)	–	–
Investment result, gross, on Group investments	2,848	2,706	398	489	3,246	3,195	(56)	(33)
Investment expenses on Group investments	(107)	(104)	–	–	(107)	(104)	–	–
Investment result, net, on Group investments	2,741	2,602	398	489	3,139	3,091	(56)	(33)

¹ Rental operating expenses for investment property amounted to USD 39 million for each of the six months ended June 30, 2018 and 2017.

Table 4.2

Details of Group investments by category

as of	06/30/18		12/31/17	
	USD millions	% of total	USD millions	% of total
Equity securities:				
Fair value through profit or loss	3,807	2.0	3,597	1.9
Available-for-sale	14,329	7.6	14,190	7.3
Total equity securities	18,136	9.6	17,787	9.2
Debt securities:				
Fair value through profit or loss	5,461	2.9	5,699	2.9
Available-for-sale	135,515	72.1	140,240	72.3
Held-to-maturity	2,122	1.1	2,322	1.2
Total debt securities	143,098	76.1	148,261	76.4
Investment property	12,126	6.4	12,238	6.3
Mortgage loans	6,735	3.6	7,047	3.6
Other loans	7,889	4.2	8,730	4.5
Investments in associates and joint ventures	37	0.0	21	0.0
Total Group investments	188,021	100.0	194,084	100.0

Investments with a carrying value of USD 6.3 billion and USD 6.4 billion are held to meet local regulatory requirements as of June 30, 2018 and December 31, 2017, respectively.

Net unrealized gains/(losses) on Group investments included in equity	Table 4.3	
	in USD millions, as of	
	06/30/18	Total 12/31/17
Equity securities: available-for-sale	1,365	1,862
Debt securities: available-for-sale	7,398	9,720
Other	426	350
Gross unrealized gains/(losses) on Group investments	9,189	11,932
Less amount of unrealized gains/(losses) on investments attributable to:		
Life policyholder dividends and other policyholder liabilities	(5,814)	(6,779)
Life deferred acquisition costs and present value of future profits	(589)	(702)
Deferred income taxes	(616)	(928)
Non-controlling interests	(21)	(36)
Total¹	2,149	3,488

¹ Net unrealized gains/(losses) on Group investments include net gains arising on cash flow hedges of USD 374 million and USD 398 million as of June 30, 2018 and December 31, 2017, respectively.

Securities lending, repurchase and reverse repurchase agreements	Table 4.4	
	in USD millions, as of	
	06/30/18	12/31/17
Securities lending agreements		
Securities lent under securities lending agreements ¹	854	970
Collateral received for securities lending	944	1,082
of which: Cash collateral	150	153
of which: Non-cash collateral ²	795	929
Liabilities for cash collateral received for securities lending	150	153
Repurchase agreements		
Securities sold under repurchase agreements ³	1,742	1,397
Obligations to repurchase securities	1,745	1,394
Reverse repurchase agreements		
Securities purchased under reverse repurchase agreements ⁴	154	156
Receivables under reverse repurchase agreements	151	153

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 854 million and USD 970 million as of June 30, 2018 and December 31, 2017, 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 750 million and USD 818 million as of June 30, 2018 and December 31, 2017, 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 792 million and USD 797 million as of June 30, 2018 and December 31, 2017, respectively. The majority of these assets were debt securities.

⁴ The Group had the right to sell or repledge, in the absence of default by its counterparties, securities received as collateral with a fair value of nil as of June 30, 2018 and December 31, 2017.

Under the terms of securities lending or repurchase agreements, the Group retains substantially all the risks and rewards of ownership of the transferred securities, and also retains contractual rights to the cash flows from these securities. These securities are therefore not derecognized from the Group's consolidated balance sheet. Cash received as collateral is recorded as an asset, and a corresponding liability is established. Interest expense is charged to income using the effective interest rate method over the life of the agreement.

Under a reverse repurchase agreement, the securities received are not recognized on the Group's consolidated balance sheet, as long as the risk and rewards of ownership have not been transferred to the Group. The cash delivered by the Group is derecognized and a corresponding receivable is recorded within receivables and other assets. Interest income is recognized in income using the effective interest rate method over the life of the agreement.

Consolidated financial statements (continued)

5. Liabilities for insurance contracts and reinsurers' share of liabilities for insurance contracts

Table 5.1

Liabilities for insurance contracts

in USD millions, as of

	Gross		Ceded		Net	
	06/30/18	12/31/17	06/30/18	12/31/17	06/30/18	12/31/17
Reserves for losses and loss adjustment expenses ¹	63,772	65,368	(11,506)	(11,070)	52,267	54,298
Reserves for unearned premiums	18,779	17,060	(3,524)	(3,167)	15,255	13,893
Future life policyholder benefits ^{2,3,4}	76,317	77,529	(3,140)	(3,201)	73,177	74,328
Policyholder contract deposits and other funds ³	24,484	24,944	(3,474)	(3,533)	21,011	21,411
Reserves for unit-linked insurance contracts	72,012	75,413	–	–	72,012	75,413
Other insurance liabilities	3,480	3,491	–	–	3,480	3,491
Total liabilities for insurance contracts⁵	258,845	263,805	(21,643)	(20,971)	237,202	242,834

¹ Includes on a net basis USD 2.8 billion and USD 2.9 billion of discounted reserves for losses and loss adjustment expenses as of June 30, 2018 and December 31, 2017.

² The Group's life operations in the UK finalized the transfer of USD 1.6 billion (USD 1.5 billion at June 30, 2017 FX rate) of insurance assets and liabilities, associated with an annuities portfolio, as of June 30, 2017.

³ Farmers New World Life Insurance Company entered into a retrospective reinsurance agreement to transfer the risk of certain annuity portfolios with effect from April 1, 2017, which resulted in an initial increase of USD 1.6 billion in ceded policyholder contract deposits and other funds and USD 362 million of ceded future life policyholder benefits. The net gain of the transaction will be amortized over the remaining life of the underlying annuity contracts which is estimated to be between 30 to 50 years.

⁴ In July 2017, BanSabadell Vida signed a reinsurance agreement on its individual life risk portfolio which resulted in an initial increase of USD 363 million of ceded future life policyholder benefits.

⁵ Total liabilities for insurance contracts ceded are gross of allowances for uncollectible amounts of USD 55 million and USD 53 million as of June 30, 2018 and December 31, 2017, respectively.

