Zurich Insurance Group

ZURICH®

Consolidated financial statements (unaudited)

Results for the six months ended June 30, 2019

Consolidated financial statements

Contents

Consolidated income statements

in USD millions, for the six months ended June 30	Notes	2019	2018
Revenues			
Gross written premiums		25,339	25,870
Policy fees		1,198	1,258
Gross written premiums and policy fees		26,536	27,127
Less premiums ceded to reinsurers		(4,786)	(4,398)
Net written premiums and policy fees		21,750	22,729
Net change in reserves for unearned premiums		(2,239)	(1,882)
Net earned premiums and policy fees		19,511	20,848
Farmers management fees and other related revenues		1,868	1,586
Net investment income on Group investments		2,657	2,741
Net capital gains/(losses) and impairments on Group investments		907	398
Net investment result on Group investments	4	3,564	3,139
Net investment result on unit-linked investments		13,875	1,753
Net gains/(losses) on divestment of businesses	3	(186)	(40)
Other income		565	478
Total revenues		39,198	27,764
Benefits, losses and expenses			
Insurance benefits and losses, gross of reinsurance		15,883	16,675
Less ceded insurance benefits and losses		(2,612)	(2,420)
Insurance benefits and losses, net of reinsurance		13,271	14,255
Policyholder dividends and participation in profits, net of reinsurance	6	14,276	2,468
Underwriting and policy acquisition costs, net of reinsurance		4,198	4,282
Administrative and other operating expense		3,830	3,644
Interest expense on debt		208	195
Interest credited to policyholders and other interest		282	274
Total benefits, losses and expenses		36,066	25,118
Net income before income taxes		3,132	2,646
of which: Attributable to non-controlling interests		181	212
Income tax (expense)/benefit	10	(973)	(723)
attributable to policyholders	10	(258)	(18)
attributable to shareholders	10	(715)	(704)
of which: Attributable to non-controlling interests		(63)	(79)
Net income after taxes		**2,159**	**1,924**
attributable to non-controlling interests		118	133
attributable to shareholders		2,041	1,791
in USD			
Basic earnings per share		13.81	12.05
Diluted earnings per share		13.67	11.97
in CHF			
Basic earnings per share		13.81	11.64
Diluted earnings per share		13.67	11.57

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

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
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)
2019			
Comprehensive income for the period	2,041	3,300	83
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		4,281	112
Reclassification to income statement (before tax, foreign currency translation effects and allocation to policyholders)		(381)	(19)
Reclassification to retained earnings		–	–
Deferred income tax (before foreign currency translation effects)		(618)	(15)
Foreign currency translation effects		19	5

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
(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)			
(37)	3,346	11	2	13	3,359	5,399	411	5,811
220	4,613	9	14	22	4,635			
(258)	(659)	–	–	–	(659)			
–	–	–	–	–	–			
–	(633)	2	(18)	(16)	(649)			
–	24	–	6	6	31			

Consolidated balance sheets

Assets

in USD millions, as of	Notes	06/30/19	12/31/18
Assets:			
Cash and cash equivalents		**7,300**	**8,649**
Total Group investments	4	192,254	182,647
Equity securities		17,505	16,220
Debt securities		147,414	139,870
Investment property		12,540	12,351
Mortgage loans		6,441	6,556
Other loans		8,318	7,614
Investments in associates and joint ventures		36	36
Investments for unit-linked contracts		120,427	109,294
Total investments		**312,681**	**291,940**
Reinsurers' share of liabilities for insurance contracts	5	22,256	21,197
Deposits made under reinsurance contracts		825	883
Deferred policy acquisition costs	7	19,142	19,541
Deferred origination costs	7	405	419
Receivables and other assets		21,581	18,225
Deferred tax assets		1,011	1,125
Assets held for sale[1]	3	28,458	24,124
Property and equipment[2]		2,357	1,037
Attorney-in-fact contracts	8	1,025	1,025
Goodwill	8	3,061	2,634
Other intangible assets	8	4,472	4,542
Total assets		**424,575**	**395,342**

[1] As of June 2019, the Group reclassified USD 28 billion of assets to held for sale based on agreements signed to sell business in the UK (see note 3). In addition, assets held for sale include land and buildings formerly classified as investment property and held for own use amounting to USD 29 million. In 2018, the Group reclassified USD 24 billion of assets to held for sale based on agreements signed to sell business in the UK, Venezuela and Germany (see note 3). In addition, assets held for sale include land and buildings formerly classified as investment property and held for own use amounting to USD 29 million.
[2] The increase in property and equipment is mainly due to the adoption of IFRS 16 'Leases' (see note 2).

Liabilities and equity

in USD millions, as of	Notes	06/30/19	12/31/18
Liabilities			
Liabilities for investment contracts		58,090	51,439
Deposits received under ceded reinsurance contracts		557	612
Deferred front-end fees		5,159	5,177
Liabilities for insurance contracts	5	262,833	249,208
Obligations to repurchase securities		885	1,316
Other liabilities[1]		16,527	14,321
Deferred tax liabilities		4,547	3,915
Liabilities held for sale[2]	3	28,424	25,539
Senior debt	11	5,635	5,237
Subordinated debt	11	7,344	6,775
Total liabilities		**390,001**	**363,540**
Equity			
Share capital		11	11
Additional paid-in capital		1,121	1,180
Net unrealized gains/(losses) on available-for-sale investments		3,949	649
Cash flow hedges		446	363
Cumulative foreign currency translation adjustment		(9,530)	(9,676)
Revaluation reserve		221	211
Retained earnings		36,711	37,452
Shareholders' equity		32,929	30,189
Non-controlling interests		1,645	1,613
Total equity		**34,574**	**31,802**
Total liabilities and equity		**424,575**	**395,342**

[1] The increase in other liabilities includes USD 1.5 billion due to the adoption of IFRS 16 'Leases'.
[2] As of June 2019, the Group reclassified USD 28 billion of liabilities to held for sale based on agreements to sell certain businesses in the UK (see note 3). In 2018, the Group reclassified USD 26 billion of liabilities to held for sale based on agreements to sell certain businesses in the UK, Venezuela and Germany (see note 3).

Consolidated statements of cash flows

in USD millions, for the six months ended June 30	**2019**	2018
Cash flows from operating activities		
Net income attributable to shareholders	2,041	1,791
Adjustments for:		–
Net (gains)/losses on divestment of businesses	186	40
(Income)/expense from equity method accounted investments	(1)	(1)
Depreciation, amortization and impairments of fixed and intangible assets	469	406
Other non-cash items	169	(228)
Underwriting activities:	15,496	1,420
Liabilities for insurance contracts, gross	9,306	3,170
Reinsurers' share of liabilities for insurance contracts	(1,918)	(883)
Liabilities for investment contracts	8,718	120
Deferred policy acquisition costs	(623)	(1,218)
Deferred origination costs	11	9
Deposits made under assumed reinsurance contracts	60	222
Deposits received under ceded reinsurance contracts	(59)	–
Investments:	(13,722)	(484)
Net capital (gains)/losses on total investments and impairments	(13,924)	(1,129)
Net change in derivatives	(199)	(12)
Net change in money market investments	(225)	284
Sales and maturities		–
Debt securities	30,787	31,789
Equity securities	33,471	30,345
Other	3,493	3,901
Purchases		–
Debt securities	(31,703)	(32,193)
Equity securities	(32,370)	(30,354)
Other	(3,053)	(3,116)
Net changes in sale and repurchase agreements	(435)	402
Movements in receivables and payables	(1,007)	(1,683)
Net changes in other operational assets and liabilities	(1,003)	(792)
Deferred income tax, net	133	(66)
Net cash provided by/(used in) operating activities	2,327	807

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	2019	2018
Cash flows from investing activities		
Additions to tangible and intangible assets	(374)	(258)
Disposals of tangible and intangible assets	18	13
(Acquisitions)/disposals of equity method accounted investments, net	–	(17)
Acquisitions of companies, net of cash acquired	(1,242)	(28)
Divestments of companies, net of cash divested	108	(13)
Dividends from equity method accounted investments	–	1
Net cash provided by/(used in) investing activities	(1,491)	(302)
Cash flows from financing activities		
Dividends paid	(2,861)	(2,812)
Issuance of share capital	–	2
Net movement in treasury shares	–	(908)
Issuance of debt	1,361	1,814
Repayment of debt	(402)	(1,024)
Lease principal repayments	(84)	–
Net cash provided by/(used in) financing activities	(1,986)	(2,929)
Foreign currency translation effects on cash and cash equivalents	(7)	(168)
Change in cash and cash equivalents	(1,157)	(2,592)
Cash and cash equivalents as of January 1	9,110	8,850
Total cash and cash equivalents as of June 30	**7,954**	**6,258**
of which: Cash and cash equivalents	7,300	5,879
of which: Unit-linked	654	379
Other supplementary cash flow disclosures		
Other interest income received	2,486	2,498
Dividend income received	913	1,083
Other interest expense paid	(387)	(401)
Income taxes paid	(973)	(903)

Cash and cash equivalents

in USD millions, as of June 30	2019	2018
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	7,388	5,711
Cash equivalents	566	547
Total	**7,954**	**6,258**

For the periods ended June 30, 2019 and 2018, cash and cash equivalents held to meet local regulatory requirements were USD 611 million and USD 766 million, respectively.

