

# Half Year Report 2008

Zurich Financial Services Group  
Report for the Six Months ended June 30, 2008



## Contents

Shareholder Letter	1	Financial Review	4	Shareholder Information	98
Financial Highlights	2	Consolidated Financial Statements	25	Financial Calendar	100
Key Performance Indicators	3	Embedded Value Report	68	Contact Information	100

## Dear Shareholder

Success in the face of any challenge requires focus – on both one's own capabilities and on the environment in which one competes. That is why we are particularly pleased to announce excellent operating results of Zurich Financial Services Group over the first six months of 2008. Through a dual focus on operational discipline and targeted growth we increased our business operating profit (BOP), held our net income steady, and posted another strong return on equity exceeding our target mid-term level.

Our ability to execute on that strategy became clear across all our businesses. General Insurance leveraged its diverse portfolio to boost BOP 22 percent to USD 2.2 billion and achieve significant growth in Europe and within International Businesses. Similarly, Global Life increased BOP 6 percent to USD 766 million, driven by improved operating results in the UK, Germany, Switzerland, and emerging markets, while enhanced product and distribution capabilities helped generate 15 percent growth in new business annual premium equivalent. In US personal lines, Farmers Management Services benefited from a 7 percent increase in gross earned premiums in the Farmers Exchanges, which we manage but do not own, to grow its management fees and other related revenues 9 percent, though BOP decreased 8 percent to USD 617 million mainly due to a decline in net investment income as a result of a lower average invested asset base following dividends and cash transfers paid to the Group.

Further evidence of our focus is seen in our investment results, where continued discipline in matching assets to liabilities allowed Zurich to achieve a 2.1 percent investment return, despite volatile financial markets. Moreover, our exposure to US sub-prime mortgage-backed securities remains immaterial.

These are excellent results under any market conditions, but are particularly strong considering today's turbulent environment. They illustrate both the resilience and expanding breadth of Zurich's operations, as well as the execution capability of its people.

Based on those capabilities, we remain confident in Zurich's ability to achieve superior financial results and generate continued shareholder value. By continuously transforming our operations, maintaining a focus on operating and financial discipline, and pursuing a targeted growth strategy we will strive toward our aspiration of becoming one of the leading insurers in the world.

As always, we would also like to recognize the enthusiasm and dedication of our employees, who truly bring this strategy to life. We thank them for their untiring commitment, and our customers and shareholders for their loyalty and support.



Manfred Gentz  
Chairman of the Board



James J. Schiro  
Chief Executive Officer

## Financial Highlights (unaudited)

The following table presents the summarized consolidated results of the Group for the six months ended June 30, 2008 and 2007 and the financial position as of June 30, 2008 and December 31, 2007, respectively. Interim results are not necessarily indicative of full-year results. All amounts are shown in USD millions and rounded to the nearest million unless otherwise stated with the consequence that the rounded amounts may not add to the rounded total in all cases. All ratios and variances are calculated using the underlying amount rather than the rounded amount. This document should be read in conjunction with the Zurich Financial Services Group Annual Report 2007. Certain comparatives have been restated as a result of a change in accounting policy. Comparatives for return on common shareholders' equity and business operating profit (after tax) return on common shareholders' equity have also been restated as we have changed the calculation from a compound to a linear basis.

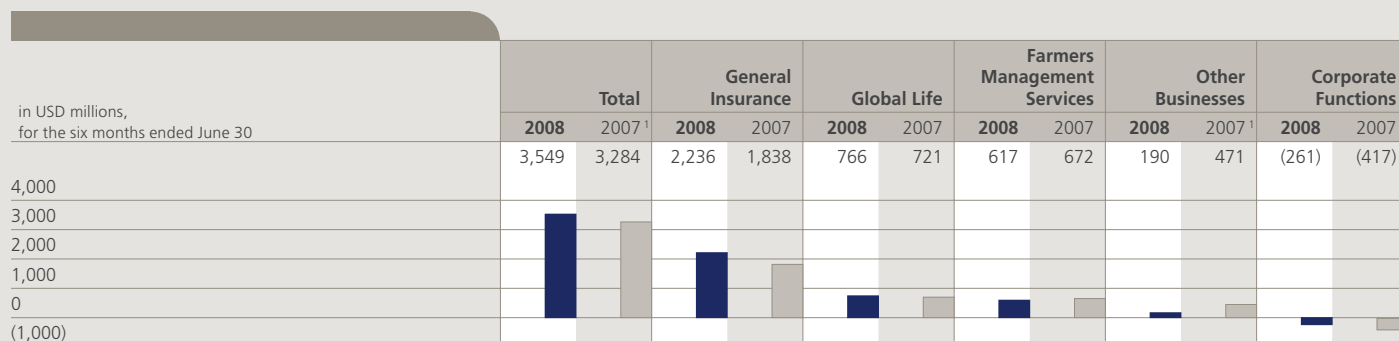
in USD millions, for the six months ended June 30, unless otherwise stated	2008	2007	Change <sup>1</sup>
Business operating profit	<b>3,549</b>	3,284	8%
Net income attributable to shareholders	<b>2,681</b>	2,676	–
General Insurance gross written premiums and policy fees	<b>20,593</b>	19,026	8%
Global Life gross written premiums, policy fees and insurance deposits	<b>10,395</b>	10,427	–
Farmers Management Services management fees and other related revenues	<b>1,196</b>	1,093	9%
General Insurance business operating profit	<b>2,236</b>	1,838	22%
General Insurance combined ratio	<b>96.2%</b>	96.5%	0.4 pts
Global Life business operating profit	<b>766</b>	721	6%
Global Life new business annual premium equivalent (APE)	<b>1,528</b>	1,323	15%
Global Life new business margin, after tax (as % of APE)	<b>22.4%</b>	24.1%	(1.7 pts)
Global Life new business value, after tax	<b>342</b>	319	7%
Farmers Management Services gross management result	<b>574</b>	542	6%
Farmers Management Services business operating profit	<b>617</b>	672	(8%)
Farmers Management Services managed gross earned premium margin	<b>7.1%</b>	7.2%	(0.1 pts)
Group investments average invested assets	<b>192,806</b>	187,751	3%
Group investments result, net	<b>3,975</b>	4,785	(17%)
Group investments return (as % of average invested assets)	<b>2.1%</b>	2.5%	(0.5 pts)
Shareholders' equity <sup>2</sup>	<b>26,796</b>	28,945	(7%)
Diluted earnings per share (in USD)	<b>18.99</b>	18.31	4%
Diluted earnings per share (in CHF)	<b>19.94</b>	22.48	(11%)
Return on common shareholders' equity (ROE)	<b>19.5%</b>	21.1%	(1.5 pts)
Business operating profit (after tax) return on common shareholders' equity	<b>19.9%</b>	19.1%	0.8 pts

<sup>1</sup> Parentheses around numbers represent an adverse variance.

<sup>2</sup> As of June 30, 2008, and December 31, 2007, respectively.

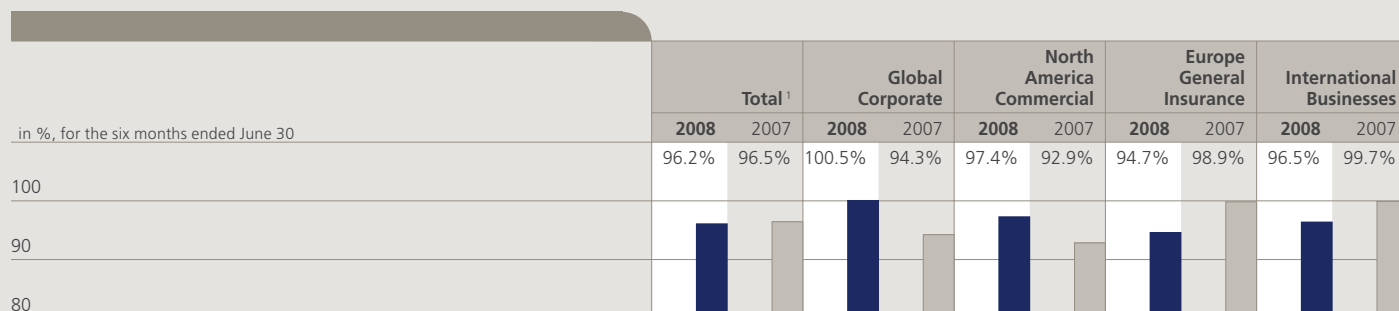
# Key Performance Indicators

## Business operating profit



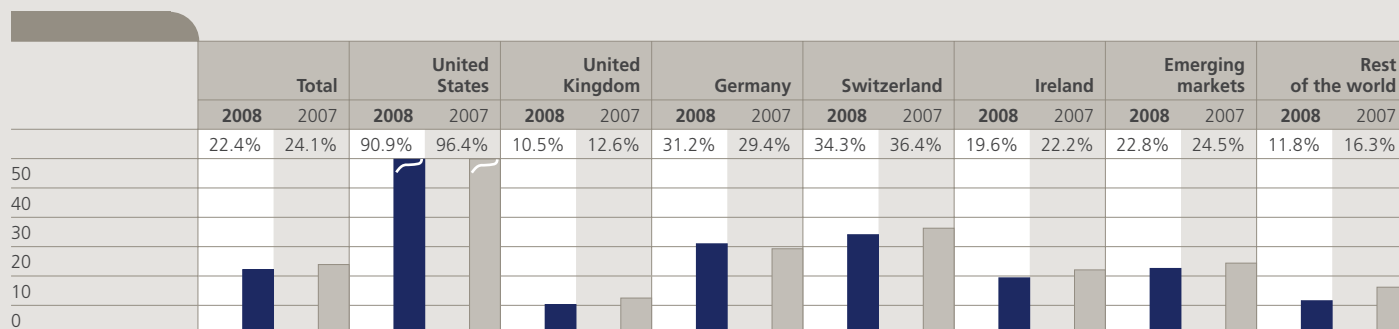
<sup>1</sup> Restated because of the change in accounting policy for three disability blocks of business, at Centre.

## General Insurance – combined ratio



<sup>1</sup> Including Group Reinsurance.

## Global Life – new business margin, after tax (as % of APE)<sup>1</sup>



<sup>1</sup> In %, for the six months ended June 30.

# Financial Review

## Financial Review

The information contained within the Financial Review is unaudited. This document should be read in conjunction with the Zurich Financial Services Group Annual Report 2007. Comparatives are for the six months ended June 30, 2007, or as of December 31, 2007, unless otherwise specified. All amounts are shown in USD millions and rounded to the nearest million unless otherwise stated with the consequence that the rounded amounts may not add to the rounded total in all cases. All ratios and variances are calculated using the underlying amount rather than the rounded amount. Certain comparatives have been restated as a result of a change in accounting policy. We have also changed the computation of return on common shareholders' equity and business operating profit (after tax) return on common shareholders' equity from a compound to a linear basis with comparatives consequently adjusted.

### Financial highlights

in USD millions, for the six months ended June 30, unless otherwise stated	2008	2007	Change <sup>1</sup>
Business operating profit	<b>3,549</b>	3,284	8%
Net income attributable to shareholders	<b>2,681</b>	2,676	–
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Group investments result, net	<b>3,975</b>	4,785	(17%)
Group investments return (as % of average invested assets)	<b>2.1%</b>	2.5%	(0.5 pts)
Shareholders' equity <sup>2</sup>	<b>26,796</b>	28,945	(7%)
Diluted earnings per share (in USD)	<b>18.99</b>	18.31	4%
Diluted earnings per share (in CHF)	<b>19.94</b>	22.48	(11%)
Return on common shareholders' equity (ROE)	<b>19.5%</b>	21.1%	(1.5 pts)
Business operating profit (after tax) return on common shareholders' equity	<b>19.9%</b>	19.1%	0.8 pts

<sup>1</sup> Parentheses around numbers represent an adverse variance.

<sup>2</sup> As of June 30, 2008, and December 31, 2007, respectively.

## Performance overview

**Business operating profit** increased by 8 percent to USD 3.5 billion demonstrating the sustainability of the business model of our core operating segments in challenging market conditions, including a higher frequency of weather-related losses and continued turbulence in financial markets.

- **General Insurance business operating profit** increased by USD 398 million, or 22 percent, to USD 2.2 billion. This performance reflects the strength of our diversified portfolio in an environment that continues to be competitive.
- **Global Life business operating profit** increased by USD 45 million, or 6 percent, to USD 766 million, reflecting a strong performance in the current challenging economic environment. **New business value, after tax**, increased by 7 percent, primarily as a result of increased volumes in Germany and Zurich International Solutions (ZIS).
- **Farmers Management Services business operating profit** decreased by USD 55 million to USD 617 million resulting from lower other net income items, with the underlying business increasing by 6 percent, benefiting from a combination of organic and inorganic growth in the Farmers Exchanges, which we manage but do not own. The decrease in other net income items reflects a reduction in net investment income following dividends paid to the Group and one-time gains of USD 43 million realized on the sale of own-use properties in 2007.

**Other Businesses business operating profit** decreased by USD 281 million to USD 190 million primarily resulting from the impact of decreases in interest rates affecting insurance liabilities, and from lower levels of run-off transactions. The **Corporate Functions** result improved by USD 156 million following improved net headquarter expenses and higher gains on foreign currency transactions.

**Net income attributable to shareholders** increased by USD 5 million, to USD 2.7 billion after absorbing USD 87 million of restructuring charges mainly related to expense management initiatives in the US. The **shareholders' effective tax rate** was 23.0 percent compared with 24.7 percent previously reported for the year ended December 31, 2007, and 24.4 percent for the year ended December 31, 2007, allowing for the aforementioned restatement.

Business volumes in our core operating segments developed as follows:

- **General Insurance** gross written premiums and policy fees increased by 8 percent in US dollar terms, while increasing by 1 percent on a local currency basis. We maintained underwriting discipline while capitalizing on attractive opportunities in line with our strategy of further diversifying our businesses through growth focused on personal and small business lines, as well as key emerging markets.
- **Global Life** insurance deposits increased by 2 percent in US dollar terms, and decreased by 3 percent on a local currency basis, and gross written premiums and policy fees decreased by 3 percent in US dollar terms, and decreased by 13 percent on a local currency basis. The decrease in gross written premiums and policy fees reflects our continued focus on unit-linked products. The development in these two measures also reflects the impact of growth in assets managed by third parties where only the fee element is recognized in other income. New business annual premium equivalent (APE) increased by 15 percent in US dollar terms, and by 9 percent on a local currency basis, driven by increases in Germany, ZIS and the UK.
- **Farmers Management Services** management fees and other related revenues increased by 9 percent, reflecting the underlying increase in the gross earned premiums of 7 percent in the Farmers Exchanges, which we manage but do not own, as a result of targeted investments and product enhancements.

As a consequence of the USD 2.0 billion increase in average common shareholders' equity compared with the six months ended June 30, 2007, **return on common shareholders' equity** decreased by 1.5 percentage points to 19.5 percent. **Business operating profit (after tax) return on common shareholders' equity** increased by 0.8 percentage points to 19.9 percent.

**Diluted earnings per share** decreased by CHF 2.54, or 11 percent, to CHF 19.94 for the six months ended June 30, 2008, compared with CHF 22.48 for the same period in 2007, reflecting the weakening of the dollar against the Swiss franc. The corresponding diluted earnings per share movement in US dollars was an increase of USD 0.68, or 4 percent, to USD 18.99.



**Outlook**

The Group delivered a strong performance in the first half of 2008 despite challenging conditions facing the insurance industry including the ongoing competitive insurance markets, a higher frequency of weather-related losses and continued turbulence in financial markets. Our outlook for the remainder of 2008 is that conditions will remain challenging across all areas. We are confident that our business is positioned to cope with those conditions subject to the risks inherent in our business, which are laid out in our 2007 consolidated financial statements.

**Shareholder distributions and share buybacks**

A net dividend of CHF 9.75 per share was paid from April 8, 2008, after the Annual General Meeting approved a gross dividend of CHF 15.00 per share on April 3, 2008. This gross dividend represents a 36 percent increase over the 2007 total gross dividend to shareholders of CHF 11.00, and has been recognized through shareholders' equity in the second quarter of 2008.

On February 14, 2008, the Board of Zurich Financial Services authorized a share buyback program for the repurchase of CHF 2.2 billion worth of shares over the course of 2008. As of June 30, 2008, 2,000,000 shares had been repurchased, reducing total equity by USD 624 million. As of August 5, 2008, 3,750,500 shares had been repurchased in the amount of CHF 1.1 billion, representing 50 percent of the announced share buyback.

On April 3, 2008, the cancellation of the 3,432,500 shares with a nominal value of CHF 0.10 repurchased through our share buyback program in 2007, was approved by the Annual General Meeting. The effective date of the capital reduction was June 27, 2008.

## General Insurance

in USD millions, for the six months ended June 30	2008	2007	Change
Gross written premiums and policy fees	20,593	19,026	8%
Net earned premiums and policy fees	15,889	14,484	10%
Insurance benefits and losses, net of reinsurance	(11,206)	(10,465)	(7%)
Net underwriting result	611	503	22%
Net investment income	1,910	1,773	8%
<b>Business operating profit</b>	<b>2,236</b>	<b>1,838</b>	<b>22%</b>
Loss ratio	70.5%	72.3%	1.7 pts
Expense ratio	25.6%	24.2%	(1.4 pts)
<b>Combined ratio</b>	<b>96.2%</b>	<b>96.5%</b>	<b>0.4 pts</b>

in USD millions, for the six months ended June 30	Business operating profit		Combined ratio	
	2008	2007	2008	2007
Global Corporate	347	389	100.4%	94.3%
North America Commercial	628	767	97.4%	92.9%
Europe General Insurance	1,017	612	94.7%	98.9%
International Businesses	107	72	96.5%	99.7%
Group Reinsurance	137	(1)	nm	nm
Total	2,236	1,838	96.2%	96.5%

**Business operating profit** increased by USD 398 million, or 22 percent, to USD 2.2 billion for the six months ended June 30, 2008. This increase was mainly driven by the combination of an improved net underwriting result and improved net investment income, which increased mainly as a result of the larger average invested asset base more than offsetting lower yields on US debt securities.

**Gross written premiums and policy fees** increased by USD 1.6 billion, or 8 percent in US dollar terms, to USD 20.6 billion. This growth was achieved both organically, primarily in Europe General Insurance and International Businesses, as well as through acquisitions, mainly in Europe and in emerging markets.

The **net underwriting result** increased by USD 108 million to USD 611 million. The prior year was affected by Winter storm Kyrill and the June floods in the UK, while 2008 saw no major catastrophe events but was affected by a higher frequency of both large losses and smaller weather-related losses. Additionally, overall positive development emerged from reserves established in prior years. As a result, the overall loss ratio decreased by 1.7 percentage points to 70.5 percent. The expense ratio increase of 1.4 percentage points to 25.6 percent was largely split equally between higher commissions and operational expenses related to investments in operational transformation, partially offset by benefits from disciplined expense management.

## Global Corporate

in USD millions, for the six months ended June 30	2008	2007	Change
Gross written premiums and policy fees	4,494	4,419	2%
Net underwriting result	(13)	139	nm
<b>Business operating profit</b>	<b>347</b>	<b>389</b>	<b>(11%)</b>
Loss ratio	80.6%	77.0%	(3.6 pts)
Expense ratio	19.9%	17.3%	(2.7 pts)
<b>Combined ratio</b>	<b>100.5%</b>	<b>94.3%</b>	<b>(6.2 pts)</b>

**Business operating profit** decreased by USD 42 million, or 11 percent, to USD 347 million for the six months ended June 30, 2008. The decrease was attributable to the lower net underwriting result. This was partly offset by a reduction in non-technical expenses driven mainly by foreign exchange gains and the release of provisions no longer required.

**Gross written premiums and policy fees** increased by 2 percent in US dollar terms while decreasing by 6 percent on a local currency basis. We have maintained our underwriting discipline by not writing business where we cannot achieve our target pricing levels. Retention and new business levels for exposures in North America decreased as the rate environment continued to be competitive, particularly for property and casualty lines, while new business levels in Europe increased.

The **net underwriting result** decreased by USD 152 million to a net loss of USD 13 million, leading to a 6.2 percentage point increase in the combined ratio. The loss ratio increased by 3.6 percentage points to 80.6 percent driven by a significant increase in large and weather-related losses in North America. The expense ratio increase of 2.7 percentage points was driven by a combination of higher commissions and operational expenses.

## North America Commercial

in USD millions, for the six months ended June 30	2008	2007	Change
Gross written premiums and policy fees	5,766	5,832	(1%)
Net underwriting result	118	330	(64%)
<b>Business operating profit</b>	<b>628</b>	<b>767</b>	<b>(18%)</b>
Loss ratio	69.5%	65.7%	(3.8 pts)
Expense ratio	28.0%	27.2%	(0.7 pts)
<b>Combined ratio</b>	<b>97.4%</b>	<b>92.9%</b>	<b>(4.6 pts)</b>

**Business operating profit** decreased by USD 139 million, or 18 percent, to USD 628 million, attributable to a lower net underwriting result. This was partially offset by an increase in net investment income of USD 15 million as a result of the larger average invested asset base.

**Gross written premiums and policy fees** decreased by USD 66 million, or 1 percent, to USD 5.8 billion. Our continued focus on underwriting discipline in combination with our market segmentation techniques has enabled us to grow in our chosen customer segments through new business and increased levels of customer renewals, while we reduce exposures that do not meet our target pricing levels or targeted customer groups.

The **net underwriting result** decreased by USD 212 million to USD 118 million, driven by a 3.8 percentage point increase in the loss ratio primarily due to the increased frequency of large losses and smaller weather-related losses. The expense ratio increased by 0.7 percentage points to 28.0 percent primarily as a result of an increase in net commission expenses, as we target market segments with higher profitability.

## Europe General Insurance

in USD millions, for the six months ended June 30	2008	2007	Change
Gross written premiums and policy fees	8,823	7,457	18%
Net underwriting result	388	69	460%
<b>Business operating profit</b>	<b>1,017</b>	<b>612</b>	<b>66%</b>
Loss ratio	69.8%	75.7%	5.9 pts
Expense ratio	24.9%	23.2%	(1.8 pts)
<b>Combined ratio</b>	<b>94.7%</b>	<b>98.9%</b>	<b>4.2 pts</b>

**Business operating profit** increased by USD 405 million, or 66 percent, to USD 1.0 billion, attributable to the improved net underwriting result of USD 319 million and a net investment income increase of USD 103 million. The latter was driven by higher yields on debt securities, in particular in the UK.

**Gross written premiums and policy fees** increased by 18 percent in US dollar terms, and by 6 percent on a local currency basis. Growth was achieved in competitive market conditions, with both acquisitions and a stable level of customer renewals contributing to the increase. Organically, Italy increased by 12 percent on a local currency basis primarily as a result of strong new business production in personal lines, while the UK, increased by 2 percent on a local currency basis primarily in personal motor lines. Pressure on rates in commercial lines continued, although varied by country, with the strongest decreases in Ireland.

The **net underwriting result** increased by USD 319 million to USD 388 million, primarily as a result of a 5.9 percentage point improvement in the loss ratio. The first six months of 2007 were impacted by Winter storm Kyrill and the June UK floods, which together accounted for USD 488 million or 7.8 percentage points. While there have been no major catastrophes in 2008, the result was negatively impacted by a higher frequency of smaller weather-related events and large losses. The expense ratio increased by 1.8 percentage points to 24.9 percent as a result of higher commissions and investments in our European platform, as well as other growth and operational transformation-related activities.

## International Businesses

in USD millions, for the six months ended June 30	2008	2007	Change
Gross written premiums and policy fees	1,796	1,562	15%
Net underwriting result	45	3	nm
<b>Business operating profit</b>	<b>107</b>	<b>72</b>	<b>49%</b>
Loss ratio	63.9%	66.6%	2.7 pts
Expense ratio	32.6%	33.1%	0.5 pts
<b>Combined ratio</b>	<b>96.5%</b>	<b>99.7%</b>	<b>3.2 pts</b>

**Business operating profit** increased by USD 35 million, or 49 percent, to USD 107 million, with improvements across most regions, but most significantly in Latin America.

**Gross written premiums and policy fees** increased by 15 percent to USD 1.8 billion, with all regions contributing, but mainly driven by South Africa due to rate increases in motor lines and new accounts in property and engineering lines, and by Latin America arising from several lines across a number of countries.

The **net underwriting result** increased by USD 42 million due to an improved loss position with the loss ratio decreasing by 2.7 percentage points. The improvement was largely driven by a decrease in weather-related losses in Latin America and in Greater China.