Table 5.2

Development of reserves for losses and loss adjustment expenses

in USD millions

	Gross		Ceded		Net	
	2018	2017	2018	2017	2018	2017
As of January 1	65,368	61,155	(11,070)	(9,777)	54,298	51,378
Losses and loss adjustment expenses incurred:						
Current year	11,151	10,799	(2,266)	(1,728)	8,884	9,072
Prior years	(725)	(534)	334	459	(390)	(74)
Total incurred	10,426	10,266	(1,932)	(1,268)	8,494	8,997
Losses and loss adjustment expenses paid:						
Current year	(2,613)	(2,513)	295	268	(2,318)	(2,245)
Prior years	(8,429)	(7,769)	1,677	1,585	(6,752)	(6,184)
Total paid	(11,042)	(10,281)	1,972	1,852	(9,071)	(8,429)
Interest effects of discounted reserves	67	55	(3)	–	65	54
Acquisitions/(divestments) and transfers ¹	(143)	11	(602)	2	(745)	13
Foreign currency translation effects	(903)	1,660	129	(227)	(774)	1,433
As of June 30	63,772	62,865	(11,506)	(9,418)	52,267	53,447

¹ The net figure for 2018 includes retroactive reinsurance agreements for certain portfolios in Germany and Australia which resulted in a decrease of USD 709 million, a sale of a portfolio in Brazil of USD 61 million and the acquisition of Travel Ace and Universal Assistance of USD 25 million (see note 3). The 2017 net movement is related to the divestment of operations in Middle East and Taiwan and the acquisition of MAA Takaful Berhad (see note 3).

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 the information 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 2 billion during the first six months of 2018 in net reserves for losses and loss adjustment expenses is mainly driven by a decrease of USD 774 million due to foreign currency translation effects. In addition, the Group entered into retroactive reinsurance agreements for certain portfolios in Germany and Australia, which resulted in a decrease of USD 709 million. Net favorable reserves development from reserves established in prior years amounted to USD 390 million. The main reductions were in North America, Europe Middle East & Africa (EMEA) and Non-Core Businesses.

The increase of USD 2.1 billion during the first six months of 2017 in the net reserves for losses and loss adjustment expenses is driven by an increase of USD 1.4 billion due to foreign currency translation effects. Net favorable reserve development emerged from reserves established in prior years amounting to USD 74 million. The main reductions were in North America and Asia Pacific, partially offset by Group Reinsurance, Europe Middle East & Africa (EMEA) and Non-Core Businesses. The unfavorable reserves development in EMEA and Non-Core Businesses was driven by the February 2017 change of the Ogden rate, the industry-wide discount rate used for calculating personal injury and accident claims in the UK, resulting in an increase in reserve of 289 million.

Development of future life policyholder benefits	Table 5.3						
	in USD millions						
	Gross		Ceded		Net		
	2018	2017	2018	2017	2018	2017	
As of January 1	77,529	72,440	(3,201)	(3,766)	74,328	68,674	
Premiums ^{1,2}	7,203	6,192	(622)	(656)	6,581	5,535	
Claims	(5,165)	(4,999)	486	373	(4,679)	(4,626)	
Fee income and other expenses	(1,945)	(1,834)	164	3	(1,781)	(1,831)	
Interest and bonuses credited to policyholders	902	1,062	(35)	(100)	867	962	
Changes in assumptions	(1)	(19)	–	–	(1)	(19)	
Acquisitions/(divestments) and transfers ³	(17)	(1,525)	12	1,525	(5)	–	
Increase/(decrease) recorded in other comprehensive income	(176)	20	–	–	(176)	20	
Foreign currency translation effects	(2,013)	4,515	56	(113)	(1,957)	4,402	
As of June 30	76,317	75,851	(3,140)	(2,733)	73,177	73,117	

¹ Farmers New World Life Insurance Company entered into a retrospective reinsurance agreement to transfer the risk of certain annuity portfolios with effect from April 1, 2017, which resulted in an initial increase of USD 362 million of ceded future life policyholder benefits.

² In July 2017, BanSabadell Vida signed a reinsurance agreement on its individual life risk portfolio which resulted in an initial increase of USD 363 million of ceded future life policyholder benefits.

³ The Group's life operations in the UK finalized the transfer of USD 1.5 billion of insurance assets and liabilities, associated with an annuities portfolio, as of June 30, 2017.

Policyholder contract deposits and other funds gross	Table 5.4	
	in USD millions, as of	
Universal life and other contracts	06/30/18	12/31/17
Policyholder dividends	12,908	12,987
	11,576	11,957
Total	24,484	24,944

Development of policyholder contract deposits and other funds	Table 5.5						
	in USD millions						
	Gross		Ceded		Net		
	2018	2017	2018	2017	2018	2017	
As of January 1	24,944	22,785	(3,533)	(1,958)	21,411	20,827	
Premiums ¹	534	488	(41)	(1,682)	493	(1,194)	
Claims	(636)	(537)	161	122	(475)	(415)	
Fee income and other expenses	(195)	(200)	1	1	(194)	(199)	
Interest and bonuses credited to policyholders	673	497	(63)	(49)	611	448	
Increase/(decrease) recorded in other comprehensive income	(359)	(569)	1	–	(358)	(569)	
Foreign currency translation effects	(477)	1,125	–	–	(477)	1,125	
As of June 30	24,484	23,588	(3,474)	(3,566)	21,011	20,022	

¹ Farmers New World Life Insurance Company entered into a retrospective reinsurance agreement to transfer the risk of certain annuity portfolios with effect from April 1, 2017, which resulted in an initial increase of USD 1.6 billion in ceded policyholder contract deposits and other funds.