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

Consolidated financial statements (continued)

Consolidated statements of changes in equity

in USD millions

	Share capital	Additional paid-in capital
Balance as of December 31, 2017 as previously reported	11	1,162
Effect of adoption IFRS 15[1]	–	–
Balance as of January 1, 2018 after the adoption of IFRS 15	11	1,162
Issuance of share capital	–	2
Dividends to shareholders	–	(14)
Share-based payment transactions	–	30
Treasury share transactions	–	–
of which: share buy-back program[2]	–	–
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 December 31, 2018	11	1,180
Balance as of December 31, 2018 as previously reported	11	1,180
Effect of adoption IFRS 16[3]	–	–
Effect of adoption IAS 29[4]	–	–
Balance as of January 1, 2019 after the adoption of IFRS 16 and IAS 29	11	1,180
Issuance of share capital	–	–
Dividends to shareholders	–	–
Share-based payment transactions	–	(59)
Treasury share transactions	–	–
of which: share buy-back program	–	–
Cumulative foreign currency translation adjustment due to hyperinflation[5]	–	–
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, 2019	**11**	**1,121**

[1] Effect of adoption of IFRS 15 'Revenue from Contracts with Customers'.
[2] Share buy-back program to reflect the purchase value of 1.74 million shares.
[3] Effect of adoption of IFRS 16 'Leases' (see note 2).
[4] Effect of adoption of IAS 29 Financial Reporting in Hyperinflationary Economies.
[5] Current year effect of IAS 29 Financial Reporting in Hyperinflationary Economies.

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
3,078	410	(8,762)	228	36,936	33,062	1,831	34,893
–	–	–	–	(70)	(70)	–	(70)
3,078	410	(8,762)	228	36,866	32,993	1,831	34,824
–	–	–	–	–	2	–	2
–	–	–	–	(2,790)	(2,805)	(210)	(3,015)
–	–	–	–	(1)	29	–	29
–	–	–	–	(956)	(957)	–	(957)
–	–	–	–	(555)	(555)	–	(555)
–	–	–	–	36	36	–	36
(2,429)	(47)	(914)	(17)	4,298	891	137	1,028
–	–	–	–	3,716	3,716		
(2,428)	–	–	–	–	(2,428)		
–	(47)	–	–	–	(47)		
–	–	(914)	–	–	(914)		
–	–	–	(17)	–	(17)		
–	–	–	–	582	582		
–	–	–	–	–	–	(145)	(145)
649	363	(9,676)	211	37,452	30,189	1,613	31,802
649	363	(9,676)	211	37,452	30,189	1,613	31,802
–	–	–	–	(125)	(125)	–	(125)
–	–	116	–	(66)	50	13	63
649	363	(9,561)	211	37,261	30,114	1,626	31,740
–	–	–	–	–	–	–	–
–	–	–	–	(2,819)	(2,819)	(43)	(2,861)
–	–	–	–	(19)	(78)	–	(78)
–	–	–	–	245	245	–	245
–	–	–	–	–	–	–	–
–	–	68	–	–	68	5	72
–	–	–	–	–	–	–	–
3,300	83	(37)	11	2,043	5,399	411	5,811
–	–	–	–	2,041	2,041		
3,300	–	–	–	–	3,300		
–	83	–	–	–	83		
–	–	(37)	–	–	(37)		
–	–	–	11	–	11		
–	–	–	–	2	2		
–	–	–	–	–	–	(354)	(354)
3,949	**446**	**(9,530)**	**221**	**36,711**	**32,929**	**1,645**	**34,574**

Zurich Insurance Group Ltd and its subsidiaries (collectively the Group) is a provider of insurance products and related services. The Group operates in Europe, Middle East & Africa (EMEA), 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, 2019, 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 2018 of the Group, except for the adoption of new accounting standards and amendments as set out in note 2.

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 unaudited consolidated financial statements, inter-segment revenues and transfers are eliminated.

The unaudited consolidated financial statements for the six months ended June 30, 2019, should be read in conjunction with the Group's Annual Report 2018.

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 (43) million and USD 39 million for the six months ended June 30, 2019 and 2018, respectively. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD (13) million and USD 10 million for the six months ended June 30, 2019 and 2018, respectively. The functional currencies of the Group's entities in Venezuela have been changed from bolivar fuerte (VEF) to U.S. dollars (USD) as of January 1, 2018, to reflect the currency in which the Venezuelan business mainly operates. A cumulative foreign currency translation adjustment loss of USD 258 million was recognized upon closure of the sale of the Group's Venezuelan operations (see note 3).

Principal exchange rates

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	
	06/30/19	12/31/18	**06/30/19**	06/30/18
Euro	1.1381	1.1451	1.1295	1.2105
Swiss franc	1.0247	1.0163	1.0000	1.0348
British pound	1.2708	1.2746	1.2938	1.3764
Brazilian real	0.2614	0.2581	0.2602	0.2931

2. New accounting standards and amendments to published accounting standards

Standards, amendments and interpretations effective or early-adopted as of January 1, 2019 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, 2019. The impact of applying IFRS 16 'Leases' is disclosed below, the other standards/interpretation have no material impact on the Group's financial position or performance and are applied prospectively to transactions occurring in the current financial year.

Table 2.1

Standard/ Interpretation

		Effective date
New standards/interpretations		
IFRS 16	Leases	January 1, 2019
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 16 'Leases'

IFRS 16 introduces new requirements for lease accounting which have an impact on contracts where the Group acts as a lessee (and intermediate lessor). Under IFRS 16, the Group recognizes a right-of-use asset and a lease liability predominantly for real estate rental contracts which were mainly classified as operating leases under IAS 17 'Leases'.

The Group adopted IFRS 16 on January 1, 2019. As permitted by the transitional provisions of IFRS 16, the Group elected to apply the modified retrospective approach and has not restated comparative figures. The adoption of IFRS 16 resulted in an increase in total assets of USD 1.4 billion and total liabilities of USD 1.5 billion. The cumulative effect of USD 125 million net of tax resulting from the measurement of the right-of-use assets on a retrospective basis was recognized as a decrease in opening retained earnings.

The lease liabilities are measured at the present value of the remaining lease payments over the lease, discounted using the Group's incremental borrowing rate as the rate implicit in the lease is generally not readily determinable. For leases previously classified as a finance lease, the carrying amounts were not adjusted on transition to IFRS 16.

The Group applied the following practical expedients permitted on transition to IFRS 16 that were previously classified as operating leases:

- No reassessment whether a contract is, or contains a lease;
- Reliance on previous assessment on whether a lease contract is onerous;
- Not applying IFRS 16 for operating leases with a remaining lease term of less than 12 months as at January 1, 2019;
- The exclusion of initial direct costs for the measurement of the right-of-use asset;
- The use of hindsight in assessing whether the Group is reasonably certain to exercise an option to extend or terminate a lease.

The Table 2.2 reconciles the operating lease obligations as of December 31, 2018 to the opening lease liabilities recognized as of January 1, 2019:

Consolidated financial statements (continued)

IFRS 16: Lessee – Transition disclosures

Table 2.2

in USD millions, as of December 31	2018
Operating lease commitments applying IAS 17	2,149
in USD millions, as of January 1	**2019**
Discounted operating lease commitments applying IAS 17	1,787
Transition differences resulting from:	(184)
Lease extension options	54
Software licenses	(65)
Non-lease components	(124)
Short-term/Low-value	(40)
Other	(9)
Lease liabilities	**1,603**

Right-of-use assets are presented in 'Property and equipment' and lease liabilities in 'Other liabilities'. Finance lease receivables are included in 'Other loans'. For the six months ended June 30, depreciation expense for right-of-use assets included in 'Administrative and other operating expense' amounted to USD 99 million and interest expense on lease liabilities included in 'Interest credited to policyholders and other interest' amounted to USD 22 million. The impact resulting from the change in accounting policy on the Group's consolidated balance sheet as of January 1, 2019 is summarized in Table 2.3:

IFRS 16: The impact of change in accounting policy

Table 2.3

in USD millions, as of January 1	**2019**
Property and Equipment	1,376
Deferred Tax Assets	26
Other Liabilities[1]	(1,532)
Deferred Tax Liabilities	5
Retained earnings	125

[1] Includes derecognition of onerous lease provisions amounted to USD 71 million.

