

Half Year Report 2018

Report for the six months to June 30, 2018



About Zurich

Zurich Insurance Group (Zurich) is a leading multi-line insurer that serves its customers in global and local markets. With about 53,000 employees, it provides a wide range of property and casualty, and life insurance products and services in more than 210 countries and territories. Zurich's customers include individuals, small businesses, and mid-sized and large companies, as well as multinational corporations. The Group is headquartered in Zurich, Switzerland, where it was founded in 1872.

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Message from the Chairman and Group CEO

Dear Shareholder,

We are pleased to present you with another strong set of results for the first six months of 2018. Financial performance across all businesses was strong. We grew where we wanted to grow, both organically and through targeted acquisitions. And we launched new, innovative services that are redefining how our customers experience and perceive us. Together, these achievements demonstrate the progress we are making in actively reshaping our business, and give us confidence in our ability to deliver on the targets we have set for 2017 to 2019.

Business operating profit¹ for the six months ended June 30, 2018 was USD 2.4 billion, up 12 percent from the same period in 2017. This strong result was driven by improved underwriting and reduced expenses in the Property & Casualty business, continued growth in Life, improvements in customer satisfaction and retention in Farmers Exchanges,² and a solid investment result in a challenging market. These favorable factors more than offset costs related to reshaping our business.

Net income after tax attributable to shareholders (NIAS) increased by 19 percent to USD 1.8 billion, reflecting both the increase in business operating profit and a lower tax rate following reforms in the U.S.

In line with the Group's anti-dilution policy, during the first half of 2018 we completed the repurchase of shares in the amount of USD 925 million. Including the increased annual dividend paid in April, the Group returned approximately USD 3.7 billion of capital to shareholders over the first half of the year.



Michel M. Liès



Mario Greco

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

² Zurich Insurance Group has no ownership interest in the Farmers Exchanges. Farmers Group, Inc., a wholly owned subsidiary of the Group, provides certain non-claims administrative and management services to the Farmers Exchanges as its attorney-in-fact and receives fees for its services. Farmers Exchanges results are provided for informational purposes only.

Continued progress in achieving our targets

Based on the strength of these results, we are well-positioned to achieve our 2017 to 2019 targets. As of June 30, 2018, we reached cumulative cost savings of approximately USD 900 million toward our target of USD 1.5 billion by the end of 2019. Cash remittances are consistent with our goal to achieve in excess of USD 9.5 billion over the three years. The estimated Zurich Economic Capital Model ratio is above our 100- to 120-percent target range at a very strong 134 percent.³ And our business operating profit after tax return on equity was 12.3 percent, in line with our target of in excess of 12 percent and growing over the three-year period.

Strength across all businesses

Property & Casualty business operating profit increased in Europe, Middle East & Africa (EMEA), and in North America where we continue to reshape the portfolio for sustained profitability. The increase was driven by improved underlying performance, lower expenses due to the Group's cost reductions and the absence of charges related to the Ogden discount rate change in the UK in 2017. These improvements were partially offset by lower realized capital gains together with less favorable foreign exchange developments and higher charges related to the Group's restructuring recognized in business operating profit.

Life performed strongly across all measures, achieving higher business operating profit and continuing its steady growth trend. EMEA benefited from portfolio growth and reduced expenses, while Latin America also saw strong portfolio growth, as well as improved margins in corporate protection. Annual premium equivalent increased when adjusted for foreign exchange developments and the sale of the Group's workplace savings business in the UK. New business value and the new business margin increased.

Farmers' business operating profit rose, primarily driven by Farmers Re, where business operating profit increased due to improved underwriting results despite lower gross written premiums following the reduction in the All Lines quota share agreement with the Farmers Exchanges from eight percent to one percent effective December 31, 2017. Farmers Management Services' result was supported by growth at the Farmers Exchanges, which benefited

from rate increases and improved customer satisfaction reflected in net promoter scores and retention rates.

Acquisitions in key markets

We continue to seek opportunities to grow in core markets. The Group further strengthened its position as one of the leading insurance groups in Latin America by announcing the acquisition of Australian insurer QBE's Latin American business, which will make us the leading insurer in Argentina. We also announced the acquisition of the life insurance and long-term savings operations of EuroAmerica in Chile to position Zurich as a leading provider in one of Latin America's fastest-growing economies. We also expanded the global franchise capabilities of our Cover-More operations with the acquisition of Travel Ace and Universal Assistance in Latin America and, in July, by announcing the acquisition of Blue Insurance in Europe. These actions solidify Cover-More's ranking as a top-three travel insurance and assistance provider, and position it for global growth.

Digital solutions that benefit customers

We also continue to invest in innovation capabilities that support our customer-focused strategy. In the first six months of 2018, we launched Zurich Insurance Mobile Solutions (ZIMS), which will develop and deploy mobile solutions for customers across the Group. We also took a minority stake in CoverWallet, with which we have a European-wide agreement to develop digital solutions for small and medium-sized companies, and have already launched a service in Spain.

We are adding new services to benefit our customers, including in the UK where we launched a 'chatbot' service that lets customers submitting claims digitally converse with us, around the clock, every day of the year, which so far has helped to resolve about 1,500 claims. We are using an Apple-designed portal to improve agent and customer interactions. We have introduced on-demand motorcycle insurance that can be activated via a mobile phone, and we're targeting millennial customers through 'Klinc,' a digital platform tailored to their lifestyles. For commercial customers we have provided a new interface allowing them to directly access our systems. And in the U.S. we introduced a digital processing capability for farmers that significantly speeds up claims filing.

Creating value for society

As an insurer, we take an active role in addressing issues that have an impact on society. Floods are of particular concern, affecting more people globally than any other type of natural hazard. With that in mind, in July 2018 we announced that we are extending our award-winning flood resilience program by another five years, and we will work within our alliance to generate USD 1 billion in third-party funding for flood resilience.

Appointments

In April 2018 we announced that Gary Shaughnessy will step down from his role as Chief Executive Officer EMEA and as a member of Zurich's Executive Committee. His decision followed a diagnosis several years ago of Parkinson's disease. We are pleased that Gary will continue to serve Zurich, including as a member of various European subsidiary boards and as Chairman of the Z Zurich Foundation.

To succeed him as CEO EMEA and as a member of the Zurich Executive Committee, Amanda Blanc will join Zurich later this year. Amanda, who has extensive knowledge of insurance and customers, most recently served as group chief executive of AXA UK & Ireland.

We look forward to keeping you informed about our progress in the future. Thank you for your support.

Yours sincerely,



Michel M. Liès
Chairman of the
Board of Directors

Mario Greco
Group Chief
Executive Officer

³ Reflects midpoint estimate as of June 30, 2018 with an error margin of +/-5 pts.

Operating and financial review

The operating and financial review is the management analysis of the business performance of Zurich Insurance Group Ltd and its subsidiaries (collectively the Group) for the six months ended June 30, 2018, compared with the same period of 2017.