Consolidated financial statements (continued)

6. Policyholder dividends and participation in profits

Table 6			
in USD millions, for the six months ended June 30			
		2018	2017
Policyholder dividends and participation in profits	Change in policyholder contract deposits and other funds	560	458
	Change in reserves for unit-linked insurance contracts	769	2,775
	Change in liabilities for investment contracts – unit-linked	1,030	3,136
	Change in liabilities for investment contracts – other	143	96
	Change in unit-linked liabilities related to UK capital gains tax	(32)	(94)
	Total policyholder dividends and participation in profits		2,468

7. Deferred policy acquisition costs and deferred origination costs

Table 7.1

Development of
deferred policy
acquisition costs

in USD millions	Property & Casualty		Life		Other businesses ¹		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
	As of January 1	5,289	4,830	11,624	11,117	1,751	1,849	18,663
Acquisition costs deferred ²	2,336	2,263	1,656	847	90	270	4,083	3,380
Amortization	(2,075)	(1,953)	(728)	(755)	(61)	(243)	(2,865)	(2,952)
Impairments	–	–	–	–	–	(55)	–	(56)
Amortization (charged)/ credited to other comprehensive income	–	–	59	85	26	16	85	101
Acquisitions/(divestments) and transfers ³	8	–	–	–	(15)	–	(7)	–
Foreign currency translation effects	(125)	97	(358)	636	–	1	(484)	734
As of June 30	5,432	5,236	12,252	11,930	1,791	1,836	19,475	19,002

¹ Net of eliminations from inter-segment transactions.

² In May 2018, the Group entered into a quota share reinsurance agreement with ANZ Banking Group Limited and made an upfront commission payment of USD 754 million.

³ The 2018 Property & Casualty movement of USD 8 million related to the sale of Endsleigh Limited (see note 3) and the other businesses movement of USD 15 million is related to the sale of a portfolio in Singapore.

Table 7.2

Development of
deferred
origination costs

in USD millions	2018	2017
As of January 1	460	426
Origination costs deferred	27	30
Amortization	(36)	(36)
Foreign currency translation effects	(12)	28
As of June 30	439	447

Consolidated financial statements (continued)

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

Table 8.1

Intangible assets –
current period

in USD millions	Attorney- in-fact contracts	Goodwill	PVFP	Distribution agreements	Software	Other	Total
Gross carrying value as of January 1, 2018	1,025	2,706	2,619	4,293	4,780	247	15,671
Less: accumulated amortization/ impairments	–	(353)	(2,112)	(1,465)	(3,492)	(109)	(7,531)
Net carrying value as of January 1, 2018	1,025	2,353	507	2,828	1,288	139	8,140
Additions and acquisitions	–	116	–	20	156	27	319
Divestments and transfers	–	–	–	–	–	–	–
Amortization ¹	–	–	(25)	(110)	(191)	(3)	(329)
Amortization charged to other comprehensive income	–	–	10	–	–	–	10
Impairments	–	–	–	–	(4)	–	(4)
Foreign currency translation effects	–	(84)	(13)	(161)	(19)	(5)	(283)
Net carrying value as of June 30, 2018	1,025	2,384	480	2,576	1,230	158	7,853
Plus: accumulated amortization/ impairments	–	342	2,073	1,485	3,603	108	7,612
Gross carrying value as of June 30, 2018	1,025	2,726	2,553	4,062	4,833	266	15,465

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

As of June 30, 2018, intangible assets related to non-controlling interests were USD 69 million for present value of future profits (PVFP) of acquired insurance contracts, USD 1.1 billion for distribution agreements and USD 12 million for software.

As a result of the acquisition of Travel Ace and Universal Assistance intangible assets increased by USD 115 million, of which USD 80 million is goodwill and USD 35 million is distribution agreements, software and other intangible assets. As a result of the acquisition of Bright Box intangible assets increased by USD 77 million, of which USD 52 million related to goodwill and USD 25 million to software. The remaining USD minus 16 million relates to a post-acquisition adjustment of Cover-More (see note 3).

Table 8.2

Intangible assets
by business –
current period

in USD millions, as of June 30, 2018	Attorney- in-fact contracts	Goodwill	PVFP	Distribution agreements	Software	Other	Total
Property & Casualty	–	1,338	–	743	493	158	2,732
Life	–	175	409	1,833	282	1	2,700
Farmers	1,025	819	70	–	356	–	2,271
Group Functions and Operations	–	52	–	–	99	–	150
Net carrying value	1,025	2,384	480	2,576	1,230	158	7,853

Table 8.3

Intangible assets –
prior period

in USD millions	Attorney- in-fact contracts	Goodwill	PVFP	Distribution agreements	Software	Other	Total
Gross carrying value as of January 1, 2017	1,025	2,110	2,422	3,860	4,652	251	14,321
Less: accumulated amortization/ impairments	–	(315)	(1,918)	(1,147)	(3,201)	(124)	(6,706)
Net carrying value as of January 1, 2017	1,025	1,795	504	2,713	1,450	128	7,615
Additions and acquisitions	–	564	–	119	139	38	859
Divestments and transfers	–	–	–	(1)	–	–	(1)
Amortization ¹	–	–	(25)	(102)	(165)	(4)	(296)
Amortization charged to shareholders' equity	–	–	15	–	–	–	15
Impairments	–	–	–	–	(9)	–	(9)
Foreign currency translation effects	–	35	26	137	49	2	250
Net carrying value as of June 30, 2017	1,025	2,394	520	2,866	1,464	163	8,432
Plus: accumulated amortization/ impairments	–	337	2,015	1,315	3,455	134	7,256
Gross carrying value as of June 30, 2017	1,025	2,731	2,535	4,180	4,919	297	15,688

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

As of June 30, 2017, intangible assets related to non-controlling interests were USD 77 million for present value of future profits (PVFP) of acquired insurance contracts, USD 1.2 billion for distribution agreements and USD 14 million for software.

As a result of the acquisition of Cover-More intangible assets increased by USD 728 million, of which USD 566 million is goodwill and USD 163 million is other intangible assets (see note 3).

Following a review, software was identified, which was not utilized as originally expected, resulting in USD 9 million of impairments, primarily in Property & Casualty.

Table 8.4

Intangible assets
by business –
prior period

in USD millions, as of December 31, 2017	Attorney- in-fact contracts	Goodwill	PVFP	Distribution agreements	Software	Other	Total
Property & Casualty	–	1,350	–	820	524	138	2,833
Life	–	183	434	2,007	324	1	2,950
Farmers	1,025	819	73	–	370	–	2,288
Group Functions and Operations	–	–	–	–	70	–	70
Net carrying value	1,025	2,353	507	2,828	1,288	139	8,140

Consolidated financial statements (continued)

9. Restructuring provisions

Table 9		2018	2017
Restructuring provisions	in USD millions		
	As of January 1	269	334
	Provisions made during the period	37	92
	Increase of provisions set up in prior years	19	27
	Provisions used during the period	(92)	(143)
	Provisions reversed during the period	(4)	(24)
	Foreign currency translation effects	(4)	16
	As of June 30	225	302

During the six months ended June 30, 2018 the Group incurred total restructuring costs of USD 102 million, of which USD 52 million is due to net increases in restructuring provisions, affecting mainly Property & Casualty in Europe, Middle East & Africa (EMEA), North America and Farmers.

