



ZURICH
FINANCIAL SERVICES

Half Year

Zurich Financial Services Group

Half Year Report 2005

Financial Highlights

The following table presents the summarized consolidated results of the Group for the six months ended June 30, 2005 and 2004 and the financial position as of June 30, 2005 and December 31, 2004, respectively. The 2004 amounts have been restated for the implementation of new and revised accounting standards. Certain prior-year amounts have also been reclassified to conform to the 2005 presentation. Interim results are not necessarily indicative of full-year results.

Consolidated operating statements

in USD millions, for the six months ended June 30

	2005	2004	Change
Gross written premiums and policy fees	25,954	26,356	(2%)
Net investment result ¹	9,479	6,058	56%
Business operating profit	2,305	1,978	17%
Net income attributable to shareholders	1,799	1,484	21%

Consolidated balance sheets

in USD millions, as of

	06/30/05	12/31/04	Change
Total investments	273,799	282,155	(3%)
Reserves for insurance contracts	219,807	227,087	(3%)
Reserves for insurance contracts and liabilities related to investment contracts	257,220	267,133	(4%)
Senior and subordinated debt	5,993	5,871	2%
Shareholders' equity	21,934	20,670	6%

General Insurance key performance indicators

for the six months ended June 30

	2005	2004	Change
Business operating profit (in USD millions)	1,384	1,260	10%
Combined ratio	96.9%	96.6%	(0.3 pts)

Life Insurance key performance indicators

for the six months ended June 30

	2005	2004	Change
Business operating profit (in USD millions)	536	440	22%
New business profit margin (as % of APE)	10.9%	9.7%	1.2 pts

Return on common stockholders' equity (ROE)²

returns for the periods ended

	06/30/05	06/30/04	12/31/04
Return on common stockholders' equity (ROE)	18.4%	18.5%	13.4%
Business operating profit (after tax) return on common stockholders' equity	16.5%	16.7%	12.5%

Per share data

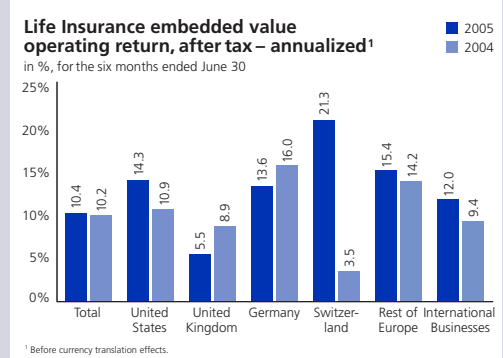
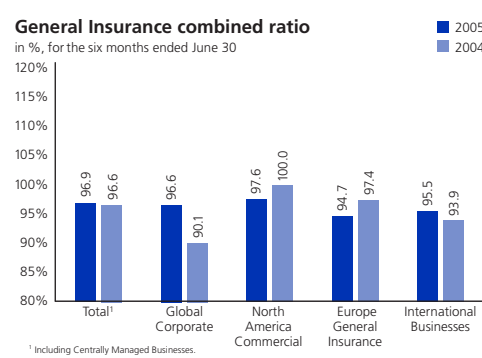
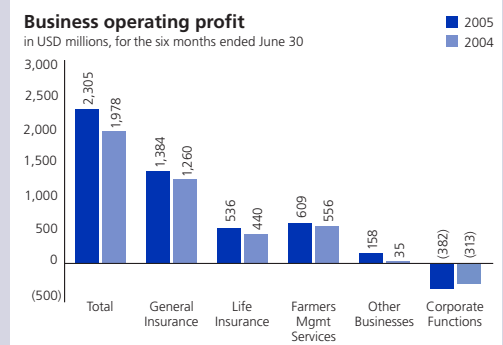
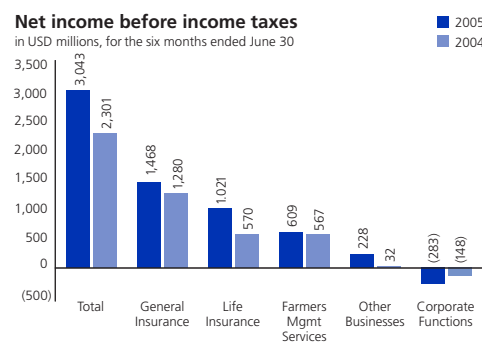
for the six months ended June 30

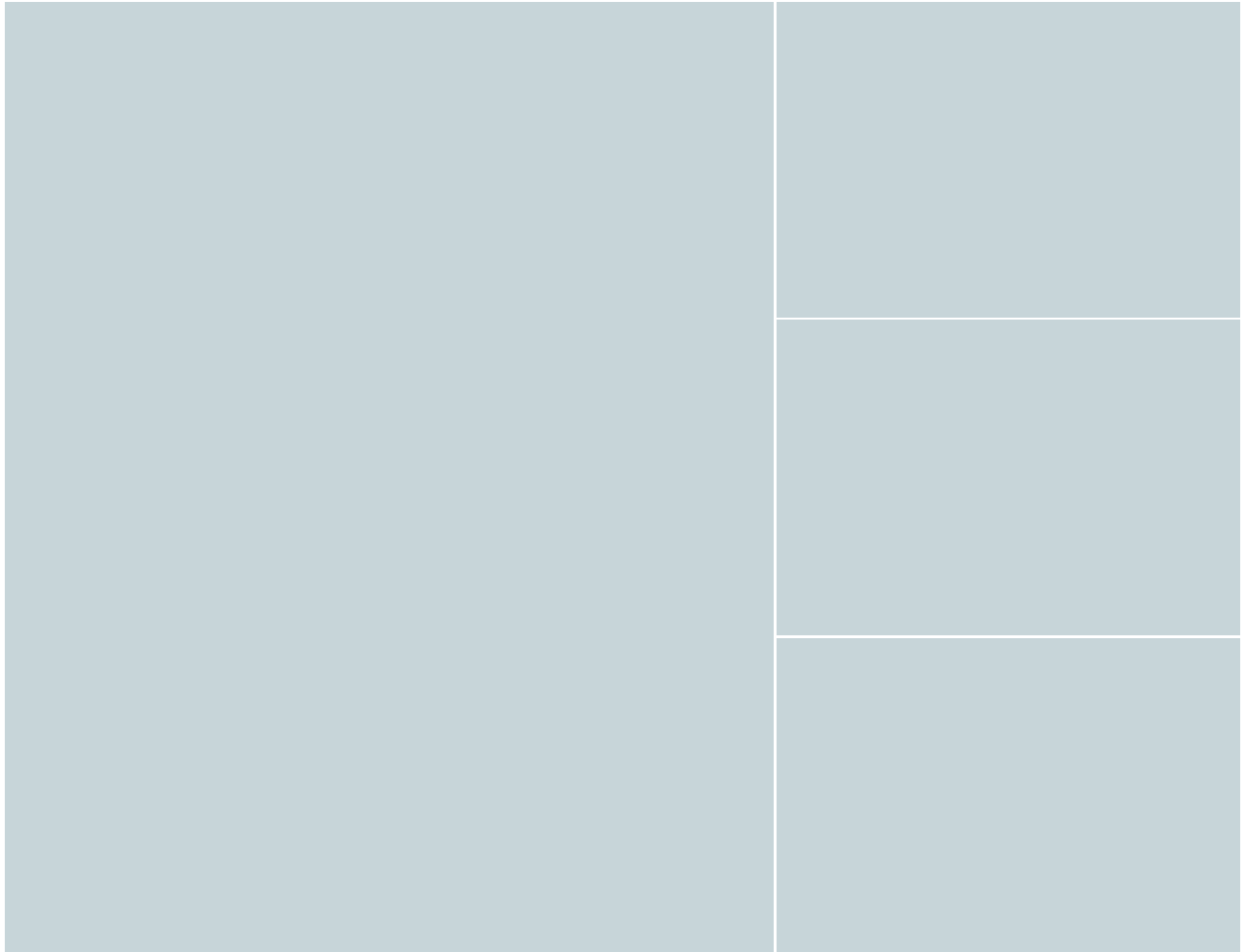
	2005	2004	Change
Diluted earnings per share (in CHF)	14.77	12.84	15%

¹ Net investment result includes net investment income and net capital gains on investments and impairments.

² Returns for the periods ended June 30, 2005 and 2004 are annualized on a compound basis using the results for the six months ended June 30. Returns for the period ended December 31, 2004 are for the year ended December 31, 2004. Performance measures for 2004 periods are based on financial information as restated. ROE is based on net income attributable to common stockholders.

Key Performance Indicators





“We are pleased to see that the quality of our results has improved with all core businesses and Group investments contributing to the bottom line. Key drivers of our strong performance were customer focus, operational excellence, and talent development.

The Zurich Way is our response to the ongoing challenges of competitive markets. It is our approach to improve the activities essential for the success of our business.”

James J. Schiro, Chief Executive Officer
Zurich Financial Services Group

Financial Highlights

2	Letter to Shareholders
6	Group Financial Review
18	Segmental Financial Analysis
27	Consolidated Financial Statements
27	Consolidated operating statements
28	Consolidated balance sheets
30	Consolidated statements of cash flows
32	Consolidated statements of changes in equity
34	Notes to the half year consolidated financial statements
49	Review report of the Group auditors
50	Embedded Value Results – Life Insurance
55	Shareholder Information
55	Zurich Financial Services registered share data
56	Financial calendar and contacts

Letter to Shareholders



Manfred Gentz
Chairman of the
Board of Directors



James J. Schiro
Chief Executive Officer

Dear Shareholders

We are pleased to report a strong half year with record operating performance based on robust underwriting, disciplined expense management, and our strong capital position. The quality of our result has improved with all core businesses contributing to the bottom line. Business operating profit increased 17% and exceeded the USD 2.3 billion mark for the first time, while net income attributable to shareholders grew 21% to USD 1.8 billion, generating an annualized return on common stockholders' equity of 18.4%.

These results reflect our ability to deliver on our customer-focused strategy. We are aiming to achieve profitable growth by concentrating on four General Insurance target market segments, and by introducing new products and redesigning the business model in Life Insurance. We are improving operating efficiency, and we have developed a coordinated

approach to analyzing and managing the risks and opportunities in the insurance business.

In General Insurance, all businesses achieved an underwriting profit, while we maintained our more conservative stance on reserving. The changes implemented in Life Insurance continue to drive the recovery in this segment. This is underscored by the new business profit margin, which improved 1.2 percentage points to 10.9%. On June 1, Openwork was successfully launched in the United Kingdom. It is the largest multi-tied network, and sales levels of life insurance products are already very encouraging.

Farmers Management Services continued to deliver record performance as a result of nearly 3% premium growth in the Farmers Exchanges, which we manage but do not own. We are also pleased to see the Exchanges well on their way toward meeting their surplus growth target. A strong capital base is vital for continued profitable growth at the Exchanges and their expansion in new markets, as well as sustained growth in management fees.

Our strategy is to focus on superior customer service and operational excellence in order to generate attractive shareholder returns.

The Zurich Way is our approach to continuously improve activities essential for the success of our business as we strive to strengthen our platform for profitable growth. At the core is the transfer of best practices not only in underwriting, claims management and reserving, but also in finance and talent management. The changes we introduced with the initiatives of The Zurich Way aim to ensure that our customers receive the

same high level of attention and service, wherever they are and whatever their needs may be, and that our employees act according to the principles and values of our unique culture.

A number of initiatives are already generating tangible results. Across Europe, we are rolling out a sales excellence initiative in Life Insurance. Based on standardized sales cycles and a toolbox to measure productivity, the Swiss pilot had highly encouraging and sustained results. Similarly, through the increased use of internal assessors as well as the automation of processes and tighter controls, we were able to significantly reduce average costs of assessments in motor claims in Germany, a saving that will ultimately benefit our customers.

In short, The Zurich Way is getting us even more customer-focused and helping us to deliver better service. The profitability of our personal lines business has benefited from our improved underwriting skills, more sophisticated customer segmentation capabilities and faster claims processing. In the Global Corporate business, the breadth of our product offering and increased attention to service quality has contributed to the current high customer retention. The initiatives of The Zurich Way are expected to generate operating improvements



Manfred Gentz
Chairman of the Board

in the General Insurance and Life Insurance segments of USD 500 million in 2005. They are well on track to being achieved. More importantly, these initiatives are not only increasing our bottom line, their combined impact is designed to ensure that the operational improvements will be sustained over time.

In line with our disciplined approach to underwriting, we continue to write new business at attractive margins. Our tools enable us to better assess risks and the prospective profitability of our activities. We will not shy away from making tough choices to preserve the quality of our earnings. Our commitment to pricing discipline is reflected in the top line movements of the first six months. We have reduced exposure where margins are under pressure while retaining good business or even expanding our presence in more attractive markets. Our goal is to deliver a consistent operating performance, and our record shows that we have the operational discipline and financial strength to do so.

Our dedicated employees are the best guarantee for progress going forward. We thank them for their effort and our thanks go also to our shareholders and customers for their loyalty and support.



James J. Schiro
Chief Executive Officer

6	Group Financial Review
18	Segmental Financial Analysis
27	Consolidated Financial Statements
27	Consolidated operating statements
28	Consolidated balance sheets
30	Consolidated statements of cash flows
32	Consolidated statements of changes in equity
34	Notes to the half year consolidated financial statements
49	Review report of the Group auditors
50	Embedded Value Results – Life Insurance
55	Shareholder Information
55	Zurich Financial Services registered share data
56	Financial calendar and contacts

Group Financial Review	6
Segmental Financial Analysis	18
Consolidated Financial Statements	27
Embedded Value Results – Life Insurance	50
Shareholder Information	55

Group Financial Review

Amounts for 2004 have been restated for the implementation of several new and revised accounting standards within the International Financial Reporting Standards (IFRS) framework, which became effective January 1, 2005. Details are set out in the section "Basis of Presentation". Amounts for 2004 have also been restated to conform to the current presentation of our segments.

Group Highlights

Zurich Financial Services Group (the Group) recorded net income attributable to shareholders of USD 1,799 million in the first six months of 2005, an increase of 21% over the same period in 2004, generating an annualized return on common stockholders' equity (ROE) of 18.4%. Business operating profit improved by 17% to USD 2,305 million. This was achieved in increasingly competitive markets resulting in essentially flat premiums, and demonstrates the improvements we have made to our core processes and underwriting discipline.

General Insurance continued to deliver strong underwriting results in 2005 benefiting from its diversification. This performance was particularly evident in Europe General Insurance and North America Commercial. Life Insurance showed positive development and improved underlying performance in substantially all operations. Farmers Management Services continued to deliver growth in fee income and increased business operating profit benefiting from the further growth in gross earned premiums in the Farmers Exchanges, which we manage but do not own. Other Businesses contributed strong results following the management actions taken in 2004 and 2003 to reduce our exposure to the risks in certain of these operations.

Diluted earnings per share for the first six months of 2005 rose 15% to CHF 14.77 compared with CHF 12.84 for the same period in 2004. ROE of 18.4% (annualized) increased by 5.0 percentage points over the full-year return for 2004. Our after-tax business operating profit return on common stockholders' equity was 16.5% (annualized), an increase of 4.0 percentage points compared with the return for the full year 2004.

Performance highlights			
in USD millions, for the six months ended June 30			
	2005	2004	Change
Gross written premiums and policy fees	25,954	26,356	(2%)
Net investment result ¹	9,479	6,058	56%
<i>Net investment result net of policyholder dividends and participation in profits</i>	4,245	3,658	16%
Business operating profit	2,305	1,978	17%
Net income before shareholders' taxes	2,646	2,268	17%
Net income attributable to shareholders	1,799	1,484	21%
General Insurance combined ratio	96.9%	96.6%	(0.3 pts)
Life Insurance new business profit margin (as % of APE)	10.9%	9.7%	1.2 pts
Diluted earnings per share (in CHF)	14.77	12.84	15%
returns for the period ended ²	06/30/05	06/30/04	12/31/04
Return on common stockholders' equity (ROE) ²	18.4%	18.5%	13.4%
Business operating profit (after tax) return on common stockholders' equity ²	16.5%	16.7%	12.5%

¹ Net investment result includes net investment income and net capital gains on investments and impairments.

² Returns for the periods ended June 30, 2005 and 2004 are annualized on a compound basis using the results for the six months ended June 30. Returns for the period ended December 31, 2004 are for the year ended December 31, 2004. Performance measures for 2004 periods are based on financial information as restated. ROE is based on net income attributable to common stockholders.

Interim results are not necessarily indicative of full-year results.

Performance Overview

Gross written premiums and policy fees

Gross written premiums and policy fees of USD 26.0 billion in the first half of 2005 declined by 2%, while in local currency there was a decrease of 4%. In General Insurance, premiums rose 1% but, after adjusting for currency translation effects and divestments of businesses, premiums decreased by 1%. This reflects that volumes have decreased in certain competitive lines of businesses, as we have chosen not to write business that does not meet our technical price targets. On a similar basis, net earned premiums increased by 4%, which was due to the effect of higher premium retention reflecting the reduction in our reinsurance programs as our balance sheet has strengthened. Gross written premiums and policy fees in Life Insurance remained level in US dollars and increased by 3% after adjusting for the effects of the redesign of the group pension business model in Switzerland in 2004, the sale of certain life operations and currency translation effects. Gross written premiums in Other Businesses declined by 24% mainly resulting from a net reduction of assumed reinsurance in Farmers Re.

Business operating profit

Business operating profit increased by USD 327 million, or 17%, in the first six months of 2005 to USD 2.3 billion. The business performance was driven by all our business segments.