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The information contained within the operating and financial review is unaudited and is based on the consolidated results of the Group for the six months ended June 30, 2018 and 2017. All amounts are shown in U.S. dollars and rounded to the nearest million unless otherwise stated, with the consequence that the rounded amounts may not always add up to the rounded total. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts. This document should be read in conjunction with the annual results 2017 of the Group and, in particular, with its consolidated financial statements and embedded value report for the year ended December 31, 2017.

In addition to the figures stated in accordance with International Financial Reporting Standards (IFRS), the Group uses business operating profit (BOP), new business metrics and other performance indicators to enhance the understanding of its results. Details of these additional measures are set out in the separately published glossary. These should be viewed as complementary to, and not as substitutes for the IFRS figures. For a reconciliation of BOP to net income attributable to shareholders (NIAS), see note 14 (table 14.4) of the unaudited consolidated financial statements for the six months ended June 30, 2018.

Certain comparatives have been revised as a result of reclassifications and other adjustments. For details refer to note 1 of the unaudited consolidated financial statements for the six months ended June 30, 2018.

Financial highlights

in USD millions, for the six months ended June 30, unless otherwise stated	2018	2017	Change ¹
Business operating profit	2,422	2,167	12%
Net income attributable to shareholders	1,791	1,503	19%
P&C business operating profit	1,137	1,020	11%
P&C gross written premiums and policy fees	18,543	18,005	3%
P&C combined ratio	97.5%	99.5%	2.0 pts
Life business operating profit	760	650	17%
Life gross written premiums, policy fees and insurance deposit	16,966	14,361	18%
Life new business annual premium equivalent (APE) ²	2,291	2,275	1%
Life new business margin, after tax (as % of APE) ²	26.4%	25.3%	1.0 pts
Life new business value, after tax ²	522	503	4%
Farmers business operating profit	808	794	2%
Farmers Management Services management fees and other related revenues	1,445	1,438	–
Farmers Management Services managed gross earned premium margin	7.0%	7.0%	0.0 pts
Farmers Re gross written premiums and policy fees	97	772	(87%)
Farmers Life new business annual premium equivalent (APE) ²	45	46	(3%)
Average Group investments ³	192,606	187,372	3%
Net investment result on Group investments	3,139	3,091	2%
Net investment return on Group investments ⁴	1.6%	1.6%	(0.0 pts)
Total return on Group investments ⁴	0.2%	1.7%	(1.5 pts)
Shareholders' equity ⁵	29,729	33,062	(10%)
Z-ECM ⁶	134%	132%	2.0 pts
Return on common shareholders' equity (ROE) ⁷	12.5%	11.3%	1.2 pts
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE) ⁷	12.3%	11.0%	1.3 pts

¹ Parentheses around numbers represent an adverse variance.

² Details of the principles for calculating new business are included in the embedded value report in the Annual Report 2017. New business value and new business margin are calculated after the effect of non-controlling interests, whereas APE is presented before non-controlling interests.

³ Including investment cash.

⁴ Calculated on average Group investments.

⁵ As of June 30, 2018 and December 31, 2017, respectively.

⁶ Ratios as of June 30, 2018 and December 31, 2017, respectively. Ratio for June 30, 2018 reflects midpoint estimate with an error margin of +/- 5 pts.

⁷ Shareholders' equity used to determine ROE and BOPAT ROE is adjusted for net unrealized gains/(losses) on available-for-sale investments and cash flow hedges.

Operating and financial review (continued)

Performance overview

The Group's business operating profit of USD 2.4 billion increased by USD 255 million or 12 percent in U.S. dollar terms and 11 percent on a local currency basis, as underlying performance in all core businesses developed positively. Life continued to deliver strong results, predominantly in Europe, Middle East & Africa (EMEA) and Latin America while Property & Casualty (P&C) showed improvements in the underwriting result. Farmers benefited from an improvement in the combined ratio at Farmers Re. The result included the impact of USD 70 million for measures related to restructuring activities within the Group.

Net income attributable to shareholders of USD 1.8 billion increased by USD 288 million, or by 19 percent in both U.S. dollar and local currency terms. The increase reflected the combination of higher business operating profit and lower income tax expenses, largely resulting from the U.S. corporate tax reform that was enacted at the end of 2017.

Shareholders' equity decreased by USD 3.3 billion to USD 29.7 billion during the first six months of 2018, following the dividend payout of USD 2.8 billion and anti-dilution measures amounting to USD 925 million. Higher unrealized losses on investments and negative currency translation adjustments caused by the strengthening of the U.S. dollar relative to the main currencies of the Group, contributed to the decrease, partially offset by the net income for the period and net actuarial gains on pension plans.

Business operating profit of USD 2.4 billion increased USD 255 million with improvements in all businesses other than Group Functions and Operations.

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- **P&C** business operating profit improved by USD 117 million to USD 1.1 billion, benefiting from improvements in current accident year losses across the segments and higher favorable development of reserves established in prior years. These were partly offset by a reduction in the investment result and higher non-technical expenses including the impact of measures related to the Group's restructuring.

 - **Life** business operating profit increased by USD 109 million to USD 760 million, or 17 percent in U.S. dollar terms and 12 percent on a local currency basis. On a local currency basis, business operating profit benefited from higher loadings and fees resulting from increased volumes, as well as improvements in the investment margin. In addition, operating costs also improved when adjusting for the impact of measures related to the Group's restructuring and one-time benefits incurred in the first six months of 2017.

 - **Farmers** business operating profit increased by USD 14 million to USD 808 million. This was primarily due to an increase in Farmers Re benefiting from lower catastrophe and weather-related losses.

 - **Group Functions and Operations (GF&O)** business operating loss increased to USD 334 million due to lower recharges to business units and one-off expenses partially offset by lower financing costs and foreign exchange gains.

 - **Non-Core Businesses** business operating profit increased by USD 48 million to USD 51 million as a result of reserve releases in run-off books.
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The Group further progressed against its financial targets in 2018:

BOPAT ROE increased to 12.3 percent, mainly as a result of higher business operating profit and the improved shareholders' effective tax rate. The Group's capital and solvency positions remained strong. Solvency measured on an economic basis as determined under the **Zurich Economic Capital Model (Z-ECM)** was estimated at 134 percent as of June 30, 2018, above the target range of 100–120 percent, and increased by 2 percentage points from January 1, 2018.

Building on accumulated expense savings of USD 700 million achieved in 2016 and 2017, the Group has made further progress toward meeting its 2019 expense target of USD 1.5 billion against the 2015 baseline, with cumulative net savings of approximately USD 900 million achieved to date and further savings expected to be delivered over the remainder of 2018.

Cash remittances in excess of USD 9.5 billion over the cycle, are on track to be delivered.