During the six months ended June 30, 2017 the Group incurred total restructuring costs of USD 129 million, of which USD 95 million net increases in restructuring provisions, affecting mainly Property & Casualty in North America and EMEA.

10. Income taxes

Table 10.1				
in USD millions, for the six months ended June 30				
		2018		2017
Income tax expense – current/deferred split	Current	788		912
	Deferred	(66)		(42)
	Total income tax expense/(benefit)	723		869

Table 10.2					
in USD millions, for the six months ended June 30					
	Rate	2018	Rate	2017	
Net income before income taxes		2,646		2,508	
less: income tax (expense)/benefit attributable to policyholders		(18)		(79)	
Net income before income taxes attributable to shareholders		2,628		2,429	
Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%	578	22.0%	534	
Increase/(reduction) in taxes resulting from:					
Tax rate differential in foreign jurisdictions		(20)		196	
Tax exempt and lower taxed income		(66)		(67)	
Non-deductible expenses		68		70	
Tax losses not recognized		68		(31)	
Prior year adjustments and other		76		88	
Actual income tax expense attributable to shareholders	26.8%	704	32.5%	790	
plus: income tax expense/(benefit) attributable to policyholders		18		79	
Actual income tax expense	27.3%	723	34.7%	869	

Table 10.2 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.

Taxes paid by certain of the Group's life insurance businesses are based on the investment result less allowable expenses. To the extent these taxes exceed the amount that would have been payable in relation to the shareholders' share of taxable profits, it is normal practice for certain of the Group's businesses to recover this portion from policyholders. While the relevant company has the contractual right to charge policyholders for the taxes attributable to their share of the investment result less expenses, the obligation to pay the tax authority rests with the company and therefore, the full amount of tax including the portion attributable to policyholders is accounted for as income tax. Income tax expense therefore includes an element attributable to policyholders. In addition, deferred tax on unrealized gains related to certain investment contracts with DPF is included as income tax expense recognized in the consolidated statements of comprehensive income and an accrual for future policy fees to recover the tax charge is included in policy fee revenue.

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11. Senior and subordinated debt

Table 11		06/30/18	12/31/17
in USD millions, as of			
Senior and subordinated debt	Senior debt		
	Zurich Insurance Company Ltd		
	2.375% CHF 525 million notes, due November 2018 ¹	528	538
	1.50% CHF 400 million notes, due June 2019 ^{1,2}	408	418
	1.125% CHF 400 million notes, due September 2019 ^{1,2}	411	421
	0.625% CHF 250 million notes, due July 2020 ^{1,2}	257	262
	2.875% CHF 250 million notes, due July 2021 ¹	250	255
	3.375% EUR 500 million notes, due June 2022 ^{1,3}	613	634
	1.875% CHF 100 million notes, due September 2023 ^{1,2}	109	112
	1.750% EUR 500 million notes, due September 2024 ^{1,2,3}	592	608
	0.500% CHF 350 million notes, due December 2024 ¹	353	–
	1.500% CHF 150 million notes, due July 2026 ^{1,2}	163	167
	Zurich Holding Comp. of America Inc		
	Euro commercial paper notes, due in less than 3 months	399	399
	Zurich Finance (Australia) Limited		
	3.477% AUD 350 million notes, due May 2023 ¹	258	–
	3.271% AUD 200 million loan, due May 2023	148	–
	Other		
	Various debt instruments	68	31
	Senior debt	4,555	3,846
Subordinated debt			
Zurich Insurance Company Ltd			
8.25% USD 500 million perpetual capital notes, first callable January 2018 ^{1,3}	–	500	
4.625% CHF 500 million perpetual notes, first callable May 2018 ¹	–	513	
7.5% EUR 425 million notes, due July 2039, first callable July 2019 ^{1,3}	496	509	
2.75% CHF 225 million perpetual capital notes, first callable June 2021 ¹	226	230	
2.75% CHF 200 million perpetual capital notes, first callable September 2021 ^{1,2}	207	212	
4.75% USD 1 billion perpetual capital notes, first callable January 2022 ^{1,3}	995	994	
4.25% EUR 1 billion notes, due October 2043, first callable October 2023 ^{1,3}	1,159	1,192	
4.25% USD 300 million notes, due October 2045, first callable October 2025 ^{1,3}	299	299	
5.625% USD 1 billion notes, due June 2046, first callable June 2026 ¹	996	996	
3.5% EUR 750 million notes, due October 2046, first callable October 2026 ^{1,2}	867	890	
5.125% USD 500 million notes, due June 2048, first callable June 2028 ¹	498	–	
4.875% USD 500 million notes, due October 2048, first callable October 2028 ¹	498	–	
6.625% GBP 450 million perpetual notes, first callable October 2022 ¹	590	604	
Zurich Finance (UK) plc			
Subordinated debt	6,830	6,938	
Total senior and subordinated debt	11,385	10,784	

¹ Issued under the Group's Euro Medium Term Note Programme (EMTN Programme).² The Group applied the fair value hedge methodology either partially or in full to hedge the interest rate exposure.³ These bonds are part of a qualifying net investment hedge to hedge the foreign currency exposure.

None of the debt instruments listed in table 11 was in default as of June 30, 2018 or December 31, 2017.

12. 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 12			
Quantifiable commitments and contingencies	in USD millions, as of	06/30/2018	12/31/2017
	Remaining commitments under investment agreements	1,951	1,820
	Guarantees and letters of credit ¹	830	871
	Future operating lease commitments	2,113	2,127
	Undrawn loan commitments	8	16
	Other commitments and contingent liabilities	2,429	2,625

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

Legal, compliance and regulatory developments

In recent years there has been an increase in the number of legislative initiatives that require information gathering and tax reporting regarding the Group's customers and their contracts, including the U.S. Foreign Account Tax Compliance Act (FATCA) and the expected introduction of other automatic tax information exchange regimes based on the Common Reporting Standard (CRS). The Group's compliance activities in this area 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 regarding cross-border business activities, including in particular by U.S. government authorities looking into activities of U.S. taxpayers with investments held outside the U.S. and activities of 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 the process remains ongoing, 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.

