

Half Year Report 2017

Report for the six months to June 30, 2017



About Zurich

Zurich Insurance Group is a leading multi-line insurer that serves its customers in global and local markets. With about 54,000 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.

Our cover

Zurich's strategy is about focusing on our customers' needs through product and service innovation, and simplifying our business.

Contents

Message from the Chairman and Group CEO	2
Operating and financial review	4
Consolidated financial statements	18
Additional information	66
Shareholder information	67
Glossary	68
Contact information	70

Message from the Chairman and Group CEO

Dear Shareholder,

It is our pleasure to present you with a strong set of half year results that reflect the progress our people are making in growing our local businesses, improving our underwriting and reducing our costs. These achievements illustrate our commitment to delivering on our strategic priorities for 2017 to 2019, while fulfilling our promise to simplify our business and become even more responsive to the needs of our customers.

In the first six months of 2017, our business operating profit (BOP)¹ rose by 14 percent to USD 2.5 billion, excluding a one-time industry-wide accounting rate change² ('Ogden') in the UK that affected results by USD 289 million in the first quarter. BOP rose 13 percent and the net income after tax attributable to shareholders rose 21 percent in the three months to June 30.

Progress in individual businesses

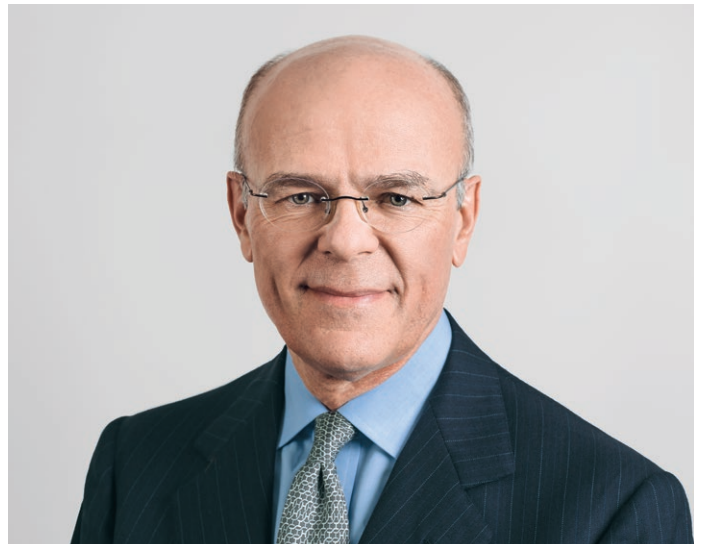
The Property & Casualty business made robust progress over the period, particularly in commercial lines, reflecting rate actions, a declining cost base and an improved underwriting result.

Our Life business continued to deliver on its unit-linked and protection-oriented strategy, while benefiting from successful acquisitions in Australia and Malaysia, its expanding bank distribution networks and strong regional results in Asia Pacific and Latin America.

Farmers Management Services delivered continued growth in fee income. Underwriting actions taken by the Farmers Exchanges³ contributed to an improved underwriting result at Farmers Re. New business value at Farmers Life increased.



Tom de Swaan



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 Ogden is the discount rate for calculating personal injury and accident claims in the UK. A change to the rate in February had a USD 289 million impact on profitability in Q1.

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

Focusing on customers

We are broadening our reach through channels that give us access to new customers and ensure we can serve all customers as efficiently as possible. In the first six months, we acquired Cover-More Group Limited, a leading travel insurer based in Australia, and Halo Insurance Services Limited, a specialist UK-based online rental car insurance platform, expanding our personal lines offerings and distribution channels while solidifying Zurich's position as a leading global travel insurer.

We are also building on our position as one of the leading providers of insurance distributed through banks, signing a new exclusive distribution agreement in May with Standard Chartered to provide life insurance solutions to its customers in the United Arab Emirates.

And we are investing in ways to serve customers and improve efficiency through automation, as illustrated by an agreement with Expert System that applies 'cognitive solutions' to provide better, more innovative and faster claims services.

On track to meet strategic goals

We are delivering on the four targets for 2017 to 2019 that we presented at our Investor Day in November 2016. BOP after tax return on equity (BOPAT ROE) excluding the impact of the Ogden rate change was 12.5 percent, ahead of the target of over 12 percent and growing over the period. As of June 30, 2017, we achieved cumulative cost savings of around USD 550 million toward our target of USD 1.5 billion by 2019, against the baseline of 2015, and expect additional actions underway to flow through by the end of the year. Cash remittances for the first half of the year are in line with the target to achieve in excess of USD 9.5 billion over the 2017 to 2019 period. And the estimated Zurich Economic Capital Model ratio⁴ as of June 30 was 134 percent, above the 100–120 percent target range.

A new Chairman

In July we announced that the Board of Directors plans to propose Michel M. Liès as Chairman at the Annual General Meeting on April 4, 2018. If elected, he will succeed Tom de Swaan, who has been a member of Zurich's Insurance Group Ltd's Board since 2006 and has served as Chairman since 2013. Mr. Liès has almost 40 years' experience in global insurance and reinsurance, culminating in four years as Group CEO of Swiss Re, a position he held until June 2016. His intellect, deep grounding in insurance and ability to deliver results will reinforce both the Board and the business.

We thank you for your continued support, and look forward to updating you on our progress at our Investor Day on November 15, 2017.

Yours sincerely,



Tom de Swaan
Chairman of the
Board of Directors



Mario Greco
Group Chief
Executive Officer

⁴ The Zurich Economic Capital Model (Z-ECM) is an internal measure of capital adequacy and reflects midpoint estimates 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, 2017, compared with the same period of 2016.

Contents

Group structure	5
Financial highlights	6
Performance overview	7
Property and Casualty (P&C)	9
Life	11
Farmers	14
Group Functions and Operations	16
Non-Core Businesses	16

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, 2017 compared with the same period of 2016. 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 2016 of the Group and, in particular, with its consolidated financial statements and embedded value report for the year ended December 31, 2016.

In addition to the figures stated in accordance with International Financial Reporting Standards (IFRS), the Group uses business operating profit (BOP), new business measures and other performance indicators to enhance the understanding of its results. Details of these additional measures are set out in the separately published glossary. These should be viewed as complementary to, and not as substitutes for the IFRS figures. For a reconciliation of BOP to net income attributable to shareholders (NIAS), see table 13.4 in note 13 of the unaudited consolidated financial statements.

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.

Group structure

The Zurich Insurance Group consists of Zurich Insurance Group Ltd and its subsidiaries (the 'Group' or 'Zurich').

Zurich's business is focused on providing best-in-class general and life insurance products and services to individuals, small businesses, mid-sized and large companies.

The operational group structure became effective as of July 1, 2016 and reflects both, the Group's businesses and geographical regions. The Group pursues a customer-centric strategy, with the Property & Casualty (P&C) and Life businesses which are managed through our regional structure. For details on the activities of the various businesses refer to note 13 of the unaudited consolidated financial statements.

The Group further divides its P&C and Life business into Retail and Commercial customer units.

The Group has identified the following 13 reportable and operating segments.

Group structure

Businesses	Property & Casualty (P&C)	Life	Farmers	Non-Core Businesses	Group Functions and Operations
Reportable segments	Europe, Middle East & Africa (EMEA) North America Asia Pacific Latin America Group Reinsurance	Europe, Middle East & Africa (EMEA) North America Asia Pacific Latin America Group Reinsurance	Farmers	Non-Core Businesses	Group Functions and Operations
Customer units	Commercial Retail				

Operating and financial review (continued)

Financial highlights

in USD millions, for the six months ended June 30, unless otherwise stated	2017	2016	Change ¹
Business operating profit	2,167	2,163	–
Net income attributable to shareholders	1,503	1,613	(7%)
P&C business operating profit	1,020	1,204	(15%)
P&C gross written premiums and policy fees	18,005	18,517	(3%)
P&C combined ratio	99.5%	98.1%	(1.4 pts)
Life business operating profit	650	562	16%
Life gross written premiums, policy fees and insurance deposit	14,361	14,842	(3%)
Life new business annual premium equivalent (APE) ²	2,275	2,203	3%
Life new business margin, after tax (as % of APE) ²	25.3%	23.9%	1.5 pts
Life new business value, after tax ²	503	453	11%
Farmers business operating profit	794	766	4%
Farmers Management Services management fees and other related revenues	1,438	1,422	1%
Farmers Management Services managed gross earned premium margin	7.0%	7.0%	–
Farmers Re gross written premiums and policy fees	772	759	2%
Farmers Life new business annual premium equivalent (APE) ²	46	46	–
Average Group investments ³	187,372	188,564	(1%)
Net investment result on Group investments	3,091	3,651	(15%)
Net investment return on Group investments ⁴	1.6%	1.9%	(0.3 pts)
Total return on Group investments ⁴	1.7%	4.9%	(3.2 pts)
Shareholders' equity ⁵	30,717	30,660	–
Z-ECM ⁶	134%	125%	9.0 pts
Return on common shareholders' equity (ROE) ⁷	11.3%	11.9%	(0.6 pts)
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE) ⁷	11.0%	11.2%	(0.2 pts)

¹ Parentheses around numbers represent an adverse variance.

² Details of the principles for calculating new business are included in the embedded value report in the annual results 2016. 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, 2017 and December 31, 2016, respectively.

⁶ Ratios as of June 30, 2017 and December 31, 2016, respectively. Ratio for June 30, 2017 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.

Performance overview

The Group's business operating profit of USD 2.2 billion remained flat in U.S. dollar terms, but increased by 2 percent on a local currency basis compared with the same period of 2016. Adjusted for the Ogden discount rate change in the UK¹ (Ogden), with an overall negative impact of USD 289 million, BOP would have been higher by USD 293 million compared to the same period in 2016, with strong performance in Life with increases in all segments on a local currency basis and Property and Casualty being flat, with improvements to the loss ratio. Farmers benefited from higher fee income and favorable prior year development at Farmers Re. In addition, expense savings of approximately USD 550 million against the 2015 baseline have been achieved.

Net income attributable to shareholders of USD 1.5 billion decreased by USD 110 million, or by 7 percent in U.S. dollar terms and by 6 percent on a local currency basis. The decrease is primarily the effect of lower net capital gains.

Shareholders' equity increased by USD 56 million to USD 30.7 billion during the first half of 2017, with net income for the period and positive currency translation adjustments almost offsetting the cost of the dividend approved in March 2017 and net actuarial losses on pensions.

Business operating profit of USD 2.2 billion remained flat in U.S. dollar terms, but increased 2 percent on a local currency basis.

- **P&C** business operating profit decreased by USD 184 million to USD 1.0 billion. Excluding the effects of Ogden, P&C is USD 25 million or 2 percent above in U.S. dollar terms and 6 percent on a local currency basis, reflecting improvements in the net underwriting result and higher investment income.
- **Life** business operating profit increased by USD 88 million to USD 650 million, or 16 percent in U.S. dollar terms and 18 percent on a local currency basis. On a local currency basis all segments showed increases, with the largest improvement driven by Asia Pacific, which benefited both from organic and inorganic growth. Overall business operating profit benefited from higher loadings and fees, as well as an improved technical margin and lower operating costs, partly offset by increases in acquisition costs and policyholder taxes.
- **Farmers** business operating profit increased by USD 28 million to USD 794 million. This was primarily due to an increase of USD 25 million in Farmers Re as a result of a 4.1 percentage point improvement in the combined ratio, partially offset by lower investment income.
- **Group Functions and Operations (GF&O)** business operating loss reduced to USD 301 million and benefited from favorable foreign exchange movements and underlying expense savings, partially offset by lower central charges.
- **Non-Core Businesses** reported a business operating profit of USD 3 million compared with a profit of USD 26 million in the same period of 2016, reflecting reserve strengthening as a result of Ogden discount rate changes and other one-off impacts.

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)

The Group achieved good progress on an underlying basis against its financial targets in the first six months of 2017. **BOPAT ROE** on an annualized basis stood at 11.0 percent. Excluding the effect of Ogden, annualized BOPAT ROE would have amounted to 12.5 percent, which is in line with the Group's target of 12 percent and growing over the 2017–2019 period.

The Group's capital and solvency position remained strong. Solvency measured on an economic basis as determined under the **Zurich Economic Capital Model (Z-ECM)** was 134 percent as of June 30, 2017, well above the target range of 100–120 percent, and increased by 9 percentage points from January 1, 2017.

Following **expense savings** in 2016, the Group has made further progress and has delivered additional savings in the first six months of 2017, reflecting measures the Group has taken to meet its expense target of USD 1.5 billion against the baseline of 2015. Accumulated savings total about USD 550 million as of June 30, 2017.

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

The **net investment result on Group investments**, before allocations to policyholders, of USD 3.1 billion decreased by USD 561 million, or by 15 percent in U.S. dollar terms and 14 percent on a local currency basis, resulting in a **net investment return on average Group investments** of 1.6 percent (not annualized) compared with 1.9 percent in the same period of 2016. **Net investment income**, predominantly included in the core business results, of USD 2.6 billion decreased by USD 214 million, or 8 percent in U.S. dollar terms, and 6 percent on a local currency basis as a result of the continued low-yield environment. **Net capital gains on investments and impairments** included in the net investment result decreased by USD 346 million to USD 489 million, mainly due to a negative revaluation result from derivatives compared with the prior period. **Total return on average Group investments** was 1.7 percent (not annualized), compared with 4.9 percent in the same period of 2016. Total return includes the net investment result, net capital gains and the favorable impact from net unrealized capital gains before allocations to policyholders reported in shareholders' equity, which were USD 134 million compared with USD 5.6 billion in the same period of 2016. This decline was due to rising bond yields in Europe compared to falling yields in the same period of 2016.