The **net investment result on Group investments** before allocations to policyholders of USD 3.1 billion increased by USD 49 million, or by 2 percent in U.S. dollar terms and decreased by 4 percent on a local currency basis, resulting in a **net investment return on average Group investments** of 1.6 percent, in line with the same period of 2017. **Net investment income**, mainly included in the core business results, of USD 2.7 billion increased by USD 139 million, or 5 percent in U.S. dollar terms, and 1 percent on a local currency basis, as a result of rising yields in U.S. **Net capital gains on investments and impairments** included in the net investment result decreased by USD 91 million to USD 398 million, mainly due to the impact of rising interest rates and volatile equity markets on the investment portfolio measured at fair value through profit and loss. **Total return on average Group investments** was 0.2 percent (not annualized), compared with 1.7 percent in the same period of 2017. Total return includes the net investment result, net capital gains and the unfavorable impact from net unrealized capital gains before allocations to policyholders reported in shareholders' equity. These net unrealized capital gains were a negative USD 2.7 billion compared with positive USD 134 million in the same period of 2017. This decline was mainly due to rising European government bond yields and widening credit spreads in 2018, after falling yields in the same period of 2017.

The **shareholders' effective tax rate** decreased to 26.8 percent for the period ended June 30, 2018 compared with 32.5 percent for the same period of 2017. The decrease was driven primarily due to the U.S. corporate tax reform enacted at the end of 2017, under which U.S. profits are now taxed at a 21.0 percent, compared with 35.0 percent in previous years. In addition, results for the first six months of 2017 were affected by several non-recurring charges, particularly the one related to the Ogden¹ discount rate change in the UK (Ogden), which had an unfavorable impact on the shareholders' effective tax rate.

NIAS ROE improved by 1.2 percentage points to 12.5 percent due to the improvement in net income attributable to shareholders.

¹ The discount rate reflected in the Ogden tables defined by the Lord Chancellor of the UK Ministry of Justice is used to calculate personal injury and accident claims in the UK. On February 27, 2017 this rate was changed from 2.5 percent to minus 0.75 percent.

Operating and financial review (continued)

Property & Casualty (P&C)

in USD millions, for the six months ended June 30

	Total			Of which Commercial ¹		
	2018	2017	Change	2018	2017	Change
Gross written premiums and policy fees	18,543	18,005	3%	8,209	8,222	–
Net earned premiums and policy fees	13,041	12,498	4%	5,279	5,414	(3%)
Insurance benefits and losses, net of reinsurance	8,477	8,389	(1%)	3,947	4,000	1%
Net underwriting result	325	62	n.m.	(71)	(148)	52%
Net investment result	991	1,026	(3%)	602	644	(7%)
Business operating profit	1,137	1,020	11%	471	506	(7%)
Loss ratio	65.0%	67.1%	2.1 pts	74.8%	73.9%	(0.9 pts)
Expense ratio	32.5%	32.4%	(0.1 pts)	26.6%	28.8%	2.3 pts
Combined ratio	97.5%	99.5%	2.0 pts	101.3%	102.7%	1.4 pts

¹ Excluding Group Reinsurance and intersegment eliminations.

BOP by Segment

in USD millions, for the six months ended June 30

	Business operating profit (BOP)			Net underwriting result		
	2018	2017	Change	2018	2017	Change
Europe, Middle East & Africa (EMEA)	498	316	58%	274	52	n.m.
North America	635	564	13%	172	10	n.m.
Asia Pacific	74	114	(35%)	19	89	(79%)
Latin America	60	133	(55%)	(6)	43	n.m.
Group Reinsurance ¹	(130)	(107)	(21%)	(135)	(133)	(1%)
Total	1,137	1,020	11%	325	62	n.m.

¹ Including intersegment elimination.

Business operating profit increased by USD 117 million to USD 1.1 billion, driven by an improvement in the underwriting result stemming from favorable development of reserves established in prior years and lower underlying losses across the segments with EMEA and Group Reinsurance affected by a reserve strengthening of USD 209 million in the first six months of 2017 due to the change in the Ogden rate in the UK. This was partly offset by lower hedge fund gains, mainly in North America, measures related to the Group's restructuring amounting to USD 59 million and lower foreign exchange gains compared with the first six months of 2017.

EMEA business operating profit increased by USD 182 million, with the same period of 2017 affected by Ogden. This, together with an improvement in the current accident year loss ratio, was partly offset by higher catastrophe and weather-related losses and by the impact of measures related to the Group's restructuring. In **North America**, business operating profit increased by USD 71 million, driven by a higher underwriting result and higher investment income, partly offset by lower hedge fund gains and by foreign currency losses in the first six months of 2018 compared with gains in the first six months of 2017. In **Asia Pacific**, business operating profit decreased by USD 40 million, as the same period of 2017 benefited from higher favorable development of loss reserves established in prior years. This was only partly offset by higher fee income from Cover-More and lower one-off costs compared to the first six months of 2017. **Latin America** declined by USD 73 million, with the first six months of 2017 benefiting from higher favorable development of reserves established in prior years, a one-time settlement of premium taxes in Brazil and higher foreign exchange gains in Venezuela. The decrease in **Group Reinsurance** was due mainly to higher foreign currency losses.

Commercial Insurance business operating profit decreased by USD 35 million as an improved underwriting result was more than offset by lower hedge fund gains as well as lower foreign currency gains in North America and Venezuela. The underwriting result benefited from higher favorable development of reserves established in prior years and lower operating expenses, which were only partly offset by an increase in catastrophe and weather-related losses, as well as in the underlying losses.

Gross written premiums and policy fees increased by USD 538 million or 3 percent in U.S. dollar terms and remained broadly flat on a local currency basis. Growth in Asia Pacific and Latin America was mostly offset by a decrease in North America, while EMEA remained in line with the first six months of 2017. In Asia Pacific, growth was driven by the travel solutions business in Australia, motor and personal accident in Japan, and takaful business in Malaysia. The improvement in Latin America was mainly due to inflation in Argentina, growth in mass-consumer business in Brazil and commercial and motor insurance in Mexico. North America's crop and large commercial books showed decreases, with the latter affected by portfolio rebalancing initiatives. Overall, rates rose by around 3 percent in the first six months of 2018.

The **net underwriting result** increased by USD 263 million to USD 325 million, with a combined ratio of 97.5 percent, 2 percentage points lower than in the first six months of 2017. The increase in the underwriting result was driven by higher favorable development of loss reserves established in prior years and an improvement in underlying losses across the segments. Catastrophe and weather-related losses were in line with the same period in 2017. The expense ratio increased slightly, with improvements resulting from initiatives to reduce costs offset by increased commissions across the segments, reflecting changes in the business mix.

The net underwriting result in **EMEA** increased by USD 222 million, mainly due to higher favorable development of reserves established in prior years, as 2017 was affected by Ogden. This was partly offset by an increase in catastrophe and weather-related losses. The current accident year loss ratio improved due to lower underlying loss experience, and the expense ratio also improved slightly. **North America** increased by USD 162 million, mainly due to lower catastrophe and weather-related losses, after severe hail storms in the first six months of 2017. Favorable development of loss reserves established in prior years was in line with the first six months of 2017. The current accident year loss ratio decreased due to an improved underlying loss experience. The expense ratio also improved as a result of lower staff costs and other expenses, and lower premium taxes benefiting from one-off adjustments. An increase in commissions due to changes in business mix partly offsets these favorable factors. **Asia Pacific** was USD 71 million lower than the first six months of 2017, with prior year benefiting from more favorable development of loss reserves established in prior years. **Latin America** declined by USD 49 million, as a result of lower favorable development of reserves established in prior years and the inclusion in prior year of a one-time settlement of premium taxes in Brazil. Commissions increased, reflecting changes in business mix, and were partly offset by an improvement in underlying loss experience. **Group Reinsurance** remained broadly flat with higher assumed losses partly offset by lower unfavorable development of reserves established in prior years.