- **General Insurance** remains an attractive and profitable business recording an increase in business operating profit from USD 1,260 million to USD 1,384 million in the first six months of 2004 and 2005, respectively. The strong underwriting performance in Europe General Insurance and North America Commercial was partially offset by Global Corporate and Centrally Managed Businesses.
- **Life Insurance** business operating profit increased by USD 96 million to USD 536 million. The improved performance reflects the successful distribution of profitable products, increased investment income as well as reduced operating expenses, particularly in continental Europe.
- **Farmers Management Services** increased business operating profit by USD 53 million, or 10%, to USD 609 million mainly due to the growth in management fees driven by the premium growth of the Farmers Exchanges, which we manage but do not own.
- **Other Businesses** recorded business operating profit of USD 158 million, an improvement of USD 123 million compared to USD 35 million in the first half of 2004. Most operations contributed to this positive result following the management actions taken in 2004 and 2003 to reduce our exposure to the risks in certain of these operations.
- **Corporate Functions**, which support the Group through funding and governance oversight, improved its investment performance and other revenues but experienced unfavorable foreign currency development. As a result, business operating loss increased by USD 69 million to USD 382 million in the first half of 2005.
- **Net investment income on Group investments** was USD 4.0 billion, an increase of 10% over the same period in 2004, contributing to the business operating profit of each segment. This net investment income excludes income earned for unit-linked products of USD 1.0 billion for which the investments are managed on behalf of and at risk of policyholders.
- **Business operating profit (after tax) return on common stockholders' equity** improved by 4.0 percentage points to 16.5% (annualized) in the first six months of 2005, compared with 12.5% for the full year 2004.

Net income attributable to shareholders

Net income attributable to shareholders increased by USD 315 million, or 21%, to USD 1.8 billion in the first six months of 2005 compared with USD 1.5 billion in the same period of 2004. In addition to the factors mentioned above for business operating profit, net income attributable to shareholders was influenced by the following:

- **Net capital gains on investments and impairments for Group investments** increased by USD 747 million to USD 1.0 billion. These gains, which are substantially distributed to life policyholders, primarily resulted from the continued strong performance of both bond and equity markets.
- The **effective tax rate on net income attributable to shareholders** was 29.9% compared with 32.2% for the first six months of 2005 and 2004, respectively. The Group's overall **effective income tax rate** includes the impact of income tax expenses attributable to policyholders in certain jurisdictions, and increased by 5.8 percentage points to 39.0% for the first six months of 2005.

ROE

Our **return on common stockholders' equity (ROE)** improved by 5.0 percentage points to 18.4% (annualized) for the first six months of 2005 compared with a return of 13.4% for the full year 2004.

Diluted EPS

Diluted earnings per share, reflecting the increase in net income attributable to common stockholders, improved by 15% to CHF 14.77 in the first six months of 2005 compared with CHF 12.84 in the same period in 2004.

Balance sheet highlights

Balance sheet highlights

in USD millions, as of	06/30/05	12/31/04	Change
Group investments	188,533	196,457	(4%)
Investments for unit-linked products	85,266	85,698	(1%)
Total investments	273,799	282,155	(3%)
Gross reserves for insurance contracts, excluding unit-linked products	167,147	176,239	(5%)
Gross reserves for unit-linked insurance products	52,660	50,848	4%
Total gross reserves for insurance contracts	219,807	227,087	(3%)
Liabilities for investment contracts (primarily unit-linked)	37,413	40,046	(7%)
Total financial debt and equity	28,714	27,381	5%

Following the announcement of the divestment of Universal Underwriters Group (UUG), assets and liabilities relating to that business have been segregated as assets and liabilities held for sale in the consolidated balance sheet.

- **Total investments** decreased by USD 8.4 billion, or 3%, during the first six months of 2005, mainly due to foreign currency translation effects of USD 19.0 billion and the impact from UUG of USD 1.2 billion. These decreases were partially offset by net new investments from positive operating and financing cash flows and increases in fair market values.
- Since the year end 2004, **gross reserves for insurance contracts excluding unit-linked products** decreased by USD 9.1 billion driven by foreign currency translation effects (USD 12.3 billion) and the effect of UUG (USD 2.6 billion), partially offset by increased unearned premium reserves in General Insurance reflecting the seasonality of renewals in the first six months of 2005.
- **Total financial debt and equity** increased by USD 1.3 billion to USD 28.7 billion. The increase in shareholders' equity mainly resulted from our profit in the first six months of 2005 and increased net unrealized gains on investments not recognized in the operating statement. These positive impacts were partially offset by unfavorable currency translation effects and the nominal value reduction of common stock distributed to shareholders. Furthermore, financial debt increased by a new bond issue of EUR 500 million in June 2005 under the Group's Euro Medium Term Note (EMTN) Programme.

Measuring Business Performance

Business operating profit

We manage our business units on their underlying performance using the measure of business operating profit. Business operating profit eliminates the impact of financial market volatility and other non-operational variables enabling us to assess the underlying performance of each business.

Business operating profit reflects adjustments to net income before shareholders' taxes for net capital gains on investments and impairments (excluding capital markets and banking activities included in Other Businesses and certain securities held for specific economic hedging purposes), policyholders' share of net capital gains on investments for the life business, and significant items arising from special circumstances including gains and losses on divestments of businesses. Business operating profit is not a substitute for net income as determined in accordance with IFRS.

Reconciliation of net income before shareholders' taxes to business operating profit	2005	2004
<small>in USD millions, for the six months ended June 30</small>		
Net income before shareholders' taxes	2,646	2,268
Adjusted for:		
Net capital gains on investments and impairments, excluding capital markets and banking activities and certain securities held for specific economic hedging purposes	(4,270)	(1,578)
Policyholder allocation of net capital gains on investments, including unit-linked products	3,952	1,338
Net income attributable to minority interests	(56)	(54)
Net loss on divestments of businesses	13	14
Restructuring provisions and other	20	(10)
Business operating profit	2,305	1,978

Key Performance Indicators

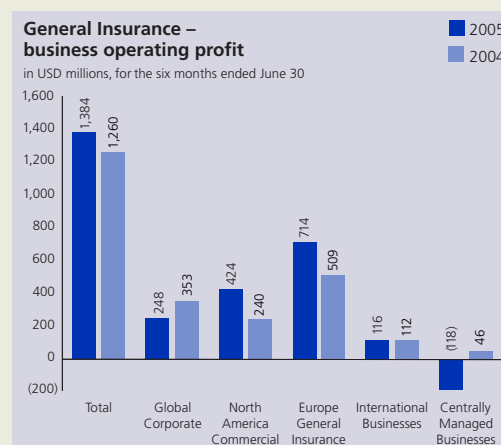
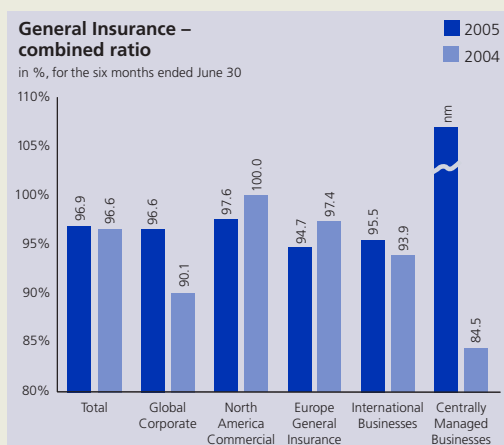
ROE

Our stated goal in the medium term is to achieve a blended return on equity of 12% on an after-tax business operating profit basis. A higher return on equity in one segment can compensate for lower returns in others, allowing the Group to meet the stated 12% overall target rate. Returns on equity generated by General Insurance, Life Insurance and Farmers Management Services also compensate for certain headquarters expenses, financing costs and any net operating losses from other operations.

Our return on common stockholders' equity (ROE) for the half year 2005 was 18.4% (annualized), and our after-tax business operating profit return on common stockholders' equity amounted to 16.5% (annualized).

General Insurance

We consider the combined ratio and business operating profit to be the key performance indicators for our General Insurance operations.

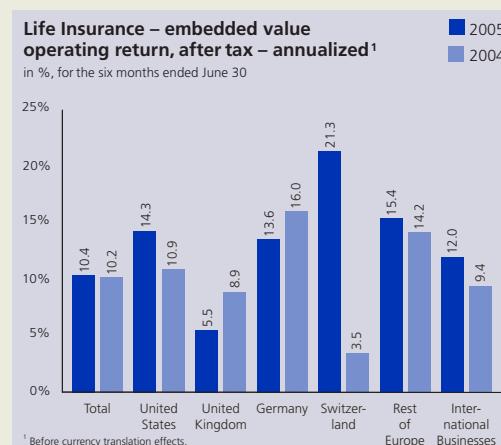
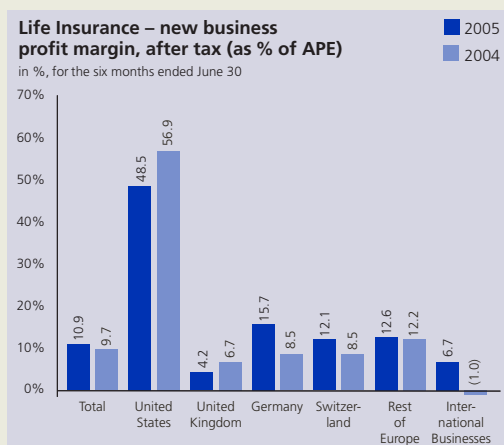


Overall, the combined ratio increased by 0.3 percentage points to 96.9% over the first half of 2004 reflecting net underwriting profits of USD 437 million for the first half of 2005, compared with USD 445 million in the first half of 2004. The **combined ratio** was positively impacted by our strong underwriting performance in Europe General Insurance and North America Commercial, which was offset by large claims in Global Corporate as well as an underwriting loss of USD 135 million in Centrally Managed Businesses arising from a few specific claims in the first six months of 2005.

Business operating profit was affected by these same factors but increased by USD 124 million to USD 1.4 billion in 2005 reflecting higher investment income. Our customer segments North America Commercial and Europe General Insurance recorded increases in business operating profit of 77% and 40%, respectively.

Life Insurance

We consider new business profit margin, embedded value operating return after tax, and business operating profit to be the key performance indicators for our Life Insurance operations.



New business profit, after tax increased by USD 18 million from USD 104 million to USD 122 million, which is reflected in the improvement of the **new business profit margin, after tax** of 1.2 percentage points from 9.7% to 10.9% in the first half of 2004 and 2005, respectively. This improvement was mainly driven by higher profitability of new life business in Germany.

Embedded value operating return, after tax and before currency translation effects (annualized) increased by 0.2 percentage points to 10.4% for the first half of 2005 reflecting an improvement in Switzerland, offset by lower returns in the United Kingdom as it repositioned.

Business operating profit for Life Insurance increased by 22% to USD 536 million in the first half of 2005 with improvements in our businesses in Europe, in particular Switzerland and Germany.

Life Insurance – business operating profit in USD millions, for the six months ended June 30	2005	2004	Change
United States	105	102	3%
United Kingdom	88	145	(39%)
Germany	55	18	206%
Switzerland	156	83	88%
Rest of Europe	91	72	26%
International Businesses	41	20	105%
Total	536	440	22%

Farmers Management Services

We consider management fees, business operating profit and gross operating margin to be the key performance indicators for our Farmers Management Services segment, which are driven by the gross earned premiums of the Farmers Exchanges, which we manage but do not own.

Farmers Management Services in USD millions, for the six months ended June 30	2005	2004	Change
Management fees and other related revenue	1,020	980	4%
Business operating profit	609	556	10%
Gross operating margin	52.6%	53.3%	(0.7 pts)
Gross earned premiums of the Farmers Exchanges	7,147	6,943	3%

Currency Translation Impact

The Group operates worldwide in multiple currencies and seeks to match its foreign exchange exposures on an economic basis. However, because the Group has chosen the US dollar as its presentation currency, differences arise when local functional currencies are translated into the Group's presentation currency.

The tables below show the currency translation impact on selected balances included within our consolidated operating statements and balance sheets. The final column shows the reported percentage change in these balances. The principal exchange rates are set out in note 2 to the Consolidated Financial Statements.

Consolidated operating statements

Currency translation impact variance over the prior period, for the six months ended June 30, 2005	Currency translation impact in USD millions	Currency translation impact in %	% change in USD
Gross written premiums and policy fees	680	2%	(2%)
Net earned premiums and policy fees	549	2%	–
Net income attributable to shareholders	39	2%	21%

Consolidated balance sheets

Currency translation impact variance over December 31, 2004, as of June 30, 2005	Currency translation impact in USD millions	Currency translation impact in %	% change in USD
Total investments	(19,017)	(7%)	(3%)
Gross reserves for insurance contracts	(15,244)	(7%)	(3%)
Cumulative translation adjustment in total equity	(849)	(4%)	n/a

Investment result and investments

Investment Performance

Total investments as shown in the consolidated balance sheets include Group investments, where the Group bears all or part of the investment risk, and investments for unit-linked products, where policyholders bear the entire investment risk. Investments for unit-linked products include investments held for liabilities related to insurance and investment contracts, except such investment policies with discretionary participation features where the investments are managed as part of Group investments.

Net investment result and investments in USD millions, for the six months ended June 30	Group investments		Investments for unit-linked products		Total	
	2005	2004	2005	2004	2005	2004
Net investment income	4,030	3,652	1,040	751	5,070	4,403
Net capital gains on investments and impairments	1,001	254	3,408	1,401	4,409	1,655
Net investment result ¹	5,031	3,906	4,448	2,152	9,479	6,058
in USD millions, as of						
	06/30/05	12/31/04	06/30/05	12/31/04	06/30/05	12/31/04
Investments	188,533	196,457	85,266	85,698	273,799	282,155

¹ Net investment result, net of policyholder dividends and participation in profits amounted to USD 4,245 million and USD 3,658 million for the six months ended June 30, 2005 and 2004, respectively.

We manage our diversified Group investment portfolio to optimize benefits for both shareholders and policyholders while ensuring compliance with local regulatory and business requirements under the guidance of our Asset/Liability Management and Investment Committee. Investments for unit-linked products, whether classified as insurance or investment policies, are managed in accordance with the investment objectives of each unit-linked fund.

Group investment performance

Investment performance of Group investments in USD millions, for the six months ended June 30	2005	2004	Change
Net investment income	4,030	3,652	10%
Net capital gains on investments and impairments	1,001	254	294%
Net investment result	5,031	3,906	29%
Movements in net unrealized gains on investments included in shareholders' equity	1,239	(1,159)	nm
Total investment result	6,270	2,747	128%
Average investments ¹	187,699	175,124	7%
Total return ^{1,2}	3.4%	1.7%	1.7 pts

¹ Excluding average cash received as collateral for securities lending of USD 4,797 million and USD 2,842 million in 2005 and 2004, respectively.

² Not annualized and before investment expenses.

Net investment income for Group investments increased by 10% to USD 4.0 billion from USD 3.7 billion. This improvement was driven by higher short-term interest rates in the US, positive currency translation effects, and enhanced expense discipline.

Net capital gains on investments and impairments for Group investments increased to USD 1,001 million in the first six months of 2005 compared with USD 254 million in the same period in 2004. These gains, which are substantially distributed to life policyholders, primarily resulted from lower long-term interest rates and stronger equity markets.

The **total investment return** for Group investments in the first six months of 2005 was 3.4% compared with 1.7% in the same period in 2004. This return includes investment income, net capital gains on investments recognized in the consolidated operating statements and movements in unrealized gains recorded in shareholders' equity. This total investment result after investment expenses for the first six months of 2005 was USD 6.3 billion compared with USD 2.7 billion in the same period in 2004. This primarily resulted from declining long-term interest rates, particularly in the euro zone and the United Kingdom, and stronger equity markets, which resulted in higher unrealized capital gains included in shareholders' equity in the first half of 2005 compared with losses in 2004.

A breakdown of total investments into Group investments and investments for unit-linked products is provided in our Financial Supplement to the Half Year Results Reporting 2005 on our Web site www.zurich.com.

Reserves for Losses and Loss Adjustment Expenses

Development of reserves for losses and loss adjustment expenses			
in USD millions	2005	2004	Change
As of January 1 (opening balance)			
Gross reserves for losses and loss adjustment expenses	57,765	51,007	13%
Reinsurers' share	(14,278)	(14,036)	2%
Net reserves for losses and loss adjustment expenses	43,487	36,971	18%
Net losses and loss adjustment expenses incurred			
Current period	10,896	10,230	7%
Prior years	97	656	(85%)
Total	10,993	10,886	1%
Total net losses and loss adjustment expenses paid	(8,763)	(8,451)	4%
Divestments of companies and businesses, including transfer to assets and liabilities held for sale			
	(1,083)	(394)	175%
Currency translation effects	(2,083)	(517)	303%
As of June 30 (closing balance)			
Net reserves for losses and loss adjustment expenses	42,551	38,495	11%
Reinsurers' share	14,475	13,908	4%
Gross reserves for losses and loss adjustment expenses	57,026	52,403	9%

We establish reserves for losses and loss adjustment expenses, 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 and requiring the use of informed estimates and judgments. Any changes in estimates are reflected in the operating statement in the period in which estimates are changed.

Of the total USD 42.6 billion **net reserves for losses and loss adjustment expenses** USD 38.4 billion related to General Insurance and USD 4.2 billion to other segments as of June 30, 2005. In line with IFRS 5, USD 1.1 billion of net reserves for losses and loss adjustment expenses in respect of Universal Underwriters Group have been segregated as assets and liabilities held for sale.

Through our Zurich Way of reserving, initiated in 2004, we have strengthened our reserve governance process, integrated our actuarial function, and applied a best practice actuarial approach which includes more internal and external reviews. In aggregate, in the first six months of 2005, we have increased reserves for prior years by USD 97 million relating to the ongoing settlement and reassessment of a few specific claims.