The Group recognizes a right-of-use asset and a corresponding lease liability at the lease commencement date when the leased asset is available for use by the Group. The lease liability is measured at the present value of the lease payments due over the lease term, discounted using the Group's incremental borrowing rate. Any options to extend or terminate a lease that the Group is reasonably certain to exercise are included in the lease term. The right-of-use asset is initially recognized at an amount equal to the lease liability adjusted for lease prepayments made or lease incentives received, initial direct costs and any estimated costs to dismantle or restore the leased asset.

The right-of-use asset is depreciated over the shorter of the leased asset's useful life or the lease term on a straight-line basis. The carrying amount of the lease liability is increased to reflect the unwinding of the discount so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period and is reduced by the lease payments made during the period. Lease payments include fixed payments and variable payments that depend on a non-leveraged index or a rate.

The Group records short-term leases and leases of low-value assets as an expense on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise hardware and smaller office equipment.

For finance leases where the Group acts as a lessor or intermediate lessor, a receivable at an amount equal to the sum of the lease payments plus any unguaranteed residual asset discounted using the interest rate implicit in the lease (or the discount rate used for the head lease where the Group is an intermediate lessor) is recognized. The carrying amount of the lease receivable is increased to reflect the interest income and is reduced to reflect the lease payments received during the period.

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

Table 2.4 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 2.4

Standard/ Interpretation

		Effective date
New standards/interpretations		
IFRS 9	Financial Instruments	January 1, 2021
IFRS 17	Insurance Contracts	January 1, 2021
Amended standards		
IFRS 3	Definition of a Business	January 1, 2020
IAS 1/IAS 8	Definition of Material	January 1, 2020
IFRS 9	Prepayment Features with Negative Compensation	January 1, 2021

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. IFRS 9 'Financial Instruments' introduces a classification and measurement concept for financial assets that is based on the contractual cash flow characteristics and the holding intent. Furthermore, IFRS 9 introduces a requirement to recognize expected credit losses for financial assets carried at amortized cost or at fair value, with changes in fair value recognized in other comprehensive income (OCI). 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 presents 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 (see note 24 of the Annual Report 2018).

On June 27, 2019, the International Accounting Standards Board (IASB) published an exposure draft proposing limited amendments to IFRS 17, including an extension of the effective date of IFRS 17 and IFRS 9 by one year to January 1, 2022. The Group continues to assess the impact of the application of both IFRS 17 and IFRS 9 as well as the impact of the limited amendments on the implementation to date. At the date of publication of these unaudited consolidated financial statements, it was not practicable to quantify what the potential impact on the Group consolidated financial statements will be once these standards are adopted.

Other standards, amendments and interpretations shown in table 2.4 are expected to have no or only an insignificant impact on the Group's financial position or performance.

3. Acquisitions and divestments

Transactions in 2019

Acquisitions

OnePath

On December 11, 2017, the Group announced that it had entered into an agreement to acquire 100 percent of the Australian life insurance and consumer credit businesses (OnePath Life and OnePath General Insurance) of Australia and New Zealand Banking Group Limited (ANZ). In order to gain early exposure to a portion of OnePath Life's earnings, the Group entered into a quota share agreement to reinsure the existing death, disability and critical illness business of OnePath Life as of May 1, 2018 for an upfront commission payment of USD 754 million. On May 31, 2019, the Group finalized its acquisition of OnePath for USD 1.5 billion, subject to purchase price adjustments. As part of the transaction, Zurich will enter into a 20-year distribution agreement with ANZ in Australia to distribute life insurance products through its bank channels.

Table 3.1 shows the main preliminary balance sheet line items as of the acquisition date, representing the fair value of the acquired OnePath Life and OnePath General Insurance companies' net tangible assets acquired and draft intangible assets including goodwill.

OnePath Life and General Insurance preliminary balance sheet as of the acquisition date

Table 3.1

in USD millions, as of May 31, 2019	**Total**[1]
Cash and cash equivalents	254
Total Group investments	2,233
Total unit-linked investments	770
Total investments	3,003
Reinsurers' share of reserves for insurance contracts	93
Other Assets	12
Receivables and other assets	232
Deferred tax assets	59
Other intangible assets including Goodwill	385
Assets acquired	**4,038**
Liabilities for insurance contracts	1,321
Liabilities for investment contracts	1,206
Accrued liabilities	18
Other liabilities	22
Deferred tax liabilities	13
Liabilities acquired	**2,581**
Net assets acquired	1,457
Non-controlling interests	
Total acquisition costs	**1,457**

[1] As of June 30, 2019, the assets and liabilities of OnePath are recognized at acquisition date, May 31, 2019. The Group is currently in the process of assessing preliminary purchase price adjustments.

OnePath's pro-forma gross written premiums and net income after taxes for the six months ended June 30, 2019, were approximately USD 582 million and USD 29 million respectively. In addition, the Group generated net income after taxes of USD 10 million for the respective period on its existing reinsurance agreement with OnePath Life. Pro-forma net income was adjusted for transaction-related costs incurred by OnePath Life. The Group incurred transaction-related costs of approximately USD 26 million which were recognized in non-technical expenses in BOP, the majority of which were incurred in 2019.

Divestments

Venezuelan Operations

On May 24, 2019, the Group completed the sale of its 69 percent participation in Zurich Seguros, S.A. The Group has recorded a pre-tax loss of USD 260 million, of which USD 258 million results from negative currency translation adjustments, in the statement of income upon completion of the sale.

ADAC Autoversicherung AG and Bonnfinanz AG
On January 1, 2019, the Group completed the sale of its 51 percent participation in ADAC Autoversicherung AG and on April 2, 2019, the Group completed the sale of Bonnfinanz AG, with pre-tax gains of USD 21 million and USD 38 million, respectively, recorded within net gains/(losses) on divestment of businesses.

Transactions in 2018

Acquisitions

Blue Insurance
On October 3, 2018, Cover-More Australia Pty Ltd, a fully owned subsidiary of Zurich Insurance Company Ltd, completed the acquisition of Blue Insurance Ltd (Blue Insurance), an Irish-domiciled insurance intermediary acquired for approximately USD 64 million, subject to performance adjustments. Based on purchase price accounting, goodwill amounted to USD 37 million, including a USD 2 million increase in goodwill from post-acquisition adjustments in 2019.

Adira Insurance
On September 27, 2018, Zurich Insurance Group entered into agreements to acquire 80 percent of PT Asuransi Adira Dinamika (Adira Insurance) from PT Bank Danamon Indonesia (Bank Danamon) and a minority investor for approximately USD 414 million, with potential future incremental payments based on business performance. The transaction includes two separate long-term strategic cooperation agreements with Bank Danamon and PT Adira Dinamika Multi Finance TbK. The transaction is expected to close in the second half of 2019, subject to regulatory approval.

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. The Group finalized the acquisition on November 5, 2018, for an estimated aggregate price of USD 144 million, subject to purchase price adjustments. Based on purchase price accounting, goodwill amounted to USD 85 million, including a USD 17 million reduction of goodwill in 2019 from post-acquisition adjustments.

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, for approximately USD 82 million. The transaction encompassed 19 legal entities operating throughout Latin America, most notably in Argentina, Brazil, Chile, Colombia and Mexico. Based on purchase price accounting, goodwill amounted to USD 94 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, subject to purchase price adjustments. On July 2, 2018, the acquisitions of Argentina and Brazil were closed for an amount of USD 196 million and USD 27 million, respectively. The acquisitions of Mexico and Ecuador were closed on August 31, 2018 and October 1, 2018, for an amount of USD 32 million and USD 52 million, respectively. The acquisition of Colombia was completed on February 1, 2019, for an amount of USD 18 million.

Consolidated financial statements (continued)

Table 3.2 shows the main balance sheet line items as of the acquisition dates, representing the fair value of acquired QBE Latin America's net tangible assets, intangible assets and goodwill, based on initial purchase price accounting.

QBE Latin America balance sheet as of the acquisition dates

Table 3.2

in USD millions	Total[1]
Cash and cash equivalents	88
Total investments	397
Receivables and other assets	409
Deferred tax assets	22
Property and equipment	21
Goodwill	212
Other intangible assets	55
Assets acquired	**1,204**
Liabilities for insurance contracts	734
Other liabilities	138
Deferred tax liabilities	8
Liabilities acquired	**880**
Net assets acquired	324
Total acquisition costs	**324**

[1] Includes opening balance sheet for QBE Colombia, reporting for the first time in 2019.