Operating and financial review (continued)

Life

in USD millions, for the six months ended June 30	2018	2017	Change
Insurance deposits	8,985	7,313	23%
Gross written premiums and policy fees	7,980	7,048	13%
Net investment income on Group investments	1,575	1,449	9%
Insurance benefits and losses, net of reinsurance	(5,554)	(4,932)	(13%)
Business operating profit	760	650	17%
Net policyholder flows ¹	4,330	2,715	60%
Assets under management ^{2,3}	264,353	269,836	(2%)
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts (net reserves) ³	209,747	215,424	(3%)

¹ Net policyholder flows are defined as the sum of gross written premiums and policy fees and deposits, less policyholder benefits.

² Assets under management comprise on balance sheet Group investments and unit-linked investments plus assets that are managed by third parties, on which fees are earned.

³ As of June 30, 2018 and December 31, 2017, respectively.

BOP by segment

in USD millions, for the six months ended June 30	2018	2017	Change
Europe, Middle East & Africa (EMEA)	524	438	20%
North America	(17)	(16)	(3%)
Asia Pacific	78	78	(1%)
Latin America	173	149	16%
Group Reinsurance ¹	2	1	n.m.
Total	760	650	17%

¹ Including intersegment elimination.

Business operating profit increased by USD 109 million to USD 760 million, or 17 percent in U.S. dollar terms and 12 percent on a local currency basis. On a local currency basis, the majority of the increase occurred in **EMEA** and **Latin America**. The improvement in Latin America resulted from higher technical margins on corporate protection business and gains related to the devaluation of the Argentinian peso, and in **EMEA** it was largely due to lower discretionary policyholder dividends, favorable experience variances and reductions in operating costs. These improvements were partially offset by a deterioration in the technical margin and lower fee revenue in Germany. In **Asia Pacific**, continued growth across the region was offset by less favorable market movements in Hong Kong. In **North America**, growth in the corporate business, partly due to transferring that business from the Non-Core segment at the end 2017, was offset by the impairment of a software asset.

Gross written premiums, policy fees and insurance deposits increased by USD 2.6 billion to USD 17 billion, or by 18 percent in U.S. dollar terms and 10 percent on a local currency basis. On a local currency basis, improvements occurred across all segments, particularly in EMEA, where Italy, Switzerland and the UK were the main contributors, and in North America.

Assets under management decreased by 2 percent in U.S. dollar terms, but increased by 1 percent on a local currency basis compared with December 31, 2017. The local currency increase was driven by favorable market movements and positive net policyholder flows. In U.S. dollar terms, the U.S. dollar's strengthening against European and Latin American currencies led to a decline compared with December 31, 2017. **Net policyholder flows** of USD 4.3 billion increased by 60 percent in U.S. dollar terms compared with June 30, 2017, with the largest contributions from Switzerland, the joint-venture with Banco de Sabadell, S.A. in Spain and Italy.

Source of earnings¹

in USD millions, for the six months ended June 30		2018	2017	Change
Loadings and fees		1,753	1,641	7%
Investment margin		339	248	37%
Technical margin		521	510	2%
Operating and funding costs		(673)	(641)	(5%)
Acquisition costs		(2,064)	(1,202)	(72%)
Impact of deferrals		885	96	n.m.
Business operating profit		760	650	17%

¹ Each line represents the Group's interest after deducting non-controlling interests, amounting in total to USD 139 million in 2018 and USD 145 million in 2017 in business operating profit.

Viewed in terms of profit sources and on a local currency basis, business operating profit benefited from higher volumes resulting in higher loadings and fees, as well as improvements in the investment margin. Acquisitions costs and the impact of deferrals were affected by the reinsurance contract entered into with OnePath Life in anticipation of its acquisition.

Loadings and fees improved by 7 percent in U.S dollar terms and 2 percent on a local currency basis. Growth in Asia Pacific, higher volumes in Latin America and increased fee income in North America, the latter partly from a transfer of the corporate protection business from the Non-Core segment at the end 2017, were the main drivers. These positive factors were partially offset by lower fee revenue in Germany due to a decrease in business volume. The **investment margin** improved by 37 percent in U.S. dollar terms and 35 percent on a local currency basis. EMEA made the biggest contribution with reserve releases in accordance with interest rate changes in Switzerland and reduced discretionary policyholder dividends. In addition, foreign currency gains in Latin America also contributed to the improvement. The **technical margin** increased by 2 percent in U.S dollar terms and decreased 1 percent on a local currency basis, mainly driven by disability benefits in Switzerland, where the first six months of 2017 were exceptionally good. This was partly offset by improved margins on corporate protection business in Latin America and the growing portfolios of individual protection business in Asia Pacific.

Operating and funding costs increased by 5 percent in U.S dollar terms and were flat on a local currency basis. In local currency, the positive impact of expense reductions across EMEA was offset by higher costs in Asia Pacific, largely related to the integration of recently acquired businesses and a negative impact in Latin America from a one-time settlement of premium taxes in Brazil in the first six months of 2017. **Acquisition costs** increased by 72 percent in U.S dollar terms and 67 percent on a local currency basis, mostly as a result of a reinsurance contract with OnePath Life. This also drove the improvement in the **impact of deferrals**.

Operating and financial review (continued)

**NBV, APE and NBM
by Segment**

in USD millions, for the six months ended June 30

	New business value, after tax (NBV) ¹		New business annual premium equivalent (APE) ²		New business margin, after tax (as % of APE) (NBM) ³	
	2018	2017	2018	2017	2018	2017
	Europe, Middle East & Africa (EMEA)	345	328	1,615	1,596	23.0%
North America	8	17	43	25	18.9%	67.5%
Asia Pacific	93	78	113	87	83.5%	90.9%
Latin America	76	80	521	566	23.6%	22.4%
Total	522	503	2,291	2,275	26.4%	25.3%

**NBV, APE and NBM
by line of business**

in USD millions, for the six months ended June 30

	New business value, after tax (NBV) ¹		New business annual premium equivalent (APE) ²		New business margin, after tax (as % of APE) (NBM) ³	
	2018	2017	2018	2017	2018	2017
	Protection	406	389	919	787	54.3%
Corporate Pensions	35	49	371	632	9.6%	7.8%
Unit Linked	85	78	627	607	14.7%	14.2%
Annuities and Savings	(5)	(14)	374	250	(1.7%)	(7.1%)
Total	522	503	2,291	2,275	26.4%	25.3%

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

APE improved by USD 16 million to USD 2.3 billion, or 1 percent in U.S. dollar terms. On a like-for-like basis, adjusted by USD 317 million for the disposal of the UK workplace pensions and saving business to Lloyds Banking Group (LBG) and on a local currency basis, APE improved by USD 219 million or 11 percent. The largest improvement occurred in EMEA. The joint venture with Banco de Sabadell, S.A. in Spain, saving products in Italy and corporate savings in Switzerland and the UK were the main contributors. The UK also benefited from a single large corporate protection sale. In Asia Pacific, all countries contributed to the growth, while North America saw the volume of corporate protection business improving from a low base in 2017. In Latin America, continued growth in Brazil was more than offset by Chile, where the first six months of 2017 included the effect of a large corporate protection contract.