The **shareholders' effective tax rate** increased to 32.5 percent for the period ended June 30, 2017 compared with 29.9 percent for the same period of 2016. The effect of Ogden, changes in the geographical profit mix and several other non-recurring charges in 2017, which did not attract tax relief accounted for this change.

ROE decreased by 0.6 percentage points to 11.3 percent largely due to the reduction in net income attributable to shareholders and a higher effective tax rate. **BOPAT ROE** decreased by 0.2 percentage points to 11.0 percent despite a lower average equity primarily as a result of a higher tax rate.

Property and Casualty (P&C)

in USD millions, for the six months ended June 30

	Total			Of which Commercial ¹		
	2017	2016	Change	2017	2016	Change
Gross written premiums and policy fees	18,005	18,517	(3%)	8,222	8,400	(2%)
Net earned premiums and policy fees	12,498	13,227	(6%)	5,414	6,059	(11%)
Insurance benefits and losses, net of reinsurance	8,389	8,900	6%	4,000	4,212	5%
Net underwriting result	62	252	(75%)	(148)	222	n.m
Net investment result	1,026	936	10%	644	560	15%
Business operating profit	1,020	1,204	(15%)	506	843	(40%)
Loss ratio	67.1%	67.3%	0.2 pts			
Expense ratio	32.4%	30.8%	(1.6 pts)			
Combined ratio	99.5%	98.1%	(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		
	2017	2016	Change	2017	2016	Change
Europe, Middle East & Africa (EMEA)	316	682	(54%)	52	355	(85%)
North America	564	465	21%	10	30	(67%)
Asia Pacific	114	131	(13%)	89	105	(14%)
Latin America	133	179	(26%)	43	31	41%
Group Reinsurance ¹	(107)	(252)	57%	(133)	(269)	50%
Total	1,020	1,204	(15%)	62	252	(75%)

¹ Including intersegment elimination.

Business operating profit decreased by USD 184 million to USD 1.0 billion as a result of the Ogden which led to a reserve strengthening in EMEA and Group Reinsurance of USD 209 million. Excluding this, Property and Casualty BOP was USD 25 million or 2 percent higher in U.S dollar terms and 6 percent on a local currency basis. Apart from the impact of Ogden, **EMEA** was further impacted by adverse losses in the UK and weather events in Switzerland and Spain, partially offset by improvements in Germany. In **North America** BOP increased to USD 564 million, primarily driven by improved hedge fund results reflected in the net investment result. In **Asia Pacific** BOP declined by USD 16 million, due to the impact of weather in Hong Kong and the disposal of the Group's operation in Taiwan in January 2017. This was partially offset by an improved loss development and growth in Japan. The acquisition of Cover-More, a provider of travel insurance and assistance solutions contributed positively to the non-technical result for the first time in the second quarter 2017. **Latin America** declined by USD 46 million as foreign exchange gains in Venezuela due to the devaluation of the bolivar, though still positive, were smaller compared to the same period of 2016. **Group Reinsurance** benefited – compared to the same period of 2016 – as negative developments in loss reserves established in prior years reduced.

BOP for **Commercial** Insurance has been impacted by reserve strengthening related to Ogden and other lines of business in EMEA, and lower prior year reserve releases for Property in North America and the UK. In addition, foreign exchange gains in Venezuela included in non-technical result were lower compared to the same period of 2016. These negative effects were partially offset by a relatively benign level of catastrophes and weather related events in EMEA and North America compared to the same period of 2016.

Operating and financial review (continued)

Gross written premiums and policy fees decreased by USD 512 million to USD 18.0 billion, or 3 percent in U.S. dollar terms or 1 percent on a local currency basis. Excluding businesses exited in South Africa, Morocco, Taiwan and the Middle East over the last twelve months, gross written premiums and policy fees decreased by USD 249 million or 1 percent in U.S. dollar terms but increased slightly on a local currency basis as a result of the continued focus on profitability and the impact of soft market conditions. Overall, rates rose by around 1 percent in the first six months of 2017.

The **net underwriting result** decreased by USD 190 million to USD 62 million, with an overall combined ratio of 99.5 percent, 1.4 percentage points higher than in the same period of 2016. Adjusted for the impact of Ogden, the net underwriting result was USD 20 million higher, resulting in an improvement of the combined ratio by 0.2 percentage points. The loss ratio improved by 1.8 percentage points, reflecting lower catastrophe and weather events, an improvement in underlying loss experience and the favorable development of loss reserves established in prior years. The expense ratio increased by 1.6 percentage points, with the commission ratio increasing across all segments reflecting changes in the business mix. The other underwriting expense ratio remained flat compared with the same period of 2016, with the effect of a lower expense base as a result of initiatives to reduce costs offset by lower premium volumes.

On a segmental basis, the net underwriting result in **EMEA** decreased by USD 303 million, and adjusted for Ogden by USD 87 million. This development was attributable to the negative impact of weather and large loss events in Switzerland as well as higher commissions including an accounting adjustment in the UK. **North America** decreased by USD 20 million with improvements in the current accident year loss experience, despite several large hailstorms in Texas and Colorado, offset by a lower favorable development in loss reserves established in prior years and higher commissions due to changes in business mix and growth in financial lines & surety. **Asia Pacific** was USD 15 million lower than in the same period of 2016 due to adverse experience in Hong Kong and Malaysia for attritional and large losses partially offset by positive development in loss reserves established in prior years in Australia. The underwriting result in **Latin America** improved by USD 12 million, reflecting a significantly improved underlying current accident year loss ratio and a benefit from a one-time settlement of premium taxes in Brazil.

Life

in USD millions, for the six months ended June 30	2017	2016	Change
Insurance deposits	7,313	7,664	(5%)
Gross written premiums and policy fees	7,048	7,177	(2%)
Net investment income on Group investments	1,449	1,554	(7%)
Insurance benefits and losses, net of reinsurance	(4,932)	(5,480)	10%
Business operating profit	650	562	16%
Net policyholder flows ¹	2,715	4,249	(36%)
Assets under management ^{2, 3}	272,328	248,899	9%
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts (net reserves) ³	220,553	203,037	9%

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, 2017 and December 31, 2016, respectively.

BOP by segment

in USD millions, for the six months ended June 30	2017	2016	Change
Europe, Middle East & Africa (EMEA)	438	448	(2%)
North America	(16)	(19)	14%
Asia Pacific	78	12	nm
Latin America	149	121	23%
Group Reinsurance ¹	1	–	n/a
Total	650	562	16%

¹ Including intersegment elimination.

Business operating profit increased by USD 88 million to USD 650 million, or 16 percent in U.S. dollar terms and 18 percent on a local currency basis, with increases in all segments on a local currency basis. The majority of the improvement occurred in **Asia Pacific**, which benefited both from organic and inorganic growth, as well as the effect of positive market movements. In addition, business operating profit in the same period of 2016 included the effects of expenses related to the acquisition of the retail life insurance protection business of Macquarie Group in Australia. In **EMEA**, the improvement on a local currency basis arose due to lower overall costs, though was offset by a deterioration in the investment margin and lower fee revenue in Germany. In **Latin America**, higher overall volumes and the positive effect of a one-time settlement of premium taxes in Brazil were the main contributors on a local currency basis. In **North America** improved claims experience and investment margin were the main drivers behind the increase.

Gross written premiums, policy fees and insurance deposits decreased by USD 481 million to USD 14.4 billion, or by 3 percent in U.S. dollar terms, but remained flat on a local currency basis. On a local currency basis, improvements occurred in Latin America, from higher sales of individual protection products in Zurich Santander and a large corporate contract in the Zurich-branded business in Chile, coupled with growth in Asia Pacific. These positive effects were offset in EMEA, following a reduction in sales of individual savings products in Germany and Spain.

Net policyholder flows were positive at USD 2.7 billion, though USD 1.5 billion lower compared with the same period of 2016. The majority of the reduction occurred in the retail business in EMEA driven by lower sales of individual savings products in Spain. **Assets under management** increased by 9 percent in U.S. dollar terms and 3 percent on a local currency basis compared with December 31, 2016. The local currency increase was driven by favorable market movements and positive net policyholder flows. In U.S. dollar terms, a further improvement was driven by the impact of the weaker U.S. dollar against the euro and the British pound, compared to December 31, 2016, on investments denominated in euro and British pounds.

Operating and financial review (continued)

Source of earnings ¹	in USD millions, for the six months ended June 30	2017	2016	Change
Loadings and fees		1,654	1,669	(1%)
Investment margin		252	258	(2%)
Technical margin		492	397	24%
Operating and funding costs		(655)	(660)	1%
Acquisition costs		(1,187)	(1,191)	–
Impact of deferrals		94	89	6%
Business operating profit		650	562	16%

¹ Each line represents the Group's interest after deducting non-controlling interests, amounting in total to USD 145 million in 2017 and USD 122 million in 2016 in business operating profit.

Viewed by profit sources and on a local currency basis, business operating profit benefited from higher loadings and fees, as well as an improved technical margin. In addition, an improvement in operating costs was more than offset by increases in acquisition costs and policyholder taxes.

Loadings and fees deteriorated by 1 percent in U.S. dollar terms, but improved 2 percent on a local currency basis. In local currency, growth in Asia Pacific was the main driver of the increase, which benefited from the recent acquisitions of MAA Takaful Berhad insurance company in Malaysia and the retail life insurance protection business of Macquarie Group in Australia. Higher volumes in Latin America and the positive effect of market movements on fund values in EMEA further contributed to the increase. These were partially offset by a reduction of fee revenue in Germany due to decreasing volumes of single premium business. **Investment margin** deteriorated by 2 percent both in U.S. dollar terms and on a local currency basis. Improvements from positive market movements in Asia Pacific and higher spreads in North America, were more than offset by a deterioration in Germany. **Technical margin** improved by 24 percent in U.S. dollar terms and 25 percent on a local currency basis, predominantly driven by the growing life insurance protection books of business in Asia Pacific, predominantly Australia and Japan, and improved claims experience in North America and Latin America.

Operating and funding costs improved by 1 percent in U.S. dollar terms, but deteriorated by 3 percent on a local currency basis. In local currency, the positive impact of expense reductions across EMEA was offset by investments in Asia Pacific, largely resulting from growth initiatives and the cost of integrating the recently acquired businesses.

Acquisition costs remained flat in U.S. dollar terms, but deteriorated by 2 percent on a local currency basis. The increase on a local currency basis reflected higher volumes of business in Asia Pacific and in Latin America, with a partial offset in EMEA primarily due to a reduction in volumes of single premium business in Germany. The positive contribution from the **impact of deferrals** increased by 6 percent both in U.S. dollar terms and on a local currency basis, driven by the effect of positive market movements, deferrals of higher acquisition costs where business has been growing and lower deferrals of fees in Germany, resulting from the decrease in single premium business.

**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	
	2017	2016	2017	2016	2017	2016
	Europe, Middle East & Africa (EMEA)	328	335	1,596	1,621	21.6%
North America	17	15	25	36	67.5%	42.8%
Asia Pacific	78	47	87	73	90.9%	65.2%
Latin America	80	56	566	473	22.4%	19.4%
Total	503	453	2,275	2,203	25.3%	23.9%

**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	
	2017	2016	2017	2016	2017	2016
	Protection	389	342	787	689	63.5%
Corporate Pensions	49	88	632	618	7.8%	14.3%
Unit Linked	78	39	607	484	14.2%	8.9%
Annuities and Savings	(14)	(16)	250	411	(7.1%)	(5.2%)
Total	503	453	2,275	2,203	25.3%	23.9%

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 USD 73 million to USD 2.3 billion, or 3 percent in U.S. dollar terms, and 7 percent on a local currency basis. On a local currency basis the largest improvement occurred in EMEA, driven by higher corporate sales across most countries, and higher retail sales of unit-linked products in the UK, Ireland and Italy, more than offsetting reductions in sales of individual savings products in Spain and Italy. Latin America also improved, largely driven by higher sales of corporate protection business in the Zurich-branded business in Chile. In Asia Pacific the increase reflects the impact of MAA Takaful Berhad in Malaysia, which was acquired in 2016. These positive impacts were partly offset by lower new business sales in North America.

New business value increased by USD 50 million to USD 503 million, or 11 percent in U.S. dollar terms, and 14 percent on a local currency basis. On a local currency basis, the largest improvement occurred in Asia Pacific, mostly benefiting from positive changes to operating assumptions in Japan. In addition, EMEA benefited from the effect of higher volumes of new business. Favorable product mix drove increases in Latin America and North America, the latter offset by reductions in sales.

New business margin improved by 1.5 percentage points to 25 percent, with improvements in all segments except EMEA. The most notable improvements occurred in Asia Pacific following the positive effect of assumptions changes in Japan. In Latin America reducing interest rates in Brazil resulted in an improved margin on individual protection business. In EMEA, improvements in Italy and Spain, resulting from a shift in sales from individual savings to unit-linked business, were more than offset by the effects of an overall increase in sales of lower margin corporate business.