QBE Latin America's net income after taxes for the months since the acquisition dates, as included in the Group consolidated income statements for the year ended December 31, 2018, amounts to USD 3 million including transaction-related costs. Pro-forma net income after taxes for the full 12 months ended December 31, 2018, amounts to approximately USD 21 million, adjusted for transaction-related costs incurred by QBE Latin America. In addition, the Group incurred transaction-related costs of approximately USD 9 million in non-technical expenses in BOP. The majority has been incurred in 2018.

Divestments

Held for sale

On December 14, 2018, Zurich Insurance plc entered into an agreement with Catalina Holdings (Bermuda) Ltd and certain of its subsidiaries to transfer a portfolio of pre-2007 United Kingdom legacy employers' liability policies to Catalina London Limited, subject to regulatory and court approvals. The sale is expected to close in 2020. As of June 30, 2019, assets and liabilities reclassified to held for sale were USD 1.8 billion.

During the 12 months ended December 31, 2017, the Group entered into an agreement to sell a Life business in the UK. As of June 30, 2019, the related assets and liabilities held for sale were USD 27 billion.

As of June 30, 2019, the total assets and liabilities reclassified to held for sale were USD 28 billion.

UK workplace pensions and savings business

On April 3, 2018, Sterling ISA Managers Limited completed the sale of its Corporate Savings Platform together with the associated infrastructure, assets and business to LBG subsidiary, Scottish Widows Administration Services Limited. On July 1, 2019, the remaining business was transferred by Zurich Assurance Ltd to Scottish Widows Limited by a UK court process under Part VII of the Financial Services and Markets Act 2000.

Endsleigh Limited

On March 29, 2018, the Group completed the sale of the Endsleigh Limited group of companies to A-Plan Holdings. 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.

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

Net investment result on Group investments

Table 4.1

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	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Investment cash	4	2	–	–	4	2	–	–
Equity securities	261	255	540	391	801	646	(34)	(51)
Debt securities	2,012	2,039	506	(8)	2,518	2,031	–	–
Investment property[1]	238	255	46	58	283	313	–	–
Mortgage loans	82	96	–	–	83	97	–	–
Other loans	182	198	1	(3)	183	196	(7)	(5)
Investments in associates and joint ventures	1	1	–	–	–	1	–	–
Derivative financial instruments	–	–	(185)	(40)	(185)	(40)	–	–
Investment result, gross, on Group investments	2,780	2,848	907	398	3,687	3,246	(40)	(56)
Investment expenses on Group investments	(123)	(107)	–	–	(123)	(107)	–	–
Investment result, net, on Group investments	**2,657**	**2,741**	**907**	**398**	**3,564**	**3,139**	**(40)**	**(56)**

[1] Rental operating expenses for investment property amounted to USD 66 million and USD 39 for each of the six months ended June 30, 2019 and 2018.

Details of Group investments by category

Table 4.2

as of	06/30/19		12/31/18	
	USD millions	**% of total**	USD millions	% of total
Equity securities:				
Fair value through profit or loss	4,373	2.3	3,633	2.0
Available-for-sale	13,132	6.8	12,587	6.9
Total equity securities	17,505	9.1	16,220	8.9
Debt securities:				
Fair value through profit or loss	6,225	3.2	5,229	2.9
Available-for-sale	139,069	72.3	132,522	72.6
Held-to-maturity	2,119	1.1	2,118	1.2
Total debt securities	147,414	76.7	139,870	76.6
Investment property	12,540	6.5	12,351	6.8
Mortgage loans	6,441	3.4	6,556	3.6
Other loans	8,318	4.3	7,614	4.2
Investments in associates and joint ventures	36	0.0	36	0.0
Total Group investments[1]	**192,254**	**100.0**	**182,647**	**100.0**

[1] The 2019 Group investments include equity securities, debt securities and other loans related to the OnePath acquisition (see note 3).

Investments with a carrying value of USD 6.3 billion and USD 6.2 billion are held to meet local regulatory requirements as of June 30, 2019 and December 31, 2018, respectively.

Consolidated financial statements (continued)

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

Table 4.3

in USD millions, as of	06/30/19	Total 12/31/18
Equity securities: available-for-sale	1,255	137
Debt securities: available-for-sale	12,935	6,567
Other	513	164
Gross unrealized gains/(losses) on Group investments	14,703	6,868
Less amount of unrealized gains/(losses) on investments attributable to:		
Life policyholder dividends and other policyholder liabilities	(8,247)	(4,857)
Life deferred acquisition costs and present value of future profits	(833)	(490)
Deferred income taxes	(1,134)	(476)
Non-controlling interests	(93)	(33)
Total[1]	**4,395**	**1,012**

[1] Net unrealized gains/(losses) on Group investments include net gains arising on cash flow hedges of USD 446 million and USD 363 million as of June 30, 2019 and December 31, 2018, respectively.

Securities lending, repurchase and reverse repurchase agreements

Table 4.4

in USD millions, as of	06/30/19	12/31/18
Securities lending agreements		
Securities lent under securities lending agreements[1]	539	599
Collateral received for securities lending	622	676
of which: Cash collateral	34	47
of which: Non-cash collateral[2]	588	629
Liabilities for cash collateral received for securities lending	34	47
Repurchase agreements		
Securities sold under repurchase agreements[3]	886	1,318
Obligations to repurchase securities	885	1,316
Reverse repurchase agreements		
Securities purchased under reverse repurchase agreements[4]	35	48
Receivables under reverse repurchase agreements	34	47

[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 539 million and USD 599 million as of June 30, 2019 and December 31, 2018, 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 588 million and USD 629 million as of June 30, 2019 and December 31, 2018, 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 345 million and USD 609 million as of June 30, 2019 and December 31, 2018, 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, 2019 and December 31, 2018.

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.

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

Liabilities for insurance contracts

Table 5.1

in USD millions, as of	Gross		Ceded		Net	
	06/30/19	12/31/18	**06/30/19**	12/31/18	**06/30/19**	12/31/18
Reserves for losses and loss adjustment expenses[1]	60,248	60,913	(11,410)	(11,535)	48,838	49,378
Reserves for unearned premiums	19,292	16,714	(3,690)	(3,211)	15,602	13,503
Future life policyholder benefits	77,119	74,950	(3,864)	(3,110)	73,255	71,839
Policyholder contract deposits and other funds	27,341	24,266	(3,360)	(3,416)	23,982	20,850
Reserves for unit-linked insurance contracts	74,816	68,766	–	–	74,816	68,766
Other insurance liabilities	4,018	3,599	(1)	–	4,017	3,599
Total liabilities for insurance contracts[2,3]	**262,833**	**249,208**	**(22,324)**	**(21,273)**	**240,509**	**227,936**

[1] Includes on a net basis USD 2.8 billion of discounted reserves for losses and loss adjustment expenses as of June 30, 2019 and December 31, 2018.
[2] Includes USD 1.3 billion liabilities for insurance contracts from the OnePath acquisition (see note 3).
[3] Total liabilities for insurance contracts ceded are gross of allowances for uncollectible amounts of USD 68 million and USD 76 million as of June 30, 2019 and December 31, 2018, respectively.

Development of reserves for losses and loss adjustment expenses

Table 5.2

in USD millions	Gross		Ceded		Net	
	2019	2018	**2019**	2018	**2019**	2018
As of January 1	60,913	65,368	(11,535)	(11,070)	49,378	54,298
Losses and loss adjustment expenses incurred:						
Current year	10,168	11,151	(2,141)	(2,266)	8,027	8,884
Prior years	(285)	(725)	85	334	(200)	(390)
Total incurred	9,883	10,426	(2,055)	(1,932)	7,828	8,494
Losses and loss adjustment expenses paid:						
Current year	(2,446)	(2,613)	291	295	(2,155)	(2,318)
Prior years	(8,250)	(8,429)	1,924	1,677	(6,326)	(6,752)
Total paid	(10,696)	(11,042)	2,215	1,972	(8,481)	(9,071)
Interest effects of discounted reserves	51	67	(1)	(3)	49	65
Acquisitions/(divestments) and transfers[1]	152	(143)	(74)	(602)	78	(745)
Foreign currency translation effects	(56)	(903)	41	129	(15)	(774)
As of June 30	**60,248**	**63,772**	**(11,410)**	**(11,506)**	**48,838**	**52,267**

[1] The 2019 net movement is mainly related to the acquisition of a portfolio in QBE Colombia for USD 101 million. 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 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 540 million during the first six months of 2019 in net reserves for losses and loss adjustment expenses is mainly driven by a decrease in North America Commercial due to higher reinsurance cessions in Property and Liability. Net favorable reserves development from reserves established in prior years amounted to USD 200 million. The main reductions were in North America and Europe Middle East & Africa (EMEA). In addition, the Group entered into a retroactive reinsurance agreement for a UK portfolio which resulted in a decrease of USD 1.7 billion, as this portfolio was reclassified held for sale for USD 1.6 billion.