## Global Life

in USD millions, for the six months ended June 30	2008	2007	Change
Insurance deposits	5,637	5,534	2%
Gross written premiums and policy fees	4,758	4,893	(3%)
Net investment income on Group investments	2,209	2,157	2%
Insurance benefits and losses, net of reinsurance	(4,148)	3,121 <sup>1</sup>	nm
Underwriting and policy acquisition costs, net of reinsurance	(962)	(702)	(37%)
Administrative and other operating expenses	(914)	(817)	(12%)
<b>Business operating profit</b>	<b>766</b>	<b>721</b>	<b>6%</b>
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts <sup>2</sup>	187,991	191,117	(2%)
<b>Embedded value – highlights</b>			
<b>New business annual premium equivalent (APE)</b>	<b>1,528</b>	<b>1,323</b>	<b>15%</b>
Present value of new business premiums (PVNBP)	12,223	10,721	14%
<b>New business margin, after tax (as % of APE)</b>	<b>22.4%</b>	<b>24.1%</b>	<b>(1.7 pts)</b>
New business margin, after tax (as % of PVNBP)	2.8%	3.0%	(0.2 pts)
<b>New business value, after tax</b>	<b>342</b>	<b>319</b>	<b>7%</b>

<sup>1</sup> In 2007, ceded insurance benefits and losses included USD 7.0 billion relating to the reinsurance of a UK annuity portfolio. Subsequent to the approval from the UK High Court effective June 30, 2008, the underlying contracts have been transferred to the reinsurer, resulting in a reduction of reserves for insurance contracts and related reinsurance amounts.

<sup>2</sup> As of June 30, 2008, and December 31, 2007, respectively.

During the six months ended June 30, 2008, Global Life faced challenging market conditions in its core markets from falling and volatile equity markets and from consumer uncertainties resulting from the global credit squeeze. Despite these challenging conditions, new business annual premium equivalent (APE) and business operating profit increased year over year.

**New business annual premium equivalent (APE)** increased by USD 205 million, or 15 percent in US dollar terms, and by 9 percent on a local currency basis. The increase was driven by sales growth in Germany, Zurich International Solutions (ZIS) and the UK.

**Business operating profit** increased by USD 45 million, an increase of 6 percent in US dollar terms, and decreased by 1 percent on a local currency basis. Falling asset values reduced asset-based fees and accelerated amortization of deferred acquisition costs and intangible assets. These negative impacts were offset by improved operating results in the UK, Germany, Switzerland, and emerging markets.

**Insurance deposits** increased by 2 percent in US dollar terms, but decreased by 3 percent on a local currency basis, while **gross written premiums and policy fees** decreased by 3 percent in US dollar terms, and by 13 percent on a local currency basis. The decrease in gross written premiums and policy fees reflects our continued focus on unit-linked products and development of mutual funds and other assets managed by third parties where only the fee element is recognized in other income.

**Net reserves** decreased by 2 percent in US dollar terms, and by 6 percent after excluding the impact of foreign currency translation, since December 31, 2007. The decrease is primarily due to the reduction in the value of policyholders' unit-linked insurance and investment contracts as a result of equity market decreases during the six months ended June 30, 2008.

## Financial Review

## APE by product

in USD millions, for the six months ended June 30	Unit-linked <sup>1</sup>		Individual protection		Other <sup>2</sup>		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
United States	2	3	45	53	4	3	51	59
United Kingdom	140	202	47	48	284	189	472	440
Germany	254	154	25	8	53	56	333	218
Switzerland	11	13	4	3	47	36	62	52
Ireland	97	77	13	12	34	53	144	142
Emerging markets	290	262	9	7	42	30	340	299
Rest of the world	55	65	18	16	51	33	125	114
Total	850	776	163	148	515	400	1,528	1,323

<sup>1</sup> Unit-linked includes insurance and investment contracts.

<sup>2</sup> Other includes individual savings, deferred and immediate annuities and group and collective business.

**New business annual premium equivalent (APE)** increased by 15 percent in US dollar terms, and by 9 percent on a local currency basis driven by sales growth in unit-linked business in Germany and emerging markets, and mutual funds in the UK, more than offsetting the challenging market conditions impacting protection sales and single premium savings products in the UK, the US and Ireland.

In Germany, APE increased by 53 percent in US dollar terms, and by 33 percent on a local currency basis, driven by growth in unit linked pensions. APE in the emerging markets comprising ZIS, Southeast Asia and Latin America increased by 14 percent in US dollar terms, and by 13 percent on a local currency basis primarily through strong growth of international broker network business in ZIS. In the UK, APE increased by 7 percent both in US dollar terms and on a local currency basis, primarily driven by strong growth in mutual funds that more than offset a reduction in unit linked savings. Switzerland increased by 20 percent in US dollar terms, and by 2 percent on a local currency basis, with improvements in group sales offsetting a downturn in individual business.

In the US, a downturn in individual business has resulted in a decrease in new business APE of 14 percent. In Ireland, APE increased by 2 percent in US dollar terms, and decreased by 12 percent on a local currency basis, as sales of single premium savings products have slowed in the first half of 2008. APE in the rest of world increased by 10 percent in US dollar terms, and decreased by 5 percent on a local currency basis primarily as a result of different timing of campaigns in Italy in 2008 compared with 2007.

By line of business unit-linked APE increased by 9 percent in US dollar terms, and increased of 2 percent on a local currency basis, representing 56 percent of total APE compared with 59 percent in 2007. Protection APE increased by 11 percent in US dollar terms, and increased by 5 percent on a local currency basis. Other products, including the sale of third party mutual funds, increased by 29 percent in US dollar terms, and by 23 percent on a local currency basis.

In terms of distribution channels, the independent broker distribution channel continued to be the main source of sales, providing 54 percent of total APE volumes followed by distribution through bank partnerships and direct distribution contributing 23 percent of total APE volumes. Openwork, our exclusive multi-tied distribution network in the UK, produced 7 percent of total APE and the Farmers tied-agent network in the US produced another 3 percent. Other tied-agent distribution contributed 13 percent.

in USD millions, for the six months ended June 30	New business annual premium equivalent (APE)		New business value, after tax		New business margin, after tax (as % of APE)		Business operating profit	
	2008	2007	2008	2007	2008	2007	2008	2007
	United States	51	59	47	57	90.9%	96.4%	149
United Kingdom	472	440	49	56	10.5%	12.6%	200	160
Germany	333	218	104	64	31.2%	29.4%	134	101
Switzerland	62	52	21	19	34.3%	36.4%	122	96
Ireland	144	142	28	31	19.6%	22.2%	25	35
Emerging markets	340	299	78	73	22.8%	24.5%	46	35
Rest of the world	125	114	15	19	11.8%	16.3%	91	79
Total	1,528	1,323	342	319	22.4%	24.1%	766	721

**Business operating profit** increased by USD 45 million, an increase of 6 percent in US dollar terms, and decreased by 1 percent on a local currency basis. Falling asset values resulted in accelerated amortization of deferred acquisition costs and intangible assets and reduced asset-based fees, in particular in the UK and Ireland. These negative impacts were offset by improvements in the UK primarily resulting from the impacts to ongoing operations from the reinsurance and subsequent transfer of a USD 7.1 billion annuity portfolio. In addition, business operating profit increased due to efficiency gains in Germany, favorable claims development in Switzerland, and an increasing mix of insurance compared with investment business in emerging markets. In the US, business operating profit decreased by USD 65 million as a result of higher policy acquisition costs. In 2008, deferred policy acquisition costs were reduced by USD 41 million resulting from reduced maintenance costs compared with the reduction of USD 106 million in 2007 resulting from improved mortality experience.

**New business value, after tax**, increased by USD 23 million to USD 342 million, primarily as a result of the increased pension business volumes in Germany and ZIS, partially offset by lower volumes and reduced margins in the US and reduced margins in the UK, reflected in the decrease in total new business margin, after tax, of 1.7 percentage points to 22.4 percent.

## Farmers Management Services

in USD millions, for the six months ended June 30	2008	2007	Change
Management fees and other related revenues	1,196	1,093	9%
Management and other related expenses	(622)	(552)	(13%)
Gross management result	574	542	6%
Other net income	43	130	(67%)
<b>Business operating profit</b>	<b>617</b>	<b>672</b>	<b>(8%)</b>
Managed gross earned premium margin	7.1%	7.2%	(0.1 pts)

**Business operating profit** decreased by USD 55 million to USD 617 million. An increased contribution from the underlying operations was more than offset by a decrease in net investment income of USD 42 million as a result of a lower average invested asset base following dividends and cash transfers paid to the Group in November 2007, and the sale of debt securities for the acquisition of Bristol West. Additionally, other net income decreased as gains of USD 43 million on the sale of property related to the concentration of customer service activities into two ServicePoints were recognized in 2007, but not repeated in 2008.

**Management fees and other related revenues** increased by USD 103 million, primarily driven by the 7 percent increase in gross earned premiums at the Farmers Exchanges, which we manage but do not own. Bristol West, which was acquired in July 2007, contributed USD 73 million to the increase in management fees and other related revenues. Management and other related expenses increased by USD 70 million, including USD 46 million related to Bristol West. As a result, the gross management result improved by USD 32 million, while the managed gross earned premium margin decreased by 0.1 percentage points to 7.1 percent.

## Farmers Exchanges

in USD millions, for the six months ended June 30	2008	2007	Change
Gross written premiums	8,710 <sup>1</sup>	7,780	12%
Gross earned premiums	8,075	7,558	7%

<sup>1</sup> Includes USD 425 million premium portfolio transfer in June 2008 related to North America Commercial Small Business Solutions.

Gross earned premiums in the Farmers Exchanges increased by USD 517 million, of which USD 380 million related to Bristol West.



## Other Businesses

in USD millions, for the six months ended June 30	2008	2007	Change
Business operating profit:			
Farmers Re	54	88	(38%)
Centre	4	116	(97%)
Centrally Managed Businesses	54	220	(75%)
Rest of Other Businesses	77	47	65%
<b>Total business operating profit</b>	<b>190</b>	<b>471</b>	<b>(60%)</b>

**Farmers Re** business operating profit decreased by USD 34 million to USD 54 million reflecting lower cession levels from the Farmers Exchanges and an increase in weather-related losses. **Centre** decreased by USD 112 million due to comparatively high levels of profitable run-off transactions in the prior year and to adverse impacts resulting from interest rate decreases on large parts of the life book. **Centrally Managed Businesses**, which largely comprise portfolios that we proactively manage to achieve a profitable run-off over time, decreased by USD 166 million, primarily driven by the impact of adverse equity market movements on Group investments and certain insurance liabilities which are sensitive to equity market developments. The **Rest of Other Businesses** increased by USD 30 million following an improved result in Banking and certain run-off positions carried at Group-level.

## Corporate Functions

in USD millions, for the six months ended June 30	2008	2007	Change
Net investment income	287	354	(19%)
Interest expense on debt	(586)	(676)	13%
<b>Business operating loss</b>	<b>(261)</b>	<b>(417)</b>	<b>37%</b>
Headquarter revenues/(expenses), after allocations to operating businesses and excluding foreign currency impacts	22	(44)	nm

**Business operating loss** improved by USD 156 million to a loss of USD 261 million for the six months ended June 30, 2008, primarily driven by an increase in net headquarter revenues, gains on foreign currency transactions and lower levels of interest expense on debt, net of investment income.

**Net headquarter revenues** improved by USD 66 million to USD 22 million driven by lower gross expense levels, as well as higher allocations to the operating businesses.

## Investment position and performance

Reflecting our outlook for the economy and capital markets, our equity allocation during the first half of 2008 was close to neutral, and we continued our underweight stance to credit exposure relative to our long-term strategic benchmark. Fixed maturity debt securities are invested in accordance with the profile of the liabilities to limit the overall economic interest rate exposure of the Group. Derivative instruments are primarily used to improve the management of interest rate risk and to provide equity downside protection in Life with-profit funds.

### Breakdown of investments

in USD millions, as of	Group investments		Unit-linked investments	
	06/30/08	12/31/07	06/30/08	12/31/07
Cash and cash equivalents	14,682	13,943	5,690	2,993
Equity securities:	17,481	18,589	88,765	100,178
Common stocks, including equity unit trusts	11,720	12,418	79,180	90,593
Unit trusts (debt securities, real estate and short-term investments)	3,112	3,291	9,585	9,585
Common stock portfolios backing participating with-profit policyholder contracts	1,119	1,274	–	–
Trading equity portfolios in capital markets and banking activities	1,529	1,606	–	–
Debt securities	123,202	123,762	10,250	10,112
Real estate held for investment	8,236	7,563	7,006	7,823
Mortgage loans	13,804	12,718	–	–
Policyholders' collateral and other loans	14,192	12,936	2	2
Investments in associates	236	238	–	–
Other investments	3,233	3,851	1,333	985
<b>Total</b>	<b>195,066</b>	<b>193,600</b>	<b>113,047</b>	<b>122,092</b>

Group investments have increased by USD 1.5 billion to USD 195.1 billion since December 31, 2007. After excluding the effects of foreign currency translation, Group investments decreased by 4 percent. This decrease was primarily driven by investments related to Global Life and was consistent with corresponding development of other life insurance liabilities after adjusting for the transfer of investments relating to our UK Life annuity business, which was reinsured in June 2007.

Unit-linked investments decreased by USD 9.0 billion to USD 113.0 billion since December 31, 2007. After excluding the effect of foreign currency translation, unit-linked investments decreased by 9 percent, primarily as a result of lower equity valuations following adverse market movements.

Our investment policy remains conservative; investment grade securities comprise 99 percent of our debt securities, of which 62 percent are rated AAA. US sub-prime mortgage-backed securities comprise 0.1 percent of Group investments, with 66 percent of these securities rated AAA, and USD 10 million of impairments recognized in the current period.

**Performance of Group investments**

in USD millions, for the six months ended June 30	2008	2007	Change
Net investment income	4,402	4,282	3%
Net capital (losses)/gains on investments and impairments	(426)	503	(185%)
of which: net capital gains on investments and impairments attributable to shareholders	9	440	(98%)
Net investment result	3,975	4,785	(17%)
<b>Net investment return on Group investments<sup>1</sup></b>	<b>2.1%</b>	<b>2.5%</b>	<b>(0.5 pts)</b>
Movements in net unrealized gains/(losses) on investments included in total equity	(4,648)	(2,689)	(73%)
<b>Total investment result, net of investment expenses<sup>2</sup></b>	<b>(672)</b>	<b>2,096</b>	<b>(132%)</b>
Average investments <sup>3</sup>	192,806	187,751	3%
<b>Total return on Group investments<sup>1</sup></b>	<b>(0.3%)</b>	<b>1.1%</b>	<b>(1.5 pts)</b>

<sup>1</sup> Net investment return is not annualized.

<sup>2</sup> After deducting investment expenses of USD 136 million and USD 125 million for the six months ended June 30, 2008 and 2007, respectively.

<sup>3</sup> Excluding average cash received as collateral for securities lending of USD 1.5 billion and USD 3.2 billion in the six months ended June 30, 2008 and 2007, respectively.

Total return (net of investment expenses) was negative 0.3 percent on average Group investments, largely as a result of the change in unrealized capital gains as interest rates rose in many of our major regions, and all major equity markets declined. Debt securities, which are invested to match our liability profiles, returned negative 0.4 percent and equity securities had a negative return of 10.0 percent. Other investments returned positive 3.4 percent.

Total **net investment income** was USD 4.4 billion, representing a return of 2.3 percent. This increase in return arose mainly from debt securities, with an increase of 4 basis points to a return of 2.4 percent. Overall, net investment income increased by 3 percent in US dollar terms, but decreased by 5 percent on a local currency basis, driven by the lower average invested asset base in Global Life. This was a result of the transfer of investments relating to our UK Life annuity business, which was reinsured in June 2007, and the continued shift in our life business to unit-linked products and the related unit-linked investments.

Total **net capital losses on investments and impairments** were USD 426 million, which included losses of USD 15 million arising from the sale of investments and impairments of USD 495 million, mainly USD 171 million attributable to debt securities and USD 315 million attributable to equity securities. These losses were partially offset by net positive revaluations of USD 84 million. Positive revaluations were driven by derivative gains of USD 382 million, including hedges on equity securities of USD 349 million, and gains from alternative investments and real estate of USD 219 million, partially offset by negative revaluations, primarily USD 360 million on debt securities and USD 154 million on equity securities.

**Net unrealized losses included in total equity** have increased by USD 4.6 billion since December 31, 2007, due to the USD 2.9 billion increase in net unrealized losses on debt securities as interest rates rose, as well as USD 1.7 billion decrease in net unrealized gains on equity securities as a result of declines in major global equity markets.

**Performance of unit-linked investments**

in USD millions, for the six months ended June 30	2008	2007	Change
Net investment income	2,046	1,769	16%
Net capital (losses)/gains on investments and impairments	(11,450)	4,484	(355%)
Net investment result, net of investment expenses <sup>1</sup>	(9,404)	6,253	(250%)
Average investments	117,570	117,583	–
<b>Total return on unit-linked investments<sup>2</sup></b>	<b>(8.0%)</b>	<b>5.3%</b>	<b>(13.3 pts)</b>

<sup>1</sup> After deducting investment expenses of USD 432 million and USD 224 million for the six months ended June 30, 2008 and 2007, respectively.

<sup>2</sup> Total return is not annualized.

Net investment income on unit-linked investments increased by USD 277 million, or 16 percent, primarily attributable to equity securities in the US. Net capital gains on investments decreased by USD 15.9 billion to net losses of USD 11.5 billion as a result of adverse market conditions primarily affecting the UK, as well as US, Ireland, Germany and ZIS.

## Insurance and investment contract liabilities

### Reserves for losses and loss adjustment expenses

in USD millions	2008	2007
As of January 1		
Gross reserves for losses and loss adjustment expenses	67,890	64,535
Reinsurers' share	(13,179)	(13,722)
Net reserves for losses and loss adjustment expenses	54,712	50,814
Net losses and loss adjustment expenses incurred		
Current year	11,821	10,992
Prior years	12,408	11,457
Total net losses and loss adjustment expenses paid	(586)	(465)
Total net losses and loss adjustment expenses paid	(11,119)	(9,482)
Aquisitions/(divestments)	15	3
Foreign currency translation effects	1,434	715
As of June 30		
<b>Net reserves for losses and loss adjustment expenses</b>	<b>56,863</b>	<b>53,043</b>
Reinsurers' share	12,935	13,369
Gross reserves for losses and loss adjustment expenses	69,798	66,412

The majority of the Group's gross reserves for losses and loss adjustment expenses are attributable to the General Insurance segment.

As of June 30, 2008, net reserves for losses and loss adjustment expenses increased by USD 2.2 billion, or 4 percent, to USD 56.9 billion compared with USD 54.7 billion as of December 31, 2007. The primary driver of this increase was foreign currency translation effects of USD 1.4 billion. Positive development emerging from reserves established in prior years arose primarily from our General Insurance business across a number of countries and lines of business.

## Reserves for life insurance contracts and liabilities for investment contracts

## Group reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts

in USD millions		Global Life	Other segments	Total Group
Net reserves as of January 1, 2008		191,117	20,043	211,160
Movements in net reserves		(3,126)	(910)	(4,036)
Net reserves as of June 30, 2008		187,991	19,132	207,124

The majority of the Group's reserves for life insurance contracts and liabilities for investment contracts are attributable to Global Life. Life insurance reserves in other segments relate predominately to Centre and Centrally Managed Businesses. More details on the development of the Group's total life reserves and liabilities are included in notes 5 and 6 in the consolidated financial statements. In the following section we provide further detail on the development and composition of Global Life business on a stand-alone basis.

## Global Life – Development of reserves and liabilities

in USD millions	Unit-linked insurance and investment contracts <sup>1</sup>		Other life insurance liabilities <sup>2</sup>		Total reserves and liabilities	
	2008	2007	2008	2007	2008	2007
As of January 1						
Gross reserves	109,072	101,330	91,596	87,949	200,668	189,278
Reinsurers' share <sup>3</sup>	–	–	(9,551)	(1,753)	(9,551)	(1,753)
Net reserves	109,072	101,330	82,044	86,196	191,117	187,525
Premiums and claims	(1,125)	(1,577)	(2,159)	(11,120)	(3,284)	(12,697)
Interest and bonuses credited to policyholders	(8,337)	5,372	1,614	1,977	(6,723)	7,349
Change in assumptions	–	(9)	(25)	23	(25)	14
Divestments	–	(1)	–	(3)	–	(4)
Decreases recorded in shareholders' equity	4	(17)	(1,197)	(1,191)	(1,193)	(1,208)
Foreign currency translation effects	2,318	2,775	5,780	1,496	8,099	4,272
As of June 30						
<b>Net reserves</b>	<b>101,933</b>	<b>107,873</b>	<b>86,057</b>	<b>77,377</b>	<b>187,991</b>	<b>185,251</b>
Reinsurers' share <sup>3</sup>	–	–	1,845	9,042	1,845	9,042
Gross reserves	101,933	107,873	87,902	86,419	189,836	194,292

<sup>1</sup> Includes reserves for unit-linked contracts and liabilities for investment contracts, the net amounts of which were USD 50.5 billion and USD 54.2 billion, and USD 51.4 billion and 53.7 billion as of June 30, 2008 and 2007, respectively.

<sup>2</sup> Includes reserves for future life policyholders' benefits and policyholders' contract deposits and other funds, the net amounts of which were USD 72.6 billion and USD 63.7 billion, and USD 13.5 billion and 13.7 billion as of June 30, 2008 and 2007, respectively.

<sup>3</sup> In 2007, reinsurers' share of reserves for insurance contracts included USD 7.1 billion related to the reinsurance of a UK annuity portfolio. Subsequent to the approval from the UK High Court effective June 30, 2008, the underlying contracts have been transferred to the reinsurer, resulting in a reduction of reserves for insurance contracts and the related reinsurers' share.

**Total reserves and liabilities for insurance and investment contracts**, net of reinsurance, decreased by 2 percent, and by 6 percent after excluding the impact of currency translation, compared with December 31, 2007. The decrease was primarily driven by adverse market movements reported in the change in interest and bonuses credited to policyholders for unit-linked insurance and investment contracts, an excess of claims over premiums due to the maturity of the UK, Germany and Switzerland portfolios, and the participation in increased unrealized losses recorded in shareholders' equity in other life insurance liabilities.

In 2007, the excess of claims over premiums of USD 11.1 billion in other life insurance liabilities was primarily the result of the reinsurance of USD 7.1 billion of UK annuity liabilities, and a reduction of USD 2.5 billion of liabilities relating to traditional group life contracts in Switzerland of which USD 1.8 billion were transferred to independent pension foundations, to which we provide services but do not control. In 2008, the underlying contracts for UK annuity liabilities were transferred to the reinsurer resulting in a corresponding reduction in the reinsurers' share of liabilities.

## Financial Review

**Global Life –  
Reserves and  
liabilities, net  
of reinsurance,  
by region**

	in USD millions					
	Unit-linked insurance and investment contracts		Other life insurance liabilities		Total reserves and liabilities	
	06/30/08	12/31/07	06/30/08	12/31/07	06/30/08	12/31/07
United States	827	856	4,814	4,803	5,641	5,658
United Kingdom	66,665	73,400	5,635	5,971	72,300	79,371
Germany	8,610	8,768	46,549	43,672	55,158	52,439
Switzerland	1,735	1,630	16,106	15,086	17,841	16,716
Ireland	7,295	7,324	1,531	1,536	8,826	8,860
Emerging markets	7,434	7,525	2,967	2,955	10,401	10,479
Rest of the world	9,367	9,570	8,458	8,018	17,826	17,589
Eliminations	–	–	(2)	3	(2)	3
Total	101,933	109,072	86,057	82,044	187,991	191,117

**Unit-linked insurance and investment contracts**, net of reinsurance, decreased by 7 percent, and by 9 percent after excluding the impact of currency translation, compared with December 31, 2007. In addition to the decrease in interest and bonuses credited to policyholders resulting from falling equity market movements, the liabilities were also reduced by an excess of claims over premiums of USD 1.1 billion that was driven by the overall maturity of the UK portfolio that more than offset growth in new business. The development of the liabilities does not include the development in mutual funds and other assets managed by third parties where only the fee element is recognized in other income.

**Other life insurance liabilities**, net of reinsurance, increased by 5 percent, and decreased by 2 percent after excluding the impact of currency translation, compared with December 31, 2007. The decrease was mainly due to the excess of claims over premiums from the overall maturity of the portfolios in Germany and Switzerland and the shift in the focus of new business towards unit-linked insurance and investment contracts, and the participation in increased unrealized losses recorded in decreases in shareholders' equity.

## Indebtedness and capitalization

in USD millions, as of June 30	06/30/08	12/31/07	Change
Total operational debt	9,005	8,578	5%
Total financial debt	9,009	8,999	–
Total debt	18,014	17,576	2%

**Total debt** increased by 2 percent. Operational debt increased by USD 427 million, primarily due to increased volumes in the banking business. Financial debt increased by USD 10 million in US dollar terms, but decreased on a local currency basis. On March 27, 2008, USD 81 million of Series III Floating Rate USD 400 million ECAPS included in financial debt due December 2065 was repurchased, recognizing a pre-tax gain of USD 18 million. Debt related to capital markets included in financial debt decreased as we repaid loans and reduced our financing costs.

in USD millions	Shareholders' equity	Minority interests	Total equity
As of December 31, 2007, as previously reported	28,804	374	29,177
Adjustment arising from a change in accounting policy	141	–	141
<b>As of December 31, 2007, as restated</b>	<b>28,945</b>	<b>374</b>	<b>29,318</b>
Issuance of share capital <sup>1</sup>	1	–	1
Dividends	(2,082)	(9)	(2,092)
Redemption of preferred securities	(124)	–	(124)
Share-based payment transactions	(64)	–	(64)
Treasury share transactions <sup>2</sup>	(441)	–	(441)
Total recognized income and expense, net of tax	562	68	630
<i>Net income after taxes</i>	2,681	69	2,749
<i>Net other recognized income and expenses</i>	(2,118)	(1)	(2,120)
Net changes in capitalization and minority interests	–	(60)	(60)
<b>As of June 30, 2008</b>	<b>26,796</b>	<b>372</b>	<b>27,168</b>

<sup>1</sup> The number of common shares issued, including those held as treasury shares, was 142,121,026 and 145,546,820 as of June 30, 2008 and December 31, 2007, respectively.