Operating and financial review (continued)

Farmers

in USD millions, for the six months ended June 30	2017	2016	Change
Farmers Management Services (FMS)	700	697	–
Farmers Re	6	(19)	nm
Farmers Life ¹	87	88	(1%)
Total business operating profit	794	766	4%

¹ Reflects management view and contains the ongoing business and certain closed books of Farmers New World Life Insurance Company (FNWL)

Farmers business operating profit increased by USD 28 million to USD 794 million, or by 4 percent. **Farmers Management Services** business operating profit increased by USD 3 million to USD 700 million, driven by growth in gross earned premiums of the **Farmers Exchanges**¹ partially offset by higher expenses. **Farmers Life** business operating profit remained in line with the same period of 2016. **Farmers Re** business operating profit increased by USD 25 million to USD 6 million due to a 4.1 percentage point improvement in the combined ratio, partially offset by lower investment income.

Farmers Management Services

in USD millions, for the six months ended June 30	2017	2016	Change
Management fees and other related revenues	1,438	1,422	1%
Management and other related expenses	(750)	(746)	(1%)
Gross management result	688	675	2%
Managed gross earned premium margin	7.0%	7.0%	–

Management fees and other related revenues of USD 1.4 billion increased USD 16 million, or 1 percent, due to growth in gross earned premiums of the Farmers Exchanges across most lines of business. **Management and other related expenses** increased slightly to USD 750 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	2017	2016	Change
Gross written premiums and policy fees	772	759	2%
Net underwriting result	(23)	(54)	56%
Loss ratio	71.0%	75.1%	4.1 pts
Expense ratio	32.0%	32.0%	–
Combined ratio	103.0%	107.1%	4.1 pts

Gross written premiums and policy fees increased by USD 14 million to USD 772 million, or by 2 percent, as a result of an increase in gross written premiums at the Farmers Exchanges. Participation in the All Lines quota share reinsurance agreement remained unchanged at 8 percent.

The **net underwriting result** improved by USD 30 million to a loss of USD 23 million driven by a 4.1 percentage point improvement in the combined ratio. The **loss ratio** decreased 4.1 percentage points as a result of favorable development of loss reserves established in prior years, improved underlying loss ratio and slightly lower catastrophe events. The **expense ratio** remained flat at 32 percent.

¹ The Farmers Exchanges are owned by their policyholders. Farmers Group Inc., a wholly owned subsidiary of the Group, provides certain non-claims administrative and management services to the Farmers Exchanges as attorney-in-fact and receives fees for its services.

Farmers Life

in USD millions, for the six months ended June 30	2017	2016	Change
Insurance deposits	80	83	(4%)
Gross written premiums and policy fees	438	439	–
New business annual premium equivalent (APE)	46	46	–
New business value (NBV)	49	42	16%
Assets under management ^{1, 2}	5,335	6,823	(22%)
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts (net reserves) ²	4,537	6,080	(25%)

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, 2017 and December 31, 2016, respectively.

Insurance deposits decreased by USD 3 million to USD 80 million. **Gross written premiums and policy fees** decreased by USD 1 million to USD 438 million.

APE remained unchanged despite lower cross-sell opportunities. **NBV** increased mainly due to improved persistency, expense assumptions and sales mix, partially offset by the negative effect of higher interest rates on certain individual protection business.

Assets under management decreased by USD 1.5 billion to USD 5.3 billion and **total reserves** decreased by USD 1.5 billion to USD 4.5 billion. Reductions in both items were driven by an agreement signed in the second quarter of 2017 with Reinsurance Group of America to reinsure a portion of Farmers Life's closed U.S. annuity book.

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	2017	2016	Change
Gross written premiums	10,047	9,883	2%
Gross earned premiums	9,846	9,652	2%

Gross written premiums in the Farmers Exchanges increased by USD 164 million to USD 10.0 billion, or by 2 percent. Growth in most lines of business from continuing operations was primarily driven by rate increases in Auto and was partially offset by decreases in the discontinued 21st Century operations.

Gross earned premiums in the Farmers Exchanges increased by USD 194 million to USD 9.8 billion, or by 2 percent.

Operating and financial review (continued)

Group Functions and Operations

in USD millions, for the six months ended June 30	2017	2016	Change
Holding and Financing	(217)	(293)	26%
Headquarters	(84)	(103)	18%
Total business operating profit	(301)	(395)	24%

Holding and Financing business operating loss of USD 217 million is an improvement of USD 76 million or 26 percent in U.S. dollar terms and 23 percent on a local currency basis. This was primarily driven by favorable foreign exchange impacts and savings in administration costs, which were partly offset by an increase in external debt expenses.

Headquarters recorded a business operating loss of USD 84 million, USD 19 million lower compared to the same period of 2016, or 18 percent both in U.S. dollar terms and in local currency, as a result of net underlying expense savings.

Non-Core Businesses

in USD millions, for the six months ended June 30	2017	2016	Change
Zurich Legacy Solutions	(44)	2	nm
Other run-off	47	25	91%
Total business operating profit	3	26	(89%) %

Zurich Legacy Solutions, which predominantly comprises P&C run-off portfolios, reported a business operating loss of USD 44 million. A reserve strengthening of USD 80 million in a UK legacy book as a result of Ogden was partially offset by releases in other run-off portfolios.

Other run-off, which largely comprises U.S. life insurance and annuity portfolios, reported a USD 23 million increase in business operating profit. This arose primarily from the release of long-term reserves as a consequence of in-force management activities in a closed Life book, and market value volatility.

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Consolidated financial statements

Contents

Consolidated income statements	19
Consolidated statements of comprehensive income	20
Consolidated balance sheets	22
Consolidated statements of cash flows	24
Consolidated statements of changes in equity	26
1. Basis of presentation	28
2. Acquisitions and divestments	31
3. Group investments	34
4. Liabilities for insurance contracts and reinsurers' share of liabilities for insurance contracts	36
5. Policyholder dividends and participation in profits	39
6. Deferred policy acquisition costs and deferred origination costs	40
7. Attorney-in-fact contracts, goodwill and other intangible assets	41
8. Restructuring provisions	43
9. Income taxes	44
10. Senior and subordinated debt	45
11. Commitments and contingencies, legal proceedings and regulatory investigations	46
12. Fair value measurement	48
13. Segment information	52
14. Events after the balance sheet date	63
Review report of the auditors	64

Consolidated income statements

in USD millions, for the six months ended June 30	Notes	2017	2016
Revenues			
Gross written premiums		25,168	25,804
Policy fees		1,283	1,274
Gross written premiums and policy fees		26,451	27,079
Less premiums ceded to reinsurers		(4,097)	(4,411)
Net written premiums and policy fees		22,354	22,668
Net change in reserves for unearned premiums		(2,279)	(1,436)
Net earned premiums and policy fees		20,074	21,231
Farmers management fees and other related revenues		1,438	1,422
Net investment result on Group investments	3	3,091	3,651
Net investment income on Group investments		2,602	2,816
Net capital gains/(losses) and impairments on Group investments		489	835
Net investment result on unit-linked investments		5,875	4,233
Net gains/(losses) on divestment of businesses		12	5
Other income		555	581
Total revenues		31,046	31,124
Benefits, losses and expenses			
Insurance benefits and losses, gross of reinsurance		14,408	17,901
Less ceded insurance benefits and losses		(447)	(2,272)
Insurance benefits and losses, net of reinsurance		13,961	15,630
Policyholder dividends and participation in profits, net of reinsurance	5	6,370	4,497
Underwriting and policy acquisition costs, net of reinsurance		4,390	4,301
Administrative and other operating expense		3,339	3,625
Interest expense on debt		210	208
Interest credited to policyholders and other interest		267	266
Total benefits, losses and expenses		28,538	28,526
Net income before income taxes		2,508	2,597
<i>of which is attributable to non-controlling interests</i>		<i>215</i>	<i>224</i>
Income tax (expense)/benefit	9	(869)	(835)
attributable to policyholders	9	(79)	(83)
attributable to shareholders	9	(790)	(752)
<i>of which is attributable to non-controlling interests</i>		<i>(79)</i>	<i>(74)</i>
Net income after taxes		1,638	1,763
attributable to non-controlling interests		135	149
attributable to shareholders		1,503	1,613
in USD			
Basic earnings per share		10.03	10.81
Diluted earnings per share		9.97	10.75
in CHF			
Basic earnings per share		9.97	10.61
Diluted earnings per share		9.91	10.55

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
2016			
Comprehensive income for the period	1,613	1,891	257
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		2,687	302
Reclassification to income statement (before tax, foreign currency translation effects and allocation to policyholders)		(249)	(6)
Deferred income tax (before foreign currency translation effects)		(545)	(48)
Foreign currency translation effects		(3)	9
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

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
55	2,203	7	(788)	(781)	1,422	3,036	237	3,272
79	3,069	9	(1,182)	(1,173)	1,896			
(24)	(279)	–	–	–	(279)			
–	(592)	(2)	247	246	(347)			
–	6	–	146	146	152			
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)			

Consolidated financial statements (continued)

Consolidated balance sheets

Assets	in USD millions, as of	Notes	06/30/17	12/31/16
Assets:				
Cash and cash equivalents			6,598	7,197
Total Group investments		3	189,665	182,611
Equity securities			16,724	15,908
Debt securities			145,277	140,181
Real estate held for investment			11,534	10,562
Mortgage loans			7,127	6,794
Other loans			8,984	9,146
Investments in associates and joint ventures			20	20
Investments for unit-linked contracts			137,208	125,907
Total investments			326,873	308,518
Reinsurers' share of liabilities for insurance contracts		4	19,094	18,347
Deposits made under reinsurance contracts			2,007	1,764
Deferred policy acquisition costs		6	19,002	17,796
Deferred origination costs		6	447	426
Accrued investment income ¹			1,639	1,653
Receivables and other assets			18,574	16,103
Deferred tax assets			1,446	1,448
Assets held for sale ²			62	530
Property and equipment			1,003	953
Attorney in fact contracts			1,025	1,025
Goodwill		7	2,394	1,795
Other intangible assets		7	5,013	4,795
Total assets			405,177	382,348

¹ Accrued investment income on unit-linked investments amounts to USD 176 million and USD 91 million as of June 30, 2017 and December 31, 2016, respectively.

² As of June 30, 2017, assets held for sale includes land and buildings formerly classified as investment property and held for own use amounting to USD 41 million and USD 21 million, respectively. As of December 31, 2016, includes USD 456 million of assets reclassified based on agreements signed to sell businesses in Taiwan and Middle East (see note 2). In addition, assets held for sale includes land and buildings formerly classified as investment property and held for own use amounting to USD 67 million and USD 7 million, respectively.

Liabilities
and equity

in USD millions, as of	Notes	06/30/17	12/31/16
Liabilities			
Liabilities for investment contracts		76,535	69,113
Deposits received under ceded reinsurance contracts		593	568
Deferred front-end fees		5,175	4,872
Liabilities for insurance contracts	4	252,604	239,369
Obligations to repurchase securities		1,657	1,280
Accrued liabilities		2,862	3,038
Other liabilities		17,129	15,571
Deferred tax liabilities		4,680	4,562
Liabilities held for sale ¹		–	290
Senior debt	10	4,389	4,162
Subordinated debt	10	6,814	7,050
Total liabilities		372,438	349,875
Equity			
Share capital		11	11
Additional paid-in capital		1,091	1,348
Net unrealized gains/(losses) on available-for-sale investments		3,133	2,809
Cash flow hedges		415	418
Cumulative foreign currency translation adjustment		(9,148)	(9,973)
Revaluation reserve		218	235
Retained earnings		34,997	35,812
Shareholders' equity		30,717	30,660
Non-controlling interests		2,023	1,813
Total equity		32,740	32,473
Total liabilities and equity		405,177	382,348

¹ As of December 31, 2016, includes USD 290 million of liabilities reclassified based on agreements signed to sell businesses in Taiwan and Middle East (see note 2).