New business value increased by USD 19 million to USD 522 million, or 4 percent in U.S. dollar terms. On a like-for-like basis, adjusted by USD 18 million for the disposal of the UK workplace pensions and saving business to Lloyds Banking Group (LBG) and on a local currency basis, new business value increased by USD 13 million or 3 percent. New business value benefited from higher volumes, positive economic variances in Latin America and EMEA and from a modelling refinement in Germany. These positive effects were partially offset by adverse product mix, especially in Asia Pacific and North America, and unfavorable operating assumption updates.

As a result, the overall **new business margin** improved by 1 percentage points to 26 percent, with improvements in EMEA and Latin America, and decreases in Asia Pacific and North America. The latter was driven by growth in lower-margin corporate protection business.

Farmers

in USD millions, for the six months ended June 30	2018	2017	Change
Farmers Management Services (FMS)	702	700	–
Farmers Re	25	6	n.m.
Farmers Life	81	87	(7%)
Total business operating profit	808	794	2%

Farmers business operating profit increased by USD 14 million to USD 808 million, or by 2 percent. **Farmers Management Services** business operating profit increased by USD 1 million to USD 702 million. **Farmers Life** business operating profit decreased by USD 6 million to USD 81 million reflecting higher claims experience, partially offset by higher operating income from growth of Life insurance in-force. **Farmers Re** business operating profit increased by USD 19 million to USD 25 million due to a 6.8 percentage point improvement in the combined ratio, partially offset by lower investment and other income.

Farmers Management Services

in USD millions, for the six months ended June 30	2018	2017	Change
Management fees and other related revenues	1,445	1,438	–
Management and other related expenses	747	750	–
Gross management result	698	688	1%
Managed gross earned premium margin	7.0%	7.0%	0.0 pts

Management fees and other related revenues of USD 1.4 billion increased USD 7 million due to growth in gross earned premiums of the Farmers Exchanges.² **Management and other related expenses** slightly decreased to USD 747 million.

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

Farmers Re

in USD millions, for the six months ended June 30	2018	2017	Change
Gross written premiums and policy fees	97	772	(87%)
Net underwriting result	4	(23)	n.m.
Loss ratio	64.1%	71.0%	6.9 pts
Expense ratio	32.2%	32.0%	(0.2 pts)
Combined ratio	96.3%	103.0%	6.8 pts

Gross written premiums and policy fees decreased by USD 675 million to USD 97 million, or by 87 percent, as a result of the reduced participation in the All Lines quota share reinsurance agreement with the Farmers Exchanges from 8.0 percent to 1.0 percent effective December 31, 2017.

The **net underwriting result** improved by USD 27 million to USD 4 million, driven by a 6.8 percentage point improvement in the combined ratio. The **loss ratio** decreased 6.9 percentage points primarily as a result of lower catastrophe events. The **expense ratio** increased slightly to 32.2 percent.

² The Farmers Exchanges are owned by their policyholders. Farmers Group, Inc., a wholly owned subsidiary of the Group, provides certain non-claims administrative and management services to the Farmers Exchanges as attorney-in-fact and receives fees for its services.

Operating and financial review (continued)

Farmers Life

in USD millions, for the six months ended June 30	2018	2017	Change
Insurance deposits	79	80	(1%)
Gross written premiums and policy fees	447	438	2%
New business annual premium equivalent (APE)	45	46	(3%)
New business value (NBV)	64	49	31%
Assets under management ^{1,2}	5,354	5,415	(1%)
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts (net reserves) ²	4,731	4,659	2%

¹ Assets under management comprise on balance sheet Group investments and unit-linked investments plus assets that are managed by third parties, on which fees are earned.

² As of June 30, 2018 and December 31, 2017, respectively.

Insurance deposits decreased by USD 1 million to USD 79 million. **Gross written premiums and policy fees** increased by USD 9 million to USD 447 million, mainly due to growth of insurance in-force.

APE remained in line with prior year. **NBV** increased despite lower sales, due mainly to higher margins from lower acquisition expenses, a favorable sales mix and the U.S. corporate tax rate reduction, partially offset by the negative effect of higher interest rates on certain individual protection business.

Assets under management remained essentially flat and **total reserves** increased by USD 72 million.

Farmers Exchanges

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

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

in USD millions, for the six months ended June 30	2018	2017	Change
Gross written premiums	10,335	10,047	3%
Gross earned premiums	9,965	9,846	1%

Gross written premiums in the Farmers Exchanges increased by USD 288 million to USD 10.3 billion, or by 3 percent. Continuing operations³ were up 4.7 percent, driven primarily by the addition of the Commercial Auto Rideshare business in March as well as growth in all books of business. Growth was partially offset by the run-off in discontinued operations.

Gross earned premiums in the Farmers Exchanges increased by USD 119 million to USD 10.0 billion, or by 1 percent.

³ Continuing operations exclude Independent Agent Business Insurance, 21st Century outside of California and Hawaii and other discontinued operations.

Group Functions and Operations

in USD millions, for the six months ended June 30	2018	2017	Change
Holding and Financing	(191)	(217)	12%
Headquarters	(143)	(84)	(71%)
Total business operating profit	(334)	(301)	(11%)

Holding and Financing business operating loss of USD 191 million improved by USD 26 million or 12 percent in U.S. dollar terms and 15 percent on a local currency basis. The main factors driving the improvement were lower financing costs and higher foreign exchange gains than in the same period in 2017.

Headquarters recorded a business operating loss of USD 143 million, USD 59 million higher compared with the same period of 2017 or 71 percent in U.S. dollar terms and 66 percent in local currency. Underlying expense savings were more than offset by lower recharges to business units.

Non-Core Businesses

in USD millions, for the six months ended June 30	2018	2017	Change
Zurich Legacy Solutions	37	(44)	n.m.
Other run-off	14	47	(71%)
Total business operating profit	51	3	n.m.

Zurich Legacy Solutions, which is predominantly comprised of P&C run-off portfolios, reported a business operating profit of USD 37 million, an improvement of USD 81 million primarily due to favorable transaction gains in the first six months of 2018 and a reserve increase of USD 80 million related to the Ogden rate change in 2017.