<sup>2</sup> As of June 30, 2008, the number of treasury shares deducted from equity was 3,737,752, which included shares repurchased through the share buyback program in 2008. As of December 31, 2007, the number of treasury shares deducted from equity was 5,839,154, which included shares repurchased through the share buyback program in 2007 that were subsequently cancelled effective June 27, 2008.

**Total equity** decreased by 7 percent to USD 27.2 billion as of June 30, 2008, as net income after taxes was more than offset by the USD 2.1 billion dividend payout and the decrease in net unrealized gains on available-for-sale investments of USD 2.4 billion. Total recognized income and expense included in total equity was USD 630 million. The major drivers were net income after taxes of USD 2.7 billion, which was mostly offset by the decrease in net unrealized gains on investments. Also affecting total recognized income and expense were cumulative translation adjustments of USD 352 million (USD 344 million attributable to shareholders) and an increase in actuarial losses on pension plans of USD 52 million.

## Cash flows

## Summary of cash flows

in USD millions, for the six months ended June 30	2008	2007
Net cash provided by operating activities	6,550	3,773
Net cash used in investing activities	(307)	(233)
Net cash used in financing activities	(2,714)	(2,097)
Foreign currency translation effects on cash and cash equivalents	608	301
Change in cash and cash equivalents excluding change in cash received as collateral for securities lending	4,136	1,744
Cash and cash equivalents as of January 1 <sup>1</sup>	15,059	19,302
Cash and cash equivalents as of June 30 <sup>1</sup>	19,195	21,046
Change in cash received as collateral for securities lending	(699)	(1,314)
Cash and cash equivalents as of January 1 <sup>2</sup>	16,936	23,122
<b>Cash and cash equivalents as of June 30<sup>2</sup></b>	<b>20,372</b>	<b>23,552</b>

<sup>1</sup> Excluding cash received as collateral for securities lending

<sup>2</sup> Including cash received as collateral for securities lending

Net cash provided by operating activities was USD 6.5 billion for the six months ended June 30, 2008. Net cash used in investing activities was USD 307 million, largely resulting from the acquisition of TEB Sigorta, details of which are given in the notes to the consolidated financial statements. Net cash used in financing activities was USD 2.7 billion, which was predominantly related to dividend payments and share buybacks.



## Currency translation impact

We operate worldwide in multiple currencies and seek to match our foreign exchange exposures on an economic basis. As we have chosen the US dollar as our presentation currency, differences arise when functional currencies are translated into our presentation currency. The table below shows the effect of foreign currency rates on the translation of selected line items.

Selected Group income statement line items	variance over the prior period, for the six months ended June 30	
	in USD millions	in %
Gross written premiums and policy fees	1,853	8%
Insurance benefits and losses, gross of reinsurance	(1,215)	(14%)
Net income attributable to shareholders	146	6%
Business operating profit	206	6%

Selected Group balance sheet line items	variance over December 31, 2007, as of June 30, 2008	
	in USD millions	in %
Total investments	10,547	4%
Reserves for insurance contracts, gross	8,857	4%
Cumulative translation adjustment in shareholders' equity	344	1%

The income statements are translated at average exchange rates where the continued weakening of the US dollar during the six months ended June 30, 2008, compared with the same period in 2007, resulted in an increase in US dollar terms in most line items.

The balance sheets are translated at end-of-period rates. The weakness of the US dollar as of June 30, 2008, compared with December 31, 2007, resulted in an increase in US dollar terms in most balance sheet line items.

## Financial Review

# Consolidated Financial Statements

## Contents

I	
1. Consolidated income statements	26
2. Consolidated statements of total recognized income and expenses	27
3. Consolidated balance sheets	28
4. Consolidated statements of cash flows	30
5. Consolidated statements of changes in equity	32
II	
1. Basis of presentation	34
2. Foreign currency translation and transactions	36
3. Acquisitions and divestments	36
4. Investments	39
5. Reserves for insurance contracts and reinsurers' share of reserves for insurance contracts	44
6. Liabilities for investment contracts with and without discretionary participation features (DPF)	47
7. Equity component relating to contracts with DPF	47
8. Gross and ceded insurance revenues and expenses	48
9. Deferred policy acquisition costs and deferred origination costs	49
10. Goodwill and other intangible assets	49
11. Income taxes	51
12. Debt	54
13. Litigation and regulatory investigations	58
14. Earnings per share	59
15. Related party transactions	59
16. Segment information	60
17. Events after the balance sheet date	64
III	
1. Review Report of the Group Auditors	67

## Consolidated Financial Statements

## Consolidated income statements (unaudited)

In USD millions, for the six months ended June 30	Notes	2008	2007
<b>Revenues</b>			
Gross written premiums and policy fees		26,376	25,072
Less premiums ceded to reinsurers <sup>1</sup>		(3,392)	(10,384)
Net written premiums and policy fees		22,984	14,688
Net change in reserves for unearned premiums	8	(1,541)	(1,670)
Net earned premiums and policy fees		21,443	13,017
Farmers management fees and other related revenues		1,196	1,093
Net investment result on Group investments	4	3,975	4,785
Net investment income on Group investments		4,402	4,282
Net capital gains/(losses) and impairments on Group investments		(426)	503
Net investment result on unit-linked investments	4	(9,404)	6,253
Net gain/(loss) on divestments of businesses	3	4	2
Other income		945	909
<b>Total revenues</b>		<b>18,160</b>	<b>26,060</b>
<b>Benefits, losses and expenses</b>			
Insurance benefits and losses, gross of reinsurance <sup>1</sup>	8	10,158	17,052
Less ceded insurance benefits and losses <sup>1</sup>	8	6,103	(9,131)
Insurance benefits and losses, net of reinsurance <sup>1</sup>	8	16,261	7,920
Policyholder dividends and participation in profits, net of reinsurance	8	(9,034)	6,963
Underwriting and policy acquisition costs, net of reinsurance	8	4,083	3,541
Administrative and other operating expense		2,953	2,917
Amortization and impairments of intangible assets		186	115
Interest expense on debt	12	302	345
Interest credited to policyholders and other interest		440	472
<b>Total benefits, losses and expenses</b>		<b>15,192</b>	<b>22,272</b>
Net income before income taxes		2,968	3,787
Income tax expense	11	(219)	(1,084)
of which:			
– attributable to policyholders	11	604	(130)
– attributable to shareholders	11	(823)	(954)
<b>Net income after taxes</b>		<b>2,749</b>	<b>2,703</b>
Net income attributable to minority interests		(69)	(27)
<b>Net income attributable to shareholders</b>		<b>2,681</b>	<b>2,676</b>
in USD			
Basic earnings per share	14	19.15	18.47
Diluted earnings per share	14	18.99	18.31
in CHF			
Basic earnings per share	14	20.11	22.68
Diluted earnings per share	14	19.94	22.48

<sup>1</sup> In 2007, premiums ceded to reinsurers included USD 7.3 billion and ceded insurance benefits and losses included USD 7.0 billion relating to the reinsurance of a UK annuity portfolio. Subsequent to the approval from the UK High Court, effective on June 30, 2008, the underlying contracts have been transferred to the reinsurer. This transaction had no impact on the income statement in 2008.

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

## Consolidated statements of total recognized income and expenses (unaudited)

in USD millions, for the six months ended June 30	2008	2007
<b>Net income attributable to shareholders</b>	<b>2,681</b>	<b>2,676</b>
Net unrealized gains/(losses) on available for sale investments <sup>1</sup>	(2,412)	(994)
Change in net unrealized gains/(losses) (excluding currency translation adjustments)	(2,389)	(919)
Foreign currency translation adjustments	(49)	1
Net realized gains/(losses) and impairment charges reclassified to the income statement	26	(76)
Change in fair value of cash flow hedges <sup>1</sup>	(23)	(69)
Cumulative translation adjustments	344	385
Net other recognized income and expense <sup>1</sup>	(28)	740
Net actuarial gains/(losses) on pension plans	(52)	720
Revaluation reserve	24	20
<b>Total recognized income and expense attributable to shareholders</b>	<b>562</b>	<b>2,738</b>
Total recognized income and expense attributable to minority interests	68	35
<b>Total recognized income and expense</b>	<b>630</b>	<b>2,774</b>

<sup>1</sup> Amounts are net of tax.

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

## Consolidated Financial Statements

## Consolidated balance sheets (unaudited)

in USD millions, as of		Notes	06/30/08	12/31/07
<b>Assets</b>	Investments			
	Total Group Investments		195,066	193,600
	Cash and cash equivalents		14,682	13,943
	Equity securities		17,481	18,589
	Debt securities		123,202	123,762
	Real estate held for investment		8,236	7,563
	Mortgage loans		13,804	12,718
	Other loans		14,192	12,936
	Investments in associates		236	238
	Other investments		3,233	3,851
	Investments for unit-linked contracts		113,047	122,092
	<b>Total investments</b>	4	<b>308,113</b>	<b>315,693</b>
	Reinsurers' share of reserves for insurance contracts <sup>1</sup>	5	19,605	26,970
	Deposits made under assumed reinsurance contracts		1,310	1,359
	Deferred policy acquisition costs	9	16,337	14,941
	Deferred origination costs	9	1,018	1,003
	Accrued investment income		2,676	2,593
	Receivables		14,807	12,846
	Other assets		4,322	3,405
	Mortgage loans given as collateral		2,379	2,243
	Deferred tax assets	11	1,755	1,682
	Property and equipment		2,055	1,972
	Goodwill	10	2,080	1,730
	Other intangible assets	10	3,137	2,906
	<b>Total assets</b>		<b>379,593</b>	<b>389,342</b>

<sup>1</sup> In 2007, reinsurers' share of reserves for insurance contracts included USD 7.1 billion related to the reinsurance of a UK annuity portfolio. Subsequent to the approval from the UK High Court, effective on June 30, 2008, the underlying contracts have been transferred to the reinsurer, resulting in a reduction of reinsurers' share of reserves for insurance contracts.

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

**Liabilities  
and equity**

in USD millions, as of	Notes	06/30/08	12/31/07
<b>Liabilities</b>			
Reserve for premium refunds		712	625
Liabilities for investment contracts	6	51,141	54,485
Deposits received under ceded reinsurance contracts		1,613	1,739
Deferred front-end fees		5,961	5,791
Reserves for insurance contracts <sup>1</sup>	5	248,735	252,740
Obligations to repurchase securities		5,101	5,370
Accrued liabilities		2,735	2,755
Other liabilities		20,048	20,257
Collateralized loans		2,379	2,243
Deferred tax liabilities	11	3,466	4,057
Debt related to capital markets and banking activities	12	1,984	1,663
Senior and subordinated debt	12	8,550	8,300
<b>Total liabilities</b>		<b>352,426</b>	<b>360,023</b>
<b>Equity</b>			
Share capital		10	10
Additional paid-in capital		10,158	10,289
Net unrealized gains/(losses) on investments		(2,227)	185
Cumulative translation adjustment		1,728	1,385
Net other recognized income and expense		(745)	(717)
Cash flow hedges		(125)	(103)
Retained earnings		17,436	17,224
Common shareholders' equity		26,235	28,273
Preferred securities		561	671
Shareholders' equity		26,796	28,945
Minority interests		372	374
<b>Total equity</b>		<b>27,168</b>	<b>29,318</b>
<b>Total liabilities and equity</b>		<b>379,593</b>	<b>389,342</b>

<sup>1</sup> In 2007, reinsurers' share of reserves for insurance contracts included USD 7.1 billion related to the reinsurance of a UK annuity portfolio. Subsequent to the approval from the UK High Court, effective on June 30, 2008, the underlying contracts have been transferred to the reinsurer, resulting in a reduction of reserves for insurance contracts.

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

## Consolidated Financial Statements

## Consolidated statements of cash flows (unaudited)

in USD millions, for the six months ended June 30	2008	2007
<b>Cash flows from operating activities</b>		
Net income attributable to shareholders	2,681	2,676
Adjustments for:		
Net (gain)/loss on divestments of businesses	(4)	(2)
Share of equity in income from investments in associates	(4)	(12)
Depreciation, amortization and impairments of fixed and intangible assets	279	211
Other non-cash items	1,151	129
Underwriting activities:	(9,849)	(2,707)
Reserves for insurance contracts, gross <sup>1</sup>	(12,208)	3,314
Reinsurers' share of reserves for insurance contracts <sup>1</sup>	7,664	(6,582)
Liabilities for investment contracts	(4,580)	1,204
Deferred policy acquisition costs	(558)	(521)
Deferred origination costs	(1)	(99)
Deposits made under assumed reinsurance contracts	58	551
Deposits received under ceded reinsurance contracts	(224)	(574)
Investments:	15,289	5,561
Net capital (gain)/loss on investments and impairments	11,877	(4,987)
Net change in trading securities	(337)	23
Sales and maturities		
Debt securities <sup>1</sup>	36,094	44,478
Equity securities	37,403	30,758
Other (primarily other investments)	21,804	13,336
Purchases		
Debt securities	(34,715)	(36,633)
Equity securities	(35,165)	(28,151)
Other (primarily other investments)	(21,673)	(13,263)
Proceeds from sale and repurchase agreements	(284)	(471)
Movements in receivables and payables	(1,085)	(490)
Net changes in debt for capital markets and banking activities	313	(545)
Net changes in other operational assets and liabilities	(1,777)	(1,440)
Deferred income tax, net	(160)	863
<b>Net cash provided by operating activities</b>	<b>6,550</b>	<b>3,773</b>

<sup>1</sup> In 2007, the consolidated statements of cash flows included proceeds of USD 6.3 billion from the sale of debt securities, a reduction in cash and cash equivalents of USD 0.6 billion and an increase in reinsurers' share of reserves for insurance contracts of USD 7.0 billion related to the reinsurance of a UK annuity portfolio. Subsequent to the approval from the UK High Court, effective on June 30, 2008, the underlying contracts have been transferred to the reinsurer, resulting in a reduction of both the reinsurers' share of reserves for insurance contracts and gross reserves for insurance contracts.

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



in USD millions, for the six months ended June 30	2008	2007
<b>Cash flows from investing activities</b>		
Sales of property and equipment	227	102
Purchase of property and equipment	(236)	(129)
Investments in associates, net	12	7
Acquisitions of companies, net of cash acquired	(316)	27
Divestments of companies, net of cash balances	5	18
Other acquisitions and divestments related cashflow	–	(260)
Dividends from associates	1	2
<b>Net cash used in investing activities</b>	<b>(307)</b>	<b>(233)</b>
<b>Cash flows from financing activities</b>		
Dividends paid	(2,092)	(1,315)
Net movement in treasury shares	(441)	(1,018)
Redemption of preferred securities and repayments to minority interests	(124)	–
Issuance of debt	159	1,651
Payments on debt outstanding	(217)	(1,414)
<b>Net cash used in financing activities</b>	<b>(2,714)</b>	<b>(2,097)</b>
Foreign currency translation effects on cash and cash equivalents	608	301
Change in cash and cash equivalents excluding change in cash received as collateral for securities lending <sup>1</sup>	4,136	1,744
Cash and cash equivalents as of January 1, excluding cash received as collateral for securities lending	15,059	19,302
<b>Cash and cash equivalents as of June 30, excluding cash received as collateral for securities lending</b>	<b>19,195</b>	<b>21,046</b>
Change in cash received as collateral for securities lending	(699)	(1,314)
Cash and cash equivalents as of January 1, including cash received as collateral for securities lending	16,936	23,122
<b>Cash and cash equivalents as of June 30, including cash received as collateral for securities lending</b>	<b>20,372</b>	<b>23,552</b>
<b>Other supplementary cash flow disclosures</b>		
in USD millions		
Other interest income received	4,540	4,541
Dividend income received	2,079	1,384
Other interest expense paid	(655)	(756)
Income tax paid	(902)	(1,046)

As of June 30, 2008 and 2007, cash and cash equivalents restricted as to use were USD 5,705 million and USD 923 million, respectively. Cash and cash equivalents held for the benefit of policyholders in connection with unit-linked products amounted to USD 5,690 million and USD 6,701 million as of June 30, 2008 and 2007, respectively.

### Cash and cash equivalents

in USD millions, as of June 30	2008	2007
<b>Cash and cash equivalents comprise the following:</b>		
Cash at bank and in hand	5,839	5,865
Cash equivalents	13,356	15,181
Cash held as collateral for securities lending	1,177	2,506
<b>Total</b>	<b>20,372</b>	<b>23,552</b>

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

## Consolidated Financial Statements

## Consolidated statements of changes in equity (unaudited)

in USD millions

	Share capital	Additional paid-in capital	Net unrealized gains/(losses) on investments
Balance as of December 31, 2006, as previously reported	10	10,448	819
Total adjustments due to restatement	–	–	(8)
Balance as of December 31, 2006, as restated	10	10,448	811
Issuance of share capital	–	134	–
Dividends to shareholders	–	–	–
Share-based payment transactions	–	(54)	–
Treasury share transactions	–	(200)	–
Total recognized income and expense, net of tax	–	–	(994)
<i>Net income after taxes</i>	–	–	–
<i>Net other recognized income and expenses</i>	–	–	(994)
Net changes in capitalization and minority interests	–	–	–
Balance as of June 30, 2007	10	10,328	(183)
Balance as of December 31, 2007, as previously reported	10	10,289	196
Total adjustments due to restatement	–	–	(11)
Balance as of December 31, 2007, as restated	10	10,289	185
Issuance of share capital <sup>1</sup>	–	1	–
Dividends to shareholders	–	–	–
Redemption of preferred securities	–	(14)	–
Share-based payment transactions	–	(64)	–
Treasury share transactions <sup>2</sup>	–	(54)	–
Total recognized income and expense, net of tax	–	–	(2,412)
<i>Net income after taxes</i>	–	–	–
<i>Net other recognized income and expenses</i>	–	–	(2,412)
Net changes in capitalization and minority interests	–	–	–
<b>Balance as of June 30, 2008</b>	<b>10</b>	<b>10,158</b>	<b>(2,227)</b>

<sup>1</sup> The number of common shares issued as of June 30, 2008 was 142,121,026 (June 30, 2007: 145,472,560, December 31, 2007: 145,546,820, December 31, 2006: 144,749,399).

<sup>2</sup> On February 14, 2008, the Board of Zurich Financial Services authorized a share buy-back of up to CHF 2.2 billion (approximately USD 2 billion) over the course of 2008. As of June 30, 2008 the number of treasury shares deducted from equity was 3,737,752 which comprises shares repurchased under the buy-back program of 2008 and 1,737,752 shares held to cover employee share and option plans mainly purchased in November and December 2007.

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

	Cumulative translation adjustment	Net other recognized income and expense	Cash flow hedges	Retained earnings	Common shareholders' equity	Preferred securities	Shareholders' equity	Minority interests	Total equity
	823	(1,286)	–	14,102	24,917	671	25,588	517	26,105
	–	–	–	63	55	–	55	–	56
	823	(1,286)	–	14,165	24,972	671	25,643	517	26,161
	–	–	–	–	134	–	134	–	134
	–	–	–	(1,292)	(1,292)	(21)	(1,313)	(8)	(1,321)
	–	–	–	–	(54)	–	(54)	–	(54)
	–	–	–	(817)	(1,017)	–	(1,017)	–	(1,017)
	385	740	(69)	2,655	2,718	21	2,739	35	2,774
	–	–	–	2,655	2,655	21	2,676	27	2,703
	385	740	(69)	–	62	–	62	8	70
	–	–	–	–	–	–	–	(215)	(215)
	1,208	(546)	(69)	14,713	25,462	671	26,134	329	26,463
	1,385	(717)	(103)	17,072	28,132	671	28,804	374	29,177
	–	–	–	152	141	–	141	–	141
	1,385	(717)	(103)	17,224	28,273	671	28,945	374	29,318
	–	–	–	–	1	–	1	–	1
	–	–	–	(2,064)	(2,064)	(18)	(2,082)	(9)	(2,092)
	–	–	–	–	(14)	(110)	(124)	–	(124)
	–	–	–	–	(64)	–	(64)	–	(64)
	–	–	–	(387)	(441)	–	(441)	–	(441)
	344	(28)	(23)	2,662	544	18	562	68	630
	–	–	–	2,662	2,662	18	2,681	69	2,749
	344	(28)	(23)	–	(2,118)	–	(2,118)	(1)	(2,120)
	–	–	–	–	–	–	–	(60)	(60)
	<b>1,728</b>	<b>(745)</b>	<b>(125)</b>	<b>17,436</b>	<b>26,235</b>	<b>561</b>	<b>26,796</b>	<b>372</b>	<b>27,168</b>

## 1. Basis of presentation

The half year consolidated financial statements of Zurich Financial Services Group (the Group) have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" and the requirements of the Swiss Stock Exchange (SWX). The accounting policies used to prepare the consolidated financial statements comply with International Financial Reporting Standards (IFRS), and are consistent with those set out in the notes to the consolidated financial statements in the Annual Report 2007 of the Group except as outlined below.

The unaudited half year consolidated financial statements should be read in conjunction with the Group's Annual Report 2007. The Group's independent auditors have reviewed the unaudited half year consolidated financial statements. Their report is set out on page 71.

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 and assumptions made. Interim results are not necessarily indicative of full-year results.

Certain reclassifications have been made to prior period comparatives and segment disclosures to conform to the current year presentation. These reclassifications have no effect on the previously reported net income.

All amounts in the consolidated financial statements are shown in USD millions, rounded to the nearest million unless otherwise stated with the consequence that the rounded amounts may not add to the rounded total in all cases.

### **Transfer of UK annuity business**

In 2007, the Group entered into a reinsurance agreement to transfer the risk associated with a significant annuities portfolio as of January 1, 2007. In 2007 premiums ceded to reinsurers and ceded insurance benefits and losses increased by USD 7.3 billion and USD 7.0 billion, respectively. The transaction resulted in a net loss after tax of USD 59 million. In the consolidated balance sheets, total investments and associated other assets decreased by USD 7.4 billion and reinsurer's share of reserves for insurance contracts increased by USD 7.1 billion. In April 2008, the UK High Court approved as a second step of this transaction the collective novation of all policies of this significant annuity portfolio, which became effective as of June 30, 2008. As a result the underlying contracts have been transferred to the reinsurer. This had no further impact on the income statement, but resulted in a reduction of reinsurers' share of reserves for insurance contracts of USD 7.1 billion and a corresponding reduction in the reserves for insurance contracts.

### **Sale of North America Commercial Small Business Solutions (SBS)**

On June 13, 2008, the Group completed the sale of the rights to access renewals of its North America Commercial Small Business Solutions (SBS) book of business to Truck Insurance Exchange (TIE), one of the Farmers Exchanges, which the Group manages but does not own. As part of the transaction, the Group has entered into a 100% quota share reinsurance agreement for the in-force business of the book as of June 1, 2008. This resulted in the Group paying TIE the balance of unearned premium reserve on its books related to the business ceded to TIE of USD 425 million and TIE compensating the Group for its deferred acquisition cost balance as of the effective date of the transaction by paying a ceding commission of USD 120 million. In addition, the management of the in-force SBS book of business has been transferred together with certain assets and liabilities to Farmers Group, Inc. This transaction had no impact on the scope of consolidation.

### **Changes in the German Insurance Supervisory Law**

Effective January 1, 2008, the German Insurance Supervisory Law changed its requirements for policyholder participations for life insurance. While in the past it was required that a minimum of 90 percent of the gross surplus is allocated to the policyholder, a more specific allocation has to be implemented, whereby a minimum of 90 percent of the total investment return less 100 percent of the minimum guaranteed interest on the policyholder account, a minimum of 75 percent of the risk profits and a minimum of 50 percent of the positive expense result is allocated to the policyholder. As the ordinance was only issued in April, the Group is still assessing the implication of this law change on its accounts.

### **Segment information**

The Group is managed on a matrix basis, reflecting both line of business and geography. Accordingly, segment information is presented in two formats. The primary format is based on the operating businesses of the Group and how

they are strategically managed to offer different products and services to specific customer groups. The Group's primary business segments are as follows:

- General Insurance serves the property-casualty insurance needs of a wide range of customers, from individuals to small and medium-size businesses, commercial enterprises and major multinational corporations.
- Global Life pursues a customer-focused strategy with market-leading propositions in unit-linked and protection products and multi-channel distribution to develop leadership positions in our chosen segments and superior returns for our shareholders.
- Farmers Management Services which through Farmers Group, Inc. and its subsidiaries (FGI) provides non-claims related management services to the Farmers Exchanges, prominent writers of personal lines and small commercial lines business in the United States. FGI receives fee income for the provision of those services to the Exchanges, which we manage, but do not own, and to their customers.
- Other Businesses includes Farmers Re which provides reinsurance to the Farmers Exchanges, Centre and capital markets and banking activities. This segment also includes certain businesses which are centrally managed – some to achieve a profitable run-off – and are not considered to be core businesses.
- Corporate Functions includes Group holding and financing companies, Corporate Center operations and certain alternative investments.