Capitalization and Indebtedness

in USD millions, as of	06/30/05	12/31/04	Change
Collateralized loans	3,504	4,135	(15%)
Debt related to capital markets and banking activities	3,164	3,880	(18%)
Obligation to repurchase securities	5,761	5,009	15%
Total operational debt	12,429	13,024	(5%)
Senior debt	2,996	3,355	(11%)
Subordinated debt	2,997	2,516	19%
Total financial debt	5,993	5,871	2%
Minority interests	787	840	(6%)
Shareholders' equity	21,934	20,670	6%
Total equity	22,721	21,510	6%
Total financial debt and equity	28,714	27,381	5%

Operational debt

Indebtedness

As of June 30, 2005 **total operational debt** was USD 12.4 billion, a decrease of USD 0.6 billion since December 31, 2004. USD 3.5 billion of collateralized loans were secured by mortgage loans of the same amount given as collateral to counterparties compared with USD 4.1 billion as of December 31, 2004. Debt relating to capital markets and banking activities decreased by USD 716 million arising mainly from the continued winding down of business in Zurich Capital Markets, which is included in Other Businesses. Our obligation to repurchase securities increased by USD 752 million in the first six months 2005 to USD 5.8 billion, resulting from increased short-term activities in the Repo market in the normal course of business as part of our investment and liquidity management.

Financial debt

The increase in **total financial debt** of USD 122 million, or 2%, resulted primarily from a new bond issue and was partially offset by currency translation effects. On June 15, 2005, Zurich Finance (USA), Inc. issued a 4.5% EUR 500 million bond under the Group's EMTN Programme, guaranteed by Zurich Insurance Company on a subordinated basis. The bond is due in 2025 and is callable from June 15, 2015. The coupon is fixed until June 15, 2015, and will then become floating at the three month Euribor plus a spread of 2.2%. In line with the Group's policy of managing its interest rate risk and foreign currency exposure, cross-currency interest rate swaps have been used for fair value hedging of this debt until the first call date. After taking into account the cross-currency interest rate swaps, this issuance has become a floating rate US dollar obligation, with a variable rate coupon being reset every six months.

The size of the Group's EMTN Programme, which allows for the potential issuance of senior and subordinated notes, was increased on March 10, 2005 from a maximum of USD 4 billion to a maximum of USD 6 billion.

Credit facilities

The Group has access to a syndicated revolving **credit facility** of USD 3 billion which was put in place in April 2004. This credit facility consists of two equal tranches maturing in 2007 and 2009. Zurich Group Holding, together with Zurich Insurance Company and Farmers Group, Inc. are guarantors of the facility and can draw up to USD 1.25 billion, USD 1.5 billion and USD 250 million, respectively. No borrowings were outstanding under this facility as of June 30, 2005.

Total equity

Total equity in USD millions, for the six months ended June 30, 2005	Shareholders' equity	Minority interests	Total equity
As of December 31, 2004, as previously reported	22,181	846	23,027
Total adjustments due to implementation of new and revised IFRS accounting standards	(1,511)	(6)	(1,517)
As of December 31, 2004, restated	20,670	840	21,510
Write-off of negative goodwill (IFRS 3)	23	–	23
Change in net unrealized gains on investments excluding translation adjustments	654	11	665
Translation adjustments	(738)	(111)	(849)
Nominal value reduction of common stock	(449)	–	(449)
Share-based payment transactions	(4)	–	(4)
Net income	1,799	56	1,855
Dividends on preferred securities	(21)	(12)	(33)
Net changes in capitalization and minority interests	–	3	3
As of June 30, 2005	21,934	787	22,721

Shareholders' equity

Shareholders' equity increased by USD 1.3 billion to USD 21.9 billion as of June 30, 2005. This rise resulted mainly from our net income attributable to shareholders for the first six months of 2005 and the increase of net unrealized gains on investments not recognized in the operating statement. These positive impacts were partially offset by unfavorable currency translation effects and the nominal value reduction of common stock by CHF 4 per registered share, which was paid to common stockholders on July 4, 2005.

Minority interests

Minority interests under revised IAS 1 are included as a component of total equity, whereas previously they were presented as a separate item between liabilities and equity. The reduction in **minority interests** of USD 53 million, or 6%, resulted primarily from currency translation effects which were partially offset by net income attributable to minority interests.

Solvency

Regulated entities of the Group are required to submit returns to their local regulators, usually on an annual basis but in some countries more frequently. These returns show the compliance of the reporting entity with local solvency requirements and include information on eligible funds and admissible assets.

On a consolidated basis, Zurich Financial Services, with headquarters in Zurich, Switzerland, is subject to supervision by the Federal Office of Private Insurance ("FOPI"). Regulatory supervision of the Group for its insurance activities and its remaining banking and other regulated financial services activities, including supervision over consolidated solvency and capital adequacy at a Group level, are coordinated between FOPI and the Swiss Federal Banking Commission (based on the Decree on the Consolidated Supervision of the Zurich Financial Services Group of April 23, 2001).

Litigation and regulatory investigations

The Group and its subsidiaries are continuously involved in legal proceedings, claims and litigation arising, for the most part, in the ordinary course of their business operations. The Group and its subsidiaries are also involved in a number of industry-wide civil and criminal investigations issued by State Insurance Departments in the US, State Attorney Generals in the US, the US Attorney's Office for the Southern District of New York, the US Securities and Exchange Commission, other US authorities and supervisory bodies and other non-US authorities regarding certain business practices involving insurance brokers and insurance companies, the purchase and sale of "non-traditional" products, certain reinsurance transactions engaged in by the Group and its subsidiaries, and other matters. The Group has been conducting its own internal reviews with respect to some of these matters and is cooperating fully in these investigations. Various Group subsidiaries are also involved in class action litigation brought by private parties arising out of the matters that are the subject of the investigation regarding business practices involving insurance brokers and insurance customers, and the divestiture of businesses. Such Group subsidiaries intend to defend such actions vigorously.

The outcome of such current legal proceedings, claims, litigation and investigations could have a material effect on operating results and/or cash flows when resolved in a future period. However, in the opinion of management these matters would not materially affect the Group's consolidated financial position.

Transactions

In the six months ended June 30, 2005, the Group completed the sale of its interest in Zurich National Life Assurance Company Limited in Thailand to National Finance Public Company Limited, the sale of its majority interest in ZC Sterling Corporation to Trident III, L.P., and the acquisition of the life business portfolio of ING Insurance Argentina.

In addition, on April 13, 2005, the Group completed the sale of a stake of 10% of the total issued share capital of South African Eagle Insurance Company Limited, a majority-owned subsidiary, to Royal Bafokeng Finance in support of Black Economic Empowerment in South Africa.

For the six months ended June 30, 2005, the Group recognized a net loss of USD 13 million before tax for divestments of businesses and adjustments to divestments in prior periods compared with a net loss of USD 14 million in the same period in 2004.

On April 4, 2005, the Group announced the sale of Universal Underwriters Group (UUG) to an investor group led by Hellman & Friedman LLC. The assets and liabilities of UUG have been classified as held for sale as of June 30, 2005 in accordance with IFRS 5. The Group, together with the purchaser, continues to work towards a number of pre-closing conditions which need to be satisfied prior to the closing of the transaction.

Divestments and acquisition

Pension plans in Switzerland

On June 16, 2005, the Boards of Trustees of the pension plans for the Group's employees based in Switzerland adopted new pension plan arrangements that reflect the changed economic and demographic environment. The principal changes to the pension plans, which become effective January 1, 2006, are the conversion from a defined benefit to a defined contribution system and that the pension plans become autonomous. Employees will transfer to the new arrangements, and future benefits at normal retirement for current active participants are targeted to be similar to those under the present arrangements. However, following a transition period of three years, the current additional benefits that are provided on early retirement will gradually be phased out over a nine-year period. While on a statutory basis, significant additional funding is being provided by the Group to support future benefits of the plan, the calculation of the reduced long-term obligation under IAS 19 resulted in a one-time non-cash gain of USD 103 million to the business operating profit.

Cash Flows

Summary of cash flows		
in USD millions, for the six months ended June 30		
	2005	2004
Cash flows from operating activities		
Net income attributable to shareholders	1,799	1,484
Adjustments for:		
Net capital gains on investments and impairments	(4,409)	(1,655)
Net loss on divestments of businesses	13	14
Equity in income of investments in associates	(96)	(85)
Depreciation, amortization and impairments of fixed and intangible assets	220	297
Other non-cash items	(19)	(14)
Changes in operational assets and liabilities ¹	8,505	6,671
Net cash provided by operating activities	6,013	6,712
Net cash used in investing activities	(3,864)	(7,142)
Net cash provided by/(used in) financing activities	1,027	(968)
Effect of exchange rate changes on cash and cash equivalents	(1,199)	(156)
Change in cash and cash equivalents^{2,3}	1,977	(1,554)
Change in cash received as collateral for securities lending	(800)	5,607
Cash and cash equivalents reclassified to assets held for sale	(458)	–
Cash and cash equivalents as of January 1 ^{3,4}	22,457	15,889
Cash and cash equivalents as of June 30^{3,4}	23,176	19,942

¹ Cash flows related to investments held for trading purposes are reflected in "cash flows from operating activities."

² Excluding change in cash received as collateral for securities lending.

³ Cash and cash equivalents have been restated as a result of the IFRS changes effective January 1, 2005. Previously, we reported the balance "Investments held on account and at risk of life insurance policyholders." This balance included various types of investments, including cash and cash equivalents, which are now segregated into their individual investment categories.

⁴ Including cash received as collateral for securities lending.

Operating cash flow

Our cash flow from operating activities consists of cash flow arising from our insurance businesses, after payments to reinsurers (net premiums, policy fees and deposits received less net claims after recoveries from reinsurers, benefit payments, policy surrenders and operating expenses) and investment income received (dividends, interest and rents) less interest paid and tax payments. Farmers Management Services receives management fees as well as investment income and pays operating expenses and taxes.

Investing cash flow

Surplus operating cash flow, plus the proceeds from the sale and maturity of investments as well as divestments, are reinvested through our investing activities. Our investment funds may be used to fund operating cash flow deficits.

Financing cash flow

Our financing activities cash flow result from our corporate funding and borrowing arrangements, capital raising and repayment as well as payments to shareholders.

Net cash provided by operating activities in the first six months of 2005 declined by 10% to USD 6.0 billion. USD 3.9 billion of these funds were used in net investing activities. The remainder plus an additional USD 1.0 billion, raised from net financing activities, were partially offset by negative effects of exchange rate movements on cash and cash equivalents of USD 1.2 billion and together these resulted in a net increase in cash and cash equivalents of USD 2.0 billion. In the same period in 2004, operations provided funds of USD 6.7 billion which were used to invest a net USD 7.1 billion and to repay operational debt of USD 1.0 billion resulting in a net cash outflow of USD 1.6 billion.

Quarterly Consolidated Financial Information

Summary of quarterly consolidated financial information				
in USD millions, for the three months ended				
	06/30/05	06/30/04	03/31/05	03/31/04
Gross written premiums and policy fees	12,062	12,123	13,892	14,233
Net earned premiums and policy fees	10,359	10,097	10,331	10,515
Net investment result	5,878	2,879	3,601	3,179
Other revenues	869	902	817	839
Total revenues	17,106	13,878	14,749	14,533
Insurance benefits and losses, net of reinsurance	8,325	7,827	7,900	8,467
Policyholder dividends and participation in profits, net of reinsurance	3,350	999	1,884	1,401
Other expenses	3,681	3,747	3,672	3,669
Total benefits, losses and expenses	15,356	12,573	13,456	13,537
Net income before income taxes	1,750	1,305	1,293	996
Net income attributable to shareholders	1,020	840	779	644
Business operating profit	1,271	1,104	1,034	874

Basis of Presentation

Effect of new and revised accounting standards in 2005

The Group has implemented several new and revised accounting standards, which became effective January 1, 2005. The main adjustments for the Group result from the adoption of IFRS 4, which relates to the definition of insurance contracts. They primarily affect the accounting treatment of the life business with impacts on both the Group's balance sheet and operating statement. Details of these impacts are set out in note 3 to the Consolidated Financial Statements.

On May 3, 2005, we presented the impact of these new and revised accounting standards. Further information including an audio-webcast, a presentation and certain restated 2004 financial tables can be found in the Investor Relations section of our Web site www.zurich.com.

A summary of the key changes to the Group's consolidated shareholders' equity as of December 31, 2004 as well as net income attributable to shareholders and business operating profit for the first six months of 2004 is set out below.

	Net income attributable to shareholders for the six months ended June 30, 2004	Business operating profit for the six months ended June 30, 2004	Shareholders' equity as of 12/31/04
in USD millions			
As published in the Annual Report 2004	1,448	1,948	22,181
IFRS 4 adjustments	36	30	(1,528)
Other IAS/IFRS adjustments	–	–	17
Total adjustments	36	30	(1,511)
Restated	1,484	1,978	20,670

The adoption of the new and revised accounting standards does not change the Group's business fundamentals, its underlying profitability or cash flows, Life Insurance embedded value results or the regulatory capital position of its legal entities. The restatement largely reflects changes in the timing of profit recognition, primarily in our life business.

Segment information

Primary segments:

The Group continues to report segment information using the same primary segments as in 2004. The segments are General Insurance, Life Insurance, Farmers Management Services, Other Businesses and Corporate Functions. However, to be consistent with our management structure, certain reclassifications between primary segments have been made for 2005 financial reporting.

Secondary segments:

As in 2004, the Group's secondary format for segment information is geographic. For 2005 financial reporting, these regions have been aligned to better reflect management responsibility, and are North America, Europe, International Businesses and Centrally Managed Businesses.

Further details on primary and secondary segment information are set out in note 1 to the Consolidated Financial Statements.

We also manage our General Insurance business on a customer segment basis. Our customer segments are Global Corporate, North America Commercial, Europe General Insurance, International Businesses and Centrally Managed Businesses. For a detailed split please refer to our Financial Supplement, which is included in the Investor Relations section of our Web site www.zurich.com.

Segmental Financial Analysis

In the following sections we discuss the results of operations for each of our segments. The analysis of the results for the first six months ended June 30, 2005 is made against the restated results of the prior-year period, unless otherwise stated.

General Insurance

In General Insurance we have maintained our disciplined underwriting approach and, where in some lines of business rates were not adequate to meet our technical price targets, we have chosen not to write that business.

In 2005, we benefited from our well-diversified portfolio and made operational progress by improving our product mix and by adapting our reinsurance programs. The purchase of reinsurance is a highly centralized approach in order to benefit from an optimal use of Group capital and reduce credit exposure to reinsurers.

We are institutionalizing The Zurich Way, creating consistent, enterprise-wide transparency in underwriting, reserving and claims management. The Zurich Way of reserving aims to strengthen our governance process through direct reporting by local actuaries into the Group.

General Insurance – highlights			
in USD millions, for the six months ended June 30			
	2005	2004	Change
Gross written premiums and policy fees	18,635	18,466	1%
Net earned premiums and policy fees	13,905	13,079	6%
Insurance benefits and losses, net of reinsurance	(10,238)	(9,614)	(6%)
Net underwriting result	437	445	(2%)
Business operating profit	1,384	1,260	10%
Loss ratio	73.6%	73.5%	(0.1 pts)
Expense ratio ¹	23.3%	23.1%	(0.2 pts)
Combined ratio	96.9%	96.6%	(0.3 pts)

¹ Including policyholder dividends and participation in profits.

A substantial portion of our business is written in euros, British pounds and Swiss francs, which appreciated by 5%, 3% and 5%, respectively, against the US dollar when comparing average rates for the half year 2005 with those for the half year 2004. The table below shows the currency translation impact on selected operating statement line items. The final column shows the reported percentage change in these balances.

General Insurance – currency translation impact	Currency translation impact		% change
variance over the prior period, for the six months ended June 30, 2005			
	in USD millions	in %	in USD
Gross written premiums and policy fees	466	3%	1%
Net investment income	32	3%	23%
Net capital gains on investments and impairments	6	6%	23%
Insurance benefits and losses, net of reinsurance	(241)	(2%)	(6%)

Global Corporate

Global Corporate serves multinational companies with products tailored to their domestic and international insurance needs. Our global network enables us to cooperate across national, regional and functional boundaries. We provide our customers with the benefit of our international expertise and detailed local knowledge.

Global Corporate – highlights			
in USD millions, for the six months ended June 30			
	2005	2004	Change
Gross written premiums and policy fees	4,034	4,176	(3%)
Net earned premiums and policy fees	2,425	2,281	6%
Insurance benefits and losses, net of reinsurance	(1,973)	(1,700)	(16%)
Net underwriting result	83	227	(63%)
Business operating profit	248	353	(30%)
Loss ratio	81.4%	74.5%	(6.9 pts)
Expense ratio ¹	15.2%	15.6%	0.4 pts
Combined ratio	96.6%	90.1%	(6.5 pts)

¹ Including policyholder dividends and participation in profits.

Global Corporate's **net underwriting result** decreased by USD 144 million to USD 83 million for the first half of 2005 as a result of a few large individual claims relating to fire and floods. The **loss ratio** increased from 74.5% in the first six months of 2004 to 81.4% in 2005 and the **combined ratio** increased by 6.5 percentage points to 96.6% in 2005 as a result of these claims.

As a consequence **business operating profit** decreased by 30% to USD 248 million in the first half of 2005. The lower underwriting result was partly offset by an increase in net investment income reflecting an increased asset base.

Gross written premiums and policy fees declined by 3% (6% on a local currency basis) in 2005 as compared to the prior year, caused by rate decreases particularly in the property and casualty lines of business in the United States and Europe. Additionally, the strategic decision was taken in 2005 to reduce certain lines of business in Zurich Global Energy. The growth in **net earned premiums** of 6% to USD 2.4 billion in the first six months ended June 30, 2005 mainly reflects the growth in 2004 now being earned as revenue.

Zurich is a leading commercial property and casualty insurance provider in North America, serving commercial customers, including middle market, small business, specialties and program sectors in the United States and Canada.

North America Commercial

North America Commercial – highlights

in USD millions, for the six months ended June 30

	2005	2004	Change
Gross written premiums and policy fees	6,368	6,381	0%
Net earned premiums and policy fees	4,469	4,092	9%
Insurance benefits and losses, net of reinsurance	(3,198)	(3,156)	(1%)
Net underwriting result	109	(1)	nm
Business operating profit	424	240	77%
Loss ratio	71.6%	77.1%	5.5 pts
Expense ratio ¹	26.0%	22.9%	(3.1 pts)
Combined ratio	97.6%	100.0%	2.4 pts

¹ Including policyholder dividends and participation in profits.