Other run-off, which is largely comprised of U.S. life insurance and annuity portfolios, reported a USD 34 million decrease in business operating profit compared with the same period of 2017 when the business benefited from the release of long-term reserves as a consequence of in-force management activities in a closed life book. The decline was partly offset by releases of reserves following a settlement.

Consolidated financial statements

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Consolidated income statements

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

Consolidated financial statements (continued)

Consolidated statements of comprehensive income

in USD millions, for the six months ended June 30

	Net income attributable to shareholders	Net unrealized gains/(losses) on available- for-sale investments	Cash flow hedges
2017			
Comprehensive income for the period	1,503	323	(3)
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		543	(26)
Reclassification to income statement (before tax, foreign currency translation effects and allocation to policyholders)		(405)	(13)
Reclassification to retained earnings		–	–
Deferred income tax (before foreign currency translation effects)		34	13
Foreign currency translation effects		152	24
2018			
Comprehensive income for the period	1,791	(1,303)	(36)
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		(1,099)	(15)
Reclassification to income statement (before tax, foreign currency translation effects and allocation to policyholders)		(435)	(27)
Reclassification to retained earnings		–	–
Deferred income tax (before foreign currency translation effects)		274	14
Foreign currency translation effects		(43)	(7)

Cumulative foreign currency translation adjustment	Total other comprehensive income recycled through profit or loss	Revaluation reserve	Net actuarial gains/(losses) on pension plans	Total other comprehensive income not recycled through profit or loss	Total other comprehensive income attributable to shareholders	Total comprehensive income attributable to shareholders	Total comprehensive income attributable to non-controlling interests	Total comprehensive income
825	1,145	(17)	(93)	(109)	1,036	2,539	220	2,759
805	1,321	(4)	120	116	1,438			
20	(399)	–	–	–	(399)			
–	–	(22)	–	(22)	(22)			
–	47	9	(28)	(20)	27			
–	176	–	(184)	(184)	(9)			
(638)	(1,977)	20	588	607	(1,369)	422	(94)	328
(619)	(1,732)	39	655	694	(1,038)			
(20)	(481)	–	–	–	(481)			
–	–	(20)	–	(20)	(20)			
–	287	–	(114)	(114)	173			
–	(50)	–	47	47	(3)			

Consolidated financial statements (continued)

Consolidated balance sheets

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

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

Liabilities
and equity

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

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

Consolidated financial statements (continued)

Consolidated statements of cash flows

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

in USD millions, for the six months ended June 30

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

**Cash and cash
equivalents**

in USD millions, as of June 30

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

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

Consolidated financial statements (continued)

Consolidated statements of changes in equity

in USD millions

	Share capital	Additional paid-in capital
Balance as of December 31, 2016	11	1,348
Issuance of share capital	–	197
Dividends to shareholders	–	(510)
Share-based payment transactions	–	(76)
Treasury share transactions	–	132
of which: share buy-back program	–	–
Reclassification from revaluation reserves	–	–
Total comprehensive income for the period, net of tax	–	–
Net income	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–
Cash flow hedges	–	–
Cumulative foreign currency translation adjustment	–	–
Revaluation reserve	–	–
Net actuarial gains/(losses) on pension plans	–	–
Net changes in capitalization of non-controlling interests	–	–
Balance as of June 30, 2017	11	1,091
Balance as of December 31, 2017	11	1,162
Issuance of share capital	–	2
Dividends to shareholders	–	(14)
Share-based payment transactions	–	(64)
Treasury share transactions	–	–
of which: share buy-back program	–	–
Reclassification from revaluation reserves	–	–
Total comprehensive income for the period, net of tax	–	–
Net income	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–
Cash flow hedges	–	–
Cumulative foreign currency translation adjustment	–	–
Revaluation reserve	–	–
Net actuarial gains/(losses) on pension plans	–	–
Net changes in capitalization of non-controlling interests	–	–
Balance as of June 30, 2018	11	1,086

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

Consolidated financial statements (continued)

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

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

1. Basis of presentation

General information

The unaudited consolidated financial statements for the six months ended June 30, 2018, of the Group have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting". The accounting policies used to prepare the unaudited consolidated financial statements comply with International Financial Reporting Standards (IFRS) and are consistent with those set out in the notes to the consolidated financial statements in the Annual Report 2017 of the Group.

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

The unaudited consolidated financial statements for the six months ended June 30, 2018, should be read in conjunction with the Group's Annual Report 2017.

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

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

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

Table 1

USD per foreign currency unit

	Consolidated balance sheets at end-of-period exchange rates		Consolidated income statements and cash flows at average exchange rates	
	06/30/18	12/31/17	06/30/18	06/30/17
	Euro	1.1667	1.2007	1.2105
Swiss franc	1.0065	1.0260	1.0348	1.0058
British pound	1.3195	1.3515	1.3764	1.2590
Brazilian real	0.2595	0.3023	0.2931	0.3147

Principal exchange rates

Reclassifications

Changes in presentation

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

Consolidated financial statements (continued)

2. New accounting standards and amendments to published accounting standards

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

Table 2.1 shows new accounting standards or amendments to and interpretations of standards relevant to the Group that have been implemented for the financial year beginning January 1, 2018, with no material impact on the Group's financial position or performance.

Table 2.1

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

IFRS 15 "Revenue from Contracts with Customers"

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

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

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

Table 2.2

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

IFRS 16 "Leases"

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

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

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

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

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

Consolidated financial statements (continued)

3. Acquisitions and divestments

Transactions in 2018

Acquisitions

EuroAmerica portfolio in Chile

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

Travel Ace and Universal Assistance

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

QBE Latin America

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

Transactions in 2017

Acquisitions

Bright Box

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

ANZ's life and consumer credit insurance businesses

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

Cover-More

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

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

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

Cover-More balance
sheet as of the
acquisition date

Table 3.1

in USD millions, as of April 13, 2017

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

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

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

Divestments*Held for sale*

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

Endsleigh Limited

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

Middle East operations

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

Taiwan operations

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

Consolidated financial statements (continued)

4. Group investments

Group investments are those for which the Group bears part or all of the investment risk. They also include investments related to investment contracts with discretionary participation features. Net investment result on Group investments includes investment-related cash, which is included in cash and cash equivalents on the consolidated balance sheets.

Table 4.1

Net investment result on Group investments

in USD millions, for the six months ended June 30

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

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

Table 4.2

Details of Group investments by category

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

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

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

Table 4.3

in USD millions, as of

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

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

Securities lending, repurchase and reverse repurchase agreements

Table 4.4

in USD millions, as of

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

¹ The Group's counterparties had the right to sell or repledge, in the absence of default, assets pledged as collateral with a fair value of USD 854 million and USD 970 million as of June 30, 2018 and December 31, 2017, respectively. The majority of these assets were debt securities.

² The Group had the right to sell or repledge, in the absence of default by its counterparties, securities received as collateral with a fair value of USD 750 million and USD 818 million as of June 30, 2018 and December 31, 2017, respectively.