The Group's secondary format for segment information is geographic as follows:

- North America
- Europe
- International Businesses, and
- Central Region

#### Changes in accounting policies in 2008

We have changed the accounting policy for three run-off blocks of disability business at Centre, included in Other Businesses, by exercising the option in IFRS 4 to remeasure designated insurance liabilities using current financial and non-financial assumptions. All financial assets related to these insurance liabilities are designated as "at fair value through profit or loss." We consider this to be a better reflection of the way we manage these blocks of business.

As a consequence of this change in accounting policy, prior year figures have been restated to ensure comparability.

Table 1.1

in USD millions	As reported	Amount of restatement	As restated
as of December 31, 2007			
Total equity	29,177	141 <sup>1</sup>	29,318
Reserves for insurance contracts	252,886	(146)	252,740
Reinsurers' share of reserves for insurance contracts	26,977	(7)	26,970
Deferred tax assets	1,678	4	1,682
Deferred tax liabilities	4,055	2	4,057
for the six months ended June 30, 2007			
Net income attributable to shareholders	2,684	(8)	2,676

<sup>1</sup> Of the USD 141 million restatement of total equity, USD 85 million relates to 2007 and USD 56 million relates to 2006 and prior years.

## Consolidated Financial Statements

IFRIC 14 "IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction" has been implemented for the financial year beginning January 1, 2008 and had no significant impact on the Group's financial position or performance.

## 2. Foreign currency translation and transactions

Foreign currency monetary items and foreign currency non-monetary items, which are carried at fair value are translated at end-of-period exchange rates. Foreign currency non-monetary items which are carried at historical cost are translated at historical rates. Revenues and expenses are translated using the exchange rate at the date of the transaction or a weighted average rate. The resulting exchange differences are recorded in the consolidated income statement, except when the gain or loss on a non-monetary item measured at fair value is recognized directly in equity in which case any exchange component of that gain or loss is also recognized directly in equity.

As of January 2008 movements shown in the development tables throughout the consolidated financial statements are translated at average foreign exchange rates. The comparative numbers for 2007 have been adjusted to reflect this change in foreign currency translation methodology. The change in practice did not have any impact on net income or equity.

The table below summarizes the principal exchange rates that have been used for translation purposes. Net gains and losses on foreign currency transactions included in the consolidated income statements were USD 85 million and USD (15) million for the six months ended June 30, 2008 and 2007, respectively. Foreign currency forward and swap gains and losses included in the amounts above were USD (416) million and USD 14 million for the six months ended June 30, 2008 and 2007, respectively.

Table 2.1

USD per foreign currency unit

### Principal exchange rates

	Balance sheets		Income statements and cash flows	
	06/30/08	12/31/07	06/30/08	06/30/07
Euro	1.5749	1.4601	1.5298	1.3291
Swiss franc	0.9800	0.8822	0.9526	0.8146
British pound sterling	1.9903	1.9849	1.9745	1.9701

## 3. Acquisitions and divestments

### Acquisitions

On March 31, 2008, the Group completed the acquisition of 100 percent of TEB Sigorta A.Ş. (TEB Sigorta), a general insurer based in Turkey, from TEB Mali Yatirimlar A.Ş. (TEB Mali). Total acquisition costs amounted to USD 364 million and tangible assets acquired amounted to USD 35 million. As part of the initial purchase price allocation intangible assets were identified in the amount of USD 94 million (USD 76 million net of deferred tax), mainly relating to distribution arrangements with TEB Mali subsidiaries including Türk Ekonomi Bankasi A.Ş. (TEB) for the distribution of general insurance products in Turkey on an exclusive basis. The residual goodwill of USD 253 million represents expected growth opportunities from the banc-assurance partnership with TEB and the expansion of other sales channels.

On June 3, 2008, the Group completed the acquisition of 100 percent of the Italian life insurer DWS Vita S.p.A. (DWS Vita) from Deutsche Asset Management Italy S.p.A., a subsidiary of Deutsche Bank. As part of the transaction, DWS Vita entered into an exclusive distribution agreement with Finanza & Futuro Banca S.p.A. for the distribution of life insurance products. The Group is currently in the process of preparing the initial accounting and, therefore, as of June 30, 2008, the transaction was recorded as an unconsolidated investment in other assets amounting to USD 149 million. This asset includes the present value of expected deferred consideration in the amount of USD 10 million and transaction costs.

On June 20, 2008, the Group completed the acquisition of 50 percent of Can Soluciones Integrales S.A. (Can Soluciones), based in Spain, from Caja de Ahorros y Monte de Piedad de Navarra (Caja Navarra). The Group has management control of the jointly owned company and will fully consolidate it. As part of the transaction, Can Soluciones will enter into an exclusive agreement with Caja Navarra for the distribution of general insurance products in Spain. The Group is currently in the process of preparing the initial accounting and, therefore, as of June 30, 2008, the initial purchase price and a capital increase were recorded as an unconsolidated investment in other assets together amounting to USD 78 million, excluding a potential earn-out component of up to approximately USD 63 million depending on the future performance of Can Soluciones.

On April 24, 2008, the Group announced that it had signed agreements with Caixa d'Estalvis de Sabadell (Caixa Sabadell) to acquire 50 percent of its life and general insurance companies based in Spain, Caixa Sabadell Vida, S.A. de Seguros y Reaseguros (CSV), and Caixa Sabadell Companyia d'Assegurances Generals, S.A. (CSG). The Group will have management control of the jointly owned companies and will fully consolidate them. The initial purchase price will be approximately USD 360 million. In addition, a potential earn-out component of up to approximately USD 150 million, depending on the future performance of CSV and CSG, has been agreed. As part of the transaction, CSV and CSG will enter into banc-assurance agreements with Caixa Sabadell group companies to sell life insurance, pension and general insurance products through Caixa Sabadell's branch network on an exclusive basis. The transaction has been approved by the relevant authorities and closing is expected to take place mid August 2008.

Table 3.1

in USD millions		TEB Sigorta
<b>Business combinations</b>	Book value of net assets prior to acquisition	22
	Fair value of net tangible assets acquired	35
	Identifiable intangible assets, net of deferred tax	76
	Goodwill	253
	Total acquisition costs	364
	Cash consideration	363
	Transaction costs	1
	Cash and cash equivalents acquired	48

### Divestments

On June 30, 2008, the Group completed the sale of Financial Lifestyle Solutions Pty Ltd, the Australian financial planning business and life and general insurance broker, for a consideration of USD 7 million, recording a pre-tax gain of USD 5 million.

### Transactions after the balance sheet date

On July 11, 2008, the Group announced that it had signed an agreement to acquire a 50 percent stake in the life insurance, pension and general insurance operations of Banco Sabadell S.A. (Banco Sabadell), all based in Spain. The Group will have management control of the jointly owned companies and will fully consolidate them. The initial purchase price for both, BanSabadell Vida S.A. de Seguros y Reaseguros and BanSabadell Pensiones E.G.F.P., S.A., amounts to approximately USD 1,020 million. In addition, a potential earn-out component of up to approximately USD 188 million has been agreed. The initial purchase price for BanSabadell Seguros Generales, S.A. de Seguros y Reaseguros amounts to approximately USD 157 million and, in addition, a potential earn-out component of up to approximately USD 47 million has been agreed. As part of the transaction, the mentioned companies will enter into banc-assurance agreements with Banco Sabadell and two of its affiliates to sell life insurance, pension and general insurance products through Banco Sabadell's branch network on an exclusive basis. Subject to approval by the relevant authorities, the transaction is expected to close in the third quarter of 2008.

## Consolidated Financial Statements

On July 17, 2008, the Group announced that it had signed an agreement to acquire 87.35 percent of Companhia de Seguros Minas Brasil, a general insurer based in Brazil, from Banco Mercantil do Brasil S.A. (Banco Mercantil) and two private investors. In addition, the Group signed an agreement to acquire 100 percent of Minas Brasil Seguradora Vida e Previdência S.A., a life insurer based in Brazil, from Banco Mercantil. As part of this transaction, the Group will enter into an exclusive banc-assurance agreement with Banco Mercantil for the distribution of life and general insurance products. The initial purchase price for both companies amounts to approximately USD 157 million and a consideration of approximately USD 31 million for the banc-assurance agreement. In addition, a potential earn-out component of up to approximately USD 31 million, depending on the future performance under the distribution agreement, has been agreed. Subject to approval by the relevant authorities, the transaction is expected to close in the fourth quarter of 2008.

On August 5, 2008, the Group completed the acquisition of 100 percent of Baden-Badener Versicherung Aktiengesellschaft, an accident insurer based in Germany, for approximately USD 41 million. The initial accounting will be reflected in the financial statements of the third quarter of 2008.



## 4. Investments

The investment result for the six months ended June 30, 2008 and 2007 comprised the following:

Table 4.1a

in USD millions, for the six months ended June 30

### Investment result for total investments

	Net investment income		Net capital gains/ (losses) on investments and impairments		Investment result	
	2008	2007	2008	2007	2008	2007
Cash and cash equivalents	351	428	3	11	353	439
Equity securities	2,237	1,691	(11,053)	5,450	(8,816)	7,141
Debt securities	3,144	3,057	(916)	(711)	2,228	2,346
Real estate held for investment	458	464	(450)	314	8	778
Mortgage loans	331	261	–	–	331	260
Other loans	315	278	(9)	(6)	306	272
Investments in associates	4	12	(4)	(2)	–	11
Other investments	176	208	553	(68)	729	140
<i>Short-term investments</i>	49	56	–	–	49	56
<i>Investments held by investment companies</i>	–	1	197	98	197	100
<i>Other</i> <sup>1</sup>	127	151	356	(166)	484	(16)
Investment result, gross	7,016	6,400	(11,877)	4,987	(4,861)	11,386
Investment expenses	(568)	(349)	–	–	(568)	(349)
<b>Investment result, net</b>	<b>6,448</b>	<b>6,051</b>	<b>(11,877)</b>	<b>4,987</b>	<b>(5,429)</b>	<b>11,037</b>

<sup>1</sup> Including net capital gains/ (losses) on derivative financial instruments of USD 359 million and USD (170) million for the six months ended June 30, 2008 and 2007, respectively, of which net capital losses on derivatives attributable to cash flow hedge ineffectiveness amounted to USD 3 million and USD 12 million for the six months ended June 30, 2008 and 2007, respectively.

Table 4.1b

in USD millions, for the six months ended June 30

### Investment result for Group investments

	Net investment income		Net capital gains/ (losses) on investments and impairments <sup>2</sup>		Investment result	
	2008	2007	2008	2007	2008	2007
Cash and cash equivalents	271	318	–	–	271	318
Equity securities	372	360	(438)	928	(67)	1,288
Debt securities	2,967	2,868	(579)	(449)	2,388	2,420
Real estate held for investment	251	213	22	85	273	297
Mortgage loans	331	261	–	–	331	260
Other loans	315	278	(9)	(6)	306	272
Investments in associates	4	12	(4)	(2)	–	11
Other investments	27	96	581	(53)	608	43
<i>Short-term investments</i>	16	38	1	–	16	38
<i>Investments held by investment companies</i>	–	1	197	98	197	100
<i>Other</i> <sup>1</sup>	12	57	383	(151)	395	(94)
Investment result, gross for Group investments	4,538	4,406	(426)	503	4,111	4,909
Investment expenses for Group investments	(136)	(125)	–	–	(136)	(125)
<b>Investment result, net for Group investments</b>	<b>4,402</b>	<b>4,282</b>	<b>(426)</b>	<b>503</b>	<b>3,975</b>	<b>4,785</b>

<sup>1</sup> Including net capital gains/ (losses) on derivative financial instruments of USD 382 million and USD (156) million for the six months ended June 30, 2008 and 2007, respectively, of which net capital losses on derivatives attributable to cash flow hedge ineffectiveness amounted to USD 3 million and USD 12 million for the six months ended June 30, 2008 and 2007, respectively.

<sup>2</sup> Impairment (charges)/ reversals on investments amounted in total to USD (495) million and USD (6) million for the six months ended June 30, 2008 and 2007, respectively. Thereof impairments on equity securities comprised USD (315) million and USD (7) million, on debt securities USD (171) million and USD 6 million, and on mortgage loans and other loans USD (9) million and USD (5) million for the six months ended June 30, 2008 and 2007, respectively.

## Consolidated Financial Statements

Table 4.1c

in USD millions, for the six months ended June 30

**Investment result for unit-linked contracts**

	Net investment income		Net capital gains/(losses) on investments		Investment result	
	2008	2007	2008	2007	2008	2007
Cash and cash equivalents	80	110	3	11	83	120
Equity securities	1,865	1,332	(10,615)	4,522	(8,750)	5,854
Debt securities	177	189	(338)	(263)	(160)	(74)
Real estate held for investment	207	252	(473)	229	(266)	481
Other investments	149	111	(28)	(15)	121	96
<i>Short-term investments</i>	33	18	(1)	–	33	18
<i>Other</i> <sup>1</sup>	116	93	(27)	(15)	89	78
Investment result, gross for unit-linked contracts	2,478	1,993	(11,450)	4,484	(8,972)	6,477
Investment expenses for unit-linked contracts	(432)	(224)	–	–	(432)	(224)
<b>Investment result, net unit-linked contracts</b>	<b>2,046</b>	<b>1,769</b>	<b>(11,450)</b>	<b>4,484</b>	<b>(9,404)</b>	<b>6,253</b>

<sup>1</sup> Including net capital losses on derivative financial instruments of USD 23 million and USD 14 million for the six months ended June 30, 2008 and 2007, respectively.

Impairment charges on Group investments included in net capital losses amounted to USD 495 million and USD 6 million for the six months ended June 30, 2008 and 2007, respectively, of which impairment charges on mortgage loans and other loans comprised USD 9 million and USD 5 million for the six months ended June 30, 2008 and 2007, respectively.

Rental operating expenses for real estate held for investment included in investment expenses for total investments amounted to USD 94 million and USD 87 million for the six months ended June 30, 2008 and 2007, respectively,

Capital gains and losses and impairments on equity and debt securities included in the total investment result for the six months ended June 30, 2008 and 2007 comprised the following:

Table 4.2

in USD millions, for the six months ended June 30

**Net capital gains, losses and impairments on equity and debt securities included in total investments**

	Equity securities		Debt securities		Total	
	2008	2007	2008	2007	2008	2007
Securities at fair value through profit or loss:	(10,769)	4,810	(698)	(545)	(11,467)	4,266
<i>of which: trading securities</i>						
Net capital gains/(losses) on Group investments	(15)	108	(32)	(3)	(47)	105
<i>of which: securities designated at fair value</i>						
Net capital gains/(losses) on Group investments	(140)	181	(328)	(279)	(468)	(99)
Net capital gains/(losses) for unit-linked contracts	(10,615)	4,522	(338)	(263)	(10,953)	4,259
Available-for-sale securities:	(284)	639	(157)	(166)	(441)	473
Realized capital gains on Group investments	237	695	196	389	433	1,083
Realized capital losses on Group investments	(205)	(48)	(247)	(561)	(452)	(610)
Impairments on Group investments	(315)	(7)	(106)	6	(421)	(1)
Held-to-maturity securities	–	–	(61)	–	(61)	–
<b>Total net capital gains/(losses) and impairments</b>	<b>(11,053)</b>	<b>5,450</b>	<b>(916)</b>	<b>(711)</b>	<b>(11,969)</b>	<b>4,738</b>

**Details of  
total investments  
by category**

Table 4.3a

as of

	Total investments			
	06/30/08		12/31/07	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	20,372	6.6	16,936	5.4
Equity securities:				
Fair value through profit or loss	92,780	30.1	104,220	33.0
<i>of which: trading</i>	2,896	0.9	2,768	0.9
<i>of which: trading equity portfolios in capital markets and banking activities</i>	1,529	0.5	1,606	0.5
Available-for-sale	13,465	4.4	14,547	4.6
<b>Total equity securities</b>	<b>106,245</b>	<b>34.5</b>	<b>118,767</b>	<b>37.6</b>
Debt securities:				
Fair value through profit or loss	18,717	6.1	18,954	6.0
<i>of which: trading</i>	565	0.2	616	0.2
Available-for-sale	109,039	35.4	109,278	34.6
Held-to-maturity	5,696	1.8	5,642	1.8
<b>Total debt securities</b>	<b>133,452</b>	<b>43.3</b>	<b>133,874</b>	<b>42.4</b>
Real estate held for investment	15,242	4.9	15,386	4.9
Mortgage loans	13,804	4.5	12,718	4.0
Other loans	14,195	4.6	12,938	4.1
Investments in associates	236	0.1	238	0.1
Other investments:				
Short-term investments	2,903	0.9	2,929	0.9
Investments held by investment companies	1,588	0.5	1,827	0.6
Other	75	0.0	80	0.0
<b>Total other investments</b>	<b>4,567</b>	<b>1.5</b>	<b>4,836</b>	<b>1.5</b>
<b>Total investments</b>	<b>308,113</b>	<b>100.0</b>	<b>315,693</b>	<b>100.0</b>

## Consolidated Financial Statements

Details  
of Group  
investments  
by category

Table 4.3b

as of	Group investments			
	06/30/08		12/31/07	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	14,682	7.5	13,943	7.2
Equity securities:				
Fair value through profit or loss	4,015	2.1	4,042	2.1
<i>of which: trading</i>	2,896	1.5	2,768	1.4
<i>of which: trading equity portfolios in capital markets and banking activities</i>	1,529	0.8	1,606	0.8
Available-for-sale	13,465	6.9	14,547	7.5
Total equity securities	17,481	9.0	18,589	9.6
Debt securities:				
Fair value through profit or loss	8,466	4.3	8,843	4.6
<i>of which: trading</i>	565	0.3	616	0.3
Available-for-sale	109,039	55.9	109,278	56.4
Held-to-maturity	5,696	2.9	5,642	2.9
Total debt securities	123,202	63.2	123,762	63.9
Real estate held for investment	8,236	4.2	7,563	3.9
Mortgage loans	13,804	7.1	12,718	6.6
Other loans	14,192	7.3	12,936	6.7
Investments in associates	236	0.1	238	0.1
Other investments:				
Short-term investments	1,570	0.8	1,944	1.0
Investments held by investment companies	1,588	0.8	1,827	0.9
Other	75	0.0	80	0.0
Total other investments	3,233	1.7	3,851	2.0
<b>Total Group investments</b>	<b>195,066</b>	<b>100.0</b>	<b>193,600</b>	<b>100.0</b>

Cash and investments with a carrying value of USD 4,970 million and USD 4,617 million were deposited with regulatory authorities as of June 30, 2008 and December 31, 2007, respectively.

Short-term investments primarily consist of available-for-sale securities with original maturities between three months and one year. Investments held by investment companies primarily consist of investments in hedge and private equity funds.

There were no material reclassifications between the categories of financial instruments in 2008 or 2007.

#### Securities under security lending and short-term sale and repurchase agreements

As of June 30, 2008 and December 31, 2007, investments included USD 10,043 million and USD 12,204 million, respectively, of loaned securities. These loaned securities were mainly debt securities. Cash and cash equivalents included USD 1,177 million and USD 1,877 million of cash received as collateral for loaned securities as of June 30, 2008 and December 31, 2007, respectively. Liabilities for cash collateral received for securities lending comprised USD 1,201 million and USD 1,889 million as of June 30, 2008 and December 31, 2007, respectively. Non-cash collaterals received for loaned securities comprised USD 8,430 million and USD 10,911 million as of June 30, 2008 and December 31, 2007, respectively. Non-cash collaterals comprised mainly equity and debt securities. The Group can sell or repledge the collateral only in the event of default by a counterparty.

As of June 30, 2008 and December 31, 2007, respectively, debt securities with a carrying value of USD 5,101 million and USD 5,370 million have been sold to financial institutions under short-term sale and repurchase agreements. These securities continue to be recognized as investments in the balance sheets. Obligations to repurchase these securities comprised USD 5,101 million and USD 5,370 million as of June 30, 2008 and December 31, 2007, respectively. The Group retains the rights to the risks and rewards of ownership of loaned securities and securities under short-term sale and repurchase agreements. These risks and rewards include changes in market values and income earned, respectively.

Table 4.3c

as of	Investments for unit-linked contracts			
	06/30/08		12/31/07	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	5,690	5.0	2,993	2.5
Equity securities	88,765	78.5	100,178	82.1
Debt securities	10,250	9.1	10,112	8.3
Real estate held for investment	7,006	6.2	7,823	6.4
Other loans	2	0.0	2	0.0
Short-term investments	1,333	1.2	985	0.8
<b>Total investments for unit-linked contracts</b>	<b>113,047</b>	<b>100.0</b>	<b>122,092</b>	<b>100.0</b>

### Details of investments held for unit-linked contracts

Table 4.4

as of	06/30/08		12/31/07	
	USD millions	% of total	USD millions	% of total
Swiss federal and cantonal governments	1,664	29.2	1,498	26.6
United States government	1,647	28.9	1,598	28.3
Other governments and supranationals	873	15.3	901	16.0
Corporate securities	1,513	26.6	1,645	29.2
<b>Total held-to-maturity debt securities</b>	<b>5,696</b>	<b>100.0</b>	<b>5,642</b>	<b>100.0</b>

### Held-to-maturity debt securities

Table 4.5

in USD millions, as of	Total	
	06/30/08	12/31/07
Equity securities: available-for-sale	(811)	929
Debt securities: available-for-sale	(4,224)	(1,359)
Other	6	49
Less: amount of net unrealized gains/(losses) on investments attributable to:		
Life policyholder dividends and other policyholder liabilities	1,691	459
Life deferred acquisition costs	413	78
Deferred income taxes	572	(66)
Minority interests	1	(8)
<b>Total</b>	<b>(2,352)<sup>1</sup></b>	<b>82</b>

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

<sup>1</sup> The unrealized gains/(losses) include net losses arising on cash flow hedges of USD 125 million and USD 103 million as of June 30, 2008 and December 31, 2007, respectively.

## Consolidated Financial Statements

## 5. Reserves for insurance contracts and reinsurers' share of reserves for insurance contracts

Table 5.1

in USD millions, as of

**Reserves for insurance contracts**

	06/30/08	12/31/07
<b>Gross</b>		
Reserves for losses and loss adjustment expenses	69,798	67,890
Reserves for unearned premiums	18,505	15,941
Future life policyholders' benefits <sup>1</sup>	76,955	80,147
Policyholders' contract deposits and other funds	18,290	18,687
Reserves for unit-linked contracts	65,187	70,075
<b>Total reserves for insurance contracts, gross</b>	<b>248,735</b>	<b>252,740</b>
<b>Ceded</b>		
Reserves for losses and loss adjustment expenses	(12,935)	(13,179)
Reserves for unearned premiums	(2,401)	(1,720)
Future life policyholders' benefits <sup>1</sup>	(1,577)	(9,258)
Policyholders' contract deposits and other funds	(2,873)	(2,976)
<b>Reinsurers' share of reserves for insurance contracts, gross<sup>2</sup></b>	<b>(19,785)</b>	<b>(27,133)</b>
<b>Net</b>		
Reserves for losses and loss adjustment expenses	56,863	54,712
Reserves for unearned premiums	16,104	14,221
Future life policyholders' benefits	75,377	70,889
Policyholders' contract deposits and other funds	15,418	15,711
Reserves for unit-linked contracts	65,187	70,075
<b>Total reserves for insurance contracts, net</b>	<b>228,949</b>	<b>225,607</b>

<sup>1</sup> In 2007, ceded future life policyholders' benefits include an amount of USD 7.1 billion related to the reinsurance of a UK annuity portfolio. Subsequent to the approval from the UK High Court, effective on June 30, 2008, the underlying contracts have been transferred to the reinsurer, resulting in a reduction of gross and ceded future life policyholders' benefits.

<sup>2</sup> Gross of allowance for uncollectible amounts of USD 181 million and USD 164 million as of June 30, 2008, and December 31, 2007, respectively.