Business operating profit increased by USD 184 million, or 77%, to USD 424 million for the first half year 2005. This result reflects the increase in net investment income of USD 136 million, which is driven by a combination of improved yields and higher invested assets. Invested assets are higher due to lower premiums ceded and additional capital provided following the reserve strengthening in 2004.

Additionally, higher retentions in the first six months of 2005 and the reserve strengthening that occurred in the first six months of 2004, not repeated in 2005, resulted in an increase of USD 110 million in our **net underwriting result**. We increased our net retention by changing our reinsurance program as our balance sheet strengthened. As a consequence, **net earned premiums and policy fees** grew by USD 377 million, or 9%, while **gross written premiums and policy fees** remained stable. This result is consistent with our policy not to write contracts that do not meet our technical price targets.

Europe General Insurance

Europe General Insurance consists of commercial and personal customer segments. Our largest markets in Europe are the United Kingdom, Germany, Switzerland, Italy and Spain. Additionally, we are well-positioned in Ireland, Portugal and Austria.

Europe General Insurance – highlights

in USD millions, for the six months ended June 30

	2005	2004	Change
Gross written premiums and policy fees	7,137	6,922	3%
Net earned premiums and policy fees	6,007	5,712	5%
Insurance benefits and losses, net of reinsurance	(4,342)	(4,189)	(4%)
Net underwriting result	321	148	117%
Business operating profit	714	509	40%
Loss ratio	72.3%	73.3%	1.0 pts
Expense ratio ¹	22.4%	24.1%	1.7 pts
Combined ratio	94.7%	97.4%	2.7 pts

¹ Including policyholder dividends and participation in profits.

International Businesses

The improvement in **business operating profit** by USD 205 million, or 40%, to USD 714 million for the first six months of 2005 was mainly driven by the improved **net underwriting result** of 117% to USD 321 million and by USD 68 million higher **net investment income** compared to the prior year. The improvement in net underwriting result of USD 173 million primarily resulted from increases in Switzerland and the United Kingdom. In the United Kingdom **insurance benefits, losses and expenses** improved due to positive loss development, which was partially offset by an increase in staff pension-related charges amounting to USD 24 million. **Gross written premiums and policy fees** of USD 7.1 billion in the first six months of 2005 increased by 3%, while in local currency there was a decrease of 1%, or USD 75 million, due to a highly competitive market in the United Kingdom. In Italy and Spain we experienced volume growth of approximately 15%.

Our International Businesses division consists of Asia Pacific, Latin America and Rest of International Businesses with Australia, South Africa and Japan being the largest units.

Australia concentrates on the small and medium enterprises and corporate markets, and has a single channel distribution strategy focused on brokers.

South Africa has a product mix that is currently 70% commercial business and 30% personal business, and utilizes the broker distribution channel for its business.

Japan is primarily focused on the personal and corporate lines segments. The personal lines segment accounts for approximately 80% of the business. The core products are auto insurance, which is sold directly to the consumer, and personal accident insurance, which is distributed through third-party companies that endorse our products. Zurich's corporate unit provides traditional commercial insurance as well as supporting international program business.

International Businesses – highlights			
in USD millions, for the six months ended June 30			
	2005	2004	Change
Gross written premiums and policy fees	1,472	1,433	3%
Net earned premiums and policy fees	1,012	926	9%
Insurance benefits and losses, net of reinsurance	(622)	(547)	(14%)
Net underwriting result	45	56	(20%)
Business operating profit	116	112	4%
Loss ratio	61.4%	59.1%	(2.3 pts)
Expense ratio ¹	34.1%	34.8%	0.7 pts
Combined ratio	95.5%	93.9%	(1.6 pts)

¹ Including policyholder dividends and participation in profits.

Business operating profit increased by USD 4 million, or 4%, to USD 116 million for the first half of 2005. This increase was driven by the improved net investment income partially offset by the lower underwriting result.

International Businesses' diversified portfolio across markets and lines of businesses softened the impact of mostly weather related claims which affected South Africa and Venezuela in particular. Additionally, Australia suffered from property losses due to fires, which were partially offset by favorable claims experience in Hong Kong compared to the prior year. Accordingly, **insurance benefits and losses** increased by 14% to USD 622 million and the **loss ratio** increased by 2.3 percentage points to 61.4% for the first half of 2005. The **expense ratio** improved by 0.7 percentage points to 34.1% in 2005 reflecting the benefits of strict financial discipline instilled in our businesses. As a result of these factors our **net underwriting result** decreased to USD 45 million for the first half of 2005 as compared with USD 56 million in 2004.

We experienced growth in **gross written premiums and policy fees** of 3%, particularly in South Africa and Japan. South Africa was able to achieve volume growth and Japan showed strong increases in personal lines following successful brand-focused marketing activities. Australia experienced growth in written premiums with the exception of the corporate property and workers compensations lines of business. **Net earned premiums** increased 9% driven by changes in our ceded reinsurance programs, which led to higher retention of premiums particularly in Mexico and Taiwan.

Centrally Managed Businesses

The use of reinsurance is a key component of the Group's risk mitigation and capital management strategies. Centrally Managed Businesses includes internal reinsurance programs.

Centrally Managed Businesses – highlights			
in USD millions, for the six months ended June 30	2005	2004	Change
Gross written premiums and policy fees	151	169	(11%)
Net earned premiums and policy fees	(8)	68	nm
Insurance benefits and losses, net of reinsurance	(103)	(22)	(368%)
Net underwriting result	(135)	10	nm
Business operating profit	(118)	46	nm

The decrease in **business operating profit** was driven by a small number of large prior-year claims totaling USD 106 million.

Life Insurance

In the first half year of 2005 we saw the continuing rewards from our efforts to strengthen sustainable Life Insurance results. We made further progress in refocusing our business portfolio, redefining our business model, de-risking our balance sheet and optimizing our expense base. Our refocused product range is gaining further acceptance in the marketplace, with total new business up after adjusting for divestments and discontinued businesses.

Since 2002 we have divested numerous life businesses to focus on profitable growth in our markets. We are making major changes to our business model in Switzerland and in the United Kingdom. In Switzerland we redesigned our group pension business model. In the United Kingdom, we have consolidated our remaining life portfolios into a single entity, permitting further operating and commercial synergies. Openwork, our new distribution company, was launched in June 2005 and sells products manufactured by Zurich and other selected partners to take full advantage of new flexibility permitted by regulation in the United Kingdom. The value realized by Openwork will be shared between Zurich and its franchise partners who have shown very strong support for the new model.

We are concentrating on protection and lump sum savings, especially unit-linked business, and de-emphasizing guaranteed products or those with low margins. Our new product range is gaining traction in the marketplace. Our innovative products and service levels are being recognized, with Germany, Ireland and the United Kingdom receiving awards for excellent customer service and product quality in the recent past.

The Zurich Way initiatives will enable us to further stabilize our growth and to take full advantage of the momentum we have created. The Zurich Way Sales Excellence program aims to improve the productivity of our tied agents. Also under The Zurich Way, we are looking at further opportunities for efficiencies and cost saving. And we will continue to develop new and innovative products focused on market niches where we have competitive advantage. Despite the encouraging progress, we face continuing challenges in our highly competitive markets, where margins are under pressure. Nonetheless, we believe we have laid a solid foundation for the future.

Life Insurance – highlights			
in USD millions, for the six months ended June 30	2005	2004	Change
Gross written premiums and policy fees	5,460	5,472	0%
Insurance deposits	4,644	4,284	8%
Net investment result	7,173	4,190	71%
Business operating profit	536	440	22%

Embedded value – highlights			
in USD millions, for the six months ended June 30	2005	2004	Change
Gross new business annual premiums equivalent (APE)	1,116	1,071	4%
New business margin, after tax (as % of APE)	10.9%	9.7%	1.2 pts
New business profit, after tax	122	104	17%
Embedded value operating profit, after tax	669	553	21%
Embedded value operating return, after tax – annualized ¹	10.4%	10.2%	0.2 pts
Expected return – annualized	7.7%	8.1%	(0.4 pts)

¹ Before currency translation effects.

A substantial portion of our business is written in euros, British pounds and Swiss francs, which appreciated by 5%, 3% and 5%, respectively, against the US dollar when comparing average rates for the half year 2005 with those for the half year 2004. The table below shows the currency translation impact on selected operating statement line items. The final column shows the reported percentage change in these balances.

Life Insurance – foreign currency translation impact variance over the prior period, for the six months ended June 30, 2005	Currency translation impact		% change in USD
	in USD millions	in %	
Gross written premiums and policy fees	206	4%	0%
Insurance deposits	145	3%	8%
Net investment result	241	6%	71%

Life Insurance – net investment result and business operating profit in USD millions, for the six months ended June 30	Net investment result			Business operating profit		
	2005	2004	Change	2005	2004	Change
United States	158	156	1%	105	102	3%
United Kingdom	4,390	1,989	121%	88	145	(39%)
Germany	1,308	863	52%	55	18	206%
Switzerland	466	440	6%	156	83	88%
Rest of Europe	645	463	39%	91	72	26%
International Businesses	206	279	(26%)	41	20	105%
Total	7,173	4,190	71%	536	440	22%

Life Insurance – gross written premiums and policy fees, and insurance deposits in USD millions, for the six months ended June 30	Gross written premiums and policy fees			Insurance deposits		
	2005	2004	Change	2005	2004	Change
United States	298	274	9%	260	283	(8%)
United Kingdom	1,108	966	15%	2,431	2,526	(4%)
Germany	1,800	1,772	2%	356	322	11%
Switzerland	1,452	1,594	(9%)	10	7	43%
Rest of Europe ¹	552	527	5%	957	562	70%
International Businesses	250	339	(26%)	630	584	8%
Total	5,460	5,472	0%	4,644	4,284	8%

¹ Including intrasegment eliminations.

Driven by improved results in Germany, Switzerland and Italy, Life Insurance increased **business operating profit** by USD 96 million, or 22%, to USD 536 million. Germany benefited from expense reductions. Switzerland profited from reduced benefit charges in 2005, the redesign of the group pension business model and improved performance in individual life. The overall increase in the Life Insurance result was partially offset by the United Kingdom, where the costs for the introduction of Openwork and a change to the assumptions used to determine carrying amounts of policyholder benefits related to certain annuity portfolios adversely affected business operating profit. The United Kingdom experienced increased staff pension related charges of USD 18 million. The United Kingdom Life business reported a USD 98 million profit in the second quarter 2005 compared with USD 70 million in the same period in 2004. The increase in business operating profit in International Businesses was driven by Australia which improved to USD 19 million.

The overall **net investment result** increased 71% to USD 7.2 billion reflecting increases in equity markets as well as further reductions in long-term interest rates. However, these increases were offset by correspondingly higher policyholder participations.

Life Insurance **gross written premiums and policy fees** remained level. However, after adjusting for the currency translation effect, divestments and the remodeling of Swiss group life business, premiums increased by 3%. The primary increase was in the United Kingdom where an increase in policyholder taxes of USD 190 million is recoverable from policyholders through corresponding fees. **Insurance deposits** from customers increased 8% to USD 4.6 billion, but 5% after the effects of currency translation. The increases were primarily in Spain, following successful sales campaigns launched through our banking distribution partner.

Embedded value

Embedded value – highlights in USD millions, for the six months ended June 30	Gross new business annual premiums equivalent (APE)			New business profit, after tax		
	2005	2004	Change	2005	2004	Change
United States	54	55	(2%)	26	31	(16%)
United Kingdom	475	458	4%	20	31	(35%)
Germany	252	274	(8%)	40	23	74%
Switzerland	51	67	(24%)	6	6	0%
Rest of Europe	185	120	54%	23	14	64%
International Businesses	99	97	2%	7	(1)	nm
Total	1,116	1,071	4%	122	104	17%

Embedded value – highlights in USD millions, for the six months ended June 30	Embedded value operating profit, after tax			Embedded value operating return, after tax – annualized ¹		
	2005	2004	Change	2005	2004	Change
United States	168	120	40%	14.3%	10.9%	3.4 pts
United Kingdom	83	226	(63%)	5.5%	8.9%	(3.4 pts)
Germany	78	71	10%	13.6%	16.0%	(2.4 pts)
Switzerland	173	(7)	nm	21.3%	3.5%	17.8 pts
Rest of Europe	111	109	2%	15.4%	14.2%	1.2 pts
International Businesses	56	34	65%	12.0%	9.4%	2.6 pts
Total	669	553	21%	10.4%	10.2%	0.2 pts

¹ Before currency translation effects.

Life Insurance **gross new business annual premiums equivalent (APE)** increased by USD 45 million to USD 1.1 billion, principally reflecting the growth premiums written and deposits in southern Europe.

New business profit, after tax, contributed USD 122 million to embedded value operating profit, after tax, an increase of USD 18 million over 2004, mainly arising in Germany, primarily due to expense improvements; and in Rest of Europe, as a result of the growth in new business volumes, partially offset by the United Kingdom, where profit was lower by USD 11 million because of the decrease in sales volumes and the transitional measures for the positioning of the United Kingdom business.

Embedded value operating profit, after tax, increased by USD 116 million to USD 669 million corresponding to a 10.4% **annualized operating return on embedded value** for the first half of 2005. This was 2.7 percentage points above the annualized expected return of 7.7%. The main driver was Switzerland, which experienced an increase of USD 180 million as a result of the implementation of the “legal quote” for group life business in 2004. In the United States, operating profit was up USD 48 million to USD 168 million resulting from a reduction in the cost of capital associated with the transfer of surplus notes to Farmers Management Services. The Life Insurance segment experienced a 17% increase in the value added by new business which also contributed to the improved result. These profit improvements were offset by the United Kingdom, where results decreased by USD 143 million in the first six months of 2005 due to higher expenses related to the business restructuring and the transition to Openwork.

Farmers Management Services

Farmers Group, Inc. and its subsidiaries (FGI) provide non-claims related insurance management services and act as an attorney-in-fact for the Farmers Exchanges, prominent writers in the United States of personal lines of business, including both private passenger automobile and homeowners insurance, as well as small commercial lines. While premiums are written and claims are paid by the Farmers Exchanges, which we manage but do not own, FGI provides non-claims related management services to the Farmers Exchanges and receives management fees for these services.

Farmers Management Services – highlights in USD millions, for the six months ended June 30	2005	2004	Change
Management fees and other related revenue	1,020	980	4%
Management expenses and other related expenses	(483)	(458)	(5%)
Net investment income	72	56	29%
Business operating profit	609	556	10%
Gross operating margin	52.6%	53.3%	(0.7 pts)

Farmers Exchanges – highlights in USD millions, for the six months ended June 30	2005	2004	Change
Gross earned premiums	7,147	6,943	3%
Combined ratio ¹	94.4%	97.7%	3.3 pts

¹ Adjusted for profit portion of management fees combined ratios were 87.7% and 90.7% in 2005 and 2004, respectively.

In the first half of 2005 the Farmers Exchanges have continued to record steady growth in revenues due to higher gross earned premiums in the personal, specialty and commercial lines of business, and as a result, our **management fees and other related revenue** increased by USD 40 million. Similarly, **management expenses and other related expenses** have increased by USD 25 million in the first six months of 2005 compared with the same period in 2004. This increase was mainly driven by higher advertising and promotional expenses, as well as higher salaries and employee benefit costs. Consequently, the **gross operating margin** of Farmers Management Services has decreased by 0.7 percentage points to 52.6% for the first half of 2005.

Net investment income increased by USD 16 million in the first half of 2005 due to a higher average invested asset base.

As a result, **business operating profit** increased by USD 53 million.

Other Businesses

Other Businesses includes Farmers Re, Centre and capital markets and banking activities. This segment also includes certain businesses which are centrally managed and are not considered to be core businesses. Certain of the business operations in this segment were discontinued, divested or put into run-off in previous years.

Other Businesses – highlights in USD millions, for the six months ended June 30	2005	2004	Change
Net earned premiums and policy fees	1,636	2,346	(30%)
Net investment income	449	342	31%
Total benefits, losses and expenses	(2,397)	(3,181)	25%
Business operating profit	158	35	351%

Farmers Re, Centre and other operations in USD millions, for the six months ended June 30	Farmers Re		Centre		Other operations	
	2005	2004	2005	2004	2005	2004
Net earned premiums and policy fees	1,061	1,526	422	601	153	219
Net investment income	52	46	219	189	178	107
Total benefits, losses and expenses	(1,000)	(1,481)	(795)	(875)	(602)	(825)
Business operating profit/(loss)	113	92	10	(23)	35	(34)

Farmers Re provides reinsurance services to the Farmers Exchanges, which we manage but do not own. Net earned premiums decreased by USD 465 million, or 30%, in the first six months of 2005, as a result of the growth in surplus of the Farmers Exchanges enabling them to retain higher levels of risk. **Business operating profit** increased by USD 21 million, or 23%, in the first half of 2005, compared to the same period in 2004. This increase is due to a strong underwriting result, showing a 2.7 percentage points improvement in the combined ratio to 94.3% in half year 2005 compared with 97.0% in the same period 2004. This positive development resulted primarily from the underlying improvement in current year claims, expenses and favorable prior-year loss reserve development.

Centre improved its **business operating profit** by USD 33 million to USD 10 million in the first half of 2005 from a loss of USD 23 million in 2004, primarily as a result of the successful commutation of several contracts, combined with a decrease in our provisions as liabilities are settled. Centre continues actively to pursue commutation and asset disposal opportunities. A number of underwriting contracts have been commuted this year, representing significant progress in the overall run-off in Centre's liabilities.

Other operations in this segment recorded a **business operating profit** of USD 35 million in the first half of 2005 compared with a loss of USD 34 million in the same period in 2004 as we run off selected businesses.

Corporate Functions

The Corporate Functions segment includes Group holding companies, central expenses and financing entities. Main drivers of the result of this segment are investment income and interest expense relating to the financing of the Group, capital gains and losses on investments together with central costs for services provided to the businesses and projects managed centrally before recharges to the businesses.