Consolidated financial statements (continued)

Consolidated statements of cash flows

in USD millions, for the six months ended June 30	2017	2016
Cash flows from operating activities		
Net income attributable to shareholders	1,503	1,613
Adjustments for:		
Net (gains)/losses on divestment of businesses	(12)	(5)
(Income)/expense from equity method accounted investments	(2)	(1)
Depreciation, amortization and impairments of fixed and intangible assets	376	386
Other non-cash items	226	169
Underwriting activities:	7,794	6,652
<i>Liabilities for insurance contracts, gross</i>	4,999	5,483
<i>Reinsurers' share of liabilities for insurance contracts</i>	143	(1,340)
<i>Liabilities for investment contracts</i>	3,102	2,929
<i>Deferred policy acquisition costs</i>	(428)	(373)
<i>Deferred origination costs</i>	7	21
<i>Deposits made under assumed reinsurance contracts</i>	(33)	(65)
<i>Deposits received under ceded reinsurance contracts</i>	4	(3)
Investments:	(6,347)	(6,197)
<i>Net capital (gains)/losses on total investments and impairments</i>	(5,603)	(4,151)
<i>Net change in derivatives</i>	(98)	(78)
<i>Net change in money market investments</i>	(540)	(297)
<i>Sales and maturities</i>		
<i>Debt securities</i>	39,220	34,516
<i>Equity securities</i>	22,785	23,755
<i>Other</i>	4,106	3,207
<i>Purchases</i>		
<i>Debt securities</i>	(40,263)	(35,980)
<i>Equity securities</i>	(22,208)	(24,015)
<i>Other</i>	(3,746)	(3,154)
Net changes in sale and repurchase agreements	298	(145)
Movements in receivables and payables	(621)	(146)
Net changes in other operational assets and liabilities	(587)	(532)
Deferred income tax, net	(42)	65
Net cash provided by/(used in) operating activities	2,586	1,860

in USD millions, for the six months ended June 30	2017	2016
Cash flows from investing activities		
Additions to tangible and intangible assets	(241)	(267)
Disposals of tangible and intangible assets	20	44
(Acquisitions)/disposals of equity method accounted investments, net	(14)	(3)
Acquisitions of companies, net of cash acquired	(522)	(626)
Divestments of companies, net of cash divested	220	(48)
Net cash provided by/(used in) investing activities	(537)	(900)
Cash flows from financing activities		
Dividends paid	(2,553)	(2,643)
Issuance of share capital	52	21
Net movement in treasury shares	17	13
Issuance of debt	–	2,073
Repayment of debt	(505)	(1,606)
Net cash provided by/(used in) financing activities	(2,988)	(2,142)
Foreign currency translation effects on cash and cash equivalents	306	31
Change in cash and cash equivalents	(632)	(1,151)
Cash and cash equivalents as of January 1	7,948	9,193
Cash and cash equivalents as of June 30	7,316	8,042
of which:		
– Group investments	6,598	7,345
– Unit-linked	717	697
Other supplementary cash flow disclosures		
Other interest income received	2,475	2,557
Dividend income received	830	1,024
Other interest expense paid	(427)	(383)
Income taxes paid	(699)	(762)

Cash and cash equivalents

in USD millions, as of June 30	2017	2016
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	6,649	6,519
Cash equivalents	667	1,523
Total¹	7,316	8,042

¹ Includes cash and cash equivalents for unit-linked contracts of USD 717 million and USD 697 million as of June 30, 2017 and 2016, respectively.

For both periods ending June 30, 2017 and 2016, cash and cash equivalents held to meet local regulatory requirements were USD 734 million.

Consolidated financial statements (continued)

Consolidated statements of changes in equity

in USD millions

	Share capital	Additional paid-in capital
Balance as of December 31, 2015	11	3,245
Issuance of share capital ¹	–	27
Dividends to shareholders ²	–	(1,949)
Share-based payment transactions	–	(80)
Treasury share transactions ³	–	21
Change in ownership interests with no loss of control	–	–
Total comprehensive income for the period, net of tax	–	–
<i>Net income</i>	–	–
<i>Net unrealized gains/(losses) on available-for-sale investments</i>	–	–
<i>Cash flow hedges</i>	–	–
<i>Cumulative foreign currency translation adjustment</i>	–	–
<i>Revaluation reserve</i>	–	–
<i>Net actuarial gains/(losses) on pension plans</i>	–	–
Net changes in capitalization of non-controlling interests	–	–
Balance as of June 30, 2016	11	1,263
Balance as of December 31, 2016	11	1,348
Issuance of share capital ¹	–	197
Dividends to shareholders ⁴	–	(510)
Share-based payment transactions	–	(76)
Treasury share transactions ³	–	132
Reclassification from revaluation reserves	–	–
Total comprehensive income for the period, net of tax	–	–
<i>Net income</i>	–	–
<i>Net unrealized gains/(losses) on available-for-sale investments</i>	–	–
<i>Cash flow hedges</i>	–	–
<i>Cumulative foreign currency translation adjustment</i>	–	–
<i>Revaluation reserve</i>	–	–
<i>Net actuarial gains/(losses) on pension plans</i>	–	–
Net changes in capitalization of non-controlling interests	–	–
Balance as of June 30, 2017	11	1,091

¹ The number of common shares issued as of June 30, 2017 was 151,333,375 (June 30, 2016: 150,530,512, December 31, 2016: 150,607,406, December 31, 2015: 150,404,964).

² As approved by the Annual General Meeting on March 30, 2016, the dividend of CHF 17 per share was paid out of the capital contribution reserve on April 5, 2016. The difference between the respective amounts of the dividend at transaction day exchange rates amounting to USD 2.6 billion and at historical exchange rates are reflected in the cumulative foreign currency translation adjustment.

³ The number of treasury shares deducted from equity as of June 30, 2017 amounted to 1,160,477 (June 30, 2016: 1,207,116, December 31, 2016: 1,203,523, December 31, 2015: 1,243,931).

⁴ As approved by the Annual General Meeting on March 29, 2017, the dividend of CHF 17 per share was paid out of the capital contribution reserve and retained earnings on April 4, 2017. The difference between the respective amounts of the dividend at transaction day exchange rates amounting to USD 2.6 billion and at historical exchange rates are reflected in the cumulative foreign currency translation adjustment.

Net unrealized gains/(losses) on available-for-sale investments	Cash flow hedges	Cumulative foreign currency translation adjustment	Revaluation reserve	Retained earnings	Shareholders' equity	Non-controlling interests	Total equity
2,556	294	(9,347)	228	34,192	31,178	1,725	32,904
-	-	-	-	-	27	-	27
-	-	-	-	(653)	(2,602)	-	(2,602)
-	-	-	-	40	(40)	-	(40)
-	-	-	-	11	31	-	31
-	-	-	-	2	2	-	2
1,891	257	55	7	826	3,036	237	3,272
-	-	-	-	1,613	1,613	-	-
1,891	-	-	-	-	1,891	-	-
-	257	-	-	-	257	-	-
-	-	55	-	-	55	-	-
-	-	-	7	-	7	-	-
-	-	-	-	(788)	(788)	-	-
-	-	-	-	-	-	(57)	(57)
4,447	551	(9,292)	235	34,418	31,632	1,904	33,537
2,809	418	(9,973)	235	35,812	30,660	1,813	32,473
-	-	-	-	-	197	-	197
-	-	-	-	(2,129)	(2,639)	(1)	(2,640)
-	-	-	-	5	(71)	-	(71)
-	-	-	-	(115)	17	-	17
-	-	-	-	14	14	-	14
323	(3)	825	(17)	1,410	2,539	220	2,759
-	-	-	-	1,503	1,503	-	-
323	-	-	-	-	323	-	-
-	(3)	-	-	-	(3)	-	-
-	-	825	-	-	825	-	-
-	-	-	(17)	-	(17)	-	-
-	-	-	-	(93)	(93)	-	-
-	-	-	-	-	-	(9)	(9)
3,133	415	(9,148)	218	34,997	30,717	2,023	32,740

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, 2017 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 2016 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, 2017 should be read in conjunction with the Group's Annual Report 2016.

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

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

Table 1.1 summarizes the principal exchange rates used for translation purposes. Net gains/(losses) on foreign currency transactions included in the consolidated income statements were USD 76 million and USD 117 million, of which USD 72 million and USD 130 million related to Venezuela, for the six months ended June 30, 2017 and 2016, respectively. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD 59 million and USD (118) million for the six months ended June, 2017 and 2016, respectively.

Table 1.1

USD per foreign currency unit

	Consolidated balance sheets at end-of-period exchange rates		Consolidated income statements and cash flows at average exchange rates	
	06/30/17	12/31/16	06/30/17	06/30/16
Euro	1.1406	1.0557	1.0827	1.1164
Swiss franc	1.0436	0.9845	1.0058	1.0188
British pound	1.2988	1.2346	1.2590	1.4335
Brazilian real	0.3022	0.3077	0.3147	0.2710

Principal exchange rates

Standards, amendments and interpretations effective or early adopted as of January 1, 2017 and relevant for the Group's operations

Table 1.2 shows new accounting standards or amendments to and interpretations of standards relevant to the Group that have been implemented for the financial year beginning January 1, 2017, with no material impact on the Group's financial position or performance. Amendments resulting from the IASB annual improvements project have no impact on the Group's financials.

Table 1.2

Standard/ Interpretation

Amended standards		Effective date
IAS 7	Disclosure initiative	January 1, 2017
IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	January 1, 2017

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

Table 1.3 shows new accounting standards or amendments to and interpretations of standards relevant to the Group, which are not yet effective or adopted by the Group.

Table 1.3

Standard/ Interpretation

New standards		Effective date
IFRS 15	Revenue from Contracts with Customers	January 1, 2018
IFRS 16	Leases	January 1, 2019
IFRS 9	Financial Instruments	January 1, 2021
IFRS 17	Insurance Contracts	January 1, 2021
IFRIC 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019
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 17 'Insurance contracts' and IFRS 9 'Financial Instruments'

IFRS 17 'Insurance contracts' was published on May 18, 2017 with the effective date of January 1, 2021 (retrospective application). IFRS 17 provides comprehensive guidance on accounting for insurance contracts and investment contracts with discretionary participation features. For non-life insurance contracts IFRS 17 introduces mandatory discounting of loss reserves as well as a risk adjustment for non-financial risk, for which confidence level equivalent disclosure will be required. Further, IFRS 17 will change the presentation of insurance contract revenue, as gross written premium will no longer be presented in the statement of comprehensive income.

For long duration life insurance contracts IFRS 17 is expected to have a significant impact on actuarial modeling as granular cash flow projections and regular update of all assumptions will be required either resulting in P&L volatility or impacting 'contractual service margin', a separate component of the insurance liability representing unearned profits from in-force contracts. Further, IFRS 17 introduces different measurement approaches for the insurance contract liabilities reflecting different extent of policyholder participation in investment or insurance entity performance (non-participating, indirect participating, direct participating). Due to the strong interaction between underlying assets held and the measurement of direct participating insurance contracts, the Group decided to use the option to defer the full implementation of IFRS 9 until IFRS 17 becomes effective on January 1, 2021.

Consolidated financial statements (continued)

Under IFRS 9, all equity securities and fund investments and more debt instruments will be measured as at fair value through profit or loss because the characteristics of the contractual cash flows from such instruments are not solely payments of principal and interest on the principal amount outstanding. Furthermore, credit allowances for financial assets carried at amortized cost and debt securities measured at fair value, with changes in fair value recognized in other comprehensive income (OCI), are expected to increase due to the introduction of the expected credit loss methodology. Though overall P&L volatility is expected to increase under IFRS 9, the measurement approach for direct participating contracts in IFRS 17 allows such volatility to be largely absorbed in the measurement of insurance liabilities with an option to reflect in shareholders' equity (OCI) the effect of any asset-liability mismatch.

The Group is currently assessing the impact of the application of both IFRS 17 and IFRS 9. As at the date of the publication of these consolidated financial statements it is not practicable to quantify the potential effect on the Group consolidated financial statements at the time when these standards are adopted.

IFRS 16 'Leases'

IFRS 16 'Leases' will have an impact on the accounting of contracts where the Group acts as a lessee (and intermediate lessor), especially on real estate rental contracts. The Group intends to apply the modified retrospective approach for transition to IFRS 16 and make use of the optional exemption for short-term leases and leases of low-value assets. Further, the impact on Group balance sheet as of January 1, 2019 will depend on the use of transition options available on a lease-by-lease basis. Based on the volume of in-force non-cancellable operating leases as of December 31, 2016 (see Table 22.2 of the Annual Report 2016) 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 by less than USD 2 billion. No material impact is expected in the statement of comprehensive income.

Other standards, amendments and interpretations shown in table 1.3 are expected to have no or only an insignificant impact on the Group's financial position or performance.

Reclassifications

Changes in presentation

As of January 1, 2017, cash and cash equivalents are shown outside of total investments and income from operating cash and cash equivalents is included in other income (non-technical) and not in investment income. Insurance related assets/liabilities have been reclassified from receivables and other assets, reserve for premium refunds and other liabilities to other insurance liabilities and become part of reserves for insurance contracts. Prior year comparative figures have been revised accordingly.

Reclassification of unwind of discounted reserves for losses and loss adjustment expenses

The Group has changed its presentation of the unwind of discount and changes in discount rates. As a consequence there was a shift within BOP between losses and loss adjustment expenses and interest credited to policyholders and other interest (included in the non-technical result). Prior year comparative figures have been revised accordingly.

Change in the structure of the Group

Following the changes to the Group's management effective July 1, 2016, reportable segments and their composition have been changed in accordance with IFRS 8. Prior year comparative figures have been revised accordingly.

Other adjustments

Change in the Group's BOP policy

As of January 1, 2017, the Group amended its policy relating to Business Operating Profit (BOP). The amendments mainly relate to certain litigation, earn-out and acquisition expenses which will no longer be eligible for exclusion from BOP. Prior year comparative figures have been revised accordingly, resulting in a reduction in BOP of USD 31 million and USD 36 million for the periods ended June 30, 2016 and December 31, 2016, respectively.

2. Acquisitions and divestments

Transactions in 2017

Acquisitions

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 for 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 preliminary initial purchase accounting, the fair value of net tangible assets acquired amounted to negative USD 99 million and identifiable intangible assets estimated at USD 163 million, gross of related deferred tax liabilities of USD 49 million. Residual goodwill amounted to USD 566 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 2.1 shows the main balance sheet line items as of the acquisition date, representing the preliminary fair value of Cover-More and Halo net tangible assets acquired, intangible assets and goodwill.