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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.

Development of future life policyholder benefits

Table 5.3

in USD millions	Gross		Ceded		Net	
	2019	2018	**2019**	2018	**2019**	2018
As of January 1	74,950	77,529	(3,110)	(3,201)	71,839	74,328
Premiums	6,652	7,203	(612)	(622)	6,040	6,581
Claims	(5,067)	(5,165)	481	486	(4,586)	(4,679)
Fee income and other expenses	(1,836)	(1,945)	106	164	(1,730)	(1,781)
Interest and bonuses credited to policyholders	1,127	902	(55)	(35)	1,072	867
Changes in assumptions	(2)	(1)	–	–	(2)	(1)
Acquisitions/(divestments) and transfers[1]	670	(17)	(672)	12	(2)	(5)
Increase/(decrease) recorded in other comprehensive income	534	(176)	–	–	534	(176)
Foreign currency translation effects	92	(2,013)	(1)	56	91	(1,957)
As of June 30	**77,119**	**76,317**	**(3,864)**	**(3,140)**	**73,255**	**73,177**

[1] The 2019 net movement is mainly related to the acquisition of OnePath (see note 3), the 2018 net movement is mainly related to the sale of a portfolio in Singapore.

Policyholder contract deposits and other funds gross

Table 5.4

in USD millions, as of	**06/30/19**	12/31/18
Universal life and other contracts	13,586	13,250
Policyholder dividends	13,755	11,016
Total	**27,341**	**24,266**

Development of policyholder contract deposits and other funds

Table 5.5

in USD millions	Gross		Ceded		Net	
	2019	2018	**2019**	2018	**2019**	2018
As of January 1	24,266	24,944	(3,416)	(3,533)	20,850	21,411
Premiums	601	534	(44)	(41)	557	493
Claims	(666)	(636)	157	161	(509)	(475)
Fee income and other expenses	(218)	(195)	2	1	(217)	(194)
Interest and bonuses credited to policyholders	624	673	(59)	(63)	565	611
Acquisitions/(divestments) and transfers[1]	244	–	–	–	244	–
Increase/(decrease) recorded in other comprehensive income	2,505	(359)	1	1	2,506	(358)
Foreign currency translation effects	(15)	(477)	1	–	(13)	(477)
As of June 30	**27,341**	**24,484**	**(3,360)**	**(3,474)**	**23,982**	**21,011**

[1] The 2019 movement relates to the acquisition of OnePath (see note 3).

6. Policyholder dividends and participation in profits

Policyholder dividends and participation in profits

Table 6

in USD millions, for the six months ended June 30	**2019**	2018
Change in policyholder contract deposits and other funds	470	560
Change in reserves for unit-linked insurance contracts	6,381	769
Change in liabilities for investment contracts – unit-linked	7,528	1,030
Change in liabilities for investment contracts – other	95	143
Change in unit-linked liabilities related to UK capital gains tax	(198)	(32)
Total policyholder dividends and participation in profits	**14,276**	**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	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
As of January 1	5,367	5,289	12,350	11,624	1,824	1,751	19,541	18,663
Acquisition costs deferred[2]	2,247	2,336	923	1,656	82	90	3,253	4,083
Amortization	(1,976)	(2,075)	(594)	(728)	(60)	(61)	(2,630)	(2,865)
Amortization (charged)/credited to other comprehensive income	–	–	(290)	59	(38)	26	(328)	85
Acquisitions/(divestments) and transfers[3]	4	8	(734)	–	4	(15)	(727)	(7)
Foreign currency translation effects	12	(125)	21	(358)	–	–	34	(484)
As of June 30	**5,654**	**5,432**	**11,677**	**12,252**	**1,812**	**1,791**	**19,142**	**19,475**

[1] Net of eliminations from inter-segment transactions.
[2] In May 2018, the Group entered into a quota share reinsurance agreement with OnePath and made an upfront commission payment of USD 754 million.
[3] The 2019 movement in Life is related to the elimination of the internal reinsurance agreement on consolidation of OnePath (see note 3). The 2018 Property & Casualty movement of USD 8 million is related to the sale of Endsleigh Limited 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	**2019**	2018
As of January 1	419	460
Origination costs deferred	27	27
Amortization	(38)	(36)
Foreign currency translation effects	(2)	(12)
As of June 30	**405**	**439**

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

Intangible assets – current period

Table 8.1

in USD millions	Attorney-in-fact contracts	Goodwill	PVFP	Distribution agreements	Software	Other	Total
Gross carrying value as of January 1, 2019	1,025	2,938	2,539	4,304	4,845	309	15,960
Less: accumulated amortization/ impairments	–	(276)	(2,041)	(1,578)	(3,682)	(109)	(7,687)
Net carrying value as of January 1, 2019	1,025	2,662	498	2,726	1,162	199	8,272
Additions and acquisitions	–	391	7	66	136	5	605
Divestments and transfers	–	–	–	(5)	(10)	–	(16)
Amortization[1]	–	–	(21)	(114)	(166)	(7)	(306)
Amortization charged to other comprehensive income	–	–	(21)	–	–	–	(21)
Impairments	–	–	–	–	–	–	–
Foreign currency translation effects	–	8	–	15	(1)	2	24
Net carrying value as of June 30, 2019	**1,025**	**3,061**	**463**	**2,688**	**1,122**	**200**	**8,558**
Plus: accumulated amortization/ impairments	–	275	2,080	1,691	3,774	111	7,931
Gross carrying value as of June 30, 2019	1,025	3,336	2,543	4,379	4,895	311	16,489

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

As of June 30, 2019, intangible assets related to non-controlling interests were USD 59 million for present value of future profits (PVFP) of acquired insurance contracts, USD 1 billion for distribution agreements, USD 8 million for software, USD 8 million for goodwill and USD 4 million for other intangible assets.

As a result of the acquisition of the OnePath goodwill increased by USD 385 million. The acquisition of QBE Colombia increased goodwill by USD 23 million (see note 3). As a result of the post-acquisition adjustments intangible assets decreased by USD 12 million, mainly due to goodwill reduction in EuroAmerica in Chile.

Intangible assets by business – current period

Table 8.2

in USD millions, as of June 30, 2019	Attorney-in-fact contracts	Goodwill	PVFP	Distribution agreements	Software	Other	Total
Property & Casualty	–	1,551	–	956	444	194	3,145
Life	–	639	409	1,732	261	6	3,047
Farmers	1,025	819	54	–	338	–	2,236
Group Functions and Operations	–	52	–	–	78	–	130
Net carrying value	**1,025**	**3,061**	**463**	**2,688**	**1,122**	**200**	**8,558**

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Intangible assets – prior period

Table 8.3

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 shareholders' equity	–	–	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 is related to goodwill and USD 25 million to software. The remaining minus USD 16 million relates to a post-acquisition adjustment of Cover-More.

Intangible assets by business – prior period

Table 8.4

in USD millions, as of December 31, 2018	Attorney-in-fact contracts	Goodwill	PVFP	Distribution agreements	Software	Other	Total
Property & Casualty	–	1,492	–	941	452	194	3,079
Life	–	271	434	1,748	284	1	2,737
Farmers	1,025	819	63	–	339	–	2,247
Group Functions and Operations	–	52	–	–	88	–	139
Net carrying value	**1,025**	**2,634**	**498**	**2,689**	**1,162**	**194**	**8,202**

9. Restructuring provisions

Restructuring provisions

Table 9

in USD millions	2019	2018
As of January 1	258	269
Provisions made during the period	17	37
Increase of provisions set up in prior years	17	19
Provisions used during the period	(91)	(92)
Provisions reversed during the period	(1)	(4)
Foreign currency translation effects	–	(4)
Other changes[1]	(64)	–
As of June 30	**136**	**225**

[1] Other changes relate to the adjustment of right-of-use assets following the implementation of IFRS 16 'Leases'

During the six months ended June 30, 2019 the Group incurred total restructuring costs of USD 56 million, of which USD 33 million is due to net increases in restructuring provisions, affecting mainly Property & Casualty in Europe, Middle East & Africa (EMEA), North America and Life EMEA.

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.