Corporate Functions – highlights in USD millions, for the six months ended June 30	2005	2004	Change
Headquarters expenses, net of recharges to operating businesses	(76)	(70)	(9%)
Foreign exchange hedging and transactions	(80)	(6)	nm
Total headquarters expenses, net of recharges to operating businesses	(156)	(76)	nm
Net investment result	414	410	1%
Financing costs	(474)	(427)	(11%)
Business operating loss	(382)	(313)	(22%)

Total headquarters expenses, net of recharges to operating businesses increased by USD 80 million, to USD 156 million primarily due to the strengthening of the US dollar. We experienced foreign exchange losses relating to derivatives which are used to hedge specific debt or net asset positions of the Group. These hedges result in operating statement volatility in Corporate Functions, however, they protect the Group from some foreign exchange exposures.

The issuance of the EUR 1.0 billion debt in September 2004 by Zurich Finance (USA) under the EMTN Programme was the main contributing event to the higher financing costs which increased by USD 47 million to USD 474 million. On June 15, 2005 a further EUR 500 million debt was issued under the EMTN Programme by Zurich Finance (USA), however, this has a negligible impact on the financing costs for the 2005 half year results.

In addition to foreign exchange effects and higher financing costs, business operating loss further increased due to higher staff-related expenses and fees for external consultants.

Consolidated Financial Statements	27
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Embedded Value Results – Life Insurance	50
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Shareholder Information	55
-------------------------	----

27 Consolidated Financial Statements

27 Consolidated operating statements

28 Consolidated balance sheets

30 Consolidated statements of cash flows

32 Consolidated statements of changes in equity

34 Notes to the half year consolidated financial statements

49 Review report of the Group auditors

50 Embedded Value Results – Life Insurance

55 Shareholder Information

55 Zurich Financial Services registered share data

56 Financial calendar and contacts

Consolidated operating statements (unaudited)

in USD millions, for the six months ended June 30

	Notes	2005	2004
Revenues			
Gross written premiums and policy fees		25,954	26,356
Less premiums ceded to reinsurers		(3,535)	(3,931)
Net written premiums and policy fees		22,419	22,425
Net change in reserves for unearned premiums		(1,729)	(1,813)
Net earned premiums and policy fees		20,690	20,612
Farmers management fees		1,020	980
Net investment income	4	5,070	4,403
Net capital gains on investments and impairments	4	4,409	1,655
Net loss on divestments of businesses	5	(13)	(14)
Other income		679	775
Total revenues		31,855	28,411
Benefits, losses and expenses			
Insurance benefits and losses, gross	6	18,932	18,563
Less ceded insurance benefits and losses	6	(2,707)	(2,269)
Insurance benefits and losses, net of reinsurance	6	16,225	16,294
Policyholder dividends and participation in profits, net of reinsurance	6	5,234	2,400
Underwriting and policy acquisition costs, net of reinsurance	6	3,706	3,709
Administrative expense		1,820	1,955
Other operating expense		943	923
Amortization and impairments of intangible assets		125	194
Interest expense on debt	10	223	166
Interest credited to policyholders and other interest		536	469
Total benefits, losses and expenses		28,812	26,110
Net income before income taxes		3,043	2,301
Income tax expense	7	(1,188)	(763)
Net income		1,855	1,538
Net income attributable to minority interests		(56)	(54)
Net income attributable to shareholders		1,799	1,484
of which: – attributable to common stockholders		1,778	1,468
– attributable to preferred securities holders		21	16
in USD			
Basic earnings per share		12.37	10.24
Diluted earnings per share		12.29	10.16
in CHF			
Basic earnings per share		14.87	12.95
Diluted earnings per share		14.77	12.84

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

Consolidated balance sheets (unaudited)

in USD millions, as of

Assets	Notes	06/30/05	12/31/04
Investments			
Cash and cash equivalents		23,176	22,457
Trading equity portfolios in capital markets and banking activities		2,155	2,773
Equity securities		81,979	83,315
Debt securities		128,849	131,370
Investments in associates		677	645
Other investments		36,963	41,595
Total investments	4	273,799	282,155
Reinsurers' share of reserves for insurance contracts	9	21,387	20,919
Deposits made under assumed reinsurance contracts		2,667	3,282
Deferred policy acquisition costs	8	10,745	11,281
Deferred origination costs		691	736
Accrued investment income		2,335	2,614
Receivables		10,186	13,121
Derivative trading assets and other assets		2,323	3,095
Mortgage loans given as collateral		3,504	4,135
Deferred tax assets	7	4,179	4,211
Assets held for sale	5	3,943	–
Fixed assets		1,788	2,116
Goodwill		625	744
Other intangible assets		2,260	2,477
Total assets		340,432	350,886

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

Liabilities and equity	Notes	06/30/05	12/31/04
Liabilities			
Reserve for premium refunds		630	820
Liabilities for investment contracts		37,413	40,046
Deferred profit on inception of reinsurance contracts		123	130
Deposits received under ceded reinsurance contracts		3,370	4,276
Deferred front-end fees		4,663	4,912
Reserves for insurance contracts	9	219,807	227,087
Obligation to repurchase securities		5,761	5,009
Accrued liabilities		2,139	2,605
Derivative trading liabilities and other liabilities		21,848	24,887
Collateralized loans		3,504	4,135
Deferred tax liabilities	7	6,224	5,718
Liabilities held for sale	5	3,072	–
Debt related to capital markets and banking activities	10	3,164	3,880
Senior and subordinated debt	10	5,993	5,871
Total liabilities		317,711	329,376
Equity			
Common stock		186	635
Treasury stock		(1)	(1)
Additional paid-in capital		10,284	10,288
Net unrealized gains on investments	4	1,654	1,075
Cumulative translation adjustment		92	755
Retained earnings		8,623	6,822
Common stockholders' equity		20,838	19,574
Preferred securities		1,096	1,096
Shareholders' equity		21,934	20,670
Minority interests		787	840
Total equity		22,721	21,510
Total liabilities and equity		340,432	350,886

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

Consolidated statements of cash flows (unaudited)

in USD millions, for the six months ended June 30

	2005	2004
Cash flows from operating activities		
Net income attributable to shareholders	1,799	1,484
Adjustments for:		
Net capital gains on investments and impairments	(4,409)	(1,655)
Net loss on divestments of businesses	13	14
Equity in income of investments in associates	(96)	(85)
Depreciation, amortization and impairments of fixed and intangible assets	220	297
Other non-cash items	(19)	(14)
Changes in operational assets and liabilities:		
Deferred policy acquisition costs	(434)	(282)
Deferred origination costs	(6)	2
Reinsurers' share of reserves for insurance contracts	(1,225)	(172)
Deposits made under assumed reinsurance contracts	602	232
Deposits received under ceded reinsurance contracts	(735)	(247)
Receivables and payables	(279)	(581)
Net changes in trading securities	339	1,326
Reserves for insurance contracts	9,292	6,983
Liabilities for investment contracts	105	(2,005)
Deferred income tax, net	645	107
Net changes in other operational assets and liabilities	201	1,308
Net cash provided by operating activities	6,013	6,712
Cash flows from investing activities		
Sales and maturities:		
Debt securities	34,767	32,689
Equity securities	19,598	15,303
Other (primarily other investments and fixed assets)	4,953	4,149
Purchases:		
Debt securities	(39,824)	(39,809)
Equity securities	(18,775)	(15,748)
Other (primarily other investments and fixed assets)	(4,641)	(5,368)
Investments in associates, net	41	66
Acquisitions of companies, net of cash acquired	(1)	–
Divestments of companies, net of cash balances	17	1,559
Dividends from associates	1	17
Net cash used in investing activities	(3,864)	(7,142)

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

	2005	2004
Cash flows from financing activities		
Proceeds from sale and repurchase agreements	1,130	935
Dividends on preferred securities paid to shareholders	(21)	(16)
Redemption of preferred securities by subsidiaries	–	(195)
Issuance of debt	630	779
Payments on debt outstanding	(712)	(2,471)
Net cash provided by/(used in) financing activities	1,027	(968)
Effect of exchange rate changes on cash and cash equivalents	(1,199)	(156)
Change in cash and cash equivalents excluding change in cash received as collateral for securities lending	1,977	(1,554)
Change in cash received as collateral for securities lending	(800)	5,607
Cash and cash equivalents reclassified to assets held for sale	(458)	–
Cash and cash equivalents as of January 1, including cash received as collateral for securities lending	22,457	15,889
Cash and cash equivalents as of June 30, including cash received as collateral for securities lending	23,176	19,942

Other supplementary cash flow disclosures

in USD millions	2005	2004
Other interest income received	3,979	3,541
Dividend income received	985	782
Other interest expense paid	(706)	(592)
Income tax paid	(553)	(356)

As of June 30, 2005 and 2004, cash and cash equivalents restricted as to use were USD 436 million and USD 605 million, respectively. Cash and cash equivalents held for the benefit of policyholders in connection with unit-linked products amounted to USD 3,611 million and USD 3,507 million as of June 30, 2005 and December 31, 2004, respectively. The balances of cash received as collateral for securities lending were USD 4,397 million and USD 5,197 million as of June 30, 2005 and December 31, 2004, respectively.

Cash and cash equivalents comprise the following:

in USD millions	2005	2004
Cash at bank and in hand	8,335	6,504
Cash equivalents	10,444	7,792
Cash received as collateral for securities lending	4,397	5,646
Balance as of June 30	23,176	19,942

Cash and cash equivalents of Universal Underwriters Group and other Group entities reclassified to assets held for sale

in USD millions, for the six months ended June 30, 2005	
Net cash provided by operating activities	326
Net cash provided by investing activities	22
Cash and cash equivalents as of January 1, 2005	110
Cash and cash equivalents reclassified to assets held for sale as of June 30, 2005	458

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

Consolidated statements of changes in equity (unaudited)

in USD millions, except number of shares, for the six months ended June 30

	Number of common shares issued	Common stock
As of December 31, 2003, as previously reported	144,006,955	923
Implementation of new and revised IFRS accounting standards:		
– IFRS 4	–	–
– IAS 28/31	–	–
– IAS 32/39	–	–
Total adjustment due to implementation of new and revised IFRS accounting standards ¹	–	–
As of December 31, 2003, restated	144,006,955	923
Change in net unrealized gains/(losses) on investments (excluding translation adjustments)	–	–
Translation adjustments	–	–
Change in net unrealized losses on investments not recognized in the operating statement	–	–
Nominal value reduction of common stock	–	(288)
Share-based payment transactions	–	–
Treasury stock transactions	–	–
Net income	–	–
Dividends on preferred securities	–	–
Net changes in capitalization and minority interests	–	–
As of June 30, 2004, restated	144,006,955	635
As of December 31, 2004, as previously reported	144,006,955	635
Implementation of new and revised IFRS accounting standards:		
– IFRS 4	–	–
– IAS 27	–	–
– IAS 28/31	–	–
– IAS 32/39	–	–
Total adjustment due to implementation of new and revised IFRS accounting standards ¹	–	–
As of December 31, 2004, restated	144,006,955	635
Write-off of negative goodwill (IFRS 3)	–	–
Change in net unrealized gains on investments (excluding translation adjustments)	–	–
Translation adjustments	–	–
Change in net unrealized gains/(losses) on investments not recognized in the operating statement	–	–
Nominal value reduction of common stock ²	–	(449)
Share-based payment transactions	–	–
Net income	–	–
Dividends on preferred securities	–	–
Net changes in capitalization and minority interests	–	–
As of June 30, 2005	144,006,955	186

¹ Implementation of new and revised accounting standards as discussed in note 3.

² As approved by the Annual General Meeting on April 19, 2005, the share capital was reduced by a nominal value reduction of CHF 4.00 from CHF 6.50 to CHF 2.50 in respect of each registered share. The payment to shareholders was made on July 4, 2005.

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

Treasury stock	Additional paid-in capital	Net unrealized gains/(losses) on investments	Cumulative translation adjustment	Retained earnings	Preferred securities	Total shareholders' equity	Minority interests	Total equity
(6)	10,208	862	152	5,699	1,096	18,934	969	19,903
-	-	-	-	(1,320)	-	(1,320)	-	(1,320)
-	-	-	-	19	-	19	-	19
-	-	-	-	(4)	-	(4)	-	(4)
-	-	-	-	(1,305)	-	(1,305)	-	(1,305)
(6)	10,208	862	152	4,394	1,096	17,629	969	18,598
-	-	(981)	-	-	-	(981)	2	(979)
-	-	(9)	(86)	-	-	(95)	(45)	(140)
-	-	(990)	(86)	-	-	(1,076)	(43)	(1,119)
-	-	-	-	-	-	(288)	-	(288)
-	(14)	-	-	-	-	(14)	-	(14)
4	45	-	-	-	-	49	-	49
-	-	-	-	1,484	-	1,484	54	1,538
-	-	-	-	(16)	-	(16)	(5)	(21)
-	-	-	-	-	-	-	(215)	(215)
(2)	10,239	(128)	66	5,862	1,096	17,768	760	18,528
(1)	10,288	1,075	840	8,248	1,096	22,181	846	23,027
-	-	-	(85)	(1,443)	-	(1,528)	-	(1,528)
-	-	-	-	-	-	-	(6)	(6)
-	-	-	-	21	-	21	-	21
-	-	-	-	(4)	-	(4)	-	(4)
-	-	-	(85)	(1,426)	-	(1,511)	(6)	(1,517)
(1)	10,288	1,075	755	6,822	1,096	20,670	840	21,510
-	-	-	-	23	-	23	-	23
-	-	654	-	-	-	654	11	665
-	-	(75)	(663)	-	-	(738)	(111)	(849)
-	-	579	(663)	-	-	(84)	(100)	(184)
-	-	-	-	-	-	(449)	-	(449)
-	(4)	-	-	-	-	(4)	-	(4)
-	-	-	-	1,799	-	1,799	56	1,855
-	-	-	-	(21)	-	(21)	(12)	(33)
-	-	-	-	-	-	-	3	3
(1)	10,284	1,654	92	8,623	1,096	21,934	787	22,721

Notes to the half year consolidated financial statements (unaudited)

1. Basis of presentation

These half year consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting." The accounting policies used to prepare these consolidated financial statements comply with International Financial Reporting Standards (IFRS), and are consistent with those set out in the notes to the Annual Report 2004 of Zurich Financial Services Group (the Group), except for new and revised accounting standards implemented in 2005. These resulted in restatement of certain 2004 amounts and are discussed in note 3. In addition, certain reclassifications have been made to prior period amounts and segment disclosures to conform to the presentation in the Group's Annual Report 2004 and to the current period presentation. These reclassifications have no effect on the previously reported net income.

These unaudited half year consolidated financial statements should be read in conjunction with the Group's Annual Report 2004. The Group's independent auditors have carried out a review of these unaudited half year consolidated financial statements. Their review report is set out on page 49.

Certain amounts recorded in the half year 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 made. Interim results are not necessarily indicative of full-year results.

Segment information

In the Annual Report 2004, the Group's primary reporting segments were defined as General Insurance, Life Insurance, Farmers Management Services, Other Businesses and Corporate Center. The only change to these primary segments in 2005 was to rename Corporate Center to Corporate Functions. However, to be consistent with the Group's management structure, the following transfers between primary segments have been made for 2005 financial reporting:

- Farmers Re business from General Insurance to Other Businesses;
- Group Reinsurance business relating to certain European run-off operations from Corporate Functions to Other Businesses;
- Certain investments of Farmers New World Life from Life Insurance to Farmers Management Services;
- The Reinsurance businesses of various Group entities from Corporate Functions to Other Businesses or General Insurance.

The Group's secondary reporting format for segment reporting is geographic. In 2004 these secondary segments were North America Corporate, North America Consumer, Continental Europe, UKISA, Rest of the World and Centrally Managed Businesses. For 2005 financial reporting, these regions have been aligned to better reflect management responsibility and are North America, Europe, International Businesses and Centrally Managed Businesses.

The 2004 results have been restated to reflect these changes.

2. Foreign currency translation and transactions

The table below summarizes the principal exchange rates that have been used for translation purposes. The net losses on foreign currency transactions included in the consolidated operating statements were USD 60 million and USD 47 million for the six months ended June 30, 2005 and 2004, respectively.

Table 2

Principal exchange rates

USD per foreign currency unit

	Balance sheets as of		Operating statements and cash flows for the six months ended	
	06/30/05	12/31/04	06/30/05	06/30/04
Euro	1.2101	1.3555	1.2860	1.2274
Swiss franc	0.7802	0.8769	0.8316	0.7907
British pound sterling	1.7917	1.9183	1.8744	1.8225

3. Implementation of new and revised accounting standards and adjustments in 2005 (IFRS restatement)

As presented on May 3, 2005, the Group has implemented several new and revised accounting standards within the International Financial Reporting Standards (IFRS) framework, which became effective January 1, 2005.

The International Accounting Standards Board (IASB) issued IFRS 4 "Insurance Contracts" on March 31, 2004. The publication of this standard provides, for the first time, guidance on accounting for insurance contracts. This standard applies to all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds, except for specified contracts covered by other IFRS standards. The most significant change as a result of the adoption of the standard is the re-classification of certain contracts as financial instruments and hence the application of IAS 39 to these contracts. The adoption of IFRS 4 does not provide comprehensive guidance on the accounting treatment for insurance contracts, and as such the Group will continue to apply US GAAP in certain circumstances where IFRS is silent.

IAS 39 "Financial Instruments: Recognition and Measurement" was revised in December 2003 as part of the IASB's project to improve IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39. A further amendment was made in March 2004. The changes related to Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk. The most significant changes are as follows:

- The standard clarifies that the evaluation of the transfer of risks and rewards of ownership precedes the evaluation of the transfer of control for all derecognition transactions.
- The standard permits an entity to designate any financial asset or financial liability on initial recognition as one to be measured at fair value, with changes in fair value recognized in profit or loss. To impose discipline on this categorization, an entity is precluded from reclassifying financial instruments into or out of this category.
- The standard provides additional guidance about how to determine fair values using valuation techniques.
- The standard clarifies that an impairment loss is recognized only when it has been incurred. It also provides additional guidance on what events provide objective evidence of impairment for investments in equity instruments.
- Hedges of firm commitments are to be treated as fair value hedges rather than cash flow hedges. However, the standard clarifies that a hedge of the foreign currency risk of a firm commitment can be treated as either a cash flow hedge or a fair value hedge.