Table 2.1			
Cover-More preliminary Balance Sheet as of the acquisition date	in USD millions, as of April 13, 2017		Total
	Cash and cash equivalents		38
	Receivables and other assets		34
	Property and equipment		4
	Goodwill		566
	Other intangible assets		163
	Assets acquired		804
	Accrued liabilities		34
	Other liabilities		148
	Deferred tax liabilities		41
	Liabilities acquired		223
	Net assets acquired		581
	Non-controlling interests		(1)
	Total acquisition costs		580

Cover-More's net income after taxes for the three months since the acquisition date, as included in the Group consolidated income statements for the six months ended June 30, 2017, amounts to USD 4 million including transaction related costs. Pro-forma net income after taxes for the full six months ended June 30, 2017 amounts to approximately USD 12 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

On June 19, 2017, the Group closed the sale of its Property and Casualty (P&C) 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.

On January 17, 2017, the Group closed the sale of its P&C 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)

Transactions in 2016*Acquisitions**Macquarie Life Insurance Business*

On October 1, 2016, the Group completed the acquisition of a part of the Australian Macquarie Life insurance business from the Macquarie Group, a financial group based in Australia. The transaction involved the transfer of Macquarie's retail life insurance protection business together with its assets, liabilities and employees for a total consideration of approximately USD 307 million subject to a price adjustment mechanism. Based on the initial purchase accounting the net tangible assets acquired amounted to USD 109 million and identifiable intangible assets, net of related deferred tax, amounted to USD 49 million consisting of the present value of profits of acquired insurance contracts. Goodwill amounted to USD 148 million and mainly reflects future growth opportunities.

MAA Takaful Berhad

On June 30, 2016, the Group completed the acquisition of 100 percent of MAA Takaful Berhad, a family and general takaful operator incorporated in Malaysia, from MAA Group Berhad (MAA) and Solidarity Group Holding BSC (Closed), for a total purchase price of approximately USD 118 million of which an amount of approximately USD 30 million will be retained by the Group for three years. Based on the initial purchase accounting the net tangible assets acquired amounted to USD 26 million and identifiable intangible assets, net of related deferred tax, amounted to USD 30 million consisting of the present value of profits of acquired takaful contracts. Goodwill amounted to USD 63 million and mainly reflects the takaful business know-how and future growth opportunities.

Rural Community Insurance Services

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

The final purchase price amounted to USD 692 million. Based on the initial purchase accounting, the fair value of net tangible assets acquired amounted to USD 241 million and identifiable intangible assets estimated at USD 101 million which mainly consists of the valuation of agent relationships. Residual goodwill amounted to USD 350 million, which will be deductible for tax purposes. It represents the value of the RCIS workforce and management, the capabilities and related know-how of RCIS to participate in the federal crop insurance program and future growth opportunities. A 25 percent quota share reinsurance contract was in place between RCIS and the Group prior to completion of the transaction. The Group has assessed the fair value and the classification of assets and liabilities. Certain balances are presented net in receivables and other assets, as these balances will be settled on a net basis.

Table 2.2 shows the main balance sheet line items as of the acquisition date, representing the final fair value of RCIS net tangible assets acquired, intangible assets and goodwill, excluding the impact of the 25 percent quota share reinsurance contract.

Table 2.2		
RCIS final Balance Sheet as of the acquisition date	in USD millions, as of March 31, 2016	Total
	Cash and cash equivalents	183
	Reinsurers' share of liabilities for insurance contracts	235
	Receivables and other assets ¹	2,131
	Deferred tax assets	11
	Property and equipment	12
	Goodwill	350
	Other intangible assets	101
	Assets acquired	3,021
	Liabilities for insurance contracts	289
	Accrued liabilities	4
	Other liabilities	2,036
	Liabilities acquired	2,329
	Total acquisition costs	692

¹ Includes USD 980 million of balances which will be settled net.

Table 2.3 shows the result for the nine months since the acquisition date as included in the Group consolidated income statement for the year ended December 31, 2016. Furthermore, the table shows information relating to the full twelve months period to December 31, 2016. This information is based on the local statutory accounts which includes a reinsurance contract with the Group which was eliminated in the consolidated figures.

The seasonal nature of crop insurance results in the majority of gross written premiums being written in the first six months of each year, however, the premiums are then earned during the second six months of that year.

Table 2.3

Income statement information	in USD millions, information for the nine months from acquisition ended December 31, 2016	Total
	Gross written premiums	1,702
	Net income after taxes	122
	in USD millions, local statutory information for the twelve months ended December 31, 2016	
	Gross written premiums	1,676
	Net income after taxes	24

For the year ended December 31, 2016, the Group incurred transaction related costs of USD 1 million included in other administrative expenses.

Kono Insurance Limited

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

Loss of control

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

Divestments

On December 7, 2016, the Group closed the sale of its insurance business in South Africa to Fairfax Financial Holdings Limited. The contractually agreed sales price amounted to approximately USD 128 million. A pre-tax loss of USD 200 million has been recorded within net gains/(losses) on divestment of businesses.

On November 3, 2016, the Group closed the sale of its insurance business in Morocco to Allianz Group. The contractually agreed sales price amounted to approximately USD 289 million. A pre-tax gain of USD 101 million has been recorded within net gains/(losses) on divestment of businesses.

Consolidated financial statements (continued)

3. Group investments

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

Table 3.1

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	
	2017	2016	2017	2016	2017	2016	2017	2016
Investment cash	5	1	–	–	5	1	–	–
Equity securities	225	303	473	2	698	305	(33)	(146)
Debt securities	1,952	2,031	160	634	2,112	2,665	(1)	(1)
Investment property ¹	233	219	49	172	282	391	–	–
Mortgage loans	98	111	–	–	98	111	–	–
Other loans	192	220	1	(1)	192	220	–	(1)
Investments in associates and joint ventures	2	1	–	(3)	2	(2)	–	–
Derivative financial instruments	–	–	(194)	31	(194)	31	–	–
Investment result, gross, for Group investments	2,706	2,886	489	835	3,195	3,722	(33)	(147)
Investment expenses for Group investments	(104)	(70)	–	–	(104)	(70)	–	–
Investment result, net, for Group investments	2,602	2,816	489	835	3,091	3,651	(33)	(147)

¹ Rental operating expenses for investment property amounted to USD 39 million and USD 36 million for the six months ended June 30, 2017 and 2016, respectively.

Table 3.2

Details of
Group
investments
by category

as of	06/30/17		12/31/16	
	USD millions	% of total	USD millions	% of total
Equity securities:				
Fair value through profit or loss	3,720	2.0	3,359	1.8
Available-for-sale	13,004	6.9	12,548	6.9
Total equity securities	16,724	8.8	15,908	8.7
Debt securities:				
Fair value through profit or loss	5,845	3.1	5,672	3.1
Available-for-sale	137,082	72.3	131,967	72.3
Held-to-maturity	2,350	1.2	2,543	1.4
Total debt securities	145,277	76.6	140,181	76.8
Investment property	11,534	6.1	10,562	5.8
Mortgage loans	7,127	3.8	6,794	3.7
Other loans	8,984	4.7	9,146	5.0
Investments in associates and joint ventures	20	0.0	20	0.0
Total Group investments	189,665	100.0	182,611	100.0

Investments with a carrying value of USD 6.4 billion and USD 6.6 billion are held to meet local regulatory requirements as of June 30, 2017 and December 31, 2016, respectively.

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

Table 3.3

in USD millions, as of

	06/30/17	Total 12/31/16
Equity securities: available-for-sale	1,675	1,341
Debt securities: available-for-sale	9,432	9,637
Other	474	468
Gross unrealized gains/(losses) on Group investments	11,581	11,447
Less amount of unrealized gains/(losses) on investments attributable to:		
Life policyholder dividends and other policyholder liabilities	(6,363)	(6,500)
Life deferred acquisition costs and present value of future profits	(627)	(696)
Deferred income taxes	(1,008)	(1,006)
Non-controlling interests	(35)	(17)
Total¹	3,548	3,228

¹ Net unrealized gains/(losses) on Group investments include net gains arising on cash flow hedges of USD 396 million and USD 418 million as of June 30, 2017 and December 31, 2016, respectively.

Securities lending, repurchase and reverse repurchase agreements

Table 3.4

in USD millions, as of

	06/30/17	12/31/16
Securities lending agreements		
Securities lent under securities lending agreements ¹	836	3,465
Collateral received for securities lending	950	3,744
of which: cash collateral	120	126
of which: non-cash collateral ²	830	3,619
Liabilities for cash collateral received for securities lending	120	126
Repurchase agreements		
Securities sold under repurchase agreements ³	1,658	1,284
Obligations to repurchase securities	1,657	1,280
Reverse repurchase agreements		
Securities purchased under reverse repurchase agreements ⁴	122	973
Receivables under reverse repurchase agreements	120	970

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 836 million and USD 3.5 billion as of June 30, 2017 and December 31, 2016, 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 830 million and USD 3.3 billion as of June 30, 2017 and December 31, 2016, 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 775 million and USD 724 million as of June 30, 2017 and December 31, 2016, respectively. The majority of these assets were debt securities.

⁴ The Group had the right to sell or repledge, in the absence of default by its counterparties, securities received as collateral with a fair value of nil and USD 845 million as of June 30, 2017 and December 31, 2016, respectively.

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 therefrom. These securities are therefore not derecognized from the Group's 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 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)

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

Table 4.1

Liabilities for insurance contracts

in USD millions, as of	Gross		Ceded		Net	
	06/30/17	12/31/16	06/30/17	12/31/16	06/30/17	12/31/16
Reserves for losses and loss adjustment expenses ¹	62,865	61,155	(9,418)	(9,777)	53,447	51,378
Reserves for unearned premiums	19,354	16,416	(3,439)	(2,910)	15,915	13,507
Future life policyholder benefits ^{2,3}	75,851	72,440	(2,733)	(3,766)	73,117	68,674
Policyholder contract deposits and other funds ³	23,588	22,785	(3,566)	(1,958)	20,022	20,827
Reserves for unit-linked contracts	70,161	65,530	–	–	70,161	65,530
Other insurance liabilities	784	1,043	–	–	784	1,043
Total liabilities for insurance contracts⁴	252,604	239,369	(19,157)	(18,411)	233,447	220,958

¹ Includes on a net basis USD 2.7 billion and USD 2.5 billion of discounted reserves for losses and loss adjustment expenses as of June 30, 2017 and December 31, 2016.

² The Group's life operations in the UK entered into a reinsurance agreement to transfer the risk associated with a significant annuities portfolio with effect from April 1, 2015, supplemented with three further transfers of risk relating to additional annuity policies with effect from October 1, 2015, April 1, 2016 and October 1, 2016, respectively. As of June 30, 2017, the Group finalized the transfer of USD 1.5 billion of insurance assets and liabilities.

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 Total liabilities for insurance contracts ceded are gross of allowances for uncollectible amounts of USD 63 million and USD 64 million as of June 30, 2017 and December 31, 2016, respectively.

Table 4.2

Development of reserves for losses and loss adjustment expenses

in USD millions	Gross		Ceded		Net	
	2017	2016	2017	2016	2017	2016
As of January 1	61,155	62,971	(9,777)	(9,231)	51,378	53,739
Losses and loss adjustment expenses incurred:						
Current year	10,799	11,609	(1,728)	(1,894)	9,072	9,715
Prior years	(534)	(295)	459	90	(74)	(205)
Total incurred	10,266	11,314	(1,268)	(1,803)	8,997	9,510
Losses and loss adjustment expenses paid:						
Current year	(2,513)	(2,699)	268	226	(2,245)	(2,473)
Prior years	(7,769)	(8,199)	1,585	1,182	(6,184)	(7,017)
Total paid	(10,281)	(10,898)	1,852	1,408	(8,429)	(9,490)
Interest effects of discounted reserves	55	24	–	–	54	24
Acquisitions/(divestments) and transfers ¹	11	(263)	2	(101)	13	(364)
Foreign currency translation effects	1,660	(114)	(227)	8	1,433	(107)
As of June 30	62,865	63,033	(9,418)	(9,720)	53,447	53,313

¹ The 2017 net movement relates to the divestment of operations in Middle East and Taiwan and the acquisition of MAA Takaful Berhad (see note 2). The 2016 net movement includes USD 29 million relating to the acquisition of RCIS, USD 40 million relating to the acquisition of Kono Insurance Limited and USD (433) million relating to divestments (see note 2).

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

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

The 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 and Africa (EMEA) and Non-Core Businesses. The unfavorable reserve 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 reserves of USD 289 million.

The decrease of USD 426 million during the first six months of 2016 in net reserves for losses and loss adjustment expenses is driven by the transfer of the net reserves of USD 433 million for divested operations (see note 2) as well as a decrease of USD 107 million due to foreign currency translation effects. In addition, for the first six months of 2016 net favorable reserve development emerged from reserves established in prior years amounting to USD 205 million (before considering the offsetting unfavorable impact due to unwind of discount of USD 24 million). The main reductions were in North America and EMEA, partially offset by Group Reinsurance.