Consolidated financial statements (continued)

10. Income taxes

Income tax expense – current/deferred split

Table 10.1

in USD millions, for the six months ended June 30	**2019**	2018
Current	840	788
Deferred	133	(66)
Total income tax expense/(benefit)	**973**	**723**

Expected and actual income tax expense

Table 10.2

in USD millions, for the six months ended June 30	**Rate**	**2019**	Rate	2018
Net income before income taxes		3,132		2,646
less: income tax (expense)/benefit attributable to policyholders		(258)		(18)
Net income before income taxes attributable to shareholders		2,875		2,628
Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	21.0%	604	22.0%	578
Increase/(reduction) in taxes resulting from:				
Tax rate differential in foreign jurisdictions		(60)		(20)
Tax exempt and lower taxed income		(55)		(66)
Non-deductible expenses		68		68
Tax losses not recognized		7		68
Prior year adjustments and other		152		76
Actual income tax expense attributable to shareholders	**24.9%**	**715**	**26.8%**	**704**
plus: income tax expense/(benefit) attributable to policyholders		258		18
Actual income tax expense	31.1%	973	27.3%	723

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, which is the rate applicable in the jurisdiction where the ultimate parent company is resident. Following recent changes in the Swiss tax legislation, the applicable Swiss statutory tax rate has been revised to 21.0 percent for 2019 from 22.0 percent in 2018.

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.

11. Senior and subordinated debt

Senior and subordinated debt

Table 11

in USD millions, as of		06/30/19	12/31/18
Senior debt			
Zurich Insurance Company Ltd	1.500% CHF 400 million notes, due June 2019[1,2]	–	409
	1.125% CHF 400 million notes, due September 2019[1,2]	411	411
	0.625% CHF 250 million notes, due July 2020[1,2]	260	258
	2.875% CHF 250 million notes, due July 2021[1]	255	253
	3.375% EUR 500 million notes, due June 2022[1,2,3]	590	598
	1.875% CHF 100 million notes, due September 2023[1,2]	112	110
	1.750% EUR 500 million notes, due September 2024[1,2,3]	586	583
	0.500% CHF 350 million notes, due December 2024[1]	359	356
	0.510% CHF 120 million loan, due December 2024	123	122
	1.500% CHF 150 million notes, due July 2026[1,2]	172	165
	0.750% CHF 200 million notes, due October 2027[1]	205	–
	1.000% CHF 200 million notes, due October 2028[1]	205	204
	1.500% EUR 500 million notes, due December 2028[1,3]	564	568
Zurich Holding Comp. of America Inc	Euro commercial paper notes, due in less than 12 months	399	399
Zurich Finance (Australia) Limited	Floating rate AUD 241 million loan due July 2020	169	170
	3.271% AUD 200 million loan due May 2023	140	141
	3.477% AUD 350 million notes, due May 2023[1]	245	246
	4.500% AUD 250 million notes, due July 2038[1]	175	176
Zurich Finance (Ireland) DAC	1.625% EUR 500 million notes, due June 2039[1,3]	567	–
Other	Various debt instruments	97	69
Senior debt		5,635	5,237
Subordinated debt			
Zurich Insurance Company Ltd	7.500% EUR 425 million notes, due July 2039, first callable July 2019[1,3]	484	486
	2.750% CHF 225 million perpetual capital notes, first callable June 2021[1]	230	228
	2.750% CHF 200 million perpetual capital notes, first callable September 2021[1,2]	211	209
	4.750% USD 1 billion perpetual capital notes, first callable January 2022[1,3]	996	996
	4.250% EUR 1 billion notes, due October 2043, first callable October 2023[1,3]	1,132	1,138
	4.250% 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[1,3]	997	997
	3.500% EUR 750 million notes, due October 2046, first callable October 2026[1,2,3]	867	855
	5.125% USD 500 million notes, due June 2048, first callable June 2028[1,3]	498	498
	4.875% USD 500 million notes, due October 2048, first callable October 2028[1,3]	498	498
	2.750% EUR 500 million notes, due February 2049, first callable February 2029[1,3]	563	–
Zurich Finance (UK) plc	6.625% GBP 450 million perpetual notes, first callable October 2022[1]	569	570
Subordinated debt		7,344	6,775
Total senior and subordinated debt		**12,979**	**12,012**

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, 2019 or December 31, 2018.

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.

Quantifiable commitments and contingencies

Table 12

in USD millions, as of	**06/30/2019**	12/31/2018
Remaining commitments under investment agreements	1,990	2,283
Guarantees and letters of credit[1]	954	2,083
Future operating lease commitments[2]	–	2,149
Undrawn loan commitments	2	2
Other commitments and contingent liabilities[3]	1,002	2,346

[1] Guarantee features embedded in life insurance products are not included.
[2] Movement driven by the implementation of IFRS 16 'Leases'.
[3] Movement is related to the acquisition of OnePath in May 2019 (see note 3).

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 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.

On April 25, 2019, the DOJ announced that Zurich Life Insurance Company Ltd (ZLIC) and Zurich International Life Limited (ZILL) entered into a non-prosecution agreement (NPA) with the DOJ, which memorializes the DOJ's decision not to prosecute these entities for any U.S. tax-related offenses in connection with legacy cross-border sales to U.S. persons. Under the terms of the NPA, ZLIC and ZILL have agreed to pay USD 5 million to the U.S. Treasury and to comply with certain specified conditions during the four-year term of the NPA.

This resolution has not had and will not have an adverse effect on the Group's business or 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.

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 2018.

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	
	06/30/2019	12/31/2018	**06/30/2019**	12/31/2018
Available-for-sale securities				
Equity securities	13,132	12,587	13,132	12,587
Debt securities	139,069	132,522	139,069	132,522
Total available-for-sale securities	152,202	145,110	152,202	145,110
Fair value through profit or loss securities				
Equity securities	4,373	3,633	4,373	3,633
Debt securities	6,225	5,229	6,225	5,229
Total fair value through profit or loss securities	10,598	8,862	10,598	8,862
Derivative assets	1,230	899	1,230	899
Held-to-maturity debt securities	2,749	2,655	2,119	2,118
Mortgage loans	6,942	6,935	6,441	6,556
Other loans	10,057	9,123	8,318	7,614
Total financial assets[1]	**183,779**	**173,583**	**180,908**	**171,158**
Derivative liabilities	(436)	(325)	(436)	(325)
Financial liabilities held at amortized cost				
Liabilities related to investment contracts	(1,069)	(606)	(941)	(504)
Senior debt	(5,886)	(5,329)	(5,635)	(5,237)
Subordinated debt	(7,943)	(6,722)	(7,344)	(6,775)
Total financial liabilities held at amortized cost	(14,897)	(12,658)	(13,920)	(12,516)
Total financial liabilities[1]	**(15,333)**	**(12,983)**	**(14,356)**	**(12,842)**

[1] 2019 includes equity securities, debt securities, other loans and liabilities due to investment contracts related to the OnePath acquisition (see note 3).

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, 2019	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Equity securities	9,207	2,594	1,331	13,132
Debt securities	–	131,454	7,616	139,069
Total available-for-sale securities	9,207	134,048	8,946	152,202
Fair value through profit or loss securities				
Equity securities	1,417	629	2,327	4,373
Debt securities	–	6,142	83	6,225
Total fair value through profit or loss securities	1,417	6,771	2,409	10,598
Derivative assets	1	1,122	107	1,230
Total	**10,626**	**141,941**	**11,463**	**164,030**
Derivative liabilities	(5)	(399)	(31)	(436)
Total	**(5)**	**(399)**	**(31)**	**(436)**

For the six months ended June 30, 2019, 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, 2018	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Equity securities	8,854	2,515	1,219	12,587
Debt securities	–	124,963	7,559	132,522
Total available-for-sale securities	8,854	127,478	8,778	145,110
Fair value through profit or loss securities				
Equity securities	1,409	25	2,198	3,633
Debt securities	–	5,151	78	5,229
Total fair value through profit or loss securities	1,409	5,176	2,276	8,862
Derivative assets	10	810	79	899
Total	**10,273**	**133,464**	**11,133**	**154,870**
Derivative liabilities	(2)	(288)	(35)	(325)
Total	**(2)**	**(288)**	**(35)**	**(325)**

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			
	Equity securities	Debt securities	Equity securities	Debt securities	Derivative assets	Derivative liabilities
As of January 1, 2019	1,219	7,559	2,198	78	79	(35)
Realized gains/(losses) recognized in income[1]	40	7	5	–	–	–
Unrealized gains/(losses) recognized in income[1,2]	(7)	(10)	159	2	(13)	(11)
Unrealized gains/(losses) recognized in other comprehensive income	30	234	–	–	34	20
Purchases	148	656	123	4	7	(4)
Settlements/sales/redemptions	(98)	(407)	(165)	(1)	–	–
Transfers into level 3	–	39	–	–	–	–
Transfers out of level 3	(3)	(457)	–	–	–	–
Foreign currency translation effects	3	(6)	6	–	–	–
As of June 30, 2019	**1,331**	**7,616**	**2,327**	**83**	**107**	**(31)**

[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, 2019, the Group transferred USD 457 million of available-for-sale debt securities out of level 3 into level 2 and USD 39 million out of level 2 into level 3. The transfers were mainly driven by a pricing provider change for a significant portfolio of syndicated loans receiving market quotes on a regular basis as a result of orderly market transactions.