The IASB issued IFRS 3 "Business Combinations" on March 31, 2004. In accordance with the transitional provisions of the standard, the Group has applied this standard to business combinations for which the agreement date is on or after March 31, 2004. The remaining requirements of IFRS 3 have been adopted as of January 1, 2005. The most significant changes required by this standard are:

- All business combinations within its scope are to be accounted for using the purchase method, previously IAS 22 permitted business combinations to be accounted for using the pooling of interests method in certain circumstances.
- The acquiree's identifiable assets, liabilities and contingent liabilities are to be recognized as part of allocating the cost of the combination to be measured initially by the acquirer at their fair values at the acquisition date. Therefore, any minority interest in the acquiree is stated at the minority's proportion of the net fair values of those items.
- Goodwill acquired in a business combination is to be measured after initial recognition at cost less any accumulated impairment losses. Therefore, goodwill is not amortised and instead must be tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

Upon adoption of IFRS 3, the Group wrote back USD 23 million of negative goodwill.

IAS 36 "Impairment of Assets" and IAS 38 "Intangible Assets" were revised in March 2004 by the IASB as part of the IASB project resulting in the publication of IFRS 3 "Business Combinations." Consistent with the Group's adoption of IFRS 3, the revised standards were adopted as of January 1, 2005.

The IASB issued IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" on March 31, 2004. The standard adopts the classification "held for sale", introduces the concept of a disposal group, and specifies that assets or disposal groups that are classified as held for sale are carried at the lower of carrying amount and fair value less costs to sell. It also replaces IAS 35 regarding the accounting treatment for discontinued operations. The most significant impact for the Group was the re-classification of some of its assets and liabilities as "held for sale."

IAS 27 "Consolidated and Separate Financial Statements" was revised in March 2004. The adoption of the revised guidance with respect to the consolidation requirements of venture capital organizations, mutual funds and similar entities resulted in an equivalent gross-up of the Group's assets and liabilities to reflect the liabilities to third parties and minority interests. Also, IAS 27 revised requires the disclosure of minority interests within equity separately from the parent shareholders' equity.

The accounting policy for securities lending has been changed, primarily driven by the revised IFRS standards which led the Group to review its previous policy and make changes to the criteria for recognizing collateral received as part of securities lending arrangements. As a result of the Group having future economic benefits and retaining significant risk and rewards of the cash collateral received, the Group now has to recognize both cash collateral and an equal and offsetting liability related to the cash collateral. No income effect resulted from the change in this policy.

As a result of the adoption of the above noted new and amended accounting standards, the 2004 comparatives have been restated as summarized in the following tables.

Effect of new and revised accounting standards and adjustments implemented in 2005 (IFRS restatement)

Table 3.1

Consolidated operating statement for the six months ended June 30, 2004 IFRS restatement (unaudited) – reconciliation to previously reported financial information

in USD millions, for the six months ended June 30, 2004

	As reported ¹	IFRS 4	Other IAS/IFRS	Restated
Net income attributable to shareholders ²	1,448	36	–	1,484

¹ As published in the Annual Report 2004.² Revised IAS 1 changed the bottom line from "Net income", as described, to "Net income attributable to shareholders."

Table 3.2

Consolidated balance sheet as of December 31, 2004 IFRS restatement (unaudited) – reconciliation to previously reported financial information

in USD millions, as of December 31, 2004

	As reported ¹	IFRS 4	Other IAS/IFRS	Restated
Shareholders' equity	22,181	(1,528)	17	20,670
Total equity	23,027	(1,528)	11	21,510

¹ As published in the Annual Report 2004.

4. Investments

A summary of net investment income and net capital gains and losses and impairments is given below.

Table 4.1

Investment result

in USD millions, for the six months ended June 30

	Net investment income		Net capital gains/(losses) and impairments ¹		Investment result	
	2005	2004	2005	2004	2005	2004
Cash and cash equivalents	310	163	2	5	312	168
Equity securities	1,069	857	3,289	1,159	4,358	2,016
Debt securities	2,807	2,665	802	2	3,609	2,667
Investments in associates	96	85	(5)	(77)	91	8
Other investments:						
Short-term investments	48	56	2	–	50	56
Investments held by investment companies	5	7	126	167	131	174
Real estate held for investment	404	408	256	168	660	576
Mortgage loans, policyholders' collateral and other loans	567	500	93	143	660	643
Other ²	84	79	(156)	88	(72)	167
Investment result, gross	5,390	4,820	4,409	1,655	9,799	6,475
Investment expenses ³	(320)	(417)	–	–	(320)	(417)
Investment result, net	5,070	4,403	4,409	1,655	9,479	6,058

¹ Impairments on total investments amounted to USD 35 million and USD 55 million for the six months ended June 30, 2005 and 2004, respectively.² Including net capital gains/(losses) on derivative financial instruments of USD (159) million and USD 12 million for the six months ended June 30, 2005 and 2004, respectively.³ Including rental operating expenses for real estate held for investment of USD 72 million and USD 80 million for the six months ended June 30, 2005 and 2004, respectively.

The details of the investment balances as of June 30, 2005 and December 31, 2004 are given in the tables below.

	06/30/05		12/31/04	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	23,176	8.5%	22,457	8.0%
Equity securities (including trading equity portfolios in capital markets and banking activities):				
Trading	2,351	0.9%	2,843	1.0%
<i>of which:</i>				
<i>Trading equity portfolios in capital markets and banking activities</i>	2,155	0.8%	2,773	1.0%
Fair value through profit and loss	70,682	25.8%	71,087	25.2%
Available-for-sale	11,101	4.0%	12,158	4.3%
Total equity securities	84,134	30.7%	86,088	30.5%
Debt securities:				
Trading	485	0.2%	540	0.2%
Fair value through profit and loss	17,587	6.4%	17,101	6.1%
Available-for-sale	105,364	38.5%	107,874	38.2%
Held-to-maturity	5,413	2.0%	5,855	2.1%
Total debt securities	128,849	47.1%	131,370	46.6%
Investments in associates	677	0.2%	645	0.2%
Other investments:				
Short-term investments	1,386	0.5%	1,943	0.7%
Investments held by investment companies	1,789	0.7%	1,789	0.6%
Real estate held for investment	11,797	4.3%	12,541	4.4%
Mortgage loans	9,278	3.4%	10,251	3.6%
Policyholders' collateral and other loans	12,630	4.6%	14,906	5.3%
Other	83	0.0%	165	0.1%
Total other investments	36,963	13.5%	41,595	14.7%
Total investments	273,799	100.0%	282,155	100.0%

As of June 30, 2005 and December 31, 2004 the Group had USD 17,378 million and USD 15,687 million, respectively, of loaned securities outstanding. The restricted cash contains USD 4,397 million and USD 5,197 million of cash collateral received for loaned securities as of June 30, 2005 and December 31, 2004, respectively. The non-cash collateral received for loaned securities was USD 14,678 million and USD 12,543 million as of June 30, 2005 and December 31, 2004, respectively.

Table 4.3
Realized capital gains/(losses) and impairments
on available-for-sale debt and equity securities

	Equity securities		Debt securities		Total	
	2005	2004	2005	2004	2005	2004
Gross realized capital gains – available-for-sale	275	388	362	334	637	722
Gross realized capital losses – available-for-sale	(154)	(426)	(81)	(93)	(235)	(519)
Impairments – available-for-sale	(23)	(34)	(7)	(12)	(30)	(46)
Total	98	(72)	274	229	372	157

Table 4.4
Net unrealized gains/(losses) on investments included in shareholders' equity

	Total	
	06/30/05	12/31/04
Equity securities – available-for-sale	703	310
Debt securities – available-for-sale	4,607	3,635
Other	(46)	79
Less amount of net unrealized gains on investments attributable to:		
Life policyholder dividends and other policyholder liabilities	(2,682)	(2,234)
Life deferred acquisition costs	(235)	(176)
Deferred income taxes	(657)	(514)
Minority interests	(36)	(25)
Total	1,654	1,075

5. Changes in the scope of consolidation

During the six months ended June 30, 2005 and 2004, the Group completed divestments of several businesses and recognized post-completion adjustments.

Table 5.1

Net loss on divestments

in USD millions, for the six months ended June 30

	2005	2004
Consideration received	83	1,739
Less: net assets divested	(99)	(1,708)
Other income/(costs) related to divestments	3	(45)
Net loss on divestments before tax	(13)	(14)
Tax effect	–	(4)
Net loss on divestments after tax	(13)	(18)

Net assets divested

Cash and cash equivalents	68	180
Other assets	196	3,955
Insurance liabilities	(39)	(515)
Other liabilities	(126)	(1,912)
Net assets divested	99	1,708

The Group's most significant transactions affecting the scope of consolidation during the six months ended June 30, 2005 and 2004 were as described below.

Changes in 2005

The Group completed the sale of its equity stake in ZC Sterling Corporation to Trident III, L.P, the sale of 10% of the total issued share capital of South African Eagle Insurance Company Limited (SA Eagle), a majority-owned subsidiary, to Royal Bafokeng Finance (RBF), a company wholly-owned by the Royal Bafokeng Nation (RBN), South Africa, the sale of its interest in Zurich National Life Assurance Company Limited in Thailand to National Finance Public Company Limited and the acquisition of the life business portfolio of ING Insurance Argentina, realizing a net loss before tax of USD 17 million. The Group also realized post-completion adjustments for divestments closed in 2004, realizing a net gain before tax of USD 4 million.

On April 4, 2005, the Group announced the sale of Universal Underwriters Group to an investor group led by Hellman & Friedmann LLC. The assets and liabilities of Universal Underwriters Group have been classified as held for sale as of June 30, 2005 in accordance with IFRS 5 (see below). The Group, together with the purchaser, continue to work towards a number of pre-closing conditions which need to be satisfied prior to the closing of the transaction.

In the first six months 2005, the companies divested did not materially contribute to the Group's net income.

Assets and liabilities held for sale

As of January 1, 2005, the Group adopted IFRS 5 resulting in a change in accounting policy and a change in the balance sheet presentation for assets and liabilities held for sale. The following assets and liabilities of Universal Underwriters Group and other Group entities have been classified as held for sale as of June 30, 2005:

Table 5.2

Assets classified as held for sale

in USD millions, as of June 30, 2005

Total investments	1,238
<i>of which:</i>	
Cash and cash equivalents	458
Deferred policy acquisition costs	464
Reinsurers' share of reserves for insurance contracts	230
Other assets	2,011
Total	3,943

Table 5.3

Liabilities classified as held for sale

in USD millions, as of June 30, 2005

Reserves for insurance contracts	2,557
Other liabilities	515
Total	3,072

Net unrealized gains on investments in the Group's shareholders' equity relating to assets held for sale amounted to USD 16 million as of June 30, 2005.

Changes in 2004

During the first six months of 2004, the Group completed the sale of Zurich Insurance (Singapore) Pte. Ltd., the sale of Zürich Krankenversicherung AG (Deutschland), the sale of the Group's stake in Globale Krankenversicherungs-AG, the sale of the insurance portfolio of its subsidiary Zurich Life Philippines, Inc, the sale of McMillan Shakespeare Australia Pty Limited, and the sale of the general insurance (consumer and small commercial lines) and life insurance (consumer and commercial lines) operations in Belgium, recognizing a net loss before tax of USD 15 million. The Group also recognized several post-completion adjustments for divestments completed during or prior to the first six months of 2004, realizing a net gain before tax of USD 1 million.

In the first six months 2004, the companies and businesses divested contributed USD 8 million to the Group's net income.

6. Insurance benefits, losses and expenses

Table 6.1

Insurance benefits and losses

in USD millions, for the six months ended June 30

	Gross		Ceded		Net	
	2005	2004	2005	2004	2005	2004
Losses and loss adjustment expenses	13,330	12,890	(2,337)	(2,004)	10,993	10,886
Life insurance death and other benefits	6,046	7,409	(142)	(137)	5,904	7,272
Decrease in future life policyholders' benefits	(444)	(1,736)	(228)	(128)	(672)	(1,864)
Total insurance benefits and losses	18,932	18,563	(2,707)	(2,269)	16,225	16,294
of which:						
Losses and loss adjustment expenses paid	10,515	10,425	(1,752)	(1,974)	8,763	8,451

Table 6.2

Other technical expenses

in USD millions, for the six months ended June 30

	Gross		Ceded		Net	
	2005	2004	2005	2004	2005	2004
Policyholder dividends and participation in profits	5,234	2,399	–	1	5,234	2,400
Underwriting and policy acquisition costs	3,899	4,328	(193)	(619)	3,706	3,709

7. Income taxes

Table 7.1

Income tax expense – current/deferred split

in USD millions, for the six months ended June 30

	2005	2004
Current	562	538
Deferred	626	225
Total income tax expense	1,188	763

Table 7.2

Income tax expense – policyholders/shareholders split

in USD millions, for the six months ended June 30

	2005	2004
Income tax expense attributable to policyholders	397	33
Income tax expense attributable to shareholders	791	730
Total income tax expense	1,188	763

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 gross written premiums and policy fees revenue.

Table 7.3

Expected and actual income tax expense

in USD millions, for the six months ended June 30

	2005	2004
Expected income tax expense	983	748
Increase/(reduction) in taxes resulting from:		
Lower taxed income	(238)	(138)
Non-deductible expenses	52	41
Non-utilizable tax losses	140	58
Additional tax expense attributable to life insurance policyholder earnings	269	22
Other	(18)	32
Actual income tax expense	1,188	763

The table above illustrates the factors that cause the actual income tax expense to differ from the expected amount computed by applying the weighted average statutory income tax rate.

The weighted average statutory income tax rate for the Group is 32.3% and 32.5% for the six months ended June 30, 2005 and 2004, respectively. These rates were derived by obtaining a weighted average of the applicable statutory income tax rate in relation to the net income before income tax generated in the taxable territories in which the Group operates.

Table 7.4

Deferred income taxes

in USD millions, as of

	06/30/05	12/31/04
Deferred tax assets		
Deferred tax assets, gross	4,774	4,701
Valuation allowance on deferred tax assets	(595)	(490)
Deferred tax assets, net	4,179	4,211
Deferred tax liabilities	(6,224)	(5,718)
Deferred tax liabilities, net	(2,045)	(1,507)

The current income tax payable (net of income tax receivable) as of June 30, 2005 and December 31, 2004 was USD 925 million and USD 971 million, respectively.

As of June 30, 2005 and December 31, 2004, respectively, the Group had income tax loss carryforwards of USD 4,570 million and USD 4,835 million available (subject to various statutory restrictions) for use against future taxable income. Deferred tax assets for loss carryforwards of USD 2,802 million and USD 3,300 million were recognized as of June 30, 2005 and December 31, 2004, respectively. No deferred tax assets were recognized in respect of the remaining USD 1,768 million and USD 1,535 million as of June 30, 2005 and December 31, 2004, respectively. The majority of the income tax loss carryforwards expire after five years.

8. Deferred policy acquisition costs

Table 8

Deferred policy acquisition costs

in USD millions

	General Insurance		Life Insurance		Other segments ¹		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
As of January 1 (opening balance)	2,143	1,916	8,932	7,858	206	303	11,281	10,077
Acquisition costs deferred and transfers	1,624	1,168	664	604	3	38	2,291	1,810
Amortization charged to income ²	(972)	(951)	(542)	(508)	(30)	(72)	(1,544)	(1,531)
Divestments	(15)	(10)	(12)	(59)	–	–	(27)	(69)
Reclassifications to assets held for sale	(464)	–	–	–	–	–	(464)	–
Increase/(decrease) due to currency translation	(114)	(23)	(678)	24	–	1	(792)	2
As of June 30 (closing balance)	2,202	2,100	8,364	7,919	179	270	10,745	10,289

¹ Including eliminations of intersegment transactions.

² The portion of amortization being recorded directly to shareholders' equity for Life Insurance was USD (70) million and USD 50 million for the six months ended June 30, 2005 and 2004, respectively.

9. Reserves for insurance contracts

Table 9.1

Reserves for insurance contracts

in USD millions, as of

	06/30/05	12/31/04
Gross		
Reserves for losses and loss adjustment expenses	57,026	57,765
Reserves for unearned premiums	14,473	14,231
Future life policyholders' benefits	73,771	81,852
Policyholders' contract deposits and other funds	21,877	22,391
Reserves for unit-linked products	52,660	50,848
Reserves for insurance contracts	219,807	227,087
Ceded		
Reserves for losses and loss adjustment expenses	(14,475)	(14,278)
Reserves for unearned premiums	(2,040)	(2,097)
Future life policyholders' benefits	(1,539)	(1,169)
Policyholders' contract deposits and other funds	(3,515)	(3,594)
Reserves for unit-linked products	–	–
Reinsurers' share of reserves for insurance contracts	(21,569)	(21,138)
Net		
Reserves for losses and loss adjustment expenses	42,551	43,487
Reserves for unearned premiums	12,433	12,134
Future life policyholders' benefits	72,232	80,683
Policyholders' contract deposits and other funds	18,362	18,797
Reserves for unit-linked products	52,660	50,848
Reserves for insurance contracts	198,238	205,949

Table 9.2

Development of reserves for losses and loss adjustment expenses

in USD millions

	2005	2004
As of January 1 (opening balance)		
Gross reserves for losses and loss adjustment expenses	57,765	51,007
Reinsurers' share	(14,278)	(14,036)
Net reserves for losses and loss adjustment expenses	43,487	36,971
Net losses and loss adjustment expenses incurred		
Current period	10,896	10,230
Prior years	97	656
Total	10,993	10,886
Net losses and loss adjustment expenses paid		
Current period	(2,500)	(2,555)
Prior years	(6,263)	(5,896)
Total	(8,763)	(8,451)
Divestments of companies and businesses, including transfers to liabilities held for sale	(1,083)	(394)
Currency translation effects	(2,083)	(517)
As of June 30 (closing balance)		
Net reserves for losses and loss adjustment expenses	42,551	38,495
Reinsurers' share	14,475	13,908
Gross reserves for losses and loss adjustment expenses	57,026	52,403

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 are reflected in the operating statement in the period in which estimates are changed.