Table 4.3

Development of
future life
policyholder
benefits

in USD millions	Gross		Ceded		Net	
	2017	2016	2017	2016	2017	2016
As of January 1	72,440	71,952	(3,766)	(4,016)	68,674	67,935
Premiums ^{1,2}	6,192	6,507	(656)	(415)	5,535	6,093
Claims	(4,999)	(4,484)	373	311	(4,626)	(4,173)
Fee income and other expenses	(1,834)	(1,711)	3	36	(1,831)	(1,675)
Interest and bonuses credited to policyholders	1,062	1,437	(100)	(87)	962	1,350
Changes in assumptions	(19)	62	–	–	(19)	62
Acquisitions/(divestments) and transfers ^{1,3}	(1,525)	(49)	1,525	5	–	(44)
Increase/(decrease) recorded in other comprehensive income	20	190	–	–	20	190
Foreign currency translation effects	4,515	1,350	(113)	206	4,402	1,556
As of June 30	75,851	75,254	(2,733)	(3,961)	73,117	71,293

¹ The Group's life operations in the UK entered into a reinsurance agreement to transfer the risk associated with a significant annuities portfolio with effect from April 1, 2015, supplemented with three further transfers of risk relating to additional annuity policies with effect from October 1, 2015, April 1, 2016 and October 1, 2016, respectively. As of June 30, 2017, the Group finalized the transfer of USD 1.5 billion of insurance assets and liabilities.

² 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.

³ The 2016 net movement of USD (44) million relates to acquisitions and divestments (see note 2).

Table 4.4

Policyholder
contract
deposits and
other funds gross

in USD millions, as of	06/30/17	12/31/16
Universal life and other contracts	12,599	12,126
Policyholder dividends	10,990	10,658
Total	23,588	22,785

Consolidated financial statements (continued)

Development of policyholder contract deposits and other funds	Table 4.5					
	in USD millions					
	Gross		Ceded		Net	
	2017	2016	2017	2016	2017	2016
As of January 1	22,785	22,076	(1,958)	(1,956)	20,827	20,121
Premiums ¹	488	573	(1,682)	(28)	(1,194)	545
Claims	(537)	(573)	122	66	(415)	(507)
Fee income and other expenses	(200)	(233)	1	(4)	(199)	(236)
Interest and bonuses credited to policyholders	497	290	(49)	(38)	448	253
Acquisitions/(divestments) and transfers ²	–	(8)	–	–	–	(8)
Increase/(decrease) recorded in other comprehensive income	(569)	2,092	–	–	(569)	2,092
Foreign currency translation effects	1,125	273	–	–	1,125	273
As of June 30	23,588	24,492	(3,566)	(1,959)	20,022	22,533

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.

² The 2016 net movement of USD (8) million relates to reclassifications to liabilities held for sale (see note 2).

5. Policyholder dividends and participation in profits

Policyholder dividends and participation in profits	Table 5	
	in USD millions, for the six months ended June 30	
	2017	2016
Change in policyholder contract deposits and other funds	458	204
Change in reserves for unit-linked products	2,775	2,184
Change in liabilities for investment contracts – unit-linked	3,136	2,086
Change in liabilities for investment contracts – other	96	112
Change in unit-linked liabilities related to UK capital gains tax	(94)	(89)
Total policyholder dividends and participation in profits	6,370	4,497

Consolidated financial statements (continued)

6. Deferred policy acquisition costs and deferred origination costs

Table 6.1

Development of
deferred policy
acquisition costs

in USD millions	Property and Casualty		Life		Other segments ¹		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
As of January 1	4,830	4,226	11,117	11,690	1,849	1,761	17,796	17,677
Acquisition costs deferred	2,263	2,110	847	752	270	268	3,380	3,130
Amortization	(1,953)	(1,863)	(755)	(645)	(243)	(248)	(2,952)	(2,756)
Impairments	–	(1)	–	–	(55)	–	(56)	(1)
Amortization (charged)/ credited to other comprehensive income	–	–	85	(259)	16	(28)	101	(287)
Acquisitions/(divestments) and transfers ²	–	(28)	–	(16)	–	20	–	(24)
Foreign currency translation effects	97	120	636	(230)	1	–	734	(109)
As of June 30	5,236	4,564	11,930	11,293	1,836	1,772	19,002	17,629

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

As of June 30, 2017, December 31, 2016 and June 30, 2016, deferred policy acquisition costs relating to non-controlling interests were USD 433 million, USD 407 million and USD 399 million, respectively.

Table 6.2

Development of
deferred
origination costs

in USD millions	2017	2016
As of January 1	426	506
Origination costs deferred	30	18
Amortization	(36)	(39)
Foreign currency translation effects	28	(22)
As of June 30	447	463

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

Table 7.1

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, 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 other comprehensive income	–	–	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 relating to non-controlling interests were USD 77 million for the 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 related to goodwill and USD 163 million to other intangible assets (see note 2).

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

Table 7.2

Intangible assets by business – current period

in USD millions, as of June 30, 2017	Attorney- in-fact contracts	Goodwill	PVFP	Distribution agreements	Software	Other	Total
Property and Casualty	–	1,396	–	855	633	162	3,046
Life	–	179	442	2,011	345	1	2,978
Farmers	1,025	819	78	–	383	–	2,306
Group Functions and Operations	–	–	–	–	102	–	102
Net carrying value	1,025	2,394	520	2,866	1,464	163	8,432

Consolidated financial statements (continued)

Table 7.3

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

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

As of June 30, 2016, intangible assets relating to non-controlling interests were USD 87 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1.2 billion for distribution agreements and USD 15 million for software.

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

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

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

Table 7.4

Intangible assets
by business –
prior period

in USD millions, as of December 31, 2016	Attorney- in-fact contracts	Goodwill	PVFP	Distribution agreements	Software	Other	Total
Property and Casualty	–	808	–	744	591	127	2,269
Life	–	168	418	1,969	371	1	2,927
Farmers	1,025	819	86	–	389	–	2,320
Group Functions and Operations	–	–	–	–	99	–	99
Net carrying value	1,025	1,795	504	2,713	1,450	128	7,615

8. Restructuring provisions

Table 8			
Restructuring provisions	in USD millions	2017	2016
		As of January 1	334
	Provisions made during the period	92	53
	Increase of provisions set up in prior years	27	67
	Provisions used during the period	(143)	(165)
	Provisions reversed during the period	(24)	(9)
	Foreign currency translation effects	16	11
	As of June 30	302	343

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, impacting mainly Property and Casualty in North America and Europe, Middle East and Africa.

During the six months ended June 30, 2016, the Group incurred total restructuring costs of USD 144 million, of which USD 112 million net increases in restructuring provisions, impacting mainly Property and Casualty in North America and Europe, Middle East and Africa.

Consolidated financial statements (continued)

9. Income taxes

Table 9.1

Income tax
expense –
current/deferred
split

in USD millions, for the six months, ended June 30		2017	2016
Current		912	769
Deferred		(42)	65
Total income tax expense/(benefit)		869	835

Table 9.2

Expected and
actual income
tax expense

in USD millions, for the six months ended June 30		Rate	2017	Rate	2016
Net income before income taxes			2,508		2,597
less: income tax (expense)/benefit attributable to policyholders			(79)		(83)
Net income before income taxes attributable to shareholders			2,429		2,515
Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%		534	22.0%	553
Increase/(reduction) in taxes resulting from:					
<i>Tax rate differential in foreign jurisdictions</i>			196		173
<i>Tax exempt and lower taxed income</i>			(67)		(27)
<i>Non-deductible expenses</i>			70		53
<i>Tax losses not recognized</i>			(31)		(53)
<i>Prior year adjustments and other</i>			88		53
Actual income tax expense attributable to shareholders	32.5%		790	29.9%	752
plus: income tax expense/(benefit) attributable to policyholders			79		83
Actual income tax expense	34.7%		869	32.1%	835

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

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

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 OCI and an accrual for future policy fees to recover the tax charge is included in policy fee revenue.

10. Senior and subordinated debt

Table 10

Senior and
subordinated debt

in USD millions, as of		06/30/17	12/31/16
Senior debt			
Zurich Insurance Company Ltd	2.25% CHF 500 million notes, due July 2017 ¹	522	492
	2.375% CHF 525 million notes, due November 2018 ¹	547	515
	1.50% CHF 400 million notes, due June 2019 ^{1,2}	427	405
	1.125% CHF 400 million notes, due September 2019 ^{1,2}	431	409
	0.625% CHF 250 million notes, due July 2020 ^{1,2}	268	254
	2.875% CHF 250 million notes, due July 2021 ¹	259	244
	3.375% EUR 500 million notes, due June 2022 ^{1,3}	606	564
	1.875% CHF 100 million notes, due September 2023 ^{1,2}	115	109
	1.750% EUR 500 million notes, due September 2024 ^{1,2,3}	577	538
	1.500% CHF 150 million notes, due July 2026 ^{1,2}	171	163
Zurich Holding Comp. of America Inc	Euro commercial paper notes, due in less than 3 months	399	399
Zurich Santander Insurance America S.L.	7.5% EUR 42 million loan, due December 2035	48	44
Other	Various debt instruments	20	24
Senior debt		4,389	4,162
Subordinated debt			
Zurich Insurance Company Ltd	8.25% USD 500 million perpetual capital notes, first callable January 2018 ^{1,3}	499	499
	4.625% CHF 500 million perpetual notes, first callable May 2018 ¹	521	491
	7.5% EUR 425 million notes, due July 2039, first callable July 2019 ^{1,3}	484	447
	2.75% CHF 225 million perpetual capital notes, first callable June 2021 ¹	234	221
	2.75% CHF 200 million perpetual capital notes, first callable September 2021 ^{1,2}	217	205
	4.75% USD 1 billion perpetual notes, first callable January 2022 ^{1,3}	993	993
	4.25% EUR 1 billion notes, due October 2043, first callable October 2023 ^{1,3}	1,131	1,046
	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}	843	785
Zurich Finance (UK) plc	6.625% GBP 450 million perpetual notes, first callable October 2022 ^{1,4}	580	551
ZFS Finance (USA) Trust V	Series V 6.5% USD 501 million trust preferred securities, due May 2067, first callable May 2017	–	501
Other	Various debt instruments	17	16
Subordinated debt		6,814	7,050
Total senior and subordinated debt		11,203	11,212

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.⁴ The holders of the perpetual notes benefit from the replacement capital covenant which states that if Series V fixed/floating trust preferred securities, issued by ZFS Finance (USA) Trust V, are called before 2047, the Group will issue a replacement debt instrument with terms and provisions that will be as or more equity-like than the replaced notes. Such replacement debt instrument was issued allowing the Group to call the Series V fixed/floating trust preferred securities, issued by ZFS Finance (USA) Trust V in May 2017.

None of the debt instruments listed in table 10 were in default as of June 30, 2017 or December 31, 2016.

Consolidated financial statements (continued)

11. Commitments and contingencies, legal proceedings and regulatory investigations

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

Table 11

Quantifiable commitments and contingencies	in USD millions, as of	06/30/17	12/31/16
	Remaining commitments under investment agreements	1,816	2,009
	Guarantees and letters of credit ¹	821	799
	Future operating lease commitments	2,134	1,962
	Undrawn loan commitments	13	7
	Other commitments and contingent liabilities	407	199

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 into cross-border business activities, including in particular by U.S. government authorities looking into U.S. taxpayers with investments held outside the U.S. and the non-U.S. financial institutions that hold such investments.

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

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

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

Legal proceedings and regulatory investigations

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

An action entitled Fuller-Austin Asbestos Settlement Trust, et al. v. Zurich American Insurance Company ('ZAIC'), et al., was filed in May 2004 in the Superior Court for San Francisco County, California. Three other similar actions were filed in 2004 and 2005 and were coordinated with the Fuller-Austin action (collectively, the 'Fuller-Austin Case'). In addition to ZAIC and four of its insurance company subsidiaries, Zurich Insurance Company Ltd and Orange Stone Reinsurance Dublin were named as defendants. The plaintiffs, who are historical policyholders of the Home Insurance Company ('Home'), plead claims for, inter alia, fraudulent transfer, tortious interference, unfair competition, alter ego and agency liability relating to the recapitalization of Home, which occurred in 1995 following regulatory review and approval. The plaintiffs alleged that pursuant to the recapitalization and subsequent transactions, various Zurich entities took assets of Home without giving adequate consideration in return, and contended that this forced Home into liquidation. The plaintiffs further alleged that the defendants should be held responsible for Home's alleged obligations under their Home policies. The trial judge designated the plaintiffs' claims for constructive fraudulent transfer for adjudication before all other claims; he subsequently ordered an initial bench trial on certain threshold elements of those fraudulent transfer claims and on certain of defendants' affirmative defenses ('Phase 1'). The Phase 1 trial commenced on November 1, 2010. Closing arguments were heard on February 22 and 23, 2012.

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

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

Beginning in early 2015, certain plaintiffs voluntarily dismissed their claims with prejudice in exchange for an agreement that the defendants will not pursue them for litigation costs. Earlier this year the last remaining plaintiffs dismissed with prejudice their claims and dismissal orders have been filed with the court. All of the actions comprising the Fuller-Austin Case are now concluded in favor of the Zurich parties.