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

Consolidated financial statements (continued)

13. Fair value measurement

This note excludes financial assets and financial liabilities relating to unit-linked contracts. Table 13.1 compares the fair value with the carrying value of financial assets and financial liabilities. Certain financial instruments are not included in 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, deposits received under ceded reinsurance contracts and other financial assets and liabilities.

For details on the fair value measurement framework and sensitivities of level 3 instruments, refer to note 23 of the consolidated financial statements 2017.

Fair value and carrying value of financial assets and financial liabilities	Table 13.1				
	in USD millions, as of				
	Total fair value		Total carrying value		
	06/30/2018	12/31/2017	06/30/2018	12/31/2017	
Available-for-sale securities					
Equity securities	14,329	14,190	14,329	14,190	
Debt securities	135,515	140,240	135,515	140,240	
Total available-for-sale securities	149,844	154,430	149,844	154,430	
Fair value through profit or loss securities					
Equity securities	3,807	3,597	3,807	3,597	
Debt securities	5,461	5,699	5,461	5,699	
Total fair value through profit or loss securities	9,268	9,295	9,268	9,295	
Derivative assets	881	903	881	903	
Held-to-maturity debt securities	2,634	2,966	2,122	2,322	
Mortgage loans	7,122	7,501	6,735	7,047	
Other loans	9,458	10,396	7,889	8,730	
Total financial assets	179,206	185,492	176,739	182,728	
Derivative liabilities	(318)	(214)	(318)	(214)	
Financial liabilities held at amortized cost					
Liabilities related to investment contracts	(650)	(631)	(562)	(510)	
Senior debt	(4,667)	(3,971)	(4,555)	(3,846)	
Subordinated debt	(6,940)	(7,594)	(6,830)	(6,938)	
Total financial liabilities held at amortized cost	(12,257)	(12,196)	(11,947)	(11,295)	
Total financial liabilities	(12,575)	(12,410)	(12,265)	(11,509)	

Recurring fair value measurements of assets and liabilities

Fair value hierarchy – non unit-linked – current period	Table 13.2a				
	in USD millions, as of June 30, 2018				
	Level 1	Level 2	Level 3	Total	
Available-for-sale securities					
Equity securities	10,850	2,387	1,092	14,329	
Debt securities	–	128,881	6,634	135,515	
Total available-for-sale securities	10,850	131,268	7,726	149,844	
Fair value through profit or loss securities					
Equity securities	1,169	94	2,544	3,807	
Debt securities	–	5,380	81	5,461	
Total fair value through profit or loss securities	1,169	5,474	2,625	9,268	
Derivative assets	5	819	57	881	
Total	12,023	137,561	10,409	159,993	
Derivative liabilities	(1)	(289)	(28)	(318)	
Total	(1)	(289)	(28)	(318)	

For the six months ended June 30, 2018, no material transfers between level 1 and level 2 occurred.

Fair value hierarchy
– non unit-linked –
prior period

Table 13.2b

in USD millions, as of December 31, 2017

	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Equity securities	10,859	2,342	988	14,190
Debt securities	–	133,989	6,251	140,240
Total available-for-sale securities	10,859	136,331	7,239	154,430
Fair value through profit or loss securities				
Equity securities	959	71	2,566	3,597
Debt securities	–	5,615	84	5,699
Total fair value through profit or loss securities	959	5,686	2,650	9,295
Derivative assets	–	842	61	903
Total	11,819	142,860	9,949	164,629
Derivative liabilities	(3)	(182)	(30)	(214)
Total	(3)	(182)	(30)	(214)

For the year ended December 31, 2017, 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 13.3a

in USD millions

	Available-for-sale securities		Fair value through profit or loss securities		Derivative assets	Derivative liabilities
	Equity securities	Debt securities	Equity securities	Debt securities		
As of January 1, 2018	988	6,251	2,566	84	61	(30)
Realized gains/(losses) recognized in income ¹	45	11	8	–	(2)	–
Unrealized gains/(losses) recognized in income ^{1,2}	(6)	(6)	76	–	(13)	1
Unrealized gains/(losses) recognized in other comprehensive income	67	(135)	–	–	10	2
Purchases	121	1,158	93	–	2	(2)
Settlements/sales/redemptions	(108)	(834)	(186)	(2)	–	–
Transfers into level 3	–	288	–	–	–	–
Transfers out of level 3	–	(32)	–	–	–	–
Foreign currency translation effects	(16)	(68)	(12)	(1)	(1)	1
As of June 30, 2018	1,092	6,634	2,544	81	57	(28)

¹ Presented as net capital gains/(losses) and impairments on Group investments in the unaudited 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, 2018, the Group transferred USD 288 million of available-for-sale debt securities out of level 2 into level 3. The transfers were mainly due to a review of the classification of certain non-agency ABS/MBS and the observability of the inputs used in the valuation techniques to determine their fair value.

Consolidated financial statements (continued)

Table 13.3b

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

in USD millions	Available-for-sale securities		Fair value through profit or loss securities		Derivative assets	Derivative liabilities
	Equity securities	Debt securities	Equity securities	Debt securities		
As of January 1, 2017	917	5,508	2,536	97	424	(63)
Realized gains/(losses) recognized in income ¹	97	7	10	–	4	–
Unrealized gains/(losses) recognized in income ^{1,2}	(1)	(15)	83	4	(35)	(1)
Unrealized gains/(losses) recognized in other comprehensive income	(29)	41	–	–	(13)	(9)
Purchases	67	808	106	–	2	–
Settlements/sales/redemptions	(177)	(645)	(64)	(19)	(6)	–
Transfers into level 3	–	75	–	–	–	–
Transfers out of level 3	–	(75)	(1)	–	–	–
Foreign currency translation effects	36	122	57	4	21	(5)
As of June 30, 2017	911	5,827	2,728	85	397	(79)

¹ Presented as net capital gains/(losses) and impairments on Group investments in the unaudited consolidated income statements.

² Unrealized gains/(losses) recognized in income for available-for-sale securities relate to impairments.

Non-recurring fair value measurements of assets and liabilities

Under certain circumstances, the Group may measure certain assets or liabilities at fair value on a non-recurring basis when an impairment charge is recognized.