Table 5.2

in USD millions

**Development of reserves for losses and loss adjustment expenses**

	Gross		Ceded		Net	
	2008	2007	2008	2007	2008	2007
As of January 1	67,890	64,535	(13,179)	(13,722)	54,712	50,814
Losses and loss adjustment expenses incurred:						
Current year	13,715	12,607	(1,307)	(1,150)	12,408	11,457
Prior years	(868)	(242)	281	(223)	(586)	(465)
<b>Total</b>	<b>12,848</b>	<b>12,365</b>	<b>(1,026)</b>	<b>(1,373)</b>	<b>11,821</b>	<b>10,992</b>
Losses and loss adjustment expenses paid:						
Current year	(3,525)	(3,063)	132	113	(3,393)	(2,950)
Prior years	(8,922)	(8,427)	1,196	1,895	(7,725)	(6,532)
<b>Total</b>	<b>(12,446)</b>	<b>(11,489)</b>	<b>1,328</b>	<b>2,008</b>	<b>(11,119)</b>	<b>(9,482)</b>
Acquisitions / (divestments) of companies and businesses	30	7	(15)	(4)	15	3
Foreign currency translation effects	1,476	993	(42)	(278)	1,434	715
<b>As of June 30</b>	<b>69,798</b>	<b>66,412</b>	<b>(12,935)</b>	<b>(13,369)</b>	<b>56,863</b>	<b>53,043</b>

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

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

Table 5.3

in USD millions

**Development of  
future life  
policyholders'  
benefits**

	Gross		Ceded		Net	
	2008	2007	2008	2007	2008	2007
As of January 1	80,147	76,448	(9,258)	(1,482)	70,889	74,966
Premiums and claims	(9,354)	(4,120)	7,496	(6,594)	(1,859)	(10,714)
Interest and bonuses credited to policyholders	1,608	1,480	(232)	(51)	1,376	1,429
Change in assumptions	(545)	460	395	(539)	(150)	(79)
Divestments/transfers	–	(3)	–	1	–	(2)
(Decrease)/increase recorded in shareholders' equity	(125)	(496)	5	10	(120)	(486)
Foreign currency translation effects	5,224	1,372	17	(161)	5,241	1,211
<b>As of June 30</b>	<b>76,955</b>	<b>75,141</b>	<b>(1,577)</b>	<b>(8,817)</b>	<b>75,377</b>	<b>66,324</b>

In 2007, ceded future life policyholders' benefits include an amount of USD 7.1 billion related to the reinsurance of a UK annuity portfolio. Subsequent to the approval from the UK High Court, effective on June 30, 2008, the underlying contracts have been transferred to the reinsurer, resulting in a reduction of gross and ceded future life policyholders' benefits.

Table 5.4

in USD millions, as of

**Policyholders'  
contract deposits  
and other funds  
gross**

	06/30/08	12/31/07
Annuities	2,585	2,451
Universal life and other contracts	10,726	10,510
Policyholder dividends	4,979	5,725
<b>Total</b>	<b>18,290</b>	<b>18,687</b>

Table 5.5

in USD millions

**Development of  
policyholders'  
contract deposits  
and other funds**

	Gross		Ceded		Net	
	2008	2007	2008	2007	2008	2007
As of January 1	18,687	18,934	(2,976)	(3,258)	15,711	15,676
Premiums and claims	(451)	(658)	169	220	(282)	(438)
Interest and bonuses credited to policyholders	492	671	(59)	(64)	434	607
Change in assumptions	(2)	(3)	1	–	–	(3)
(Decrease)/increase recorded in shareholders' equity	(1,081)	(709)	4	6	(1,077)	(703)
Foreign currency translation effects	644	241	(12)	(4)	632	237
<b>As of June 30</b>	<b>18,290</b>	<b>18,477</b>	<b>(2,873)</b>	<b>(3,100)</b>	<b>15,418</b>	<b>15,377</b>

## Consolidated Financial Statements

Table 5.6

in USD millions

	Gross		Ceded		Net	
	2008	2007	2008	2007	2008	2007
As of January 1	70,075	66,008	–	–	70,075	66,008
Premiums and claims	(1,205)	(736)	–	–	(1,205)	(736)
Interest and bonuses credited/(charged) to policyholders	(4,769)	3,485	–	–	(4,769)	3,485
Change in assumptions	–	(10)	–	–	–	(10)
Foreign currency translation effects	1,086	1,216	–	–	1,086	1,216
<b>As of June 30</b>	<b>65,187</b>	<b>69,963</b>	<b>–</b>	<b>–</b>	<b>65,187</b>	<b>69,963</b>

**Development of reserves for unit-linked contracts****Guarantees arising from minimum death benefits (GMDB) and retirement income benefits (GRIB)**

Certain products for which policyholders bear in full the credit and market risks associated with the underlying invested funds selected by them contain guarantees for which liabilities have been recorded for additional benefits and minimum guarantees. These arise primarily in the subsidiary Kemper Investors Life Insurance Company which has written variable annuity contracts that provide annuitants with certain guarantees related to minimum death and income benefits. The determination of these liabilities is based on models that involve a range of scenarios and assumptions, including those regarding expected market rates of return and volatility, contract surrender rates, annuitization elections and mortality experience. The assumptions used are consistent with those used in determining estimated gross profits for the purpose of amortizing deferred policy acquisition costs.

The net amount at risk from minimum death benefits after reinsurance recoveries under these policies at the balance sheet date as of June 30, 2008 would be USD 670 million (USD 353 million as of December 31, 2007). The net amount at risk is the present value of payouts exceeding the current policyholder account balance assuming the payout criteria in all policies are collectively triggered as of the balance sheet date. We do not provide for this amount but follow the accretion guidance in the US Statement of Principle 03-1 "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts". Under this guidance future fees are taken into account in determining the net loss to be provided. The net amount at risk is not the same as the fair value of these benefits, as it does not fully take into account the option value accruing to the policyholder.



## 6. Liabilities for investment contracts with and without discretionary participation features (DPF)

Table 6.1

in USD millions, as of		06/30/08	12/31/07
<b>Liabilities for investment contracts</b>	Liabilities related to unit-linked investment contracts	44,731	48,187
	Liabilities related to investment contracts (amortized cost)	123	117
	Liabilities related to investment contracts with DPF	6,287	6,182
	<b>Total</b>	<b>51,141</b>	<b>54,485</b>

Unit-linked investment contracts issued by the Group are recorded at a value reflecting the returns on investment funds which include selected equities, debt securities and derivatives. Policyholders bear the full risk of the returns on these investments.

The value of financial liabilities at amortized cost is based on a discounted cash flow valuation technique. The discount rate is determined by the current market assessment of the time value of money and risk specific to the liability.

Table 6.2

in USD millions		2008	2007
<b>Development of liabilities for investment contracts</b>	As of January 1	54,485	50,705
	Premiums and claims	(462)	(1,319)
	Interest and bonuses charged/(credited) to policyholders	(4,117)	2,544
	Increase/(decrease) recorded in shareholders' equity	4	(22)
	Foreign currency translation effects	1,231	1,557
	<b>As of June 30</b>	<b>51,141</b>	<b>53,465</b>

## 7. Equity component relating to contracts with DPF

Certain investment and insurance contracts sold by the Group contain benefit features for which the amount and timing of declaration and payment are at the discretion of the Group. Where that discretion has not been exercised, the total amount of undeclared funds surplus is included in shareholders' equity. Mandated allocations related to unrealized results and earnings are included in policyholder liabilities and, upon declaration, discretionary bonuses are allocated to policyholders. The changes in the table below represent the increase or decrease in unallocated gains and retained earnings after charging discretionary bonuses to policyholder liabilities.

Table 7

in USD millions		2008	2007
<b>Development of the equity component relating to contracts with DPF</b>	As of January 1	1,309	1,414
	Net unrealized (losses)/gains on investments	(344)	(163)
	Current period profit	93	144
	Foreign currency translation effects	136	3
	<b>As of June 30</b>	<b>1,193</b>	<b>1,398</b>

## Consolidated Financial Statements

## 8. Gross and ceded insurance revenues and expenses

Table 8.1

in USD millions, for the six months ended June 30

**Insurance benefits and losses**

	Gross		Ceded		Net	
	2008	2007	2008	2007	2008	2007
Losses and loss adjustment expenses	12,848	12,365	(1,026)	(1,373)	11,821	10,992
Life insurance death and other benefits	5,620	6,758	(535)	(527)	5,085	6,231
Decrease in future life policyholders' benefits	(8,309)	(2,072)	7,664	(7,232)	(645)	(9,304)
<b>Total insurance benefits and losses<sup>1</sup></b>	<b>10,158</b>	<b>17,052</b>	<b>6,103</b>	<b>(9,131)</b>	<b>16,261</b>	<b>7,920</b>

<sup>1</sup> In 2007, ceded insurance benefits and losses included USD 7.0 billion relating to the reinsurance of a UK annuity portfolio. Subsequent to the approval from the UK High Court, effective on June 30, 2008, the underlying contracts have been transferred to the reinsurer. This transaction had no impact on the income statement in 2008.

Table 8.2

in USD millions, for the six months ended June 30

**Policyholder dividends and participation in profits**

	Gross		Ceded		Net	
	2008	2007	2008	2007	2008	2007
Change in policyholders' contract deposits and other funds	293	649	47	–	340	649
Change in reserves for unit-linked products	(5,478)	3,423	–	–	(5,478)	3,423
Change in liabilities for investment contracts – unit-linked	(3,956)	2,889	–	–	(3,956)	2,889
Change in liabilities for investment contracts – other	60	2	–	–	60	2
<b>Total policyholder dividends and participation in profits</b>	<b>(9,081)</b>	<b>6,963</b>	<b>47</b>	<b>–</b>	<b>(9,034)</b>	<b>6,963</b>

Table 8.3

in USD millions, for the six months ended June 30

**Underwriting and policy acquisition costs**

	Gross		Ceded		Net	
	2008	2007	2008	2007	2008	2007
<b>Underwriting and policy acquisition costs</b>	<b>4,700</b>	<b>4,016</b>	<b>(617)</b>	<b>(475)</b>	<b>4,083</b>	<b>3,541</b>

Table 8.4

in USD millions, for the six months ended June 30

**Change in reserves for unearned premiums**

	Gross		Ceded		Net	
	2008	2007	2008	2007	2008	2007
<b>Change in reserves for unearned premiums</b>	<b>2,176</b>	<b>1,897</b>	<b>(634)</b>	<b>(227)</b>	<b>1,541</b>	<b>1,670</b>

## 9. Deferred policy acquisition costs and deferred origination costs

Table 9.1

Development of deferred policy acquisition costs	in USD millions							
	General Insurance		Global Life		Other segments <sup>1</sup>		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
As of January 1	3,306	2,959	11,547	10,113	89	124	14,941	13,197
Acquisition costs deferred and transfers	1,536	1,465	860	636	15	18	2,412	2,119
Amortization	(1,378)	(1,264)	(459)	(301)	(21)	(32)	(1,858)	(1,597)
Amortization charged/(credited) to shareholders' equity	–	–	310	157	(4)	(4)	306	153
Foreign currency translation effects	112	36	425	227	(1)	3	536	266
<b>As of June 30</b>	<b>3,575</b>	<b>3,196</b>	<b>12,684</b>	<b>10,833</b>	<b>77</b>	<b>110</b>	<b>16,337</b>	<b>14,138</b>

<sup>1</sup> Net of eliminations from intersegment transactions.

Table 9.2

Development of deferred origination costs	in USD millions	
	2008	2007
As of January 1	1,003	815
Origination costs deferred	66	155
Amortization	(63)	(54)
Foreign currency translation effects	12	22
<b>As of June 30</b>	<b>1,018</b>	<b>938</b>

## 10. Goodwill and other intangible assets

Table 10.1

Intangible assets – current period	in USD millions				
	Goodwill	Present value of profits of acquired insurance contracts	Other intangible assets <sup>1</sup>	Attorney-in-fact relationships	Total
Gross carrying value as of January 1, 2008	1,754	2,392	2,784	1,025	7,955
Less: accumulated amortization/impairments	(24)	(1,612)	(1,683)	–	(3,319)
Net carrying value as of January 1, 2008	1,730	780	1,100	1,025	4,636
Additions and transfers	251	–	325	–	576
Divestments and transfers	–	–	(20)	–	(20)
Amortization	–	(26)	(114)	–	(140)
Amortization charged to shareholders' equity	–	26	–	–	26
Impairments	–	(35)	–	–	(35)
Foreign currency translation effects	100	27	48	–	174
<b>Net carrying value as of June 30, 2008</b>	<b>2,080</b>	<b>772</b>	<b>1,339</b>	<b>1,025</b>	<b>5,217</b>
Plus: accumulated amortization/impairments	24	1,673	1,797	–	3,494
<b>Gross carrying value as of June 30, 2008</b>	<b>2,105</b>	<b>2,445</b>	<b>3,137</b>	<b>1,025</b>	<b>8,712</b>

<sup>1</sup> Other intangible assets include internally generated capitalised software development costs as well as intangible assets at fair value on acquisitions.

## Consolidated Financial Statements

Table 10.2

in USD millions, as of June 30, 2008

**Intangible assets  
by segment –  
current period**

	Goodwill	Present value of profits of acquired insurance contracts	Other intangible assets <sup>1</sup>	Attorney-in-fact relationships	Total
General Insurance	1,019	–	634	–	1,653
Global Life	675	772	385	–	1,833
Farmers Management Services	382	–	183	1,025	1,590
Other Businesses	–	–	15	–	15
Corporate Functions	5	–	122	–	127
<b>Net carrying value as of June 30, 2008</b>	<b>2,080</b>	<b>772</b>	<b>1,339</b>	<b>1,025</b>	<b>5,217</b>

<sup>1</sup> Other intangible assets include internally generated capitalised software development costs as well as intangible assets at fair value on acquisitions.

Table 10.3

in USD millions

**Intangible assets –  
prior period**

	Goodwill	Present value of profits of acquired insurance contracts	Other intangible assets <sup>1</sup>	Attorney-in-fact relationships	Total
Gross carrying value as of January 1, 2007	672	2,329	2,041	1,025	6,066
Less: accumulated amortization/impairments	(12)	(1,554)	(1,415)	–	(2,981)
Net carrying value as of January 1, 2007	660	775	626	1,025	3,085
Additions and transfers	225	–	300	–	525
Divestments and transfers	(12)	–	–	–	(12)
Amortization	–	(26)	(88)	–	(113)
Amortization charged to shareholders' equity	–	21	–	–	21
Foreign currency translation effects	16	15	10	–	41
<b>Net carrying value as of June 30, 2007</b>	<b>890</b>	<b>785</b>	<b>848</b>	<b>1,025</b>	<b>3,548</b>
Plus: accumulated amortization/impairments	12	1,590	1,497	–	3,099
<b>Gross carrying value as of June 30, 2007</b>	<b>902</b>	<b>2,375</b>	<b>2,345</b>	<b>1,025</b>	<b>6,647</b>

<sup>1</sup> Other intangible assets include internally generated capitalised software development costs as well as intangible assets at fair value on acquisitions.

Table 10.4

in USD millions, as of December 31, 2007

**Intangible assets  
by segment –  
prior period**

	Goodwill	Present value of profits of acquired insurance contracts	Other intangible assets <sup>1</sup>	Attorney-in-fact relationships	Total
General Insurance	706	–	538	–	1,244
Global Life	635	780	284	–	1,698
Farmers Management Services	385	–	171	1,025	1,582
Other Businesses	–	–	13	–	13
Corporate Functions	5	–	94	–	99
<b>Net carrying value as of December 31, 2007</b>	<b>1,730</b>	<b>780</b>	<b>1,100</b>	<b>1,025</b>	<b>4,636</b>

<sup>1</sup> Other intangible assets include internally generated capitalised software development costs as well as intangible assets at fair value on acquisitions.

## 11. Income taxes

Table 11.1

in USD millions, for the six months ended June 30		2008	2007
<b>Income tax expense – current/deferred split</b>	Current	343	544
	Deferred	(124)	540
	<b>Total income tax expense</b>	<b>219</b>	<b>1,084</b>

Table 11.2

in USD millions, for the six months ended June 30		2008	2007
<b>Income tax expense – policyholder/shareholder attribution</b>	Total income tax expense attributable to policyholders	(604)	130
	Total income tax expense attributable to shareholders	823	954
	<b>Total income tax expense</b>	<b>219</b>	<b>1,084</b>

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 11.3

in USD millions, for the six months ended June 30		Rate	2008	Rate	2007
<b>Expected and actual income tax expense</b>	Net income before income taxes		2,968		3,787
	Less: income tax (expense)/benefit attributable to policyholders		604		(130)
	Net income before income taxes attributable to shareholders		3,572		3,657
	Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%	786	22.0%	805
	Increase/(reduction) in taxes resulting from:				
	<i>Tax rate differential in foreign jurisdictions</i>		26		165
	<i>Tax exempt and lower taxed income</i>		(63)		(101)
	<i>Non-deductible expenses</i>		43		41
	<i>Tax losses previously unrecognized or no longer recognized</i>		(59)		1
	<i>Prior year adjustments and other</i>		90		43
	Actual income tax expense attributable to shareholders	23.0%	823	26.1%	954
	Plus: income tax expense/(benefit) attributable to policyholders		(604)		130
	<b>Actual income tax expense</b>	<b>7.4%</b>	<b>219</b>	<b>28.6%</b>	<b>1,084</b>

The table above sets out the factors that cause the actual income tax expense to differ from the expected amount computed by applying the Swiss statutory rate of 22.0 percent, which is the rate applicable to the ultimate parent company.

## Consolidated Financial Statements

Table 11.4

in USD millions, as of		06/30/08	12/31/07
<b>Current tax receivables and payables</b>	Current tax receivables	1,008	743
	Current tax payables	(1,366)	(1,643)
	<b>Net current tax payables</b>	<b>(358)</b>	<b>(900)</b>

Table 11.5

in USD millions, as of		06/30/08	12/31/07
<b>Deferred tax assets and liabilities</b>	Deferred tax assets	1,755	1,682
	Deferred tax liabilities	(3,466)	(4,057)
	<b>Net deferred tax liabilities</b>	<b>(1,711)</b>	<b>(2,375)</b>

Table 11.6

in USD millions, as of		06/30/08	12/31/07
<b>Deferred taxes – policyholder/ shareholder attribution</b>	Net deferred tax liabilities attributable to policyholders	111	(566)
	Net deferred tax liabilities attributable to shareholders	(1,822)	(1,809)
	<b>Net deferred tax liabilities</b>	<b>(1,711)</b>	<b>(2,375)</b>

Table 11.7

in USD millions, as of	06/30/08		12/31/07		
	Assets	Liabilities	Assets	Liabilities	
<b>Deferred tax assets/(liabilities) analysis by source</b>	Gross deferred tax assets/(liabilities) before valuation allowance	6,377	(7,742)	5,584	(7,472)
	Valuation allowance	(346)		(486)	
	Gross deferred tax assets/(liabilities) after valuation allowance	6,031	(7,742)	5,098	(7,472)
	Effect of offsetting on taxpayer basis	(4,276)	4,276	(3,416)	3,415
	Deferred tax assets/(liabilities)	1,755	(3,466)	1,682	(4,057)
	<b>Net deferred tax liabilities</b>		<b>(1,711)</b>		<b>(2,375)</b>

As of June 30, 2008 the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognized approximated to USD 18 billion. In the remote scenario in which these temporary differences were to reverse simultaneously, the resulting tax liabilities would be very limited due to participation exemption rules.

**Tax losses  
carryforwards  
and tax credits**

Table 11.8

in USD millions, as of	06/30/08	12/31/07
For which deferred tax assets have been recognized		
Expiring up to 5 years	18	17
Expiring after 5 and up to 20 years	519	765
Expiring after 20 years or with no time limitation	540	110
Subtotal	1,077	892
For which deferred tax assets have not been recognized		
Expiring after 5 and up to 20 years	971	1,226
Subtotal	971	1,226
<b>Total</b>	<b>2,048</b>	<b>2,118</b>

The tax rates applicable to tax losses for which a deferred tax asset has not been recognized are 35 percent for both the period ended June 30, 2008 and December 31, 2007.

The Group's deferred tax assets and liabilities are recorded in the tax paying entities throughout the world, which may include several legal entities within each tax jurisdiction. Legal entities are grouped as a single taxpayer only when permitted by local legislation and when deemed appropriate.

The recoverability of the deferred tax asset for each taxpayer is based on its ability to utilize the deferred tax asset over a reasonable period of time. This analysis considers the projected taxable income to be generated by the taxpayer, as well as its ability to offset deferred tax assets with deferred tax liabilities.

Management assesses the recoverability of the deferred tax assets carrying values based on future years taxable income projections and believe that the carrying values of the deferred tax assets as of June 30, 2008, are recoverable.

## Consolidated Financial Statements

## 12. Debt

Table 12.1

in USD millions, as of		06/30/08	12/31/07	
<b>Debt</b>	<b>a) Debt related to capital markets and banking activities</b>			
	Zurich Capital Markets	Various debt instruments payable within 1 year	609	800
		Various debt instruments payable in more than 1 year	–	48
	Zurich Financial Services			
	EUB Holdings Limited	Various debt instruments payable within 1 year	1,374	814
		Various debt instruments payable in more than 1 year	1	1
	<b>Debt related to capital markets and banking activities</b>		<b>1,984</b>	<b>1,663</b>
	<b>b) Senior debt</b>			
	Zurich Finance (USA), Inc.	3.50% CHF 300 bond, due July 2008 <sup>1</sup>	294	264
		4.50% EUR 1,000 bond, due September 2014 <sup>2</sup>	1,547	1,441
	Kemper Corporation	Various debt instruments, due in 2009	26	26
	Zurich Insurance Company	3.875% CHF 1,000 bond, due July 2011	981	884
		Various debt instruments payable within 1 year	50	50
	Other	Various debt instruments payable within 1 year	53	54
		Various debt instruments payable in more than 1 year	110	111
	<b>Senior debt</b>		<b>3,061</b>	<b>2,830</b>
	<b>c) Subordinated debt</b>			
	Zurich Finance (UK) plc	6.625% GBP 450 bond, undated notes <sup>3</sup>	882	879
	Zurich Finance (USA), Inc.	5.75% EUR 500 bond, due October 2023	777	720
		4.5% EUR 500 bond, due June 2025 <sup>4</sup>	708	670
	ZFS Finance (USA) Trust I	Series I 6.15% USD 600 ECAPS, due December 2065	596	595
	ZFS Finance (USA) Trust II	Series II 6.45% USD 700 ECAPS, due December 2065	691	690
	ZFS Finance (USA) Trust III	Series III Floating Rate USD 400 ECAPS, due December 2065	317	397
ZFS Finance (USA) Trust IV	Series IV 5.875% USD 500 Trust Preferred Securities, due May 2062	497	497	
ZFS Finance (USA) Trust V	Series V 6.5% USD 1,000 Trust Preferred Securities, due May 2067	994	994	
Other	Various debt instruments payable in more than 1 year	28	29	
<b>Subordinated debt</b>		<b>5,490</b>	<b>5,471</b>	
<b>Total senior and subordinated debt</b>		<b>8,550</b>	<b>8,300</b>	
<b>Total debt</b>		<b>10,534</b>	<b>9,963</b>	

<sup>1</sup> The bond is economically hedged, but hedge accounting treatment has not been applied. The bond matured on July 22, 2008.

<sup>2</sup> The bond is part of a qualifying cash flow hedge (80% of the total) and fair value hedge (20% of the total)

<sup>3</sup> The holders of these notes benefit from the Replacement Capital Covenant which states that if Series IV and V Fixed/Floating Trust Preferred Securities, issued by ZFS Finance (USA) Trusts IV and V, are called before 2042 and 2047 respectively, the Group will issue a replacement debt instrument with terms and provisions that are as or more equity-like than the replaced notes.

<sup>4</sup> This bond is part of a qualifying fair value hedge relationship.

None of the debt instruments listed above were in default as of June 30, 2008 and December 31, 2007.



**a) Debt related to capital markets and banking activities**

Debt related to capital markets and banking activities increased from USD 1,663 million as of December 31, 2007 to USD 1,984 million as of June 30, 2008, which is attributable to increased activity of our banking business.

**b) Senior debt**

The Group's Euro Medium Term Note Programme (EMTN Programme) allows for the issuance of senior and subordinated notes up to a maximum of USD 10 billion. Zurich Finance (USA), Inc. is an issuing entity under the EMTN Programme, which has USD 1,841 million and USD 1,705 million of senior debt outstanding as of June 30, 2008 and December 31, 2007, respectively.

No new senior debt issuances took place in the first six months of 2008.

**c) Subordinated debt**

Subordinated debt securities are obligations of the Group which, in case of liquidation, rank junior to all present and future senior indebtedness and certain other obligations of the Group.

On March 27, 2008, Zurich Holding Company of America (ZHCA), a subsidiary of the Group, re-purchased USD 81 million of Series III Floating Rate USD 400 million ECAPS, due in December 2065. This purchase resulted in the Group recognizing a pre-tax gain of USD 18 million.

The outstanding subordinated debts, issued by Zurich Finance (USA) Inc. and Zurich Finance (UK) plc under the EMTN Programme, amount to USD 2,367 million and USD 2,269 million as of June 30, 2008, and December 31, 2007, respectively.

**d) Hedged debt**

The Group uses cross-currency interest rate swaps and currency swaps to manage the risks inherent in certain debt issues. Where the relationship qualifies for hedge accounting (see notes to table 12.1), such hedge accounting is applied.

The objective of the fair value hedges on debt issued is to protect against changes in the foreign currency exposure and interest rate exposure of Euro denominated debt issuances, while the objective of the cash flow hedge on debt is to hedge changes in US Dollar cash flows of the Euro denominated debt resulting from changes in the Euro/US Dollar exchange rate.