Consolidated financial statements (continued)

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

Table 13.3b

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, 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.

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 'Operating Segments' 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, management, and ancillary 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 in Europe.

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, certain business combination integration costs and impairments of goodwill are also excluded from BOP.

In 2019 the Group amended its BOP policy to exclude the monetary gains and losses resulting from the application of IAS 29 'Financial Reporting in Hyperinflationary Economies'. The policy change was implemented with prospective effect, as the impact on comparable balances was not material to the Group's financial results.

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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	
	2019	2018	**2019**	2018
Revenues				
Direct written premiums	7,247	7,660	7,757	7,598
Assumed written premiums	1,019	916	432	429
Gross written premiums and policy fees	8,265	8,576	8,189	8,027
Less premiums ceded to reinsurers	(1,485)	(1,289)	(2,989)	(2,716)
Net written premiums and policy fees	6,781	7,287	5,200	5,311
Net change in reserves for unearned premiums	(1,110)	(1,184)	(744)	(431)
Net earned premiums and policy fees	5,671	6,103	4,456	4,881
Net investment income on Group investments	291	334	542	492
Net capital gains/(losses) and impairments on Group investments	26	14	136	30
Net investment result on Group investments	317	348	677	522
Other income	138	117	39	13
Total BOP revenues	6,125	6,568	5,172	5,416
Benefits, losses and expenses				
Insurance benefits and losses, net	3,552	3,999	2,902	3,332
Policyholder dividends and participation in profits, net	(6)	4	4	4
Underwriting and policy acquisition costs, net	1,098	1,114	1,145	1,149
Administrative and other operating expense (excl. depreciation/amortization)	684	822	88	249
Interest credited to policyholders and other interest	81	97	32	18
Restructuring costs and other items not included in BOP	(25)	(33)	(11)	(16)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	5,383	6,003	4,160	4,736
Business operating profit (before interest, depreciation and amortization)	**743**	**565**	**1,013**	**679**
Depreciation and impairments of property and equipment	37	17	31	12
Amortization and impairments of intangible assets	28	33	19	32
Interest expense on debt	10	8	–	–
Business operating profit before non-controlling interests	668	508	963	635
Non-controlling interests	3	10	–	–
Business operating profit	**664**	**498**	**963**	**635**

Asia Pacific		Latin America		Group Reinsurance		Eliminations		Total	
2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
1,408	1,294	1,417	1,273	–	–	–	–	17,830	17,825
82	98	36	33	343	196	(1,187)	(955)	725	718
1,491	1,392	1,454	1,307	343	196	(1,187)	(955)	18,555	18,543
(251)	(235)	(299)	(238)	(266)	(240)	1,187	955	(4,104)	(3,764)
1,240	1,157	1,155	1,069	77	(45)	–	–	14,451	14,779
(49)	(87)	(42)	(51)	(124)	15	–	–	(2,069)	(1,738)
1,191	1,070	1,112	1,018	(47)	(30)	–	–	12,382	13,041
36	33	90	80	9	8	–	–	967	946
–	–	–	–	–	–	–	–	162	45
36	33	90	80	9	8	–	–	1,129	991
81	57	23	13	22	37	–	–	303	237
1,307	1,159	1,225	1,110	(15)	15	–	–	13,814	14,268
654	602	451	449	175	95	–	–	7,734	8,477
–	–	–	1	–	–	–	–	(3)	9
281	278	467	445	4	3	–	–	2,995	2,989
232	194	173	101	(6)	24	–	–	1,171	1,390
3	1	1	–	(1)	(2)	–	–	115	115
(2)	(3)	(35)	(5)	–	–	–	–	(74)	(57)
1,167	1,072	1,057	991	172	120	–	–	11,938	12,923
140	**87**	**168**	**119**	**(187)**	**(105)**	**–**	**–**	**1,876**	**1,345**
17	7	7	3	1	2	–	–	93	39
9	6	6	4	–	–	–	–	62	75
–	–	1	–	10	24	–	–	20	33
114	74	155	112	(198)	(131)	–	–	1,701	1,198
1	–	41	52	–	(1)	–	–	45	61
113	**74**	**114**	**60**	**(198)**	**(130)**	**–**	**–**	**1,656**	**1,137**

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	
	2019	2018	**2019**	2018
Revenues				
Life insurance deposits	8,585	7,640	373	322
Gross written premiums	4,070	4,880	60	39
Policy fees	781	864	149	130
Gross written premiums and policy fees	4,851	5,744	209	169
Net earned premiums and policy fees	4,462	5,327	202	160
Net investment income on Group investments	1,203	1,301	17	11
Net capital gains/(losses) and impairments on Group investments	291	348	8	–
Net investment result on Group investments	1,494	1,649	25	11
Net investment income on unit-linked investments	684	695	–	–
Net capital gains/(losses) and impairments on unit-linked investments	11,435	618	462	(92)
Net investment result on unit-linked investments	12,120	1,313	462	(92)
Other income	191	221	20	17
Total BOP revenues	18,267	8,509	710	97
Benefits, losses and expenses				
Insurance benefits and losses, net	3,851	4,654	152	116
Policyholder dividends and participation in profits, net	12,503	1,997	462	(91)
Income tax expense/(benefit) attributable to policyholders	240	21	–	–
Underwriting and policy acquisition costs, net	402	520	55	43
Administrative and other operating expense (excl. depreciation/amortization)	613	599	25	31
Interest credited to policyholders and other interest	111	130	21	10
Restructuring costs and other items not included in BOP	(49)	(23)	–	–
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	17,671	7,900	716	109
Business operating profit (before interest, depreciation and amortization)	**595**	**609**	**(6)**	**(12)**
Depreciation and impairments of property and equipment	18	6	–	–
Amortization and impairments of intangible assets	43	50	–	5
Interest expense on debt	1	3	–	–
Business operating profit before non-controlling interests	534	550	(6)	(17)
Non-controlling interests	27	25	–	–
Business operating profit	**507**	**524**	**(6)**	**(17)**

Life includes approximately USD 875 million and USD 1.5 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, 2019 and 2018, respectively.

Asia Pacific		Latin America		Group Reinsurance		Eliminations		Total	
2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
52	59	1,726	964	–	–	–	–	10,736	8,985
685	563	1,527	1,421	20	13	(23)	(19)	6,340	6,899
73	70	22	17	–	–	–	–	1,025	1,082
758	633	1,550	1,438	20	13	(23)	(19)	7,365	7,980
668	547	1,303	1,247	9	4	–	–	6,645	7,285
73	72	192	193	–	–	(1)	(1)	1,484	1,575
54	(19)	22	(2)	–	–	–	–	376	328
127	53	215	191	–	–	(1)	(1)	1,860	1,903
42	78	24	9	–	–	–	–	751	782
100	(72)	597	451	–	–	–	–	12,594	906
143	6	621	460	–	–	–	–	13,345	1,688
15	11	37	30	–	–	(1)	–	263	280
954	618	2,176	1,929	9	4	(2)	(2)	22,114	11,156
398	225	647	557	5	2	–	–	5,053	5,554
161	18	612	459	–	–	–	–	13,738	2,383
18	(3)	–	–	–	–	–	–	258	18
102	105	554	535	4	1	(1)	–	1,116	1,204
197	160	141	75	–	–	–	–	976	866
18	18	13	7	–	–	–	–	163	165
(28)	7	(43)	1	–	–	–	–	(119)	(15)
865	530	1,924	1,634	9	2	(1)	–	21,185	10,175
89	**88**	**252**	**295**	**–**	**2**	**(1)**	**(1)**	**929**	**981**
4	1	4	2	–	–	–	–	26	8
6	6	7	5	–	–	–	–	56	67
8	4	–	–	–	–	(1)	(1)	9	6
71	76	240	288	–	2	–	–	838	899
(1)	(1)	111	115	–	–	–	–	137	139
71	**78**	**130**	**173**	**–**	**2**	**–**	**–**	**701**	**760**

Consolidated financial statements (continued)