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)

12. Fair value measurement

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

Table 12.1

Fair value and carrying value of financial assets and financial liabilities

in USD millions, as of		Total fair value		Total carrying value	
		06/30/17	12/31/16	06/30/17	12/31/16
Available-for-sale securities					
Equity securities		13,004	12,548	13,004	12,548
Debt securities		137,082	131,967	137,082	131,967
Total available-for-sale securities		150,086	144,515	150,086	144,515
Fair value through profit or loss securities					
Equity securities		3,720	3,359	3,720	3,359
Debt securities		5,845	5,672	5,845	5,672
Total fair value through profit or loss securities		9,565	9,032	9,565	9,032
Derivative assets		1,086	968	1,086	968
Held-to-maturity debt securities		2,972	3,213	2,350	2,543
Mortgage loans		7,646	7,330	7,127	6,794
Other loans		10,622	10,909	8,984	9,146
Total financial assets		181,977	175,967	179,197	172,996
Derivative liabilities		(319)	(345)	(319)	(345)
Financial liabilities held at amortized cost					
Liabilities related to investment contracts		(676)	(637)	(569)	(506)
Senior debt		(4,517)	(4,306)	(4,389)	(4,162)
Subordinated debt		(7,425)	(7,370)	(6,814)	(7,050)
Total financial liabilities held at amortized cost		(12,619)	(12,314)	(11,771)	(11,718)
Total financial liabilities		(12,938)	(12,659)	(12,090)	(12,062)

Recurring fair value measurements of assets and liabilities

Table 12.2a

Fair value hierarchy – non unit-linked – current period

in USD millions, as of June 30, 2017		Level 1	Level 2	Level 3	Total
Available-for-sale securities					
Equity securities		9,674	2,418	911	13,004
Debt securities		–	131,255	5,827	137,082
Total available-for-sale securities		9,674	133,674	6,738	150,086
Fair value through profit or loss securities					
Equity securities		968	24	2,728	3,720
Debt securities		–	5,759	85	5,845
Total fair value through profit or loss securities		968	5,783	2,814	9,565
Derivative assets		1	687	397	1,086
Total		10,644	140,145	9,949	160,737
Derivative liabilities		(3)	(237)	(79)	(319)
Total		(3)	(237)	(79)	(319)

For the six months ended June 30, 2017, no material transfers between level 1 and level 2 occurred.

Table 12.2b					
in USD millions, as of December 31, 2016					
	Level 1	Level 2	Level 3	Total	
Available-for-sale securities					
Equity securities	9,237	2,395	917	12,548	
Debt securities	–	126,459	5,508	131,967	
Total available-for-sale securities	9,237	128,853	6,425	144,515	
Fair value through profit or loss securities					
Equity securities	783	40	2,536	3,359	
Debt securities	–	5,575	97	5,672	
Total fair value through profit or loss securities	783	5,615	2,633	9,032	
Derivative assets	3	541	424	968	
Total	10,023	135,009	9,482	154,514	
Derivative liabilities	–	(281)	(63)	(345)	
Total	–	(281)	(63)	(345)	

For the year ended December 31, 2016, no material transfers between level 1 and level 2 occurred.

Table 12.3a						
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, 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 consolidated income statements.

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

Consolidated financial statements (continued)

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

Table 12.3b

in USD millions

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

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

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

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

Non-recurring fair value measurements of assets and liabilities

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

Sensitivity of fair values reported for level 3 instruments to changes to key assumptions

Within level 3, the Group classified non-agency ABS/MBS, CLOs, and private debt placements amounting to USD 5.9 billion and USD 5.6 billion for Group investments as of June 30, 2017 and December 31, 2016, respectively.

Within level 3, the Group also classified investments in private equity funds, certain hedge funds and other securities which are not quoted on an exchange amounting to USD 3.6 billion and USD 3.4 billion for Group investments as of June 30, 2017 and December 31, 2016, respectively. These investments are valued based on regular reports from the issuing funds, and their fair values are reviewed by a team of in-house investment professionals and may be adjusted based on their understanding of the circumstances of individual investments.

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

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

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

Table 12.4a

as of June 30, 2017

	Less favorable values (relative change)	Decrease in reported fair value (in USD millions)	More favorable values (relative change)	Increase in reported fair value (in USD millions)
Key assumptions				
Equity levels	-20%	(728)	+20%	728
Discount rates	+20%	(145)	-20%	146
Spread rates	+20%	(146)	-20%	147
Prepayment rates	-20%	(1)	+20%	1

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

Table 12.4b

as of December 31, 2016

	Less favorable values (relative change)	Decrease in reported fair value (in USD millions)	More favorable values (relative change)	Increase in reported fair value (in USD millions)
Key assumptions				
Equity levels	-20%	(691)	+20%	691
Discount rates	+20%	(68)	-20%	68
Spread rates	+20%	(68)	-20%	68
Prepayment rates	-20%	(1)	+20%	1

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

Table 12.5a

as of June 30, 2017

Scenarios	Key assumptions				Increase/decrease in reported fair value (in USD millions)
	Equity Levels	Discount Rates	Spread rates	Prepayment rates	
Equity levels +10%	+10.0%	+13.3%	+13.3%	+13.3%	192
Equity levels -10%	-10.0%	(13.3%)	(13.3%)	(13.3%)	(191)
Discount rates +10%	+1.0%	+10.0%	+10.0%	(2.0%)	(90)
Discount rates -10%	(0.9%)	-10.0%	-10.0%	+2.0%	93
Spread rates +10%	+1.0%	+10.0%	+10.0%	+0.2%	(90)

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

Table 12.5b

as of December 31, 2016

Scenarios	Key assumptions				Increase/decrease in reported fair value (in USD millions)
	Equity Levels	Discount Rates	Spread rates	Prepayment rates	
Equity levels +10%	+10.0%	+11.6%	+11.6%	+11.6%	321
Equity levels -10%	-10.0%	-11.5%	-11.5%	-11.5%	(323)
Discount rates +10%	-0.8%	+10.0%	+10.0%	-2.0%	(27)
Discount rates -10%	+0.8%	-10.0%	-10.0%	+2.0%	28
Spread rates +10%	-0.8%	+10.0%	+10.0%	+0.2%	(27)

Consolidated financial statements (continued)

13. Segment information

The Group pursues a customer-centric strategy, where the Property and 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:

- P&C regions
- Life regions
- Farmers
- Group Functions and Operations
- Non-Core Businesses

The Group's reportable segments comprise the following:

P&C and Life regions

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

P&C 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 and Headquarters 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.

Aggregations and additional information

Regional P&C and Life results are further aggregated to show a total P&C and total Life business view.

→ P&C – Total

→ Life – Total

For additional informational purposes, the Group also discloses income statement information for P&C Commercial Insurance and P&C Retail Insurance results.

→ P&C Commercial Insurance

→ P&C Retail 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 outside the ordinary course of business, gains and losses on divestment of businesses and impairments of goodwill are also excluded from BOP.

Consolidated financial statements (continued)

Property and
Casualty –
Overview by
segment

Table 13.1

in USD millions, for the six months ended June 30

	Europe, Middle East and Africa		North America	
	2017	2016	2017	2016
Revenues				
Direct written premiums	7,091	7,779	7,932	7,790
Assumed written premiums	856	928	385	461
Gross written premiums and policy fees	7,947	8,707	8,317	8,251
Less premiums ceded to reinsurers	(1,128)	(1,143)	(2,481)	(3,053)
Net written premiums and policy fees	6,819	7,565	5,836	5,198
Net change in reserves for unearned premiums	(1,049)	(975)	(861)	(169)
Net earned premiums and policy fees	5,770	6,590	4,975	5,028
Net investment result on Group investments	347	382	560	438
Net investment income on Group investments	328	384	472	460
Net capital gains/(losses) and impairments on Group investments	19	(2)	89	(22)
Other income	216	235	13	26
Total BOP revenues	6,333	7,207	5,548	5,492
Benefits, losses and expenses				
Insurance benefits and losses, net	3,974	4,316	3,518	3,584
Losses and loss adjustment expenses, net	3,974	4,316	3,518	3,584
Policyholder dividends and participation in profits, net	–	–	4	3
Underwriting and policy acquisition costs, net	1,070	1,150	1,208	1,186
Administrative and other operating expense (excl. depreciation/amortization)	871	986	236	231
Interest credited to policyholders and other interest	86	60	16	15
Restructuring provisions and other items not included in BOP	(49)	(61)	(30)	(28)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	5,951	6,450	4,952	4,990
Business operating profit (before interest, depreciation and amortization)	383	756	597	501
Depreciation and impairments of property and equipment	21	29	10	12
Amortization and impairments of intangible assets	31	32	22	21
Interest expense on debt	7	7	–	4
Business operating profit before non-controlling interests	323	688	564	465
Non-controlling interests	7	7	–	–
Business operating profit	316	682	564	465

Asia Pacific		Latin America		Group Reinsurance		Eliminations		Total	
2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
1,073	1,050	1,243	1,178	–	–	–	–	17,338	17,797
89	78	35	6	102	129	(800)	(882)	667	720
1,161	1,129	1,278	1,184	102	129	(800)	(882)	18,005	18,517
(195)	(174)	(213)	(264)	(181)	(249)	800	882	(3,398)	(4,001)
966	954	1,065	919	(79)	(120)	–	–	14,607	14,516
(77)	(29)	(137)	(136)	16	21	–	–	(2,108)	(1,289)
889	926	928	783	(63)	(99)	–	–	12,498	13,227
29	38	82	69	8	10	–	–	1,026	936
29	38	82	69	8	10	–	–	918	960
–	–	–	–	–	–	–	–	108	(24)
54	(2)	31	25	108	61	(6)	(6)	417	338
972	961	1,040	876	53	(29)	(6)	(6)	13,941	14,501
460	484	389	355	49	162	–	–	8,389	8,900
460	484	389	355	49	162	–	–	8,389	8,900
–	–	–	–	(2)	–	–	–	1	3
204	209	387	295	12	(6)	–	–	2,881	2,835
176	127	67	(29)	53	29	(6)	(6)	1,398	1,337
3	–	1	2	(1)	–	–	–	104	77
(3)	(2)	(3)	(9)	1	–	–	–	(84)	(100)
840	818	840	614	112	184	(6)	(6)	12,688	13,051
132	144	201	262	(60)	(214)	–	–	1,253	1,450
7	7	3	3	2	2	–	–	43	52
11	6	5	5	–	–	–	–	69	64
–	–	–	–	46	36	–	–	53	48
114	131	194	254	(107)	(252)	–	–	1,088	1,286
–	–	61	75	–	–	–	–	68	82
114	131	133	179	(107)	(252)	–	–	1,020	1,204

Consolidated financial statements (continued)

Life –
Overview by
segment

Table 13.2

in USD millions, for the six months ended June 30

	Europe, Middle East and Africa		North America	
	2017	2016	2017	2016
Revenues				
Life insurance deposits	6,028	6,459	83	174
Gross written premiums	4,302	4,901	28	24
Policy fees	836	855	51	49
Gross written premiums and policy fees	5,138	5,756	79	74
Net earned premiums and policy fees	4,842	5,383	70	64
Net investment income on Group investments	1,200	1,323	9	3
Net capital gains/(losses) and impairments on Group investments	145	175	6	(1)
Net investment result on Group investments	1,345	1,498	15	2
Net investment income on unit-linked investments	627	748	(4)	(1)
Net capital gains/(losses) and impairments on unit-linked investments	4,015	2,493	44	14
Net investment result on unit-linked investments	4,642	3,242	40	13
Other income	238	337	2	5
Total BOP revenues	11,068	10,460	126	83
Benefits, losses and expenses				
Insurance benefits and losses, net	4,162	4,901	21	37
Policyholder dividends and participation in profits, net	5,050	3,440	46	16
Income tax expense/(benefit) attributable to policyholders	73	79	–	–
Underwriting and policy acquisition costs, net	588	648	30	17
Administrative and other operating expense (excl. depreciation/amortization)	615	769	34	25
Interest credited to policyholders and other interest	110	122	12	7
Restructuring costs and other items not included in BOP	(45)	(36)	(1)	–
Total BOP benefits, losses and expenses	10,552	9,923	142	101
Business operating profit (before interest, depreciation and amortization)	515	536	(15)	(18)
Depreciation and impairments of property and equipment	5	8	–	–
Amortization and impairments of intangible assets	49	58	1	1
Interest expense on debt	4	5	–	–
Business operating profit before non-controlling interests	458	465	(16)	(19)
Non-controlling interests	20	17	–	–
Business operating profit	438	448	(16)	(19)

Life includes approximately USD 1 billion and USD 1.7 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, 2017 and 2016, respectively.