A fair value hedge relationship on EUR 500 million 4.5 percent subordinated bond due June 2025 was entered into at the issuance of the debt instrument in 2005 and will end on June 15, 2015.

A fair value hedge relationship on 20 percent of the EUR 1 billion 4.5 percent senior debt due 2014 and a cash flow hedge relationship on the remaining 80 percent of this debt were entered into on January 1, 2007 and will end at maturity of the underlying debt instrument in 2014.

## Consolidated Financial Statements

Table 12.2

in USD millions

**Description and features of significant subordinated debt**

Description	Coupon conditions	Call/ redemption date	Redemption conditions <sup>3</sup>
6.625% GBP 450 bond, undated notes	6.625% payable annually up to October 2, 2022 and then reset every 5 years to the reset rate of interest. <sup>1</sup>	Every five years on or after October 2, 2022	Redeemable in whole every five years at par plus any accrued interest.
5.75% EUR 500 bond, due October 2023	5.75% payable annually up to October 2, 2013 and then reset quarterly to 3-month EURIBOR plus 2.67%.	Quarterly on or after October 2, 2013	Redeemable in whole quarterly at par plus any accrued interest.
4.5% EUR 500 bond, due June 2025	4.5% payable annually up to June 15, 2015 and then reset quarterly to 3-month EURIBOR plus 2.20%.	Quarterly on or after June 15, 2015	Redeemable in whole quarterly at par plus any accrued interest.
Series I 6.15% Fixed/Adjustable Rate USD 600 ECAPS, due December 2065	6.15% payable semi-annually until December 15, 2010 and then reset quarterly to the adjustable rate plus 1.75%. <sup>2</sup>	Quarterly on or after December 15, 2010	Redeemable in whole or in part at par plus any accumulated and unpaid distributions.
Series II 6.45% Fixed/Adjustable Rate USD 700 ECAPS, due December 2065	6.45% payable semi-annually until June 15, 2016 and then reset quarterly to the adjustable rate plus 2.00%. <sup>2</sup>	Quarterly on or after June 15, 2016	Redeemable in whole or in part at par plus any accumulated and unpaid distributions.
Series III Floating Rate USD 400 ECAPS, due December 2065	3-month LIBOR plus 1.15% reset quarterly until December 15, 2010 and then 3-month LIBOR plus 2.15%.	Quarterly on or after December 15, 2010	Redeemable in whole or in part at par plus any accumulated and unpaid distributions.
Series IV 5.875% USD 500 Fixed/Floating Trust Preferred Securities, due May 2062	5.875% payable semi-annually until May 9, 2012 and then reset quarterly to 3-month LIBOR plus 1.815%.	Quarterly on or after May 9, 2012	Redeemable in whole or in part at par plus any accumulated and unpaid distributions.
Series V 6.5% USD 1,000 Fixed/Floating Trust Preferred Securities, due May 2067	6.5% payable semi-annually until May 9, 2017 and then reset quarterly to 3-month LIBOR plus 2.285%.	Quarterly on or after May 9, 2017	Redeemable in whole or in part at par plus any accumulated and unpaid distributions.

<sup>1</sup> Reset rate of interest is equal to the gross redemption yield on the benchmark five-year Gilt as determined by the Calculation bank, plus 2.85% per annum.

<sup>2</sup> Adjustable rate is equal to the greatest of (i) the 3-month LIBOR rate; (ii) the 10-year Treasury CMT (Constant Maturity Treasury) Rate; and (iii) the 30-year Treasury CMT Rate, subject to a maximum under (ii) and (iii) of 13.25% Series I and 13% for Series II.

<sup>3</sup> All subordinated debt instruments are also subject to mandatory redemption as a result of various tax, default or other events.

Table 12.3

in USD millions, as of		06/30/08	12/31/07
<b>Maturity schedule of outstanding debt</b>	< 1 year	2,379	1,983
	1 to 2 years	27	76
	2 to 3 years	10	10
	3 to 4 years	982	884
	4 to 5 years	–	1
	> 5 years	7,136	7,010
	<b>Total</b>	<b>10,534</b>	<b>9,963</b>

Debt maturities shown in table 12.3 reflect original contractual dates. Call/redemption dates are set out in table 12.2. The total notional amount of debt due in each period is not materially different from the total carrying amount disclosed in table 12.3.

Table 12.4

in USD millions, for the six months ended June 30		2008	2007
<b>Interest expense on debt</b>	Debt related to capital markets and banking activities	61	49
	Senior debt	71	68
	Subordinated debt	170	227
	<b>Total</b>	<b>302</b>	<b>345</b>

### Credit facilities

The Group has access to a syndicated revolving credit facility of USD 3 billion that terminates in 2012. 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, 2008.

Dunbar Bank and Zurich Bank have access to various committed credit facilities totaling GBP 405 million and GBP 230 million, respectively. As of June 30, 2008 no borrowings were outstanding under these facilities.

In addition, ZIC has access to a USD 300 million credit facility expiring in 2010 for the sole purpose of financing surplus notes issued by the Leschi Life Assurance Company (Leschi), a special purpose reinsurer owned by Farmers New World Life (FNWL) and to which FNWL cedes business subject to Regulation XXX (Triple X). As of June 30, 2008, USD 50 million had been drawn under this credit facility.

### Financial debt

Financial debt consists of all debt items that are included in the financial leverage calculations of rating agencies. As of June 30, 2008 and December 31, 2007 financial debt consisted of the following components:

Table 12.5

in USD millions, as of		06/30/08	06/30/08	06/30/08	12/31/07
		Reported	Adjustments	Financial Debt	Financial Debt
<b>Financial debt</b>	Debt related to capital markets and banking activities	1,984	(1,375)	609	848
	Senior debt	3,061	(150)	2,911	2,680
	Subordinated debt	5,490	–	5,490	5,471
	<b>Total</b>	<b>10,534</b>	<b>(1,525)</b>	<b>9,010</b>	<b>8,999</b>

The USD 1,375 million adjustment relates to Zurich Financial Services EUB Holdings Limited notes and loans payable, while USD 150 million adjustment contains USD 100 million of non-recourse debt and the USD 50 million drawn under the Leschi credit facility.

### 13. 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.

In 2006, the Group settled with various US state attorneys general and state insurance regulators in connection with investigations in the US concerning certain business practices involving insurance brokers and insurance companies. In July 2006, the Group also entered into a settlement agreement to resolve consolidated class-action litigation concerning those matters. Final judgment has been entered approving the settlement, but appeals are pending. A number of individual claims not covered by the class action settlement remain pending against the Group. In addition, the Group and its subsidiaries are involved in regulatory investigations in the US, including by the Securities and Exchange Commission (SEC), regarding certain reinsurance transactions engaged in by the Group and its subsidiaries. The SEC is investigating Converium's February 28, 2006 restatement of its financial results for the years 1998 through 2004. In that context, the Staff of the SEC has made inquiries of Zurich Financial Services and certain of its subsidiaries related to reinsurance contracts entered into before 2001. The SEC Staff is currently formulating its recommendation for action to the SEC Commissioners. The Group expects that the Staff will recommend that the SEC commence an enforcement action against the Group if the Group and the SEC are not able to reach a settlement. The Group has advised the Commission of its desire to settle this matter. The Group cannot predict what action the SEC will take in response to the Staff's recommendation, whether the Group will be able to settle the matter with the SEC, or whether the SEC will institute an enforcement action against the Group. The Group continues to cooperate with all remaining regulatory investigations.

Furthermore, Zurich Financial Services is a defendant in putative class-action securities lawsuits relating to its divestiture of its interest in Converium (now Scor Holding (Switzerland) AG). In August 2007, Zurich Financial Services and the class-action plaintiffs entered into an agreement to settle all claims against the company for USD 30 million. On July 25, 2008, Zurich Financial Services and the class-action plaintiffs entered into an amended stipulation of settlement that reduces the settlement amount to USD 28 million and separates the settlement into two parts: one in the U.S. court, and another in the Amsterdam Court of Appeals, in the Netherlands. The proposed U.S. and Dutch settlements are both subject to court approval and are independent of each other.

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

## 14. Earnings per share

Table 14  
for the six months ended June 30

### Earnings per share

	Net income attributable to common shareholders (in USD millions)	Weighted average number of shares	Per share (USD)	Per share (CHF) <sup>1</sup>
<b>2008</b>				
<b>Basic earnings per share</b>	<b>2,662</b>	<b>139,019,260</b>	<b>19.15</b>	<b>20.11</b>
Effect of potentially dilutive shares related to share-based compensation plans		1,167,162	(0.16)	(0.17)
<b>Diluted earnings per share</b>	<b>2,662</b>	<b>140,186,422</b>	<b>18.99</b>	<b>19.94</b>
<b>2007</b>				
<b>Basic earnings per share</b>	<b>2,654</b>	<b>143,700,966</b>	<b>18.47</b>	<b>22.68</b>
Effect of potentially dilutive shares related to share-based compensation plans		1,250,046	(0.16)	(0.20)
<b>Diluted earnings per share</b>	<b>2,654</b>	<b>144,951,012</b>	<b>18.31</b>	<b>22.48</b>

<sup>1</sup> The translation from USD to CHF is shown for information purposes only and has been calculated at the Group's average exchange rates for the six months ended June 30, 2008 and 2007, respectively.

## 15. Related party transactions

Except as disclosed below, no material related party transactions have been entered into during the period. For information on related party transactions and Farmers Exchanges, refer to the Group's Annual Report 2007.

The rights to access renewals of the Group's North America Commercial Small Business Solutions (SBS) book of business has been sold to Truck Insurance Exchange, one of the Farmers Exchanges, which the Group manages but does not own. As part of the transaction effective as of June 1, 2008, the Group entered into a 100% quota share reinsurance agreement for the North America Commercial Small Business Solutions book of business (including policies with inception dates on or after June 1, 2008).

## Consolidated Financial Statements

## 16. Segment information

Table 16.1  
in USD millions, for the six months ended June 30

**Income statements  
by business  
segment**

	General Insurance		Global Life	
	2008	2007	2008	2007
Revenues				
Direct written premiums and policy fees	19,705	18,351	4,708	4,841
Assumed written premiums	888	675	50	52
Gross written premiums and policy fees	20,593	19,026	4,758	4,893
Less premiums ceded to reinsurers <sup>1</sup>	(3,140)	(2,865)	(363)	(7,557)
Net written premiums and policy fees	17,453	16,161	4,395	(2,664)
Net change in reserves for unearned premiums	(1,565)	(1,677)	(5)	(7)
Net earned premiums and policy fees	15,889	14,484	4,390	(2,671)
Farmers management fees and other related revenues	–	–	–	–
Net investment result on Group investments	1,794	1,846	1,764	2,384
Net investment income on Group investments	1,910	1,773	2,209	2,157
Net capital gains/(losses) and impairments on Group investments	(116)	73	(445)	227
Net investment result on unit-linked investments	–	–	(8,493)	5,780
Net gain/(loss) on divestments of businesses	–	1	5	2
Other income	382	326	614	516
<b>Total revenues</b>	<b>18,065</b>	<b>16,657</b>	<b>(1,721)</b>	<b>6,011</b>
Intersegment transactions	(733)	(530)	(81)	(205)
Benefits, losses and expenses				
Losses and loss adjustment expenses, net of reinsurance	11,171	10,443	21	44
Life insurance death and other benefits, net of reinsurance	34	22	4,793	6,017
(Decrease)/increase in future life policyholders' benefits, net of reinsurance	1	–	(665)	(9,182)
Insurance benefits and losses, net of reinsurance <sup>1</sup>	11,206	10,465	4,148	(3,121)
Policyholder dividends and participation in profits, net of reinsurance	12	4	(8,200)	6,415
Underwriting and policy acquisition costs, net of reinsurance	2,881	2,559	962	702
Administrative and other operating expense	1,618	1,409	914	817
Amortization and impairments of intangible assets	58	35	92	51
Interest expense on debt	119	149	9	10
Interest credited to policyholders and other interest	121	130	267	277
<b>Total benefits, losses and expenses</b>	<b>16,014</b>	<b>14,752</b>	<b>(1,808)</b>	<b>5,150</b>
<b>Net income/(loss) before income taxes</b>	<b>2,051</b>	<b>1,905</b>	<b>87</b>	<b>861</b>
Income tax benefit/(expense) attributable to policyholders				
Income tax expense attributable to shareholders				
Net income attributable to minority interests				
<b>Net income/(loss) attributable to shareholders</b>				
Supplementary segment information				
Additions and capital improvements of property/equipment and intangible assets	548	347	138	223
Significant non-cash expenses:				
Depreciation and impairments of property and equipment	36	36	19	21
Amortization and impairments of intangible assets	58	35	92	51

<sup>1</sup> In 2007, for the Global Life segment, premiums ceded to reinsurers included USD 7.3 billion and ceded insurance benefits and losses included USD 7.0 billion relating to the reinsurance of a UK annuity portfolio. Subsequent to the approval from the UK High Court, effective on June 30, 2008, the underlying contracts have been transferred to the reinsurer. This transaction had no impact on the income statement in 2008.

Farmers Management Services		Other Businesses		Corporate Functions		Eliminations		Total	
2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
-	-	176	209	(6)	-	(6)	12	24,577	23,414
-	-	902	1,001	93	81	(134)	(150)	1,799	1,659
-	-	1,078	1,210	87	81	(140)	(138)	26,376	25,072
-	-	1	(25)	(30)	(76)	140	138	(3,392)	(10,384)
-	-	1,079	1,185	57	6	-	-	22,984	14,688
-	-	27	11	2	3	-	-	(1,541)	(1,670)
-	-	1,106	1,195	58	9	-	-	21,443	13,017
1,196	1,093	-	-	-	-	-	-	1,196	1,093
56	65	420	571	461	515	(519)	(597)	3,975	4,785
49	91	466	504	287	354	(519)	(597)	4,402	4,282
7	(26)	(46)	68	174	161	-	-	(426)	503
-	-	(911)	473	-	-	-	-	(9,404)	6,253
-	-	(1)	-	-	(1)	-	-	4	2
-	44	58	103	502	424	(610)	(504)	945	909
1,252	1,202	672	2,343	1,021	947	(1,129)	(1,101)	18,160	26,060
(39)	(22)	2	(75)	(279)	(269)	1,129	1,101	-	-
-	-	631	512	-	(3)	(1)	(4)	11,821	10,992
-	-	199	178	58	9	1	6	5,085	6,231
-	-	45	(51)	(26)	(68)	-	(2)	(645)	(9,304)
-	-	875	639	32	(62)	-	-	16,261	7,920
-	-	(846)	544	-	-	-	-	(9,034)	6,963
-	-	240	291	-	(11)	-	-	4,083	3,541
597	528	(2)	139	423	510	(596)	(487)	2,953	2,917
27	24	1	-	8	4	-	-	186	115
5	5	109	108	586	676	(525)	(602)	302	345
-	-	55	72	5	4	(8)	(11)	440	472
628	557	433	1,793	1,054	1,121	(1,129)	(1,101)	15,192	22,272
<b>624</b>	<b>646</b>	<b>239</b>	<b>550</b>	<b>(34)</b>	<b>(174)</b>	<b>-</b>	<b>-</b>	<b>2,968</b>	<b>3,787</b>
								604	(130)
								(823)	(954)
								(69)	(27)
								<b>2,681</b>	<b>2,676</b>
90	74	4	-	33	40	-	-	813	685
32	25	2	1	16	14	-	-	104	97
27	24	1	-	8	4	-	-	186	115

## Consolidated Financial Statements

Table 16.2

in USD millions, as of

**Assets and liabilities  
by business  
segment**

	General Insurance		Global Life	
	06/30/08	12/31/07	06/30/08	12/31/07
Total Group investments	86,235	84,996	97,582	95,740
Investments for unit-linked contracts	–	–	98,402	106,355
Total investments	86,235	84,996	195,985	202,094
Reinsurers' share of reserves for insurance contracts <sup>1</sup>	13,611	13,149	1,849	9,555
Deposits made under assumed reinsurance contracts	70	68	–	–
Deferred policy acquisition costs	3,575	3,306	12,684	11,547
Deferred origination costs	–	–	1,018	1,003
Goodwill	1,019	706	675	635
Other related intangible assets	–	–	772	780
Other assets	17,089	15,652	9,765	8,155
<b>Total assets after consolidation of investments in subsidiaries</b>	<b>121,600</b>	<b>117,876</b>	<b>222,748</b>	<b>233,769</b>
Liabilities for investment contracts	–	–	51,393	54,736
Reserves for losses and loss adjustment expenses, gross	65,456	63,383	10	6
Reserves for unearned premiums, gross	18,003	15,428	174	157
Future life policyholders' benefits, gross	107	97	74,254	77,422
Policyholders' contract deposits and other funds, gross	1,149	1,024	13,649	14,173
Reserves for unit-linked contracts, gross	–	–	50,540	54,337
Reserves for insurance contracts, gross <sup>1</sup>	84,715	79,932	138,626	146,096
Debt related to capital markets and banking activities	–	–	–	–
Senior debt	2,477	5,673	120	239
Subordinated debt	2,356	2,311	232	72
Other liabilities	16,181	16,291	20,242	20,758
<b>Total liabilities</b>	<b>105,729</b>	<b>104,207</b>	<b>210,613</b>	<b>221,901</b>
Supplementary segment information				
Reserves for losses and loss adjustment expenses, net	54,232	51,935	10	6
Reserves for unearned premiums, net	15,609	13,721	170	154
Future life policyholders' benefits, net	107	97	72,558	68,019
Policyholders' contract deposits and other funds, net	1,130	1,006	13,500	14,026
Reserves for unit-linked contracts, net	–	–	50,540	54,337
Reserves for insurance contracts, net	71,078	66,759	136,777	136,542

<sup>1</sup> In 2007, for the Global Life segment, reinsurers' share of reserves for insurance contracts included USD 7.1 billion related to the reinsurance of a UK annuity portfolio. Subsequent to the approval from the UK High Court, effective on June 30, 2008, the underlying contracts have been transferred to the reinsurer, resulting in a reduction of both the reinsurers' share of reserves for insurance contracts and gross reserves for insurance contracts.



Farmers Management Services		Other Businesses		Corporate Functions		Eliminations		Total	
06/30/08	12/31/07	06/30/08	12/31/07	06/30/08	12/31/07	06/30/08	12/31/07	06/30/08	12/31/07
1,661	2,311	18,496	18,758	14,646	18,560	(23,554)	(26,764)	195,066	193,600
-	-	14,645	15,738	-	-	-	-	113,047	122,092
1,661	2,311	33,140	34,495	14,646	18,560	(23,554)	(26,764)	308,113	315,693
208	207	5,914	6,392	-	107	(1,978)	(2,440)	19,605	26,970
-	-	1,275	1,323	-	2	(35)	(34)	1,310	1,359
-	-	79	89	-	-	(2)	(1)	16,337	14,941
-	-	-	-	-	-	-	-	1,018	1,003
382	385	-	-	5	5	-	-	2,080	1,730
1,025	1,025	-	-	-	-	-	-	1,797	1,805
1,338	1,337	1,387	1,384	1,852	1,793	(2,098)	(2,482)	29,333	25,841
<b>4,615</b>	<b>5,266</b>	<b>41,795</b>	<b>43,684</b>	<b>16,503</b>	<b>20,468</b>	<b>(27,667)</b>	<b>(31,721)</b>	<b>379,593</b>	<b>389,342</b>
-	-	-	-	-	-	(252)	(251)	51,141	54,485
-	-	5,599	6,084	43	114	(1,311)	(1,697)	69,798	67,890
-	-	343	381	4	43	(17)	(68)	18,505	15,941
-	-	2,838	2,871	388	415	(632)	(657)	76,955	80,147
-	-	3,492	3,489	-	-	-	-	18,290	18,687
-	-	14,646	15,738	-	-	-	-	65,187	70,075
-	-	26,918	28,562	436	572	(1,961)	(2,423)	248,735	252,740
-	-	3,419	3,385	-	-	(1,435)	(1,722)	1,984	1,663
-	-	763	622	18,674	18,397	(18,973)	(22,102)	3,061	2,830
180	180	100	99	5,619	5,588	(2,997)	(2,780)	5,490	5,470
1,416	1,480	4,490	5,004	1,735	1,745	(2,049)	(2,443)	42,016	42,836
<b>1,596</b>	<b>1,660</b>	<b>35,690</b>	<b>37,673</b>	<b>26,464</b>	<b>26,302</b>	<b>(27,667)</b>	<b>(31,721)</b>	<b>352,426</b>	<b>360,023</b>
-	-	-	-	-	-	-	-	-	-
-	-	2,588	2,733	43	43	(10)	(7)	56,863	54,712
-	-	322	339	4	6	-	-	16,104	14,221
(208)	(207)	2,523	2,559	388	415	10	7	75,377	70,889
-	-	769	662	-	-	18	17	15,418	15,711
-	-	14,646	15,738	-	-	-	-	65,187	70,075
(208)	(207)	20,849	22,031	435	465	18	17	228,949	225,607

## Consolidated Financial Statements

Table 16.3

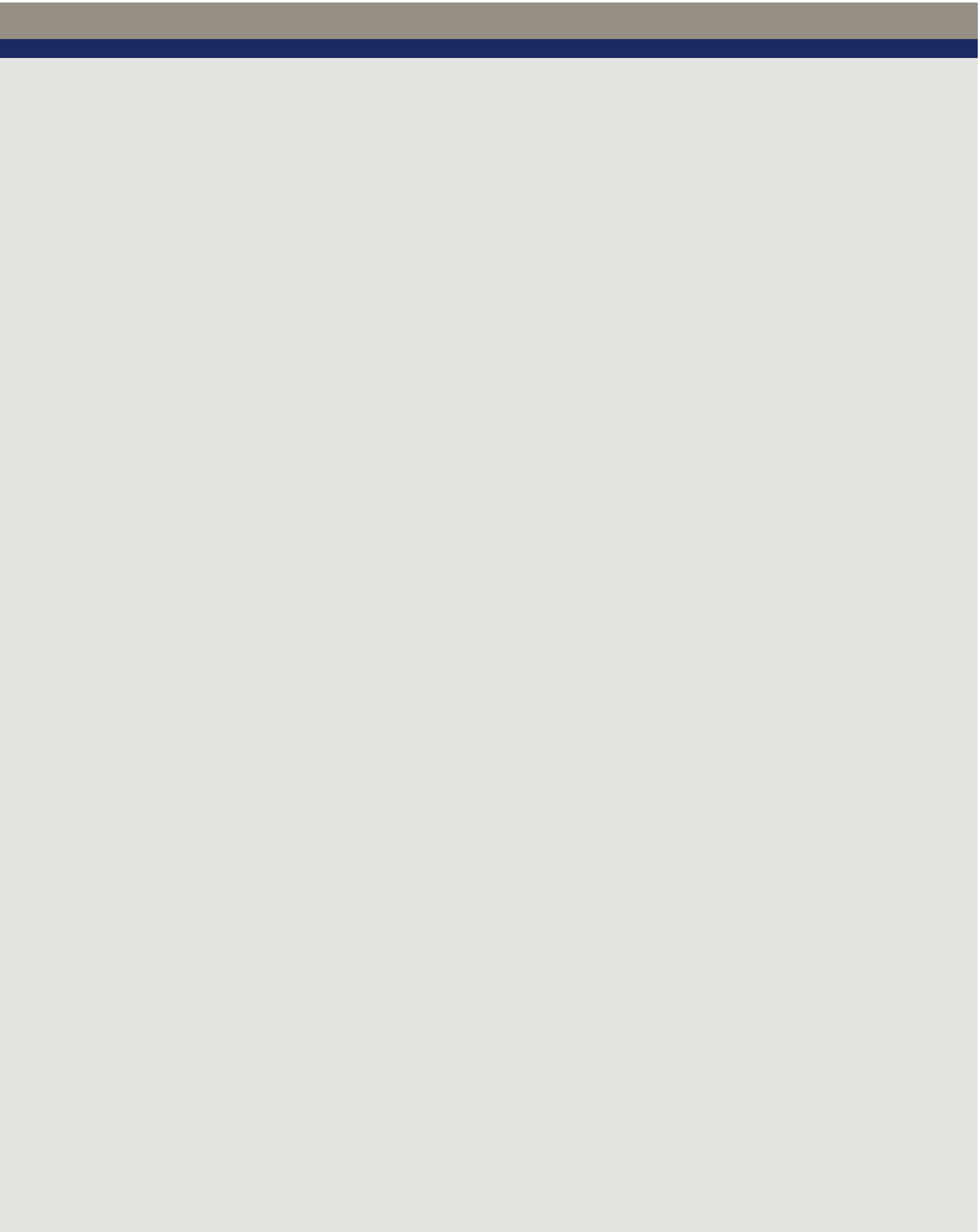
in USD millions

**Gross written premiums and policy fees, total revenues and total assets by geographical segment**

	Gross written premiums and policy fees for the six months ended June 30		Total revenues for the six months ended June 30		Total assets as of	
	2008	2007	2008	2007	06/30/08	12/31/07
North America	8,689	9,030	8,938	9,023	70,224	70,600
Europe	15,967	14,387	7,934	13,704	268,655	275,828
International Businesses	2,172	1,924	1,451	1,927	14,844	14,434
Central Region	577	650	713	2,202	51,184	54,234
Eliminations	(1,029)	(919)	(876)	(796)	(25,313)	(25,754)
<b>Total</b>	<b>26,376</b>	<b>25,072</b>	<b>18,160</b>	<b>26,060</b>	<b>379,593</b>	<b>389,342</b>

## 17. Events after the balance sheet date

On July 3, 2008 the Group's general insurance operations in the UK announced the main features of a restructuring program, expected to be implemented during the second half of 2008. The program is aligned to the Group's strategy of operational transformation and therefore is a key step towards achieving higher efficiency and increased customer orientation. The restructuring will involve an estimated 600 full time equivalents (FTEs) from within the general insurance operations as well as shared services. The financial impact is estimated to be approximately USD 50 million.