³ The Group's counterparties had the right to sell or repledge, in the absence of default, assets pledged as collateral with a fair value of USD 792 million and USD 797 million as of June 30, 2018 and December 31, 2017, respectively. The majority of these assets were debt securities.

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

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

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

Consolidated financial statements (continued)

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

Table 5.1

Liabilities for insurance contracts

in USD millions, as of

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

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

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

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

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

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

Table 5.2

Development of reserves for losses and loss adjustment expenses

in USD millions

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

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

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

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

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

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

Table 5.3

Development of
future life
policyholder
benefits

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

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

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

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

Table 5.4

Policyholder
contract
deposits and
other funds gross

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

Table 5.5

Development of
policyholder
contract deposits
and other funds

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

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

Consolidated financial statements (continued)

6. Policyholder dividends and participation in profits

Table 6			
Policyholder dividends and participation in profits	in USD millions, for the six months ended June 30		
		2018	2017
	Change in policyholder contract deposits and other funds	560	458
	Change in reserves for unit-linked insurance contracts	769	2,775
	Change in liabilities for investment contracts – unit-linked	1,030	3,136
	Change in liabilities for investment contracts – other	143	96
	Change in unit-linked liabilities related to UK capital gains tax	(32)	(94)
	Total policyholder dividends and participation in profits	2,468	6,370

7. Deferred policy acquisition costs and deferred origination costs

Table 7.1

Development of
deferred policy
acquisition costs

in USD millions	Property & Casualty		Life		Other businesses ¹		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
As of January 1	5,289	4,830	11,624	11,117	1,751	1,849	18,663	17,796
Acquisition costs deferred ²	2,336	2,263	1,656	847	90	270	4,083	3,380
Amortization	(2,075)	(1,953)	(728)	(755)	(61)	(243)	(2,865)	(2,952)
Impairments	–	–	–	–	–	(55)	–	(56)
Amortization (charged)/ credited to other comprehensive income	–	–	59	85	26	16	85	101
Acquisitions/(divestments) and transfers ³	8	–	–	–	(15)	–	(7)	–
Foreign currency translation effects	(125)	97	(358)	636	–	1	(484)	734
As of June 30	5,432	5,236	12,252	11,930	1,791	1,836	19,475	19,002

¹ Net of eliminations from inter-segment transactions.

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

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

Table 7.2

Development of
deferred
origination costs

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

Consolidated financial statements (continued)

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

Table 8.1

Intangible assets –
current period

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

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

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

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

Table 8.2

Intangible assets
by business –
current period

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

Table 8.3

Intangible assets –
prior period

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

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

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

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

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

Table 8.4

Intangible assets
by business –
prior period

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

Consolidated financial statements (continued)

9. Restructuring provisions

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

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

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

10. Income taxes

Table 10.1

Income tax expense – current/deferred split

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

Table 10.2

Expected and actual income tax expense

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

Table 10.2 sets out the factors that cause the actual income tax expense to differ from the expected expense computed by applying the Swiss statutory tax rate of 22.0 percent, which is the rate applicable in the jurisdiction where the ultimate parent company is resident.

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

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

Consolidated financial statements (continued)

11. Senior and subordinated debt

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

¹ Issued under the Group's Euro Medium Term Note Programme (EMTN Programme).

² The Group applied the fair value hedge methodology either partially or in full to hedge the interest rate exposure.

³ These bonds are part of a qualifying net investment hedge to hedge the foreign currency exposure.

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

12. Commitments and contingencies, legal proceedings and regulatory investigations

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

Table 12

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

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

Legal, compliance and regulatory developments

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

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

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

While the process remains ongoing, the Group does not currently believe this matter will have a material adverse effect on the Group's business or the Group's consolidated financial condition.

Legal proceedings and regulatory investigations

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

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

Consolidated financial statements (continued)

13. Fair value measurement

This note excludes financial assets and financial liabilities relating to unit-linked contracts. Table 13.1 compares the fair value with the carrying value of financial assets and financial liabilities. Certain financial instruments are not included in this table as their carrying value is a reasonable approximation of their fair value. Such instruments include cash and cash equivalents, obligations to repurchase securities, deposits made under assumed reinsurance contracts, deposits received under ceded reinsurance contracts and other financial assets and liabilities.

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

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

Recurring fair value measurements of assets and liabilities

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

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

Fair value hierarchy
– non unit-linked –
prior period

Table 13.2b

in USD millions, as of December 31, 2017

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

For the year ended December 31, 2017, no material transfers between level 1 and level 2 occurred.

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

Table 13.3a

in USD millions

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

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

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

For the six months ended June 30, 2018, the Group transferred USD 288 million of available-for-sale debt securities out of level 2 into level 3. The transfers were mainly due to a review of the classification of certain non-agency ABS/MBS and the observability of the inputs used in the valuation techniques to determine their fair value.

Consolidated financial statements (continued)

Table 13.3b

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

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

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

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

Non-recurring fair value measurements of assets and liabilities

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

14. Segment information

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

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

The Group's reportable segments comprise the following:

Property & Casualty and Life regions

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

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

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

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

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

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

Consolidated financial statements (continued)

Aggregations and additional information

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

→ Property & Casualty – Total

→ Life – Total

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

→ Property & Casualty Commercial Insurance

→ Property & Casualty Retail and Other Insurance

Business operating profit

The segment information includes the Group's internal performance measure, business operating profit (BOP). This measure is the basis on which the Group manages all of its business units. It indicates the underlying performance of the Group's business units, after non-controlling interests, by eliminating the impact of financial market volatility and other non-operational variables. BOP reflects adjustments for shareholders' taxes, net capital gains/(losses) and impairments on investments (except for certain non-insurance operations included in Non-Core Businesses, investments in hedge funds as at fair value through profit or loss, certain securities held for specific economic hedging purposes and policyholders' share of investment results for the life businesses) and non-operational foreign exchange movements. Significant items arising from special circumstances, including restructuring charges, legal matters or large one-off regulatory projects outside the ordinary course of business, gains and losses on divestment of businesses and impairments of goodwill are also excluded from BOP.

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Consolidated financial statements (continued)

Property & Casualty
– Overview by
segment

Table 14.1

in USD millions, for the six months ended June 30

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

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

Consolidated financial statements (continued)

Life –
Overview by
segment

Table 14.2

in USD millions, for the six months ended June 30

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

Life includes approximately USD 1.5 billion and USD 1 billion of gross written premiums and future life policyholder benefits for certain universal life-type contracts in the Group's Spanish operations for the six months ended June 30, 2018 and 2017, respectively.

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

Consolidated financial statements (continued)

Table 14.3

in USD millions, for the six months ended June 30

Business operating
profit by business

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

Life includes approximately USD 1.5 billion and USD 1 billion of gross written premiums and future life policyholder benefits for certain universal life-type contracts in the Group's Spanish operations for the six months ended June 30, 2018 and 2017, respectively.