Significant delays occur in the notification 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.

Deferred charges relating to retrospective reinsurance assumed totaling USD 156 million and USD 182 million as of June 30, 2005 and December 31, 2004, respectively, have been deducted from reserves for losses and loss adjustment expenses.

Table 9.3

Policyholders' contract deposits and other funds (gross of reinsurance)

in USD millions, as of

	06/30/05	12/31/04
Policyholders' contract deposits and other funds		
Annuities	1,818	1,949
Universal life and other investment contracts	10,739	11,203
Policyholder dividends	9,320	9,239
Total	21,877	22,391

The Group, through its subsidiary Kemper Investors Life Insurance Company, has written variable annuity contracts that provide annuitants with certain guarantees related to minimum death and income benefits. The maximum additional potential liability after reinsurance recoveries that the Group would have under these policies at the balance sheet date as of June 30, 2005, would be USD 513 million (December 31, 2004: USD 451 million). The Group believes the realization of such liability is not likely.

Table 9.4

Equity component of discretionary participation features (DPF)

in USD millions

	2005	2004
As of January 1 (opening balance)	1,568	1,627
Change in net unrealized gains/(losses) on investments (excluding effect of initial application of "legal quote" legislation in Switzerland)	30	(146)
Initial application of the "legal quote" in Switzerland as of June 30, 2004	–	(226)
Change in current period profit	(3)	(10)
As of June 30 (closing balance)	1,595	1,245

The Group sells certain insurance and investment contracts containing benefit features for which the amount and timing of declaration and payment are at the discretion of the management of the Group. These benefits may exceed contractual or regulatory minimum participation levels for such contracts, with the remainder allocated to the Group. The table above shows the change in the amount of funds surplus available to the Group after allocations to policyholder liabilities, and which have not yet been declared for bonus. As the investment funds underlying the DPF contracts fluctuate in value, and the bonus paid to policyholders may exceed the contractual or legal minimum, the ultimate DPF amount of this component of discretionary participation features accruing to the Group may differ in amount to that disclosed.

10. Debt

Table 10.1

Debt

in USD millions, as of

		06/30/05	12/31/04
a) Debt related to capital markets and banking activities			
Zurich Capital Markets	Notes and loans payable, due within 2005	2,323	2,873
	Notes and loans payable, due 2006–2014	744	726
	Notes and loans payable, due after 2014	–	150
Dunbar Bank	Short-term borrowings	20	19
Centre Solutions (Bermuda) Ltd.	Various debt instruments	77	112
Debt related to capital markets and banking activities		3,164	3,880
b) Senior debt			
Zurich Finance (USA), Inc.	2.75% CHF bond, due July 2006	390	438
	3.5% CHF bond, due July 2008	234	263
	4.5% EUR bond, due September 2014	1,197	1,342
Kemper Corporation	Various debt instruments, due in 2009	27	27
Zurich Insurance Company	3.875% CHF bond, due July 2011	780	880
	Various borrowings and notes	114	99
Other	Various short- and medium-term debt instruments	254	306
Senior debt		2,996	3,355
c) Subordinated debt			
Zurich Capital Trust I	8.376% USD Capital Securities, due June 2037	1,000	1,000
Zurich Finance (UK) p.l.c.	6.625% GBP bond, undated notes	793	848
Zurich Finance (USA), Inc.	5.75% EUR bond, due October 2023	596	668
	4.50% EUR bond, due June 2025	608	–
Subordinated debt		2,997	2,516
Total senior and subordinated debt		5,993	5,871
Total debt		9,157	9,751

On June 15, 2005, Zurich Finance (USA), Inc. issued a 4.5% EUR 500 million bond under the Group's Euro Medium Term Note (EMTN) Programme, guaranteed by Zurich Insurance Company on a subordinated basis. The bond is due in 2025 and is callable from June 15, 2015. The coupon is fixed until June 15, 2015, and will then become floating at the three month Euribor plus a spread of 2.2%. In line with the Group's policy of managing its interest rate risk and foreign currency exposure, cross-currency interest rate swaps have been used for fair value hedging of this debt until the first call date. After taking into account the cross-currency interest rate swaps, this issuance has become a floating rate US dollar obligation, with a variable rate coupon being reset every six months.

The size of the Group's EMTN Programme, which allows for the potential issuance of senior and subordinated notes, was increased on March 10, 2005 from a maximum of USD 4 billion to a maximum of USD 6 billion. Issuing entities under the EMTN Programme include Zurich Finance (USA), Inc. and Zurich Finance (UK) p.l.c.

Table 10.2

Maturity schedule of outstanding debt

in USD millions

	2005
2005 (six months)	2,468
2006	563
2007	620
2008	273
2009	120
after 2009	5,113
Total	9,157

Table 10.3

Interest expense on debt

in USD millions, for the six months ended June 30

	2005	2004
Debt related to capital markets and banking activities	54	37
Senior debt	71	45
Subordinated debt	98	84
Total	223	166

11. Segment information

Table 11.1

Operating statements by business segment

in USD millions, for the six months ended June 30

	General Insurance		Life Insurance	
	2005	2004	2005	2004
Revenues				
Direct written premiums and policy fees	17,963	17,918	5,413	5,440
Assumed written premiums	672	548	47	32
Gross written premiums and policy fees	18,635	18,466	5,460	5,472
Less premiums ceded to reinsurers	(2,917)	(3,527)	(323)	(286)
Net written premiums and policy fees	15,718	14,939	5,137	5,186
Net change in reserves for unearned premiums	(1,813)	(1,860)	6	(5)
Net earned premiums and policy fees	13,905	13,079	5,143	5,181
Farmers management fees	–	–	–	–
Net investment income	1,330	1,082	3,362	3,095
Net capital gains on investments and impairments	117	95	3,811	1,095
Net gain/(loss) on divestments of businesses	(20)	(46)	(9)	41
Other income	170	232	396	408
Total revenues	15,502	14,442	12,703	9,820
Intersegment transactions	(490)	(259)	(71)	(87)
Benefits, losses and expenses				
Losses and loss adjustment expenses, net of reinsurance	10,186	9,556	39	44
Life insurance death and other benefits, net of reinsurance	49	52	5,438	6,860
(Decrease)/increase in future life policyholders' benefits, net of reinsurance	3	6	(870)	(1,780)
Insurance benefits and losses, net of reinsurance	10,238	9,614	4,607	5,124
Policyholder dividends and participation in profits, net of reinsurance	4	3	5,115	2,077
Underwriting and policy acquisition costs, net of reinsurance	2,235	1,962	868	949
Administrative and other operating expenses	1,311	1,358	664	637
Amortization and impairments of intangible assets	46	55	51	86
Interest expense on debt	117	90	16	18
Interest credited to policyholders and other interest	83	80	361	359
Total benefits, losses and expenses	14,034	13,162	11,682	9,250
Net income/(loss) before income taxes	1,468	1,280	1,021	570

Farmers Management Services		Other Businesses		Corporate Functions		Eliminations		Total	
2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
-	-	192	276	-	-	8	19	23,576	23,653
-	-	1,718	2,245	72	66	(131)	(188)	2,378	2,703
-	-	1,910	2,521	72	66	(123)	(169)	25,954	26,356
-	-	(349)	(221)	(69)	(66)	123	169	(3,535)	(3,931)
-	-	1,561	2,300	3	-	-	-	22,419	22,425
-	-	75	46	3	6	-	-	(1,729)	(1,813)
-	-	1,636	2,346	6	6	-	-	20,690	20,612
1,020	980	-	-	-	-	-	-	1,020	980
72	56	449	342	336	322	(479)	(494)	5,070	4,403
-	1	403	376	78	88	-	-	4,409	1,655
-	-	7	(7)	9	(2)	-	-	(13)	(14)
-	12	130	156	358	196	(375)	(229)	679	775
1,092	1,049	2,625	3,213	787	610	(854)	(723)	31,855	28,411
(1)	(4)	91	(128)	(383)	(245)	854	723	-	-
-	-	771	1,287	4	9	(7)	(10)	10,993	10,886
-	-	400	361	7	3	10	(4)	5,904	7,272
-	-	134	(44)	69	(47)	(8)	1	(672)	(1,864)
-	-	1,305	1,604	80	(35)	(5)	(13)	16,225	16,294
-	-	115	320	-	-	-	-	5,234	2,400
-	-	612	796	(9)	2	-	-	3,706	3,709
460	436	163	294	522	360	(357)	(207)	2,763	2,878
23	46	2	3	3	4	-	-	125	194
-	-	83	75	471	403	(464)	(420)	223	166
-	-	117	89	3	24	(28)	(83)	536	469
483	482	2,397	3,181	1,070	758	(854)	(723)	28,812	26,110
609	567	228	32	(283)	(148)	-	-	3,043	2,301

Income tax expense attributable to policyholders	(397)	(33)
Income tax expense attributable to shareholders	(791)	(730)
Net income	1,855	1,538
Net income attributable to minority interests	(56)	(54)
Net income attributable to shareholders	1,799	1,484

Table 11.2

Assets and liabilities by business segment

in USD millions, as of

	General Insurance		Life Insurance	
	06/30/05	12/31/04	06/30/05	12/31/04
Assets				
Total investments	72,102	71,627	171,855	179,953
Reinsurers' share of reserves for insurance contracts	14,240	14,753	1,733	1,361
Deposits made under assumed reinsurance contracts	164	190	10	24
Deferred policy acquisition costs	2,202	2,143	8,364	8,932
Deferred origination costs	–	–	691	736
Goodwill	152	164	463	514
Other related intangible assets ¹	–	–	769	860
Other assets	14,442	14,286	10,169	11,344
Total assets after consolidation of investments in subsidiaries	103,302	103,163	194,054	203,724
Liabilities				
Liabilities for investment contracts	–	–	37,658	40,288
Reserves for losses and loss adjustment expenses	50,830	52,162	124	116
Reserves for unearned premiums	13,583	13,293	121	146
Future life policyholders' benefits	78	174	71,127	79,234
Policyholders' contract deposits and other funds	845	1,038	14,043	14,232
Reserves for unit-linked products	–	–	36,645	34,875
Reserves for insurance contracts	65,336	66,667	122,060	128,603
Debt related to capital markets and banking activities	–	–	–	–
Senior debt	8,087	8,680	520	679
Subordinated debt	–	–	–	–
Other liabilities	18,893	18,521	22,780	23,459
Total liabilities	92,316	93,868	183,018	193,029

¹ Other related intangible assets consists of present value of profits of acquired insurance contracts and attorney-in-fact relationship.

Reserves for insurance contracts, net

Reserves for losses and loss adjustment expenses	38,437	39,344	103	95
Reserves for unearned premiums	11,568	11,166	117	143
Future life policyholders' benefits	78	174	69,443	77,919
Policyholders' contract deposits and other funds	832	1,011	14,019	14,211
Reserves for unit-linked products	–	–	36,645	34,875
Total reserves for insurance contracts, net	50,915	51,695	120,327	127,243

Farmers Management Services		Other Businesses		Corporate Functions		Eliminations		Total	
06/30/05	12/31/04	06/30/05	12/31/04	06/30/05	12/31/04	06/30/05	12/31/04	06/30/05	12/31/04
3,707	3,037	35,978	36,711	17,553	17,095	(27,396)	(26,268)	273,799	282,155
201	199	6,791	6,368	75	84	(1,653)	(1,846)	21,387	20,919
-	-	2,545	3,122	7	7	(59)	(61)	2,667	3,282
-	-	179	206	-	-	-	-	10,745	11,281
-	-	-	-	-	-	-	-	691	736
-	-	5	60	5	6	-	-	625	744
1,024	1,024	-	-	-	-	-	-	1,793	1,884
1,043	950	3,287	3,933	2,036	1,566	(2,252)	(2,194)	28,725	29,885
5,975	5,210	48,785	50,400	19,676	18,758	(31,360)	(30,369)	340,432	350,886
-	-	-	-	-	-	(245)	(242)	37,413	40,046
-	-	6,767	6,350	148	158	(843)	(1,021)	57,026	57,765
-	-	812	880	46	48	(89)	(136)	14,473	14,231
-	-	2,813	2,642	455	470	(702)	(668)	73,771	81,852
-	-	7,058	7,197	-	-	(69)	(76)	21,877	22,391
-	-	16,015	15,973	-	-	-	-	52,660	50,848
-	-	33,465	33,042	649	676	(1,703)	(1,901)	219,807	227,087
-	-	4,253	5,009	-	-	(1,089)	(1,129)	3,164	3,880
-	-	1,111	1,247	18,231	16,655	(24,953)	(23,906)	2,996	3,355
-	-	-	-	4,348	3,749	(1,351)	(1,233)	2,997	2,516
1,769	1,367	7,729	9,058	2,182	2,045	(2,019)	(1,958)	51,334	52,492
1,769	1,367	46,558	48,356	25,410	23,125	(31,360)	(30,369)	317,711	329,376

Equity

Common stockholders' equity	20,838	19,574
Preferred securities	1,096	1,096
Shareholders' equity	21,934	20,670
Minority interests	787	840
Total equity	22,721	21,510
Total liabilities and equity	340,432	350,886

-	-	3,903	3,938	114	113	(6)	(3)	42,551	43,487
-	-	745	817	5	9	(2)	(1)	12,433	12,134
(201)	(199)	2,447	2,313	455	471	10	5	72,232	80,683
-	-	3,563	3,631	-	-	(52)	(56)	18,362	18,797
-	-	16,015	15,973	-	-	-	-	52,660	50,848
(201)	(199)	26,673	26,672	574	593	(50)	(55)	198,238	205,949

Table 11.3
**Gross written premiums and policy fees, revenues and assets
 by geographical segment**
 in USD millions

	Gross written premiums and policy fees for the six months ended June 30		Revenues for the six months ended June 30		Assets as of	
	2005	2004	2005	2004	06/30/05	12/31/04
North America	9,500	9,993	8,675	8,513	66,756	64,167
Europe	14,488	14,219	20,025	16,541	225,062	236,084
International Businesses	1,722	1,772	1,558	1,629	11,713	11,683
Centrally Managed Businesses	920	1,101	2,175	2,141	57,856	57,674
Eliminations	(676)	(729)	(578)	(413)	(20,955)	(18,722)
Total	25,954	26,356	31,855	28,411	340,432	350,886

Review report of the Group auditors

To the Board of Directors of Zurich Financial Services, Zurich

We have reviewed the half year consolidated financial information (operating statement, balance sheet, statement of cash flows, statement of changes in equity and notes) on pages 27 to 48 of Zurich Financial Services for the six months ended June 30, 2005.

The financial information is the responsibility of the Board of Directors. Our responsibility is to issue a report on the half year consolidated financial information based on our review.

Our review was conducted in accordance with auditing standards promulgated by the Swiss profession and with the International Standards on Review Engagements (ISREs), which require that a review be planned and performed to obtain moderate assurance about whether the half year consolidated financial information is free from material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

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

PricewaterhouseCoopers AG

R Marshall M Humphreys

Zurich, August 17, 2005

Embedded value results – Life Insurance (unaudited)

in USD millions, for the six months ended June 30	United States	
	2005	2004
Gross new business premiums including deposits	95	125
of which:		
Annual premiums	49	47
Single premiums	46	78
Gross new business annual premiums equivalent (APE)	54	55
Embedded value information:		
Opening embedded value	2,402	2,555
Operating profit expected from in-force business and net assets, after tax	76	88
New business profit, after tax	26	31
Operating variance, after tax	66	1
Total operating profit, after tax	168	120
Economic variance	(8)	(31)
Embedded value profit/(loss), after tax	160	89
Dividends and capital movements	(502)	(361)
Closing embedded value before currency translation effects	2,060	2,283
Currency translation effects	–	–
Closing embedded value after currency translation effects	2,060	2,283
of which:		
Shareholders' net assets	669	1,014
Value of business in-force	1,391	1,269
After-tax operating return before currency translation effects	8.9%	5.5%
After-tax operating return before currency translation effects – annualized	14.3%	10.9%
After-tax return on opening embedded value before currency translation effects	8.4%	4.1%
After-tax return on opening embedded value before currency translation effects – annualized	13.8%	9.5%
Expected return – annualized	8.0%	8.0%
New business profit margin (as % of APE)	48.5%	56.9%
Embedded value economic assumptions:		
Discount rate	7.8%	8.5%
Investment returns before tax:		
Fixed interest	5.0%	5.5%
Equities	7.8%	8.5%
Property	–	–
Expense inflation	2.0%	2.8%
Attributed tax rate	35.0%	35.0%

Embedded value notes: The above information should be read in conjunction with additional notes on page 54.