14. Segment information

The Group pursues a customer-centric strategy, where the Property & Casualty (P&C) and Life businesses are managed on a regional basis. The Group's reportable segments have been identified on the basis of the businesses operated by the Group and how these are strategically managed to offer different products and services to specific customer groups. The Group has identified 13 reportable segments in accordance with IFRS 8 and segment information is presented accordingly as follows:

- Property & Casualty regions
- Life regions
- Farmers
- Group Functions and Operations
- Non-Core Businesses

The Group's reportable segments comprise the following:

Property & Casualty and Life regions

- Europe, Middle East & Africa
- North America
- Asia Pacific
- Latin America
- Group Reinsurance

Property & Casualty regions provide a variety of motor, home and commercial products and services for individuals, as well as small and large businesses on both a local and global basis. Products are sold through multiple distribution channels including agents, brokers and bank distribution.

Life regions provide a comprehensive range of life and health insurance products on both an individual and a group basis, including annuities, endowment and term insurance, unit-linked and investment-oriented products, as well as full private health, supplemental health and long-term care insurance. In addition to the agent distribution channel, certain of these products are offered via bank distribution channels.

Farmers, through Farmers Group, Inc. and its subsidiaries (FGI), provides certain non-claims administrative and management services to the Farmers Exchanges, which are owned by their policyholders. This segment also includes all reinsurance assumed from the Farmers Exchanges by the Group. Farmers Exchanges are prominent writers of personal and small commercial lines of business in the U.S. In addition, this segment includes the activities of Farmers Life, a writer of individual life insurance business in the U.S.

Group Functions and Operations comprise the Group's Holding and Financing, Headquarter and Zurich Insurance Mobile Solutions (ZIMS) activities. Certain alternative investment positions not allocated to business operating segments are included within Holding and Financing. In addition, this segment includes operational technical governance activities relating to technology, underwriting, claims, actuarial and pricing.

Non-Core Businesses include insurance and reinsurance businesses that the Group does not consider core to its operations and that are therefore mostly managed to achieve a beneficial run-off. Non-core businesses are mainly situated in the U.S., Bermuda, and the UK.

Consolidated financial statements (continued)

Aggregations and additional information

Regional Property & Casualty and Life results are further aggregated to show a total Property & Casualty and total Life business view.

→ Property & Casualty – Total

→ Life – Total

For additional informational purposes, the Group also discloses income statement information for Property & Casualty Commercial Insurance and Property & Casualty Retail and Other Insurance results. Other Insurance includes SME, direct market and other program business.

→ Property & Casualty Commercial Insurance

→ Property & Casualty Retail and Other Insurance

Business operating profit

The segment information includes the Group's internal performance measure, business operating profit (BOP). This measure 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 certain non-insurance operations included in Non-Core Businesses, investments in hedge funds as at fair value through profit or loss, 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, legal matters or large one-off regulatory projects outside the ordinary course of business, gains and losses on divestment of businesses and impairments of goodwill are also excluded from BOP.

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Consolidated financial statements (continued)

Property & Casualty
– Overview by
segment

Table 14.1

in USD millions, for the six months ended June 30

	Europe, Middle East & Africa		North America	
	2018	2017	2018	2017
Revenues				
Direct written premiums	7,660	7,091	7,598	7,932
Assumed written premiums	916	856	429	385
Gross written premiums and policy fees	8,576	7,947	8,027	8,317
Less premiums ceded to reinsurers	(1,289)	(1,128)	(2,716)	(2,481)
Net written premiums and policy fees	7,287	6,819	5,311	5,836
Net change in reserves for unearned premiums	(1,184)	(1,049)	(431)	(861)
Net earned premiums and policy fees	6,103	5,770	4,881	4,975
Net investment income on Group investments	334	328	492	472
Net capital gains/(losses) and impairments on Group investments	14	19	30	89
Net investment result on Group investments	348	347	522	560
Other income	117	192	13	10
Total BOP revenues	6,568	6,309	5,416	5,545
Benefits, losses and expenses				
Insurance benefits and losses, net	3,999	3,974	3,332	3,518
Policyholder dividends and participation in profits, net	4	–	4	4
Underwriting and policy acquisition costs, net	1,114	1,070	1,149	1,208
Administrative and other operating expense (excl. depreciation/amortization)	822	846	249	233
Interest credited to policyholders and other interest	97	86	18	16
Restructuring provisions and other items not included in BOP	(33)	(49)	(16)	(30)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	6,003	5,926	4,736	4,949
Business operating profit (before interest, depreciation and amortization)	565	383	679	597
Depreciation and impairments of property and equipment	17	21	12	10
Amortization and impairments of intangible assets	33	31	32	22
Interest expense on debt	8	7	–	–
Business operating profit before non-controlling interests	508	323	635	564
Non-controlling interests	10	7	–	–
Business operating profit	498	316	635	564

Asia Pacific		Latin America		Group Reinsurance		Eliminations		Total	
2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
1,294	1,073	1,273	1,243	-	-	-	-	17,825	17,338
98	89	33	35	196	102	(955)	(800)	718	667
1,392	1,161	1,307	1,278	196	102	(955)	(800)	18,543	18,005
(235)	(195)	(238)	(213)	(240)	(181)	955	800	(3,764)	(3,398)
1,157	966	1,069	1,065	(45)	(79)	-	-	14,779	14,607
(87)	(77)	(51)	(137)	15	16	-	-	(1,738)	(2,108)
1,070	889	1,018	928	(30)	(63)	-	-	13,041	12,498
33	29	80	82	8	8	-	-	946	918
-	-	-	-	-	-	-	-	45	108
33	29	80	82	8	8	-	-	991	1,026
57	52	13	27	37	69	-	(1)	237	350
1,159	970	1,110	1,037	15	14	-	(1)	14,268	13,874
602	460	449	389	95	49	-	-	8,477	8,389
-	-	1	-	-	(2)	-	-	9	1
278	204	445	387	3	12	-	-	2,989	2,881
194	174	101	63	24	15	-	(1)	1,390	1,331
1	3	-	1	(2)	(1)	-	-	115	104
(3)	(3)	(5)	(3)	-	1	-	-	(57)	(84)
1,072	837	991	836	120	74	-	(1)	12,923	12,622
87	132	119	201	(105)	(60)	-	-	1,345	1,253
7	7	3	3	2	2	-	-	39	43
6	11	4	5	-	-	-	-	75	69
-	-	-	-	24	46	-	-	33	53
74	114	112	194	(131)	(107)	-	-	1,198	1,088
-	-	52	61	(1)	-	-	-	61	68
74	114	60	133	(130)	(107)	-	-	1,137	1,020