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

Consolidated financial statements (continued)

Table 14.4

in USD millions, for the six months ended June 30

Reconciliation of
BOP to net income
after income taxes

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

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

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

Consolidated financial statements (continued)

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

¹ Commercial and Retail Insurance overview exclude Group Reinsurance

15. Events after the balance sheet date

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

Review report of the auditors

Review report of the auditors

To the Board of Directors of Zurich Insurance Group Ltd

Introduction

We have reviewed the unaudited consolidated financial statements of Zurich Insurance Group Ltd and its subsidiaries (the Group), which comprise the consolidated balance sheet as at June 30, 2018 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the six months then ended, and notes on pages 17 to 59 to the unaudited consolidated financial statements. The Board of Directors is responsible for the preparation and presentation of these unaudited consolidated financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these unaudited consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

PricewaterhouseCoopers AG

Alex Finn

Mark Humphreys

Zurich, August 8, 2018

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Additional information

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Zurich Insurance Group Ltd registered share data

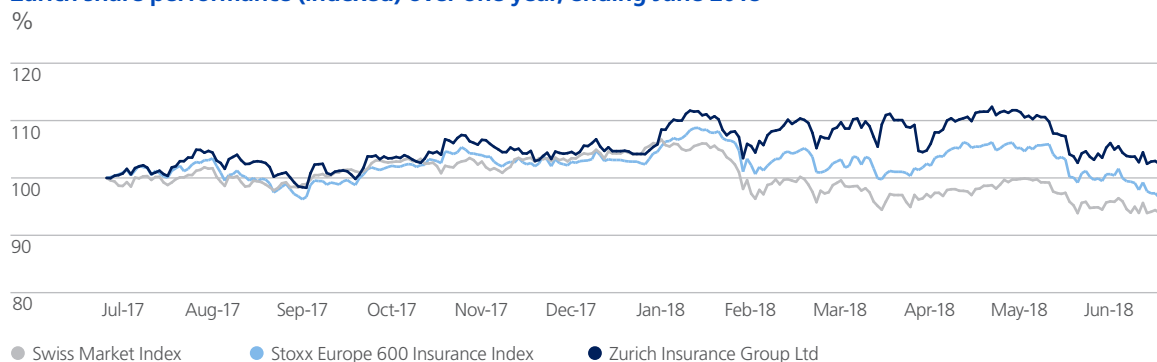
Zurich shares

Zurich had a market capitalization of CHF 45 billion on June 30, 2018. The shares are listed on the SIX Swiss Exchange and traded on the SIX Swiss Exchange Blue Chip Segment; ticker symbol: ZURN; the Swiss security number (Valorenummer) is 1107539. Trading in Zurich Insurance Group Ltd shares on the Blue Chip Segment is conducted in Swiss francs.

Share price performance

The share price at the end of June 2018 was CHF 294.10. The lowest price during the first half year in 2018 was CHF 291.70 on June 25, while the highest price was CHF 320.00 on May 2.

Zurich share performance (indexed) over one year, ending June 2018



Source: Thomson Reuters Datastream

Dividend

Financial Year	Payment date as from	Gross dividend per registered share in CHF	Paid from available earnings ¹ in CHF	Paid from capital contribution reserve in CHF
2017	April 10, 2018	18.00	16.60	1.40
2016	April 4, 2017	17.00	11.30	5.70
2015	April 5, 2016	17.00	--	17.00
2014	April 9, 2015	17.00	--	17.00
2013	April 9, 2014	17.00	--	17.00
2012	April 11, 2013	17.00	--	17.00
2011	April 5, 2012	17.00	--	17.00
2010	April 7, 2011	17.00	--	17.00
2009	April 8, 2010	16.00	16.00	--
2008	April 7, 2009	11.00	11.00	--

¹ Subject to 35% Swiss withholding tax

Glossary

Group

Book value per share

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

Business operating profit (BOP)

is the Group's internal performance measure, on which the Group manages all of its business units. It indicates the underlying performance, after non-controlling interests, by eliminating the impact of financial market volatility and other non-operational variables. BOP reflects adjustments for shareholders' taxes, net capital gains/(losses) and impairments on investments (except for certain non-insurance operations included in Non-Core Businesses, investments in hedge funds as at fair value through profit or loss, certain securities held for specific economic hedging purposes and policyholders' share of investment results for the life businesses) and non-operational foreign exchange movements. Significant items arising from special circumstances, including restructuring charges, legal matters or large one-off regulatory projects outside the ordinary course of business, gains and losses on divestment of businesses and impairments of goodwill are also excluded from BOP. **Business operating profit before interest, depreciation and amortization (BOPBIDA)** excludes interest expense on debt, depreciation and impairments of property and equipment and amortization and impairments of intangible assets. BOPBIDA includes amortization of deferred policy acquisition costs, deferred origination costs and distribution agreements.

Business operating profit (after-tax) return on shareholders' equity (BOPAT ROE)

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

Investments

Total investments in the consolidated balance sheets include Group investments and investments for unit-linked contracts. **Group investments** are those for which the Group bears part or all of the investment risk. They also include investments related to investment contracts with discretionary participation features. Average invested assets include investment cash, but exclude cash collateral received for securities lending. The Group manages its diversified investment portfolio to optimize benefits for both shareholders and policyholders while ensuring

compliance with local regulatory and business requirements under the guidance of the Group's Asset/Liability Management and Investment Committee. **Investments for unit-linked contracts** include investments where the policyholder bears the investment risk, and are held for liabilities related to unit-linked investment contracts and reserves for unit-linked contracts. They are managed in accordance with the investment objectives of each unit-linked fund. The investment result for unit-linked products is passed to policyholders through a charge to policyholder dividends and participation in profits.

Return on shareholders' equity (ROE)

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

Property & Casualty

The following Property & Casualty (P&C) measures are net of reinsurance.

Net underwriting result

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

Total net technical expenses

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

Combined ratio

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

Loss ratio

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

Expense ratio

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

Net non-technical result

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

Life**Embedded value (EV) principles**

is a methodology using a "bottom-up" market consistent approach, which explicitly allows for market risk. In particular, asset and liability cash flows are valued using risk discount rates consistent with those applied to similar cash flows in the capital markets. Options and guarantees are valued using market consistent models calibrated to observable market prices.

Insurance deposits

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

New business annual premium equivalent (APE)

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

New business value, after tax

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

Source of earnings (SOE)

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

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

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

Farmers**Gross management result**

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

Managed gross earned premium margin

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

Financial calendar / Contact information

Financial calendar

Update for the nine months ended September 30, 2018

November 8, 2018

Investor Day 2018

December 5, 2018

Annual results 2018

February 7, 2019

Annual General Meeting 2019

April 3, 2019

Update for the three months ended March 31, 2019

May 9, 2019

Half year results 2019

August 8, 2019

Update for the nine months ended September 30, 2019

November 7, 2019

Investor Day 2019

November 14, 2019

Note: all dates are subject to change.

Contact information

For more information please contact the appropriate office below, or visit our website at www.zurich.com

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Disclaimer and cautionary statement

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

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

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

Persons requiring advice should consult an independent advisor.

This communication does not constitute an offer or an invitation for the sale or purchase of securities in any jurisdiction.

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