Asia Pacific		Latin America		Group Reinsurance		Eliminations		Total	
2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
55	56	1,147	976	-	-	-	-	7,313	7,664
439	301	1,308	982	4	-	(8)	(8)	6,072	6,201
62	58	26	15	-	-	-	-	975	977
501	358	1,334	997	4	-	(8)	(8)	7,048	7,177
410	305	1,244	918	1	-	-	-	6,568	6,670
56	53	185	175	-	-	(1)	(1)	1,449	1,554
39	39	3	11	-	-	-	-	193	224
96	92	188	186	-	-	(1)	(1)	1,642	1,777
65	43	8	9	-	-	-	-	696	799
34	(36)	663	591	-	-	-	-	4,757	3,062
100	7	672	600	-	-	-	-	5,453	3,860
14	13	28	27	-	-	-	(1)	281	382
619	418	2,132	1,730	1	-	(1)	(1)	13,944	12,689
-	-	-	-	-	-	-	-	-	-
179	158	571	384	-	-	-	-	4,932	5,480
101	18	667	602	-	-	-	-	5,864	4,075
6	4	-	-	-	-	-	-	79	83
75	76	507	413	-	-	-	-	1,200	1,155
143	119	91	110	-	-	-	(1)	884	1,022
21	21	5	6	-	-	-	-	148	157
7	7	6	(23)	-	-	-	-	(32)	(51)
533	403	1,848	1,492	-	-	-	(1)	13,075	11,919
86	15	284	237	1	-	(1)	(1)	869	770
1	1	2	2	-	-	-	-	7	11
7	3	7	8	-	-	-	-	63	70
1	1	-	-	-	-	(1)	(1)	4	5
77	10	276	228	1	-	-	-	795	684
(2)	(2)	126	107	-	-	-	-	145	122
78	12	149	121	1	-	-	-	650	562

Consolidated financial statements (continued)

Business operating
profit by business

Table 13.3

in USD millions, for the six months ended June 30

	Property and Casualty		Life	
	2017	2016	2017	2016
Revenues				
Direct written premiums	17,338	17,797	5,920	6,048
Assumed written premiums	667	720	152	152
Gross Written Premiums	18,005	18,517	6,072	6,201
Policy fees	–	–	975	977
Gross written premiums and policy fees	18,005	18,517	7,048	7,177
Less premiums ceded to reinsurers	(3,398)	(4,001)	(313)	(343)
Net written premiums and policy fees	14,607	14,516	6,735	6,835
Net change in reserves for unearned premiums	(2,108)	(1,289)	(167)	(165)
Net earned premiums and policy fees	12,498	13,227	6,568	6,670
Farmers management fees and other related revenues	–	–	–	–
Net investment result on Group investments	1,026	936	1,642	1,777
Net investment income on Group investments	918	960	1,449	1,554
Net capital gains/(losses) and impairments on Group investments	108	(24)	193	224
Net investment result on unit-linked investments	–	–	5,453	3,860
Other income	417	338	281	382
Total BOP revenues	13,941	14,501	13,944	12,689
<i>of which: inter-segment revenues</i>	<i>(174)</i>	<i>(145)</i>	<i>(102)</i>	<i>(141)</i>
Benefits, losses and expenses				
Insurance benefits and losses, net	8,389	8,900	4,932	5,480
Losses and loss adjustment expenses, net	8,389	8,900	–	(1)
Life insurance death and other benefits, net ¹	–	–	4,932	5,480
Policyholder dividends and participation in profits, net	1	3	5,864	4,075
Income tax expense/(benefit) attributable to policyholders	–	–	79	83
Underwriting and policy acquisition costs, net	2,881	2,835	1,200	1,155
Administrative and other operating expense (excl. depreciation/amortization)	1,398	1,337	884	1,022
Interest credited to policyholders and other interest	104	77	148	157
Restructuring provisions and other items not included in BOP	(84)	(100)	(32)	(51)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	12,688	13,051	13,075	11,919
Business operating profit (before interest, depreciation and amortization)	1,253	1,450	869	770
Depreciation and impairments of property and equipment	43	52	7	11
Amortization and impairments of intangible assets	69	64	63	70
Interest expense on debt	53	48	4	5
Business operating profit before non-controlling interests	1,088	1,286	795	684
Non-controlling interests	68	82	145	122
Business operating profit	1,020	1,204	650	562

¹ This row was revised with the publication of the half year report to correct a typographical error; Insurance benefits and losses, net remains unchanged.

Life includes approximately USD 1 billion and USD 1.7 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, 2017 and 2016, respectively.

	Farmers		Group Functions and Operations		Non-Core Businesses		Eliminations		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	283	274	–	–	21	31	–	–	23,563	24,151
	773	769	24	24	43	42	(53)	(54)	1,605	1,654
	1,056	1,044	24	24	64	73	(53)	(54)	25,168	25,804
	155	154	–	–	153	144	–	–	1,283	1,274
	1,210	1,197	24	24	217	217	(53)	(54)	26,451	27,079
	(103)	(94)	(20)	(21)	(316)	(7)	53	54	(4,097)	(4,411)
	1,108	1,104	3	3	(99)	210	–	–	22,354	22,668
	(4)	(7)	–	–	–	25	–	–	(2,279)	(1,436)
	1,103	1,097	3	3	(98)	235	–	–	20,074	21,231
	1,438	1,422	–	–	–	–	–	–	1,438	1,422
	116	137	89	122	132	410	(87)	(93)	2,918	3,289
	116	137	89	122	117	137	(87)	(93)	2,602	2,816
	–	–	–	–	16	273	–	–	316	473
	67	6	–	–	355	367	–	–	5,875	4,233
	77	87	464	575	32	29	(715)	(830)	555	581
	2,801	2,748	556	699	422	1,041	(802)	(923)	30,861	30,756
	(16)	(19)	(501)	(615)	(8)	(2)	802	923	–	–
	735	764	–	–	(95)	486	–	–	13,961	15,630
	546	566	–	–	63	46	–	–	8,997	9,510
	190	199	–	–	(158)	440	–	–	4,964	6,120
	71	9	–	–	434	411	–	–	6,370	4,497
	–	–	–	–	–	–	–	–	79	83
	309	310	–	–	5	6	(4)	(4)	4,390	4,301
	762	755	437	713	40	64	(454)	(559)	3,066	3,333
	60	73	58	63	28	44	(131)	(147)	267	266
	(6)	(2)	(11)	(64)	1	–	–	–	(134)	(218)
	1,931	1,910	483	712	412	1,010	(589)	(711)	28,000	27,892
	870	838	73	(13)	10	31	(213)	(212)	2,861	2,864
	16	18	4	3	–	–	–	–	70	84
	60	54	12	20	–	–	–	–	203	208
	–	–	359	362	7	4	(213)	(212)	210	208
	794	766	(303)	(398)	3	26	–	–	2,377	2,365
	–	–	(2)	(3)	–	–	–	–	211	202
	794	766	(301)	(395)	3	26	–	–	2,167	2,163

Consolidated financial statements (continued)

Table 13.4

in USD millions, for the six months ended June 30

Reconciliation of
BOP to net income
after income taxes

	Property and Casualty		Life	
	2017	2016	2017	2016
Business operating profit	1,020	1,204	650	562
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	235	220	14	121
Net gains/(losses) on divestment of businesses ¹	1	(42)	7	47
Restructuring costs	(83)	(91)	(31)	(32)
Other adjustments ¹	(2)	(9)	(1)	(20)
Add back:				
Business operating profit attributable to non-controlling interests	68	82	145	122
Net income before shareholders' taxes	1,240	1,365	783	801
Income tax expense/(benefit) attributable to policyholders	–	–	79	83
Net income before income taxes	1,240	1,365	863	883
Income tax (expense)/benefit				
attributable to policyholders				
attributable to shareholders				
Net income after taxes				
attributable to non-controlling interests				
attributable to shareholders				

¹ Other adjustments include USD 5 million and USD 74 million of non-operating charges for the six months ended June 30, 2017 and June 30, 2016, respectively.

	Farmers		Group Functions and Operations		Non-Core Businesses		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
	794	766	(301)	(395)	3	26	2,167	2,163
	20	17	(96)	(7)	(1)	12	173	363
	–	–	4	(1)	–	–	12	5
	(5)	(2)	(10)	(19)	1	–	(129)	(144)
	(1)	–	(1)	(45)	–	–	(5)	(74)
	–	–	(2)	(3)	–	–	211	202
	808	781	(405)	(470)	3	38	2,429	2,515
	–	–	–	–	–	–	79	83
	808	781	(405)	(470)	3	38	2,508	2,597
							(869)	(835)
							(79)	(83)
							(790)	(752)
							1,638	1,763
							135	149
							1,503	1,613

Consolidated financial statements (continued)

Table 13.5

in USD millions, for the six months ended June 30

	Commercial Insurance		Retail Insurance	
	2017	2016	2017	2016
Gross written premiums and policy fees	8,222	8,400	10,499	10,879
Net earned premiums and policy fees	5,414	6,059	7,147	7,267
Insurance benefits and losses, net	4,000	4,212	4,340	4,526
Policyholder dividends and participation in profits, net	4	3	–	–
Total net technical expenses	1,558	1,622	2,474	2,442
Net underwriting result	(148)	222	334	299
Net investment income	559	579	352	371
Net capital gains/(losses) and impairments on investments	85	(20)	23	(4)
Net non-technical result (excl. items not included in BOP)	28	92	(37)	(2)
Business operating profit before non-controlling interests	524	874	672	664
Non-controlling interest	18	31	50	52
Business operating profit	506	843	621	612

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

14. Events after the balance sheet date

On July 24, 2017, Bansabadell Vida, a joint venture of the Group and Banco Sabadell, concluded a reinsurance agreement with Swiss Re on its individual life risk portfolio for a one-time commission of USD 796 million (EUR 684 million). Swiss Re will assume the risks on this portfolio while Bansabadell Vida will maintain the administrative management of the reinsured policies.

Review report of the auditors

Review report of the auditors

To the Board of Directors of Zurich Insurance Group Ltd

Introduction

We have reviewed the accompanying unaudited consolidated financial statements (consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity and related notes on pages 19 to 63) of Zurich Insurance Group Ltd for the period ended June 30, 2017. The Board of Directors is responsible for the preparation and presentation of these unaudited consolidated financial statements in accordance with International Accounting Standard 34 'Interim Financial Reporting'. Our responsibility is to express a conclusion on these unaudited consolidated financial statements based on our review.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers AG

Mark Humphreys
Audit expert

Stephen O'Hearn
Global relationship partner

Zurich, August 9, 2017

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Additional information

Contents

Shareholder information	67
Glossary	68
Financial calendar	70
Contact information	70

Zurich Insurance Group Ltd registered share data

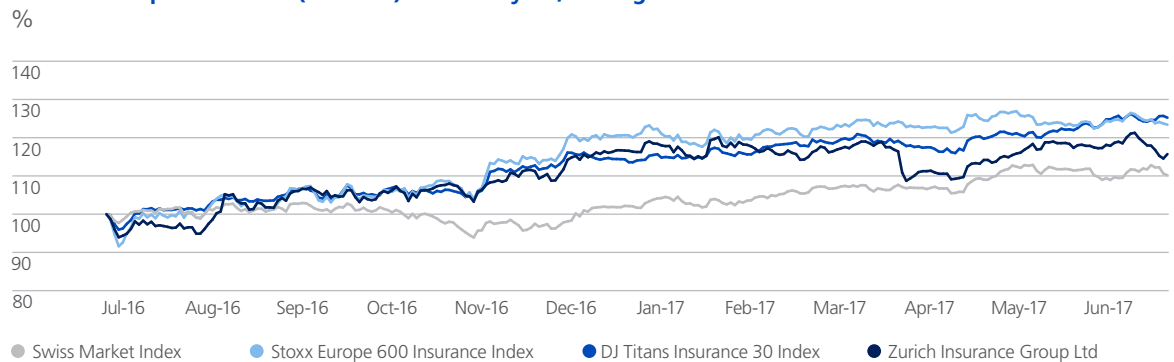
Zurich shares

Zurich had a market capitalization of CHF 42 billion on June 30, 2017. 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 2017 was CHF 279.10. The lowest price during the first half year in 2017 was CHF 262.20 on April 3, while the highest price was CHF 292.50 on June 20.

Zurich share performance (indexed) over one year, ending June 2017



Source: Thomson Reuters Datastream

Dividend

Financial Year	Gross amount	Paid from capital	Payment date as from
	per registered share in CHF	contribution reserve in CHF	
Dividend 2016	17.00	5.70	April 4, 2017
Dividend 2015	17.00	17.00	April 5, 2016
Dividend 2014	17.00	17.00	April 9, 2015
Dividend 2013	17.00	17.00	April 9, 2014
Dividend 2012	17.00	17.00	April 11, 2013
Dividend 2011	17.00	17.00	April 5, 2012
Dividend 2010	17.00	17.00	April 7, 2011
Dividend 2009	16.00	–	April 8, 2010
Dividend 2008	11.00	–	April 7, 2009
Dividend 2007	15.00	–	April 8, 2008

Glossary

Group

Book value per share

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

Business operating profit (BOP)

is a measure that is the basis on which the Group manages all of its business units. It indicates the underlying performance of the Group's business units, after non-controlling interests, by eliminating the impact of financial market volatility and other non-operational variables. BOP reflects adjustments for shareholders' taxes, net capital gains/(losses) and impairments on investments (except for 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 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 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, 2017

November 9, 2017

Investor Day

November 15, 2017

Annual results 2017

February 8, 2018

Annual General Meeting 2018

April 4, 2018

Update for the three months ended March 31, 2018

May 9, 2018

Half year results 2018

August 9, 2018

Update for the nine months ended September 30, 2018

November 8, 2018

Note: all dates are subject to change.

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

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

Persons requiring advice should consult an independent advisor.

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