Table 14.3

Business operating profit by business

in USD millions, for the six months ended June 30

	Property & Casualty		Life	
	2019	2018	**2019**	2018
Revenues				
Direct written premiums	17,830	17,825	6,100	6,765
Assumed written premiums	725	718	239	134
Gross Written Premiums	18,555	18,543	6,340	6,899
Policy fees	–	–	1,025	1,082
Gross written premiums and policy fees	18,555	18,543	7,365	7,980
Less premiums ceded to reinsurers	(4,104)	(3,764)	(535)	(548)
Net written premiums and policy fees	14,451	14,779	6,830	7,433
Net change in reserves for unearned premiums	(2,069)	(1,738)	(184)	(147)
Net earned premiums and policy fees	12,382	13,041	6,645	7,285
Farmers management fees and other related revenues	–	–	–	–
Net investment income on Group investments	967	946	1,484	1,575
Net capital gains/(losses) and impairments on Group investments	162	45	376	328
Net investment result on Group investments	1,129	991	1,860	1,903
Net investment result on unit-linked investments	–	–	13,345	1,688
Other income	303	237	263	280
Total BOP revenues	13,814	14,268	22,114	11,156
of which: inter-business revenues	(131)	(76)	(69)	(71)
Benefits, losses and expenses				
Losses and loss adjustment expenses, net	7,734	8,477	–	–
Life insurance death and other benefits, net	–	–	5,053	5,554
Insurance benefits and losses, net	7,734	8,477	5,053	5,554
Policyholder dividends and participation in profits, net	(3)	9	13,738	2,383
Income tax expense/(benefit) attributable to policyholders	–	–	258	18
Underwriting and policy acquisition costs, net	2,995	2,989	1,116	1,204
Administrative and other operating expense (excl. depreciation/amortization)	1,171	1,390	976	866
Interest credited to policyholders and other interest	115	115	163	165
Restructuring costs and other items not included in BOP	(74)	(57)	(119)	(15)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	11,938	12,923	21,185	10,175
Business operating profit (before interest, depreciation and amortization)	**1,876**	**1,345**	**929**	**981**
Depreciation and impairments of property and equipment	93	39	26	8
Amortization and impairments of intangible assets	62	75	56	67
Interest expense on debt	20	33	9	6
Business operating profit before non-controlling interests	1,701	1,198	838	899
Non-controlling interests	45	61	137	139
Business operating profit	**1,656**	**1,137**	**701**	**760**

Life includes approximately USD 875 million and USD 1.5 billion of gross written premiums and future life policyholder benefits for certain universal life-type contracts in the Group's Spanish operations for six months ended June 30, 2019 and 2018, respectively.

Farmers		Group Functions and Operations		Non-Core Businesses		Eliminations		Total	
2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
295	288	–	–	30	19	–	–	24,255	24,896
99	97	–	1	97	33	(76)	(10)	1,084	974
393	385	–	1	127	52	(76)	(10)	25,339	25,870
162	159	–	–	10	17	–	–	1,198	1,258
555	544	–	1	137	69	(76)	(10)	26,536	27,127
(88)	(89)	–	–	(136)	(7)	76	10	(4,786)	(4,398)
468	455	–	1	1	62	–	–	21,750	22,729
(1)	(1)	–	2	15	3	–	–	(2,239)	(1,882)
467	454	–	3	17	65	–	–	19,511	20,848
1,868	1,586	–	–	–	–	–	–	1,868	1,586
103	105	101	103	95	114	(94)	(102)	2,657	2,741
2	–	–	–	120	(133)	–	–	660	239
105	105	101	103	215	(19)	(94)	(102)	3,317	2,980
122	16	–	–	408	49	–	–	13,875	1,753
64	46	116	120	24	18	(205)	(223)	565	478
2,626	2,207	217	226	664	114	(299)	(325)	39,136	27,645
(21)	(24)	(132)	(144)	55	(10)	299	325	–	–
71	62	–	(1)	23	(44)	–	–	7,828	8,494
202	222	–	–	188	(15)	–	–	5,443	5,761
272	284	–	(1)	212	(60)	–	–	13,271	14,255
127	21	–	–	415	56	–	–	14,276	2,468
–	–	–	–	–	–	–	–	258	18
77	84	–	1	10	5	–	–	4,198	4,282
1,142	897	147	162	36	29	6	6	3,477	3,349
55	47	75	66	17	24	(143)	(144)	282	274
(8)	(23)	17	(19)	(1)	–	–	–	(184)	(113)
1,665	1,311	239	209	688	54	(137)	(138)	35,579	24,534
961	**896**	**(22)**	**17**	**(24)**	**59**	**(162)**	**(187)**	**3,558**	**3,111**
35	20	5	4	–	–	–	–	159	71
61	68	16	12	–	–	–	–	194	223
–	–	328	335	13	8	(162)	(187)	208	195
866	808	(371)	(334)	(37)	51	–	–	2,998	2,622
–	–	–	–	–	–	–	–	182	200
866	**808**	**(371)**	**(334)**	**(37)**	**51**	**–**	**–**	**2,815**	**2,422**

Consolidated financial statements (continued)

Reconciliation of BOP to net income after income taxes

Table 14.4

in USD millions, for the six months ended June 30

	Property & Casualty		Life	
	2019	2018	**2019**	2018
Business operating profit	**1,656**	**1,137**	**701**	**760**
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	170	133	57	23
Net gains/(losses) on divestment of businesses[1]	(196)	(19)	10	(5)
Restructuring costs	(26)	(47)	(25)	(23)
Other adjustments	(48)	(9)	(95)	8
Add back:				
Business operating profit attributable to non-controlling interests	45	61	137	139
Net income before shareholders' taxes	1,602	1,255	786	901
Income tax expense/(benefit) attributable to policyholders	–	–	258	18
Net income before income taxes	**1,602**	**1,255**	**1,044**	**920**
Income tax (expense)/benefit				
attributable to policyholders				
attributable to shareholders				
Net income after taxes				
attributable to non-controlling interests				
attributable to shareholders				

[1] In 2019, Property & Casualty included losses of USD 217 million related to the sale of the Venezuelan operations offset by gains of USD 21 million related to the sale of ADAC Autoversicherung AG (see note 3). 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	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	866	**808**	**(371)**	**(334)**	**(37)**	**51**	**2,815**	**2,422**
	5	–	(45)	(12)	60	16	247	159
	–	–	–	–	–	(16)	(186)	(40)
	(3)	(21)	(3)	(10)	(1)	–	(56)	(102)
	(5)	(2)	20	(8)	–	–	(128)	(11)
	–	–	–	–	–	–	182	200
	863	785	(399)	(365)	23	51	2,875	2,628
	–	–	–	–	–	–	258	18
	863	**785**	**(399)**	**(365)**	**23**	**51**	**3,132**	**2,646**
							(973)	(723)
							(258)	(18)
							(715)	(704)
							2,159	**1,924**
							118	133
							2,041	1,791

Consolidated financial statements (continued)

Property & Casualty – Commercial and Retail Insurance overview[1]

Table 14.5

in USD millions, for the six months ended June 30	Commercial Insurance		Retail and Other Insurance	
	2019	2018	**2019**	2018
Gross written premiums and policy fees	8,586	8,209	10,819	11,099
Net earned premiums and policy fees	4,868	5,279	7,562	7,792
Insurance benefits and losses, net	3,389	3,947	4,170	4,435
Policyholder dividends and participation in profits, net	(5)	6	2	3
Total net technical expenses	1,279	1,396	2,820	2,888
Net underwriting result	205	(71)	570	466
Net investment income	617	568	341	370
Net capital gains/(losses) and impairments on investments	128	33	33	11
Net non-technical result (excl. items not included in BOP)	2	(51)	3	1
Business operating profit before non-controlling interests	952	480	947	849
Non-controlling interest	2	9	43	53
Business operating profit	**951**	**471**	**904**	**796**

[1] Commercial and Retail Insurance overview exclude Group Reinsurance

15. Events after the balance sheet date

On July 24, 2019, the Group exercised its option to redeem EUR 425 million of subordinated notes issued in 2009 by Zurich Insurance Company Ltd.

Review report of the auditors

Review report

to the Board of Directors on the unaudited consolidated financial statements of Zurich Insurance Group Ltd Zurich

Introduction
We have reviewed the unaudited consolidated financial statements of Zurich Insurance Group Ltd and its subsidiaries, which comprise the consolidated balance sheets as of June 30, 2019, and the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of cash flows, consolidated statements of changes in equity and notes on pages 12 to 47. 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

Alex Finn　　　　Mark Humphreys

Zurich, August 7, 2019

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, management, and ancillary 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.

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