Consolidated financial statements (continued)

Life –
Overview by
segment

Table 14.2

in USD millions, for the six months ended June 30

	Europe, Middle East & Africa		North America	
	2018	2017	2018	2017
Revenues				
Life insurance deposits	7,640	6,028	322	83
Gross written premiums	4,880	4,302	39	28
Policy fees	864	836	130	51
Gross written premiums and policy fees	5,744	5,138	169	79
Net earned premiums and policy fees	5,327	4,842	160	70
Net investment income on Group investments	1,301	1,200	11	9
Net capital gains/(losses) and impairments on Group investments	348	145	–	6
Net investment result on Group investments	1,649	1,345	11	15
Net investment income on unit-linked investments	695	627	–	(4)
Net capital gains/(losses) and impairments on unit-linked investments	618	4,015	(92)	44
Net investment result on unit-linked investments	1,313	4,642	(92)	40
Other income	221	203	17	2
Total BOP revenues	8,509	11,032	97	126
Benefits, losses and expenses				
Insurance benefits and losses, net	4,654	4,162	116	21
Policyholder dividends and participation in profits, net	1,997	5,050	(91)	46
Income tax expense/(benefit) attributable to policyholders	21	73	–	–
Underwriting and policy acquisition costs, net	520	588	43	30
Administrative and other operating expense (excl. depreciation/amortization)	599	580	31	34
Interest credited to policyholders and other interest	130	110	10	12
Restructuring costs and other items not included in BOP	(23)	(45)	–	(1)
Total BOP benefits, losses and expenses	7,900	10,517	109	142
Business operating profit (before interest, depreciation and amortization)	609	515	(12)	(15)
Depreciation and impairments of property and equipment	6	5	–	–
Amortization and impairments of intangible assets	50	49	5	1
Interest expense on debt	3	4	–	–
Business operating profit before non-controlling interests	550	458	(17)	(16)
Non-controlling interests	25	20	–	–
Business operating profit	524	438	(17)	(16)

Life includes approximately USD 1.5 billion and USD 1 billion 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, 2018 and 2017, respectively.

Asia Pacific		Latin America		Group Reinsurance		Eliminations		Total	
2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
59	55	964	1,147	–	–	–	–	8,985	7,313
563	439	1,421	1,308	13	4	(19)	(8)	6,899	6,072
70	62	17	26	–	–	–	–	1,082	975
633	501	1,438	1,334	13	4	(19)	(8)	7,980	7,048
547	410	1,247	1,244	4	1	–	–	7,285	6,568
72	56	193	185	–	–	(1)	(1)	1,575	1,449
(19)	39	(2)	3	–	–	–	–	328	193
53	96	191	188	–	–	(1)	(1)	1,903	1,642
78	65	9	8	–	–	–	–	782	696
(72)	34	451	663	–	–	–	–	906	4,757
6	100	460	672	–	–	–	–	1,688	5,453
11	13	30	22	–	–	–	–	280	240
618	619	1,929	2,126	4	1	(2)	(1)	11,156	13,903
225	179	557	571	2	–	–	–	5,554	4,932
18	101	459	667	–	–	–	–	2,383	5,864
(3)	6	–	–	–	–	–	–	18	79
105	75	535	507	1	–	–	–	1,204	1,200
160	143	75	86	–	–	–	–	866	843
18	21	7	5	–	–	–	–	165	148
7	7	1	6	–	–	–	–	(15)	(32)
530	533	1,634	1,842	2	–	–	–	10,175	13,034
88	86	295	284	2	1	(1)	(1)	981	869
1	1	2	2	–	–	–	–	8	7
6	7	5	7	–	–	–	–	67	63
4	1	–	–	–	–	(1)	(1)	6	4
76	77	288	276	2	1	–	–	899	795
(1)	(2)	115	126	–	–	–	–	139	145
78	78	173	149	2	1	–	–	760	650

Consolidated financial statements (continued)

Business operating
profit by business

Table 14.3

in USD millions, for the six months ended June 30

	Property & Casualty		Life	
	2018	2017	2018	2017
Revenues				
Direct written premiums	17,825	17,338	6,765	5,920
Assumed written premiums	718	667	134	152
Gross Written Premiums	18,543	18,005	6,899	6,072
Policy fees	–	–	1,082	975
Gross written premiums and policy fees	18,543	18,005	7,980	7,048
Less premiums ceded to reinsurers	(3,764)	(3,398)	(548)	(313)
Net written premiums and policy fees	14,779	14,607	7,433	6,735
Net change in reserves for unearned premiums	(1,738)	(2,108)	(147)	(167)
Net earned premiums and policy fees	13,041	12,498	7,285	6,568
Farmers management fees and other related revenues	–	–	–	–
Net investment income on Group investments	946	918	1,575	1,449
Net capital gains/(losses) and impairments on Group investments	45	108	328	193
Net investment result on Group investments	991	1,026	1,903	1,642
Net investment result on unit-linked investments	–	–	1,688	5,453
Other income	237	350	280	240
Total BOP revenues	14,268	13,874	11,156	13,903
of which: Inter-segment revenues	(76)	(107)	(71)	(62)
Benefits, losses and expenses				
Losses and loss adjustment expenses, net	8,477	8,389	–	–
Life insurance death and other benefits, net	–	–	5,554	4,932
Insurance benefits and losses, net	8,477	8,389	5,554	4,932
Policyholder dividends and participation in profits, net	9	1	2,383	5,864
Income tax expense/(benefit) attributable to policyholders	–	–	18	79
Underwriting and policy acquisition costs, net	2,989	2,881	1,204	1,200
Administrative and other operating expense (excl. depreciation/amortization)	1,390	1,331	866	843
Interest credited to policyholders and other interest	115	104	165	148
Restructuring provisions and other items not included in BOP	(57)	(84)	(15)	(32)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	12,923	12,622	10,175	13,034
Business operating profit (before interest, depreciation and amortization)				
	1,345	1,253	981	869
Depreciation and impairments of property and equipment	39	43	8	7
Amortization and impairments of intangible assets	75	69	67	63
Interest expense on debt	33	53	6	4
Business operating profit before non-controlling interests	1,198	1,088	899	795
Non-controlling interests	61	68	139	145
Business operating profit	1,137	1,020	760	650

Life includes approximately USD 1.5 billion and USD 1 billion 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, 2018 and 2017, respectively.