# Review Report of the Group Auditors

## Review Report of the Group Auditors

### To the Board of Directors of Zurich Financial Services

We have reviewed the half year financial information (consolidated income statement, consolidated statement of total recognized income and expenses, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity and notes on pages 26 to 64) of Zurich Financial Services for the six month period ended June 30, 2008.

The Board of Directors is responsible for the preparation and presentation of this half year financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this half year financial information based on our review.

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

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

PricewaterhouseCoopers AG

P. Shoumlin

R. Kunz

Zurich, August 12, 2008

# Embedded Value Report

# Embedded Value Report – Life Insurance

All amounts are shown in USD and rounded to the nearest million unless otherwise stated with the consequence that the rounded amounts may not add to the rounded total in all cases. All ratios and variances are calculated using the underlying amount rather than the rounded amount.

## 1. Overview

Zurich Financial Services Group (the Group) has applied the European Embedded Value Principles issued by the CFO Forum in May 2004, for its Embedded Value (EV) Report for the companies and business in its Global Life segment (the covered business) for the six months ended June 30, 2008 and for the comparative period. Certain other life businesses are included in the Other Businesses segment and have been excluded from the EV. This report primarily relates to Global Life, but information relating to the Other Businesses is given in section 2.f below. The EV methodology adopted by the Group is based on a “bottom-up” market consistent approach to allow explicitly for market risk. In particular:

- asset and liability cash flows are valued using risk discount rates consistent with those applied to similar cash flows in the capital markets; and
- options and guarantees are valued using market consistent models calibrated to observable market prices.

In line with the European Embedded Value Principles, the EV is broken down into the following components:

- shareholders’ net assets, including free surplus and required capital allocated to covered business; and
- the value of business in-force.

The adoption of the European Embedded Value Principles does not affect the basis of reporting the local statutory results, the regulatory capital position or the dividend paying capacity of the Group. EV is derived from the local statutory, regulatory and IFRS financial statements of the Group’s Global Life entities and is presented net of minority interests. New business value is, however, shown before the deduction of minorities.

EV information in this supplement includes the following sections:

2. Summary of Embedded Value results
3. Geographical analysis
4. Embedded Value methodology
5. Embedded Value assumptions
6. Statement of External Review

Appendix: Embedded Value of Global Life and Rest of the World

The process for preparing the EV information as of June 30, 2008 as well as the methodology and assumptions have been subject to limited external review by PricewaterhouseCoopers AG. Their Statement of External Review is set out in Section 6.

## 2. Summary of Embedded Value results

### a) Basis of current and future presentation and comparability

To align EV reporting with the IFRS accounts, relevant results have been translated to the Group presentation currency, US dollar, using average exchange rates for the period. Valuations are translated at end-of-period exchange rates.

New business value has been calculated separately for each quarter using assumptions, both operating and economic, as of the start of the relevant quarter. In consequence, the new business strain has also been calculated on a quarterly discrete basis.

### b) Embedded Value of Global Life

Table 2.1

in USD millions, as of		06/30/2008	12/31/2007
<b>Embedded Value</b>	Shareholders' net assets	7,209	6,982
	Value of business in-force	9,180	8,953
	<b>Embedded Value</b>	<b>16,389</b>	<b>15,935</b>

**Shareholders' net assets** are based on local statutory accounting. The EV is adjusted to reflect the shareholders' interest in the market value of net assets after the exclusion of goodwill.

**Value of business in-force** is the present value of future projected profits from covered business, and can be defined as the certainty equivalent value of business in-force less frictional costs, the time value of financial options and guarantees, and the cost of non market risk. Further details of the methodology used in the calculation of these items are given in Section 4.

In the consolidated financial statements, an allowance is made for IAS19 Employee Benefits deficits. This adjustment has not been made in the detailed EV described in the remainder of the Embedded Value Report. If the adjustment had been made the EV as of June 30, 2008 would have been lower by USD 24 million. Similarly the EV as of December 31, 2007 would have been lower by USD 85 million.

Table 2.2

in USD millions, as of		06/30/2008	12/31/2007
<b>Value of business in-force</b>	Certainty equivalent value of business in-force	11,064	10,705
	Frictional costs	(858)	(771)
	Time value of financial options and guarantees	(491)	(476)
	Cost of non market risk	(535)	(505)
	<b>Value of business in-force</b>	<b>9,180</b>	<b>8,953</b>

Definitions of the EV components are given in Section 4.

Frictional costs are applied to the total capital held by the covered business. As of June 30, 2008 total capital is the sum of:

- USD 3.8 billion of minimum solvency margin required by regulation;
- USD 1.1 billion of any additional solvency margin that life business units consider is in practice required; and,
- USD 2.3 billion of free surplus.

The sum of the first two items above is referred to as "required capital" elsewhere in this document.



**c) New business**

New business value is the value added by new business written during the period, calculated at the point of sale.

Frictional costs are applied to the minimum solvency margin required to be held in respect of new business.

Table 2.3

in USD millions, for the six months ended June 30		2008	2007
<b>New business volumes, gross of minorities</b>	Annual premiums	990	796
	Single premiums	5,373	5,274
	New business annual premium equivalent (APE) <sup>1</sup>	1,528	1,323
	Present value of new business premiums (PVNBP) <sup>2</sup>	12,223	10,721

<sup>1</sup> APE is taken as new annual premiums plus 10% of single premiums.

<sup>2</sup> PVNBP is equal to new single premiums plus the present value of annual premiums.

Table 2.4

in USD millions, for the six months ended June 30		2008		2007	
		after tax	before tax <sup>1</sup>	after tax	before tax <sup>1</sup>
<b>New business margin, gross of minorities</b>	New business value	342	472	319	452
	New business margin (as % APE)	22.4%	30.9%	24.1%	34.2%
	New business margin (as % PVNBP)	2.8%	3.9%	3.0%	4.2%

<sup>1</sup> In certain countries, particularly in the UK, where life insurance companies pay tax in respect of both policyholders and shareholders, the results shown in the above table are before shareholders' tax but after allowing for policyholders' tax.

Table 2.5

in USD millions, for the six months ended June 30		2008	2007
<b>New business value, after tax gross of minority interests</b>	Certainty equivalent new business value	412	383
	Frictional costs	(27)	(22)
	Time value of options and guarantees	(8)	(10)
	Cost of non market risk	(35)	(33)
	<b>New business value, after tax</b>	<b>342</b>	<b>319</b>

EV is shown net of minority interests. Where the Group has a majority interest in a subsidiary company, the new business value and the premium information are shown gross of minority holdings. The minorities' share of new business value mostly relates to life entities in Germany.

Table 2.6

in USD millions, for the six months ended June 30		2008	2007
<b>New business value, after tax net of minority interests</b>	New business value, after tax	340	313
	New business annual premium equivalent (APE)	1,516	1,291
	Present value of new business premiums (PVNBP)	12,115	10,431

## Embedded Value Report

**d) Analysis of movement in Embedded Value**

The following tables analyse the movement in the EV for the covered business from December 31, 2007 (Opening EV) to June 30, 2008 (Closing EV).

Table 2.7

in USD millions, for the six months ended June 30, 2008

**Analysis of  
movement in  
Embedded Value,  
after tax**

	Shareholders' net assets	Value of business in-force	Total
Opening Embedded Value	6,982	8,953	15,935
Expected transfer from value of business in-force to shareholders' net assets	603	(603)	–
Expected return on value of business in-force and shareholders' net assets	155	367	522
New business value	(327)	669	342
Operating variance	4	23	27
<b>Operating profit</b>	<b>436</b>	<b>456</b>	<b>891</b>
Economic variance	(583)	(567)	(1,150)
<b>Embedded Value profit</b>	<b>(147)</b>	<b>(111)</b>	<b>(258)</b>
Dividends and capital movements	92	1	93
Foreign currency translation effects	283	337	620
<b>Closing Embedded Value</b>	<b>7,209</b>	<b>9,180</b>	<b>16,389</b>

Table 2.8

in USD millions, for the six months ended June 30, 2008

**Analysis of  
movement in  
value of business  
in-force, after tax**

	Certainty equivalent value	Frictional costs	Time value of financial options and guarantees	Cost of non market risk	Value of business in-force
Opening value of business in-force	10,705	(771)	(476)	(505)	8,953
Expected transfer from value of business in-force to shareholders' net assets	(628)	24	–	–	(603)
Expected return on value of business in-force and shareholders' net assets	337	(5)	24	11	367
New business value	739	(27)	(8)	(35)	669
Operating variance	(13)	(27)	60	3	23
<b>Operating profit</b>	<b>435</b>	<b>(35)</b>	<b>76</b>	<b>(21)</b>	<b>456</b>
Economic variance	(486)	(16)	(73)	8	(567)
<b>Embedded Value profit</b>	<b>(50)</b>	<b>(51)</b>	<b>3</b>	<b>(13)</b>	<b>(111)</b>
Dividends and capital movements	(2)	3	–	–	1
Foreign currency translation effects	412	(39)	(18)	(17)	337
<b>Closing value of business in-force</b>	<b>11,064</b>	<b>(858)</b>	<b>(491)</b>	<b>(535)</b>	<b>9,180</b>

**Expected transfer from value of business in-force to shareholders' net assets**, shows the profits expected to emerge during the period in respect of business that was in-force at the beginning of the period. The net effect is zero, as the reduction in value of business in-force is offset by the increase in shareholders' net assets. The expected profits do not include changes in solvency margin over the period.

**Expected return on value of business in-force and shareholders' net assets**, is the expected change in the EV resulting from a projection of the assets and liabilities over the period using expected "real world" returns.

**New business value**, reflects the value added by new business written during the period. This item is valued at the point of sale, using the methodology described in Section 4.g. The reduction in shareholders' net assets shown in respect of new business (i.e. new business strain) excludes the solvency margin set up in respect of new business. Including the solvency margin, new business strain in the first six months of 2008 is USD 0.5 billion.

**Operating variance**, is the difference between actual experience during the period and that expected based on the operating assumptions. It also includes the impact of changes in assumptions in respect of future operating experience

**Economic variance**, is the difference between actual experience during the period and that expected based on the economic assumptions. It also includes the impact of changes in assumptions in respect of future economic experience and the impact of legal, tax and regulatory changes in the period.

**Dividends and capital movements** reflect dividends paid by the covered business to the Group and capital received from the Group. Capital movements can also relate to the value of business in-force in respect of acquisitions and disposals, or corporate restructuring.

**Foreign currency translation effects** represent the impact of adjusting values to end-of-period exchange rates.

#### e) Reconciliation of IFRS net assets to Embedded Value for covered life business

Table 2.9

in USD billions, as of

#### Reconciliation of Global Life IFRS net assets to Embedded Value

	<b>Total</b>	
	<b>06/30/2008</b>	<b>12/31/2007</b>
Goodwill	0.7	0.6
Intangible net assets <sup>1</sup>	3.8	3.5
Tangible net assets	7.6	7.8
<b>Global Life IFRS net assets</b>	<b>12.1</b>	<b>11.9</b>
Adjustments to Global Life IFRS net assets for Embedded Value		
Minorities	(0.1)	(0.2)
Reserves and investments valuation differences	(0.3)	(0.7)
Intangible assets <sup>1</sup>	(3.8)	(3.5)
Goodwill	(0.7)	(0.6)
IAS 19 Employee Benefit related items	0.0	0.1
Certainty equivalent value of business in-force	11.1	10.8
Frictional costs	(0.9)	(0.8)
Time value of options and guarantees	(0.5)	(0.5)
Cost of non market risk	(0.5)	(0.5)
<b>Embedded Value</b>	<b>16.4</b>	<b>16.0</b>

<sup>1</sup> Intangible assets are defined as deferred policy acquisition costs, deferred origination costs and other related intangible assets less deferred front-end fees.

#### f) Life business included in Other Businesses

The Group has written life business in Kemper Investors Life Insurance Company and in Centre operations, some of which is not managed in Global Life. The main products written by these businesses outside Global Life are:

- Variable annuity contracts that provide annuitants with guarantees related to minimum death and income benefits;
- Disability business; and
- Bank owned life insurance business.

The Group has estimated the EV of these businesses based on the same principles as for the covered business, including deductions for the time value of financial options and guarantees, frictional costs and the cost of non market risks, but using more approximate models. The results are set out below:

## Embedded Value Report

Table 2.10

in USD billions, as of

**Estimated  
Embedded Value  
of life businesses  
in Other Businesses**

	06/30/2008	12/31/2007
Shareholders' net assets	1.4	1.4
Value of business in-force	0.1	0.2
Certainty equivalent value of business in-force	0.8	0.9
Frictional costs	(0.0)	(0.0)
Time value of financial options and guarantees	(0.3)	(0.3)
Cost of non-market risk	(0.4)	(0.4)
<b>Embedded Value</b>	<b>1.5</b>	<b>1.6</b>

### 3. Geographical analysis

EV results for June 30, 2008 and December 31, 2007 are translated from local currency using different exchange rates. The comments in this section relate to business issues only and not to movements in exchange rates.

#### a) Geographical analysis of Embedded Value

Table 3.1

in USD millions, as of

#### Geographical analysis of Embedded Value

	Shareholders' net assets		Value of business in-force		Total	
	06/30/2008	12/31/2007	06/30/2008	12/31/2007	06/30/2008	12/31/2007
United States	700	645	1,759	1,787	2,459	2,432
United Kingdom	2,349	2,383	2,273	2,498	4,622	4,880
Germany	1,599	1,410	729	676	2,328	2,087
Switzerland	274	256	1,826	1,639	2,100	1,895
Ireland	437	448	783	768	1,220	1,217
Emerging markets	547	535	1,137	981	1,683	1,516
Rest of the world	1,304	1,305	672	603	1,976	1,908
<b>Global Life</b>	<b>7,209</b>	<b>6,982</b>	<b>9,180</b>	<b>8,953</b>	<b>16,389</b>	<b>15,935</b>

Table 3.2a

in USD millions, as of June 30, 2008

#### Geographical analysis of value of business in-force

	United States	United Kingdom	Germany	Switzerland	Ireland	Emerging markets	Rest of the world	Global Life
Certainty equivalent value of business in-force	2,176	2,703	1,193	1,949	846	1,248	948	11,064
Frictional costs	(123)	(166)	(388)	(21)	(26)	(32)	(103)	(858)
Time value of financial options and guarantees	(139)	(177)	(32)	(40)	(3)	(10)	(89)	(491)
Cost of non market risk	(155)	(87)	(44)	(61)	(35)	(69)	(84)	(535)
<b>Value of business in-force</b>	<b>1,759</b>	<b>2,273</b>	<b>729</b>	<b>1,826</b>	<b>783</b>	<b>1,137</b>	<b>672</b>	<b>9,180</b>

Table 3.2b

in USD millions, as of Dec 31, 2007

#### Geographical analysis of value of business in-force

	United States	United Kingdom	Germany	Switzerland	Ireland	Emerging markets	Rest of the world	Global Life
Certainty equivalent value of business in-force	2,207	2,832	1,079	1,795	833	1,092	867	10,705
Frictional costs	(112)	(154)	(322)	(20)	(29)	(33)	(102)	(771)
Time value of financial options and guarantees	(163)	(94)	(39)	(81)	(2)	(9)	(88)	(476)
Cost of non market risk	(144)	(86)	(42)	(55)	(34)	(69)	(74)	(505)
<b>Value of business in-force</b>	<b>1,787</b>	<b>2,498</b>	<b>676</b>	<b>1,639</b>	<b>768</b>	<b>981</b>	<b>603</b>	<b>8,953</b>

#### Frictional costs

Frictional costs have changed between December 31, 2007 and June 30, 2008 broadly in line with shareholders' net assets. Changes in economic conditions have also generally increased frictional costs.

In the **UK**, frictional costs grew due to the economic conditions, which have increased the support required from the shareholders' fund for the with profits business.

## Embedded Value Report

In **Germany**, frictional costs have increased through higher profit to be shared with policyholders due to new business production and a higher interest rate level.

#### Time value of financial options and guarantees

In the **US**, the reduction is in line with the decreasing volatilities of US dollar interest rate swaptions.

In the **UK**, the increase was due to increased equity implied volatilities, which increased the time value of financial options and guarantees for unit-linked business. Also due to the downturn of the equity markets, the guarantees of these products are more in the money, which makes them more valuable.

In **Germany**, the reduction reflects improvements in mortality rates, an update on the projection basis and a further increase in the interest rate curve. The time value of financial options and guarantees is mainly related to guaranteed minimum interest rates as well as guaranteed surrender values and annuity options.

In **Switzerland**, the reduction follows from the higher interest rate levels which have a positive impact on the time value of financial options and guarantees, in particular in the group life business.

#### Cost of non market risk

In **Rest of the world**, the cost of non market risk increased mainly due to Australia, because of an update of assumptions.

### b) New business

#### Summary of new business results

Table 3.3

#### New business volumes

in USD millions, for the six months ended June 30	Annual premiums		Single premiums		APE		PVNBP	
	2008	2007	2008	2007	2008	2007	2008	2007
United States	48	55	34	38	51	59	484	537
United Kingdom	167	142	3,051	2,981	472	440	3,835	3,852
Germany	307	200	259	175	333	218	3,225	1,983
Switzerland	42	37	203	150	62	52	624	531
Ireland	95	81	490	606	144	142	1,004	1,057
Emerging markets	271	242	692	572	340	299	1,987	1,717
ZIS	197	162	553	508	252	213	1,537	1,346
Hong Kong	44	49	15	17	45	51	210	231
Latin America	31	30	124	47	43	35	240	139
Rest of the world	61	39	643	753	125	114	1,064	1,044
Italy	25	9	305	441	55	53	438	477
Spain	8	7	228	169	31	24	284	228
Other	27	22	110	143	38	36	343	339
<b>Global Life</b>	<b>990</b>	<b>796</b>	<b>5,373</b>	<b>5,274</b>	<b>1,528</b>	<b>1,323</b>	<b>12,223</b>	<b>10,721</b>

Table 3.4

in USD millions, for the six months ended June 30

**New business value, after tax**

	New business value, after tax		New business margin, after tax			
			as % APE		as % PVNBP	
	2008	2007	2008	2007	2008	2007
United States	47	57	90.9%	96.4%	9.6%	10.6%
United Kingdom	49	56	10.5%	12.6%	1.3%	1.4%
Germany	104	64	31.2%	29.4%	3.2%	3.2%
Switzerland	21	19	34.3%	36.4%	3.4%	3.5%
Ireland	28	31	19.6%	22.2%	2.8%	3.0%
Emerging markets	78	73	22.8%	24.5%	3.9%	4.3%
ZIS	53	44	20.9%	20.5%	3.4%	3.2%
Hong Kong	13	23	28.6%	45.2%	6.2%	9.9%
Latin America	12	7	28.0%	18.8%	5.0%	4.7%
Rest of the world	15	19	11.8%	16.3%	1.4%	1.8%
Italy	12	10	21.8%	19.1%	2.8%	2.1%
Spain	7	6	21.2%	24.6%	2.3%	2.6%
Other	(4)	2	(10.3%)	6.6%	(1.2%)	0.7%
<b>Global Life</b>	<b>342</b>	<b>319</b>	<b>22.4%</b>	<b>24.1%</b>	<b>2.8%</b>	<b>3.0%</b>

Table 3.5

in USD millions, for the six months ended June 30

**New business value, before tax <sup>1</sup>**

	New business value, before tax		New business margin, before tax			
			as % APE		as % PVNBP	
	2008	2007	2008	2007	2008	2007
United States	82	98	159.7%	165.0%	16.9%	18.2%
United Kingdom	69	80	14.7%	18.2%	1.8%	2.1%
Germany	153	106	45.9%	48.8%	4.7%	5.4%
Switzerland	27	25	44.0%	47.9%	4.4%	4.7%
Ireland	32	35	22.0%	25.0%	3.2%	3.4%
Emerging markets	87	79	25.7%	26.5%	4.4%	4.6%
ZIS	54	44	21.4%	20.6%	3.5%	3.3%
Hong Kong	15	25	32.3%	49.0%	7.0%	10.8%
Latin America	19	10	43.9%	29.2%	7.9%	7.3%
Rest of the world	22	28	17.7%	24.9%	2.1%	2.7%
Italy	16	15	29.6%	28.9%	3.7%	3.2%
Spain	10	10	31.2%	41.1%	3.4%	4.4%
Other	(4)	3	(10.7%)	8.2%	(1.2%)	0.9%
<b>Global Life</b>	<b>472</b>	<b>452</b>	<b>30.9%</b>	<b>34.2%</b>	<b>3.9%</b>	<b>4.2%</b>

<sup>1</sup> In certain countries, particularly in the UK, where life insurance companies pay tax in respect of both policyholders and shareholders, the results shown in the above table are before shareholders' tax but after allowing for policyholders' tax.

## Analysis of new business components

Table 3.6a

in USD millions, for the six months ended June 30, 2008	United States	United Kingdom	Germany	Switzerland	Ireland	Emerging markets	Rest of the world	Global Life
Certainty equivalent new business value	62	61	117	27	33	89	24	412
Frictional costs	(6)	(2)	(11)	(1)	(1)	(1)	(5)	(27)
Time value of financial options and guarantees	(1)	(5)	1	(2)	–	–	(1)	(8)
Cost of non market risk	(9)	(4)	(3)	(3)	(3)	(9)	(4)	(35)
<b>New business value</b>	<b>47</b>	<b>49</b>	<b>104</b>	<b>21</b>	<b>28</b>	<b>78</b>	<b>15</b>	<b>342</b>

## Geographical analysis of new business value, after tax – 2008

Table 3.6b

in USD millions, for the six months ended June 30, 2007	United States	United Kingdom	Germany	Switzerland	Ireland	Emerging markets	Rest of the world	Global Life
Certainty equivalent new business value	73	69	70	25	36	83	27	383
Frictional costs	(5)	(1)	(8)	(1)	(1)	(1)	(5)	(22)
Time value of financial options and guarantees	(2)	(8)	3	(3)	–	–	(1)	(10)
Cost of non market risk	(9)	(5)	(1)	(2)	(3)	(9)	(4)	(33)
<b>New business value</b>	<b>57</b>	<b>56</b>	<b>64</b>	<b>19</b>	<b>31</b>	<b>73</b>	<b>19</b>	<b>319</b>

## Geographical analysis of new business value, after tax – 2007

In the **US**, the new business value decreased mainly due to lower premium volume and increased costs of acquiring new business.

In the **UK**, the new business value decreased slightly although performance was strong in tough market conditions. This decrease can be mainly attributed to a change in business mix to products with lower margins, and upfront investments in further business growth, which increased expenses in 2008.

In **Germany**, there was a large increase in new business value, driven by large growth in state subsidised private pension plans (so called “Riester” pensions).

In **Switzerland**, the new business value increased more slowly than premiums, due to a change in the new business mix.

In **Ireland**, new business value is lower than prior year. This is due to lower sales volumes.

In **Emerging markets**, Zurich was able to increase its sales in the South American and international business, both in terms of premium and new business value. Growth in Asia however was held back by the difficult economic environment.

In **Rest of the world**, despite increasing new business premiums, the value created from new business remained flat. In Spain the new business margin decreased due to a change in product mix sold by one of its bank partners. In Italy, profitability increased due to increasing interest rates, which reduced the cost of options and guarantees.



## c) Geographical analysis of movement in Embedded Value

Table 3.7

## Geographical analysis of movement in Embedded Value, after tax

in USD millions, for the six months ended June 30, 2008	United States	United Kingdom	Germany	Switzerland	Ireland	Emerging markets	Rest of the world	Global Life
Opening Embedded Value	2,432	4,880	2,087	1,895	1,217	1,516	1,908	15,935
Operating profit expected from in-force business and shareholders' net assets	84	152	51	93	33	43	65	522
New business value	47	49	104	21	28	78	15	342
Operating variance	(25)	10	11	42	1	(10)	(1)	27
<b>Total operating profit</b>	<b>106</b>	<b>211</b>	<b>166</b>	<b>156</b>	<b>62</b>	<b>111</b>	<b>79</b>	<b>891</b>
Economic variance	(74)	(474)	(85)	(161)	(120)	(2)	(234)	(1,150)
EV profit	33	(262)	81	(5)	(58)	109	(156)	(258)
Dividends and capital movements	(6)	(7)	(6)	–	(32)	65	78	93
Foreign currency translation effects	–	11	166	210	93	(7)	147	620
<b>Closing Embedded Value after foreign currency translation effects</b>	<b>2,459</b>	<b>4,622</b>	<b>2,328</b>	<b>2,100</b>	<b>1,220</b>	<b>1,683</b>	<b>1,976</b>	<b>16,389</b>

In the **US**, an operating profit of USD 106 million emerged during the first six months of 2008. The negative operating variance was mainly due to mortality experience and expenses. Economic variance had a negative impact mainly due to the widening of the credit spreads over the last six months.