Europe								International Businesses		Total	
United Kingdom		Germany		Switzerland		Rest of Europe		2005	2004	2005	2004
2005	2004	2005	2004	2005	2004	2005	2004				
2,698	2,736	365	448	174	259	1,139	644	567	577	5,038	4,789
228	205	240	254	37	45	79	63	47	44	680	658
2,470	2,531	125	194	137	214	1,060	581	520	533	4,358	4,131
475	458	252	274	51	67	185	120	99	97	1,116	1,071
6,146	4,270	1,182	830	1,026	433	1,139	1,585	862	739	12,757	10,412
228	213	43	33	38	16	40	47	40	36	465	433
20	31	40	23	6	6	23	14	7	(1)	122	104
(165)	(18)	(5)	15	129	(29)	48	48	9	(1)	82	16
83	226	78	71	173	(7)	111	109	56	34	669	553
36	(46)	(158)	(77)	52	45	18	(4)	(9)	(22)	(69)	(135)
119	180	(80)	(6)	225	38	129	105	47	12	600	418
(24)	1,046	61	61	(4)	216	-	(578)	11	3	(458)	387
6,241	5,496	1,163	885	1,247	687	1,268	1,112	920	754	12,899	11,217
(414)	104	(125)	(28)	(137)	(6)	(135)	(37)	(20)	(35)	(831)	(2)
5,827	5,600	1,038	857	1,110	681	1,133	1,075	900	719	12,068	11,215
3,888	3,406	637	509	633	139	488	466	650	472	6,965	6,006
1,939	2,194	401	348	477	542	645	609	250	247	5,103	5,209
1.4%	4.3%	6.6%	9.0%	16.9%	(1.6%)	9.8%	9.1%	6.5%	4.6%	5.5%	5.2%
5.5%	8.9%	13.6%	16.0%	21.3%	3.5%	15.4%	14.2%	12.0%	9.4%	10.4%	10.2%
2.0%	3.4%	(6.8%)	(0.8%)	21.9%	8.7%	11.4%	8.8%	5.5%	1.6%	5.0%	3.9%
6.1%	8.0%	0.2%	6.3%	26.3%	13.7%	17.0%	14.0%	11.0%	6.4%	9.8%	9.0%
7.6%	8.1%	7.3%	8.0%	7.5%	7.5%	7.1%	7.9%	9.4%	9.8%	7.7%	8.1%
4.2%	6.7%	15.7%	8.5%	12.1%	8.5%	12.6%	12.2%	6.7%	(1.0%)	10.9%	9.7%
7.3%	8.3%	7.0%	8.0%	7.5%	7.5%	6.8%	7.8%	9.0%	9.9%	7.5%	8.3%
4.2%	5.2%	3.3%	4.5%	3.1%	3.5%	3.3%	4.6%	5.2%	5.8%	3.7%	4.6%
6.8%	7.8%	6.8%	8.0%	7.0%	7.0%	6.6%	7.4%	8.7%	9.2%	6.8%	7.8%
6.5%	7.3%	4.1%	5.0%	4.5%	4.8%	5.1%	5.7%	7.5%	8.5%	4.6%	5.1%
3.0%	3.0%	1.7%	1.6%	1.0%	1.0%	2.9%	3.4%	3.0%	2.6%	2.4%	2.5%
30.0%	30.0%	39.9%	43.6%	22.0%	25.0%	25.5%	27.3%	28.8%	26.7%	30.3%	31.2%

Life Insurance – Rest of Europe by country (unaudited)

in USD millions, for the six months ended June 30

Gross new business premiums including deposits

of which:

Annual premiums

Single premiums

Gross new business annual premiums equivalent (APE)

New business profit, after tax

Total operating profit, after tax

After-tax operating return before currency translation effects

After-tax operating return before currency translation effects – annualized

Expected return – annualized

New business profit margin (as % of APE)

Embedded value notes: The above information should be read in conjunction with additional notes on page 54.

External Review: Deloitte & Touche LLP (“Deloitte”), our consulting actuaries, have considered any changes in methodology and assumptions applied by Zurich Financial Services Group (the Group) and considered the Group’s analysis of the changes in embedded value since December 31, 2004 for the main life companies of the Group in the United States, United Kingdom, Switzerland, Germany, Ireland, Italy and Spain. Deloitte have reported to the Group that, based on this limited review, they consider that the methodology remains appropriate, that the Group’s assumptions are together reasonable and that the embedded value results for these main life companies as of June 30, 2005 have been compiled in a manner consistent with the results previously reported as of December 31, 2004. For the purpose of this report, Deloitte have performed certain checks on data provided by the Group, but have not verified, and have relied on the underlying data.

Italy		Spain		Ireland		Other European Countries		Total	
2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
348	269	515	122	240	224	36	29	1,139	644
9	8	6	5	53	42	11	8	79	63
339	261	509	117	187	182	25	21	1,060	581
43	34	57	17	72	61	13	8	185	120
7	6	7	2	7	5	2	1	23	14
27	13	30	22	35	34	19	40	111	109
7.5%	4.7%	15.6%	7.3%	8.5%	10.2%	11.2%	14.2%	9.8%	9.1%
13.2%	10.8%	23.2%	12.1%	13.6%	15.6%	15.6%	18.5%	15.4%	14.2%
7.3%	8.0%	7.3%	8.0%	6.8%	7.5%	7.3%	8.0%	7.1%	7.9%
16.8%	17.3%	13.0%	15.0%	10.2%	9.1%	10.6%	8.1%	12.6%	12.2%

Additional notes to the embedded value results

1. To improve transparency and to reflect management responsibilities, the presentation of the embedded value results has been enhanced. In particular, additional information on the countries within Europe has been disclosed. The results of the United Kingdom include the Isle of Man.
2. The after-tax operating return and after-tax return on opening embedded value have been calculated reflecting the incidence of current-year capital movements in and out of embedded value.
3. For the calculation of the annualized returns it is assumed that the embedded value return in the second half of the year is equal to the expected rate plus the expected value of new business in the second half year (which is assumed to be equal to the new business value in the first half year).
4. The Life Insurance segment includes non-insurance subsidiary companies. Where appropriate, we have included the value of these companies in accordance with our embedded value methodology. Those companies for which no embedded value has been calculated have been included at their shareholders' equity value, as calculated in accordance with IFRS, which represents approximately 3% of the total published embedded value.
5. For both 2004 and 2005, the new business profit and new business premium information are shown gross of any minority holdings although the embedded value is shown net of minority holdings. The minorities share of new business profit is eliminated through "Operating variance, after tax". The minorities share of new business profit mostly relates to our subsidiary Deutscher Herold Lebensversicherung AG. For the entire Life Insurance segment, the new business profit and APE net of minority holdings for the six months ended June 30, 2005, are USD 114 million and USD 1,067 million, respectively.
6. Effective January 1, 2005, in the USA there was a transfer of capital of USD 512 million from Life Insurance to Farmers Management Services, including USD 490 million of surplus notes. The embedded value operating profit includes a net benefit of USD 58 million due to the reduction in cost of capital associated with the transfer of these surplus notes.
7. The United Kingdom new business profit, after tax, decreased for the six months ended June 30, 2005, compared with last year because it was adversely affected by the transitional measures for the repositioning of the Group's UK life business. These transitional measures reduced the new business profit for the six months ended June 30, 2005, by USD 25 million, which corresponds to an effect of 5.3 percentage points on the UK new business profit margin, and 2.2 percentage points on the total new business profit margin.
8. In April 2004, the Group changed the organizational structure of its business units in line with its strategy. As a result, certain life insurance operations have been reclassified to the Other Businesses reporting segment. One of these, Kemper Investors Life Insurance Company (KILICO), has written variable annuity contracts that provide annuitants with certain guarantees related to minimum death and income benefits. The Group has recorded provisions for these embedded guarantee features in accordance with its accounting policies set out in the Annual Report 2004. The embedded value related to KILICO as of January 1, 2004 was USD 357 million. The Group has not determined embedded value results for this company since its reclassification into Other Businesses.

Embedded value methodology

The embedded value represents the shareholders' interest, excluding any value from future new business, in the entities included in the Life Insurance segment per the IFRS financial statements. It is the total of the shareholders' interest in the net assets of these life insurance entities and the present value of the projected releases to shareholders arising from the business in-force, less a charge for the cost of capital supporting the solvency requirements of the business. The discount rate used to value the in-force business in each country reflects long-term government bond rates at the valuation date plus a risk margin. The assumptions for mortality, persistency and expenses reflect recent and expected experience.

All changes in assumptions not classified as "economic" are included in "operating variance."

Gross new business annual premiums equivalent (APE) is calculated as new annual premiums plus 10% of single premiums.

Embedded value profit is the change in the embedded value during the period, after adjustment for any dividends and capital movements. The profit is calculated on an after-tax basis.

Embedded value profit consists of the following components, the first two of which in aggregate are referred to as operating profit, after tax:

- new business profit, after tax, which represents the value added by new business written during the period, including allowance for the cost of holding solvency capital, and is valued at the point of sale using applicable discount rates;
- the operating profit after tax from existing business, which is equal to:
 - the profit expected from the in-force business and net assets, after tax, including allowance for the cost of holding solvency capital,
 - the experience variances caused by the differences between the actual experience during the period and the expected experience assumed in the prior year embedded value, and
 - the impact of changes in assumptions of future operating experience;
- the economic variance, which is equal to:
 - the investment variance caused by differences between the actual and the expected experience over the reporting period, and
 - the change in future economic assumptions, such as changes in discount rates and future investment rates which includes, where appropriate, changes in legislation.

The calculation of embedded values necessarily makes numerous assumptions with respect to economic conditions, operating conditions, taxes, and other matters, many of which are beyond the Group's control. Although the assumptions used represent estimates which the Group and Deloitte believe are together reasonable, actual future experience may vary from that assumed in the calculation of the embedded value results, and such variation may be material. Deviations from assumed experience are normal and are to be expected. The embedded value results have been prepared using generally accepted actuarial methods applying deterministic projections that do not allow for all of the cost of options and guarantees on a market consistent basis.

Zurich Financial Services registered share data

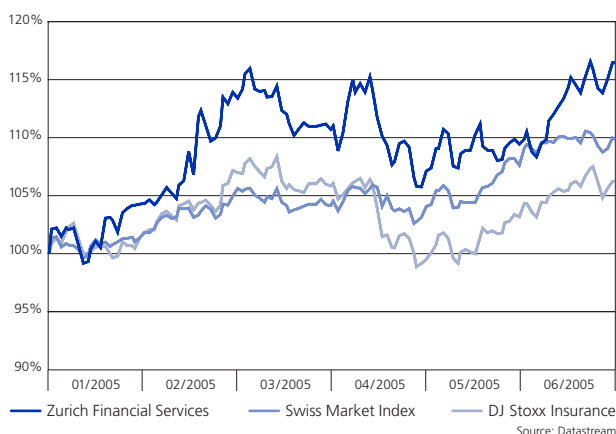
Key indicators	06/30/05	12/31/04
Number of shares issued with a nominal value of CHF 6.50 ¹	144,006,955	144,006,955
Number of dividend-bearing shares with a nominal value of CHF 6.50 ¹	144,006,955	144,006,955
Market capitalization (in CHF millions at end of period)	31,797	27,304
Number of authorized stock, CHF 6.50 ¹ nominal value	6,000,000	6,000,000
Number of contingent stock, CHF 6.50 ¹ nominal value	6,981,828	6,981,828

Per share data	06/30/05	06/30/04
in CHF, for the six months ended		
Payment of nominal value reduction per registered share	4.00¹	2.50 ²
Basic earnings per share	14.87	12.95
Diluted earnings per share	14.77	12.84
Price at end of period	220.80	197.75
Price period high	221.00	217.75
Price period low	188.00	166.25

¹ Nominal value reduction from CHF 6.50 to CHF 2.50 per registered share effective as of July 1, 2005; payment was made on July 4, 2005. Shares with the nominal value of CHF 2.50 per registered share were traded for the first time on July 4, 2005.

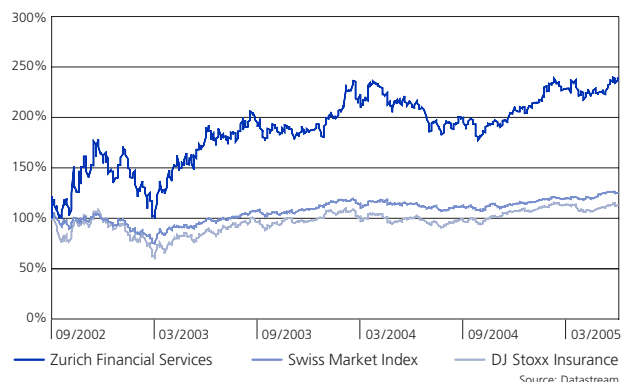
² Nominal value reduction of CHF 2.50 per registered share was effective as of June 30, 2004. The payment was made on July 1, 2004.

Zurich share performance (indexed) for the first six months in 2005



Zurich share performance (indexed) since September 4, 2002

In September 2002, Zurich announced a comprehensive action plan to improve the Group's profitability and strengthen its balance sheet. The figure depicts Zurich's share price development since the launch of the program.



Stock listings and security codes

Place	Nature	Reuters/Bloomberg	Exchange
Zurich	primary listing	ZURN.VX/ZURN VX	–
London	secondary listing	ZURNq.L/ZURN LI	1:1

US American Depositary Receipt (ADR) Program

Depository	Nature	Reuters/Bloomberg	Exchange
The Bank of New York	ADR level I	ZFSVY.PK/ZFSVY US	10:1

Identification numbers

Swiss Security Number (Valorennummer)	1107539
ISIN (International Securities Identification Number)	CH0011075394
CUSIP	98982M107
U.S. ISIN	US98982M071

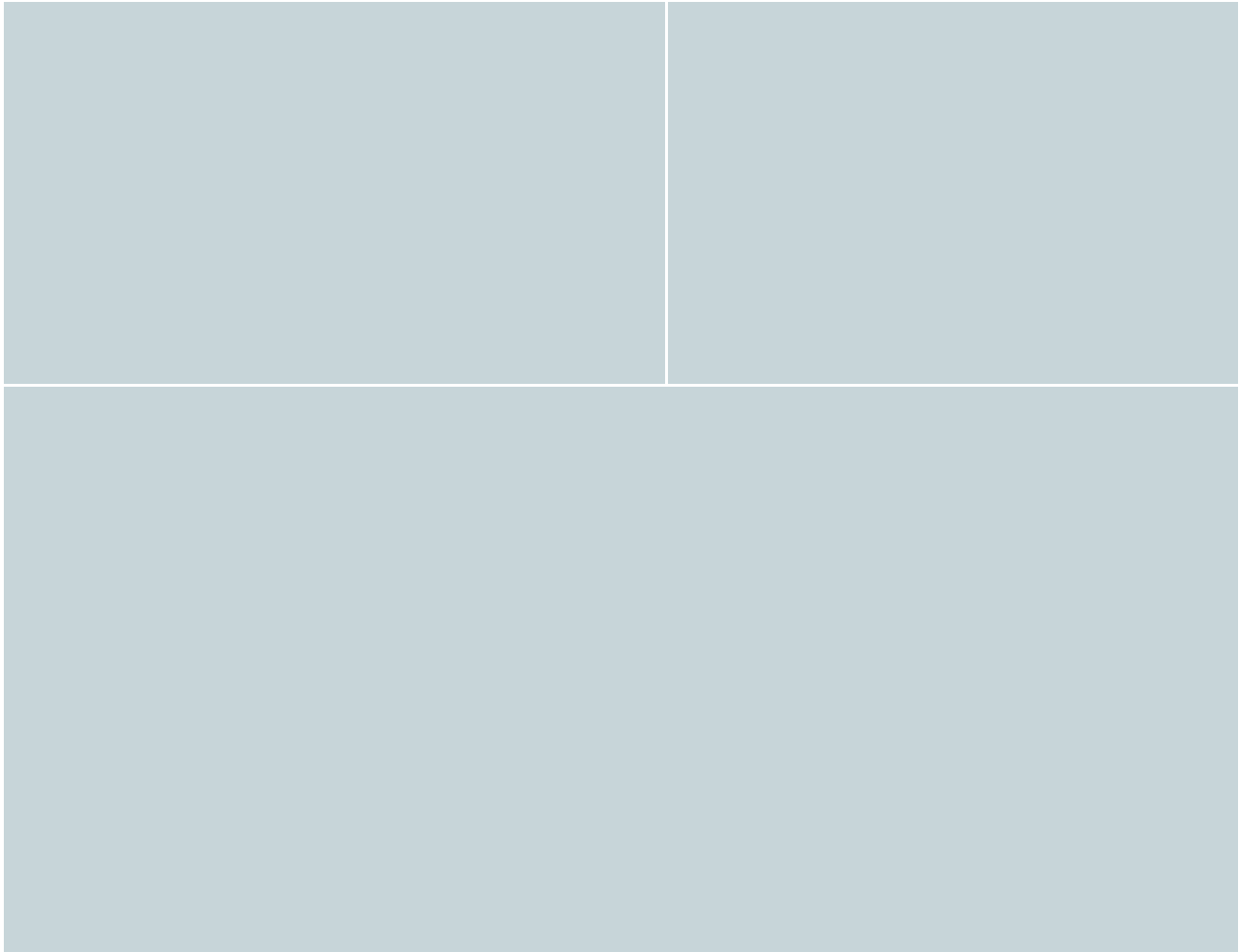
Securities Custody Service

Zurich offers its shareholders the opportunity to deposit a range of Zurich Financial Services securities free of charge at SAG SIS Aktienregister AG in Switzerland. The securities deposit regulations as well as the application form for a securities custody account can be downloaded from SAG's Web site: www.sag.ch.

Financial calendar and contacts

Financial Calendar 2005	Investors' Day	September 14, 2005
	Results Reporting for the Nine Months to September 30, 2005	November 17, 2005
	Annual Results Reporting 2005	February 16, 2006
	Annual General Meeting 2006	April 20, 2006
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	General CDI Inquiries	CRESTCo Limited 33 Cannon Street London EC4M 5SB, United Kingdom CREST Service Desk: 0845 964 5648 International: +44 845 964 5648 or +44 20 7849 0199 Web site: www.crestco.co.uk
	American Depositary Receipts	Zurich Financial Services has an American Depositary Receipt program with The Bank of New York (BNY). For more information call BNY's ADR Services Center in the USA +1-888-bny-adrs or outside the USA on +1-610-382-7836. ADR holder assistance may also be obtained from BNY at www.adrbny.com .

The Half Year Report 2005 is available on our Web site: www.zurich.com.



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Persons requiring advice should consult an independent adviser.

Zurich Financial Services is an insurance-based financial services provider with a global network that focuses its activities on its key markets in North America and Europe. Founded in 1872, Zurich is headquartered in Zurich, Switzerland. Zurich has offices in more than 50 countries and employs about 57,000 people.

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