	Farmers		Group Functions and Operations		Non-Core Businesses		Eliminations		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	288	283	–	–	19	21	–	–	24,896	23,563
	97	773	1	24	33	43	(10)	(53)	974	1,605
	385	1,056	1	24	52	64	(10)	(53)	25,870	25,168
	159	155	–	–	17	153	–	–	1,258	1,283
	544	1,210	1	24	69	217	(10)	(53)	27,127	26,451
	(89)	(103)	–	(20)	(7)	(316)	10	53	(4,398)	(4,097)
	455	1,108	1	3	62	(99)	–	–	22,729	22,354
	(1)	(4)	2	–	3	–	–	–	(1,882)	(2,279)
	454	1,103	3	3	65	(98)	–	–	20,848	20,074
	1,445	1,438	–	–	–	–	–	–	1,445	1,438
	105	116	103	89	114	117	(102)	(87)	2,741	2,602
	–	–	–	–	(133)	16	–	–	239	316
	105	116	103	89	(19)	132	(102)	(87)	2,980	2,918
	16	67	–	–	49	355	–	–	1,753	5,875
	46	77	120	113	18	32	(223)	(257)	478	555
	2,066	2,801	226	205	114	421	(325)	(343)	27,504	30,861
	(24)	(16)	(144)	(150)	(10)	(8)	325	343	–	–
	62	546	(1)	–	(44)	63	–	–	8,494	8,997
	222	190	–	–	(15)	(158)	–	–	5,761	4,964
	284	735	(1)	–	(60)	(95)	–	–	14,255	13,961
	21	71	–	–	56	434	–	–	2,468	6,370
	–	–	–	–	–	–	–	–	18	79
	84	309	1	–	5	5	–	(4)	4,282	4,390
	756	762	162	86	29	40	6	4	3,208	3,066
	47	60	66	58	24	28	(144)	(131)	274	267
	(23)	(6)	(19)	(11)	–	1	–	–	(113)	(134)
	1,169	1,931	209	132	54	412	(138)	(130)	24,393	28,000
	896	870	17	73	59	10	(187)	(213)	3,111	2,861
	20	16	4	4	–	–	–	–	71	70
	68	60	12	12	–	–	–	–	223	203
	–	–	335	359	8	7	(187)	(213)	195	210
	808	794	(334)	(303)	51	3	–	–	2,622	2,377
	–	–	–	(2)	–	–	–	–	200	211
	808	794	(334)	(301)	51	3	–	–	2,422	2,167

Consolidated financial statements (continued)

Table 14.4

in USD millions, for the six months ended June 30

Reconciliation of
BOP to net income
after income taxes

	Property & Casualty		Life	
	2018	2017	2018	2017
Business operating profit	1,137	1,020	760	650
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	133	235	23	14
Net gains/(losses) on divestment of businesses ¹	(19)	1	(5)	7
Restructuring costs	(47)	(83)	(23)	(31)
Other adjustments	(9)	(2)	8	(1)
Add back:				
Business operating profit attributable to non-controlling interests	61	68	139	145
Net income before shareholders' taxes	1,255	1,240	901	783
Income tax expense/(benefit) attributable to policyholders	–	–	18	79
Net income before income taxes	1,255	1,240	920	863
Income tax (expense)/benefit				
attributable to policyholders				
attributable to shareholders				
Net income after taxes				
attributable to non-controlling interests				
attributable to shareholders				

¹ In 2018, Property & Casualty included losses of USD 19 million related to the sale of Endsleigh Limited companies (see note 3) and Non-Core Businesses included losses of USD 16 million related to a portfolio transfer in Singapore.

	Farmers		Group Functions and Operations		Non-Core Businesses		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
	808	794	(334)	(301)	51	3	2,422	2,167
	–	20	(12)	(96)	16	(1)	159	173
	–	–	–	4	(16)	–	(40)	12
	(21)	(5)	(10)	(10)	–	1	(102)	(129)
	(2)	(1)	(8)	(1)	–	–	(11)	(5)
	–	–	–	(2)	–	–	200	211
	785	808	(365)	(405)	51	3	2,628	2,429
	–	–	–	–	–	–	18	79
	785	808	(365)	(405)	51	3	2,646	2,508
							(723)	(869)
							(18)	(79)
							(704)	(790)
							1,924	1,638
							133	135
							1,791	1,503

Consolidated financial statements (continued)

Table 14.5

in USD millions, for the six months ended June 30

	Commercial Insurance		Retail and Other Insurance	
	2018	2017	2018	2017
Gross written premiums and policy fees	8,209	8,222	11,099	10,499
Net earned premiums and policy fees	5,279	5,414	7,792	7,147
Insurance benefits and losses, net	3,947	4,000	4,435	4,340
Policyholder dividends and participation in profits, net	6	4	3	–
Total net technical expenses	1,396	1,558	2,888	2,474
Net underwriting result	(71)	(148)	466	334
Net investment income	568	559	370	352
Net capital gains/(losses) and impairments on investments	33	85	11	23
Net non-technical result (excl. items not included in BOP)	(51)	28	1	(37)
Business operating profit before non-controlling interests	480	524	849	672
Non-controlling interest	9	18	53	50
Business operating profit	471	506	796	621

¹ Commercial and Retail Insurance overview exclude Group ReinsuranceProperty & Casualty
– Commercial and
Retail Insurance
overview¹

15. Events after the balance sheet date

On July 20, 2018, the Group signed a purchase agreement to acquire Blue Insurance Limited and its operations in Ireland and the UK. The transaction, which is subject to regulatory approvals, is expected to be completed by the end of 2018.

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 unaudited consolidated financial statements of Zurich Insurance Group Ltd and its subsidiaries (the Group), which comprise the consolidated balance sheet as at June 30, 2018 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the six months then ended, and notes on pages 3 to 45 to the unaudited consolidated financial statements. 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 accompanying unaudited consolidated financial statements have not been prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers AG

Alex Finn

Mark Humphreys

Zurich, August 8, 2018

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 advisor.

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