In the **UK**, the major drivers for the operating profit were revised mortality assumptions and lower than planned tax payments, which were offset by one off development expenses. Economic variance had a negative impact due to the increase in the risk free yield curve and equity implied volatilities as well as the falls in the equity and property markets over the first six months of the year.

In **Germany**, the large new business production contributed most the total operating profit. Operating variance shows the effect of revised mortality rates as well as increased frictional costs as a result of a higher net asset value. The negative economic variance of USD 85 million is mainly due to higher interest rates and higher volatility.

In **Switzerland**, the operating profit was increased mainly by better than expected persistency experience. The economic variance reflects the adverse movement in the capital markets in the first half of 2008.

In **Ireland**, the negative economic variance of USD 120 million mainly reflects the investment variance incurred in the first six months of 2008, and was nearly twice as high as the operating profit.

In **Emerging markets**, the strong contribution from new business was mostly due to Zurich International Solutions (ZIS), which wrote new business worth USD 53 million. The economic variance is mainly the result of two large and opposite contributions: in Chile economic variance was positive because the rise in risk free rates had a greater impact on the liabilities than on the investments. In ZIS the market fall has reduced the value of the unit linked portfolio, and thus reduced fee income on these products.

In **Rest of the world**, the main contributor to the operating profit was Italy with a new business value of USD 12 million. The negative economic variance of USD 234 million was mostly driven by the negative investment variance incurred in Italy and Spain where the increase in the interest rates combined with the fall in the equity market have reduced the market value of the assets.

## Embedded Value Report

## Return on opening Embedded Value

Table 3.8

in USD millions, for the six months ended June 30, 2008

	United States	United Kingdom	Germany	Switzerland	Ireland	Emerging markets	Rest of the world	Global Life
Operating return	9.7%	8.5%	14.7%	13.2%	9.7%	15.1%	7.9%	10.8%
Adjustments for foreign currency translation effects and dividends	0.0%	(0.0%)	0.7%	1.1%	0.7%	(0.3%)	0.6%	0.3%
<b>Adjusted operating return</b>	<b>9.8%</b>	<b>8.5%</b>	<b>15.4%</b>	<b>14.3%</b>	<b>10.5%</b>	<b>14.9%</b>	<b>8.5%</b>	<b>11.1%</b>
EV return	6.7%	(1.2%)	10.8%	5.3%	0.3%	15.0%	(3.8%)	3.7%
Adjustments for foreign currency translation effects and dividends	0.0%	0.0%	0.5%	0.4%	0.0%	(0.3%)	(0.3%)	0.1%
<b>Adjusted EV return</b>	<b>6.7%</b>	<b>(1.2%)</b>	<b>11.3%</b>	<b>5.8%</b>	<b>0.3%</b>	<b>14.7%</b>	<b>(4.1%)</b>	<b>3.8%</b>
Expected return	7.0%	6.4%	4.7%	9.3%	5.3%	5.7%	6.6%	6.5%
Adjustments for foreign currency translation effects and dividends	0.0%	(0.0%)	0.2%	0.8%	0.4%	(0.1%)	0.5%	0.2%
<b>Adjusted expected return</b>	<b>7.1%</b>	<b>6.3%</b>	<b>5.0%</b>	<b>10.1%</b>	<b>5.7%</b>	<b>5.6%</b>	<b>7.1%</b>	<b>6.7%</b>

**Geographical analysis of return on opening EV, after tax – annualized**

## 4. Embedded Value methodology

EV represents the shareholders' interests in the entities included in Global Life as set out in the Group's consolidated IFRS Financial Statements. EV excludes any value from future new business. The Group has adopted the methodology for its EV based on the European Embedded Value Principles issued by the CFO Forum in May 2004, selecting a "bottom-up" market consistent approach. The following sets out the principles adopted and definitions used in that approach.

### a) Covered business

Covered business includes all business written by companies that are included in Global Life, in particular:

- life and critical illness insurance;
- savings business (with profit, non-profit and unit-linked);
- pensions and annuity business; and,
- long-term health and accident insurance.

For certain smaller companies, no EV has been calculated but these companies have been included in the EV at their shareholders' equity value, as calculated in accordance with IFRS. The contribution from these companies to the EV is approximately 2%.

In Italy, the acquisition of DWS Vita S.p.A. (now named Zurich Life and Pensions S.p.A.) on 3rd of June, 2008 has been included in the EV at purchase price. For the second quarter of 2008, no new business contribution from this entity has been taken into account.

### b) Calculation of Embedded Value

EV presented in this document is derived through calculations which are performed separately for each business unit.

Recent changes in the German regulatory requirements for profit sharing have not yet been reflected in the German Embedded Value models. The Group is in the process of assessing the impact of these changes on the EV.

### c) Reporting of Embedded Value

In line with the European Embedded Value Principles, the EV is broken down into the following components:

- shareholders' net assets, including free surplus and required capital; and,
- the value of business in-force.

The results are disclosed in a format that the Group considers to be appropriate for the market consistent methodology adopted.

### d) Shareholders' net assets

Shareholders' net assets represent the market value of net assets held in respect of the covered business, and consist of the required capital and free surplus. The level of required capital reflects the amount of capital considered by the Directors to be appropriate to manage the business. The free surplus comprises the market value of shareholders' net assets allocated to the covered business in excess of the assets backing the required capital.

The shareholders' net assets are based on local statutory and regulatory accounting. Adjustments are made to the EV where appropriate, for example in respect of any unrealized gains attributable to shareholders. Any such adjustments are made consistently with the calculation of the value of business in-force.

### e) Value of business in-force

The value of business in-force is the present value of future projected profits from the covered business, and it is defined as the certainty equivalent value of business in-force less frictional costs, time value of options and guarantees, and cost of non market risk. These components are explained below.

**Certainty equivalent value** is the value calculated using discount rates consistent with those applied to the underlying cash flows in the capital markets. It includes the intrinsic value but excludes the time value of options and guarantees which is allowed for separately, as described below.

**Frictional costs** reflect a deduction for the cost of holding shareholder capital. Under the Group's market consistent framework, these frictional costs represent tax in respect of future investment income on total available capital plus investment management costs. In Germany, they consist of the policyholders' share of investment income on the capital.

The application of frictional costs to the total capital of each life business is in line with the Group's holistic approach to the EV. The tax and costs in respect of total capital will in practice have to be met, and it is appropriate therefore that this is allowed for in the EV. For the purpose of these calculations, required capital is assumed to run down in line with existing business. Free surplus is also assumed to run down in line with existing business except where there are specific plans for the earlier distribution of the free surplus.

For any life business where part of the capital requirements can be met by free assets other than shareholders' net assets, the frictional costs allow only for the amount of capital supported by shareholders.

The allowance for frictional costs is included both in the value of business in-force, and in the new business value. For new business, frictional costs are applied to the minimum solvency margin required to be held in respect of that business.

No allowance is made for "agency costs" as these are considered to be subjective and depend on the view of each shareholder.

**Time value of options and guarantees** represents additional costs in excess of the intrinsic value of options and guarantees which are already allowed for in the certainty equivalent value. These are based on the variability of investment returns which need to be allowed for explicitly under the European Embedded Value Principles. The time value has been calculated on a market consistent basis using stochastic modeling techniques, and making allowance for expected management and policyholder behavior.

For products with significant guarantees, the time value has been calculated on a market consistent basis by deducting the average present value of shareholder cash flows using at least 1,000 stochastic economic simulations from the certainty equivalent value (both for the value of business in-force and for new business value). For most products, the average value has been calculated using Monte Carlo simulations. For a small number of products, the time value of options and guarantees has been derived using closed form solutions.

Where appropriate, the calculation of the time value of options and guarantees makes allowance for:

- dynamic actions that would be taken by Management under different economic simulations, for example to implement a life business' investment strategy; and
- dynamic policyholder behavior, for example changes in surrender behavior as interest rates rise or fall, or take-up rates of guaranteed annuity options.

**Cost of non market risk** is an explicit additional deduction from the value of in-force business, over and above the frictional costs, reflecting an allowance for the impact on shareholder value of variability in insurance, business and operational risks.

The Group's approach to the cost of non market risk is based on a valuation of the potential impacts on shareholder value of variance in certain best estimate assumptions to allow explicitly, at product level, for insurance (mortality, longevity and morbidity), business and operational risk.

The mortality, morbidity, persistency and expense assumptions used to calculate the value of business in-force and new business value are best estimates based on recent past experience. To the extent that the impact on shareholder value of variations in experience around the best estimate is symmetrical (for example, where the loss on a 10% increase in expenses is equal and opposite to the profit on a 10% reduction), and not correlated with investment markets, no further allowance for non market risk would be required. In such circumstances, the risk is considered to be diversifiable, and financial markets do not charge a risk premium for diversifiable risks.

However, in certain cases this symmetry does not hold, and the Group considers that it is appropriate to make explicit allowance for this within the EV.

#### **f) New business**

New business covers new contracts sold during the reporting period and includes recurring single premiums; new premiums written during the period on existing contracts; and variations to premiums on existing contracts where these premiums and variations have not previously been assumed as part of business in-force. Where recurring single premiums are projected over time to derive the corresponding new business value, they are treated as annual premium for the volume definition. Group Life business which is valued with a renewal assumption of the contracts is treated as annual premium.

The new business is valued as at point of sale. Explicit allowance is made for frictional costs, time value of options and guarantees, and cost of non market risk. New business value is valued consistently with new business volumes.

The value generated by new business written during the period is the present value of the projected stream of after tax distributable profits from that business.

In certain profit sharing funds, the new business written can affect the time value of options and guarantees for business written in prior years, and this effect is taken into account in the new business value.

#### **g) New business methodology**

Quarterly new business is valued on a discrete basis. New business value is calculated separately for each quarter using assumptions, both operating and economic, as of the start of the relevant quarter. New business strain is also calculated on a quarterly discrete basis, meaning that it takes account only of cash flows during that quarter and makes no allowance for any subsequent reduction in strain during the remainder of the period. Once calculated, the new business value will not change in local currency terms.

#### **h) Asset and liability data used**

For 2008, the Group has adopted a combination of approaches for obtaining the asset and liability data and for performing the EV calculations.

- The majority of the Group's EV, has been calculated using a "hard close" approach. This means that all asset as well as liability data reflect the actual position as of the valuation date.
- Spain has used asset and liability data as of May 31 with adjustments made to asset data to reflect the change in swap curves between May 31 and June 30. New business value takes into account the most important lines of business written to June 30.
- Germany has used initial asset and liability data as of March 31, which have been projected to June 30 allowing for actual capital market and expected policy movements. Adjustments have been made to the projected data to reflect actual positions such as policyholder bonus reserves as of June 30. New business value allows for all business written to June 30.

#### **i) Market consistent discounting**

The Group has adopted a "bottom-up" market consistent approach for the projection and discounting of future cash flows in the calculation of the EV. As a result, the risks inherent in the cash flows are allowed for in a way that is consistent with the way the market is expected to allow for such risks.

## Embedded Value Report

In principle, this method values each cash flow using a discount rate consistent with that applied to such a cash flow in the capital markets. For example, an equity cash flow is valued using an equity risk discount rate, and a bond cash flow is valued using a bond discount rate. If a higher return is assumed for equities, the equity cash flow is discounted at this higher rate.

In practice, the Group has applied a computational method known as a "risk neutral" approach. This involves projecting the assets and liabilities using a distribution of asset returns where all asset types, on average, earn the same risk free rate.

The risk free yield curve assumptions are based on the swap curve in each major currency (US dollars, Euros, British pounds sterling and Swiss francs).

For liabilities where payouts are either independent or move linearly with markets, deterministic techniques (referred to as "certainty equivalent") have been used. In such cases, the projection and discounting are based on the same risk free yield curve.

**j) Economic scenario generator**

All operations use actual yield curves observable as of June 30 for the calculation of the certainty equivalent value of business in-force.

The calculations of the time value of options and guarantees are based on stochastic simulations using an Economic Scenario Generator ("ESG") provided by Barrie & Hibbert. The outputs ("simulations") have been calibrated to conform to the economic parameters specified by the Group.

The simulations used for calculation of time value of options and guarantees reflect the actual yield curves observable as of June 30, 2008 and implied volatilities quoted by a number of investment banks as of June 30.

Simulations are produced for the economies in the US, UK, Switzerland and the Euro-Zone. In each economy, risk free nominal interest rates are modeled using a LIBOR market model. The excess return on other asset classes relative to the total returns on risk free assets are then modeled using a multi-factor lognormal model. Hong Kong uses US dollar simulations as their principal liabilities are US dollar denominated. Chile uses closed form solutions rather than simulations. The other operations not mentioned above have no significant options and guarantees. Further details are set out under "Economic assumptions" in section 5.

**k) Corporate Center costs**

Corporate Center costs that relate to covered business have been allocated to the relevant companies and included in the projected expenses.

**l) Holding companies**

Holding companies that belong to Global Life have been consolidated in EV at their local statutory net asset value. Related expenses are small and so have been excluded from the projection assumptions. Holding companies outside Global Life are not included in the EV of the covered business.

**m) Consolidation adjustments**

Where a reinsurance arrangement exists between two life companies in Global Life, the value of the reinsurance is shown in the EV of the ceding company. This has no material impact on the reported results.

EV is shown net of minority interests. Where the Group has a majority interest in a subsidiary company, the new business value and the premium information are shown gross of minority interests. The minorities' share of new business value is eliminated through "operating variance, after tax".

**n) Debt**

Where a loan exists between a company in Global Life and a Group company not within Global Life, the loan is valued for EV purposes consistently with the value shown in the Group's IFRS financial statements.

**o) "Look through" principle – Service companies**

There are some companies within Global Life that provide administration and distribution services. These are valued on a "look through" basis. The results do not include any Group service companies outside Global Life.

In the UK, a multi-tie distribution company (Openwork) has replaced the former tied distribution network. This is included in the EV on a "look through" basis. After allowance for certain one-off expenses, profits and losses are attributed to new business value. Certain future revenue streams, mainly renewal commissions on business sold, are discounted and contribute to the new business value and to the value of business in-force.

In Germany, the majority of distribution and administration is provided by service companies. These are valued on a "look through" basis. These companies also provide limited services to companies outside Global Life. The value of business in-force and new business value reflect the services provided to companies within Global Life. Net asset value consists, however, of the full statutory equity of these service companies.

In Switzerland, an investment management company provides asset management services to pension schemes written in foundations and other pension funds. The present value of the net asset management fees, after tax, is included in the EV and the new business value.

**p) Employee pension schemes**

Since 2007, the Group adopted the Statement of Recognized Income and Expense (SoRIE) option under IAS 19 Employee Benefits to recognize actuarial gains and losses arising from defined benefit pension and other defined benefit post-retirement plans as a liability. The adjustment to the EV for the IAS 19 Employee Benefits deficits is noted in section 2.b. The actuarial and economic assumptions used for this adjustment are consistent with that used for the equivalent allowance made in the Group's Consolidated IFRS Financial Statements.

As previously reported, expense assumptions for each life business include expected pension scheme costs in respect of future service entitlements.

**q) Employee share options**

The costs of share options granted to employees are not included in the EV, other than to the extent that they are allowed for in the local statutory accounts upon which the shareholders' net assets are based. Further information on the costs of share options is given in the Group's IFRS financial statements.

**r) Change in legislation or solvency regime**

The impacts of changes in legislation or solvency regime are included in economic variance for the purpose of the analysis of movement.

**s) Translation to Group presentation currency**

To align embedded value reporting with the Group's consolidated IFRS Financial Statements, relevant results have been converted to Group presentation currency, US dollar, using average exchange rates for the period. This applies to new business value, new business volumes (APE and PVNBP) and comparative figures for 2007. This approach has also been applied to the analysis of movement. Valuations are translated at end-of-period exchange rates.

## 5. Embedded Value assumptions

Projections of future shareholder cash flows expected to emerge from covered business are determined using best estimate operating assumptions. These assumptions, including mortality, morbidity, persistency and expenses, reflect recent experience and are actively reviewed. Allowance is made for future improvements in annuitant mortality based on experience and externally published data. Favorable changes in operating experience are not anticipated until the improvement has been observed – in particular for expenses.

Future economic assumptions, for example, investment returns and inflation, are based on period end conditions and assumed risk discount rates are consistent with these. For new business, the future economic (and operating) assumptions are based on start of the relevant quarter assumptions.

### a) Economic assumptions

#### Market consistent framework

The Group has adopted a computational method known as “risk neutral”. With this method the key economic assumptions are:

- the risk free rates;
- the implied volatilities of different assets; and,
- the way that different asset returns are correlated with each other.

Expected asset returns in excess of the risk free rate have no bearing on the calculated EV other than the expected return for the analysis of movement.

#### Choice of “risk free yield curve”

The risk free yield curve is derived from mid-market swap rates applicable to each economy as of June 30, 2008. This curve was used to extract forward reinvestment yields that are used for all asset classes.

These yield curves are consistent with the assumptions used by investment banks to derive their option prices, and hence their use ensures consistency with the derivation of implied volatilities. They also have the advantage that they are available for most of the markets in which the Group operates.



The following table shows the risk free yield curves, expressed as annualized spot rates, used at various terms for the main economies covered by the EV. These have been derived from interest rate swaps, and extrapolated where necessary.

The risk free yield curves as of March 31, 2008 were derived using a similar procedure. The assumptions as of March 31, 2008 are required to determine the new business value for policies written during the second quarter of 2008.

Table 5.1

as of June 30, 2008

**Risk free yield curves – Annualized spot rates**

	1 Year	2 Year	5 Year	10 Year	20 Year	40 Year
Economy						
United States	3.3%	3.6%	4.3%	4.8%	5.1%	5.1%
United Kingdom	6.4%	6.3%	6.1%	5.6%	5.0%	4.4%
Euro Zone	5.4%	5.4%	5.1%	5.0%	5.1%	4.8%
Switzerland	3.3%	3.4%	3.7%	3.8%	3.9%	3.9%

Table 5.2

as of March 31, 2008

**Risk free yield curves – Annualized spot rates**

	1 Year	2 Year	5 Year	10 Year	20 Year	40 Year
Economy						
United States	2.5%	2.4%	3.3%	4.2%	4.8%	4.8%
United Kingdom	5.8%	5.1%	5.0%	4.9%	4.8%	4.4%
Euro Zone	4.7%	4.2%	4.2%	4.4%	4.8%	4.7%
Switzerland	3.1%	2.9%	3.1%	3.5%	3.9%	3.7%

Domestic yield curves are also used for businesses in other countries, except Hong Kong and Argentina which use US dollar, as their liabilities are principally US dollar denominated.

**Implied asset volatility**

The volatility statistics shown below are based on analysis of the ESG output data, and hence show the economic projection assumptions produced by the ESG for the four main currencies.

The following table shows the annualized implied volatilities of equity indices used in the EV calculation, derived from the simulations used in the calculation. These figures are based on at-the-money-forward European options on capital indices, consistent with traded options in the market.

Table 5.3

as of June 30, 2008

**At-the-money-forward equity implied volatility (capital index)**

	1 Year	2 Year	5 Year	10 Year	20 Year	40 Year
Index						
United States (S&P 500)	23.4%	23.7%	25.2%	27.0%	29.3%	33.1%
United Kingdom (FTSE 100)	24.4%	26.9%	28.2%	29.2%	28.9%	28.9%
Euro Zone (Eurostoxx)	23.2%	24.4%	26.3%	27.5%	29.3%	30.1%
Switzerland (SMI)	21.7%	22.4%	23.6%	24.1%	24.9%	26.3%

## Embedded Value Report

Table 5.4

as of March 31, 2008

**At-the-money-forward equity implied volatility (capital index)**

	1 Year	2 Year	5 Year	10 Year	20 Year	40 Year
Index						
United States (S&P 500)	25.3%	25.2%	26.2%	27.6%	29.5%	33.0%
United Kingdom (FTSE 100)	25.4%	28.2%	29.7%	30.7%	30.1%	30.2%
Euro Zone (Eurostoxx)	25.2%	26.6%	28.5%	29.7%	31.1%	31.4%
Switzerland (SMI)	25.0%	25.6%	26.9%	27.3%	28.0%	29.0%

Interest volatility can be described by the implied volatility of interest rate swaptions. Swaption implied volatilities vary both by the term of the option and also the term of the underlying swap contract. The following tables show swaption implied volatilities, based on the simulations used for the EV calculation:

Table 5.5

as of June 30, 2008

**Implied volatility of at-the-money-forward interest rate swaptions**

	1 year option	2 year option	5 year option	10 year option	20 year option	40 year option
US dollar						
1 year swap	24.1%	23.2%	21.9%	19.8%	15.7%	11.6%
2 year swap	23.4%	22.7%	21.4%	19.3%	15.4%	11.3%
5 year swap	21.7%	21.1%	20.0%	18.1%	14.4%	10.6%
10 year swap	19.5%	19.0%	18.1%	16.3%	13.0%	9.6%
20 year swap	16.5%	16.2%	15.5%	14.0%	11.1%	8.2%
British pound sterling						
1 year swap	19.9%	18.8%	14.6%	13.5%	14.0%	11.3%
2 year swap	18.1%	17.4%	13.6%	13.1%	13.7%	11.1%
5 year swap	14.7%	14.6%	12.1%	12.6%	13.1%	10.7%
10 year swap	12.2%	12.5%	11.4%	12.6%	12.4%	10.2%
20 year swap	11.1%	11.5%	11.5%	12.6%	11.0%	9.1%
Euro						
1 year swap	15.8%	15.2%	14.4%	14.1%	12.3%	11.3%
2 year swap	15.5%	14.9%	14.2%	13.9%	12.2%	11.2%
5 year swap	14.9%	14.3%	13.6%	13.4%	11.8%	10.9%
10 year swap	13.9%	13.3%	12.7%	12.8%	11.3%	10.6%
20 year swap	12.7%	12.1%	11.8%	12.1%	10.5%	10.1%
Swiss Franc						
1 year swap	17.3%	17.1%	16.4%	15.4%	14.1%	11.6%
2 year swap	17.1%	16.9%	16.2%	15.2%	14.0%	11.5%
5 year swap	16.6%	16.4%	15.7%	14.8%	13.6%	11.1%
10 year swap	15.7%	15.5%	14.9%	14.1%	12.9%	10.6%
20 year swap	14.4%	14.3%	13.7%	13.0%	11.8%	9.6%

**Implied volatility of at-the-money-forward interest rate swaptions**

Table 5.6

as of March 31, 2008

	1 year option	2 year option	5 year option	10 year option	20 year option	40 year option
US dollar						
1 year swap	31.3%	29.2%	25.0%	20.7%	15.6%	12.3%
2 year swap	29.1%	27.3%	23.7%	19.7%	15.0%	11.9%
5 year swap	24.0%	23.0%	20.5%	17.4%	13.5%	11.0%
10 year swap	19.1%	18.6%	17.1%	15.0%	12.0%	10.1%
20 year swap	15.1%	15.0%	14.4%	13.0%	10.7%	9.3%
British pound sterling						
1 year swap	18.5%	18.1%	15.2%	13.2%	12.5%	10.7%
2 year swap	17.6%	17.4%	14.6%	12.8%	12.3%	10.6%
5 year swap	15.5%	15.6%	13.1%	11.9%	11.7%	10.2%
10 year swap	13.2%	13.6%	11.4%	10.9%	11.0%	9.8%
20 year swap	11.2%	11.7%	10.3%	10.2%	10.1%	9.2%
Euro						
1 year swap	14.0%	13.5%	12.8%	12.5%	10.9%	9.6%
2 year swap	13.7%	13.2%	12.6%	12.3%	10.8%	9.5%
5 year swap	13.1%	12.6%	12.0%	11.9%	10.4%	9.3%
10 year swap	12.1%	11.6%	11.2%	11.3%	9.9%	8.9%
20 year swap	10.8%	10.5%	10.3%	10.6%	9.1%	8.4%
Swiss Franc						
1 year swap	19.1%	18.5%	16.9%	15.3%	13.4%	10.8%
2 year swap	18.5%	18.0%	16.4%	15.0%	13.1%	10.6%
5 year swap	16.9%	16.4%	15.2%	14.1%	12.5%	10.1%
10 year swap	14.9%	14.6%	13.7%	13.0%	11.7%	9.4%
20 year swap	12.7%	12.6%	12.2%	11.9%	10.4%	8.4%

The model also makes assumptions regarding the volatility of property investments, estimated from relevant historic return data. Based on the actual simulations used, the following implied volatilities arise:

**At-the-money-forward property implied volatility (capital index)**

Table 5.7

as of June 30, 2008

	1 Year	2 Year	5 Year	10 Year	20 Year	40 Year
Economy						
United States	15.5%	15.7%	16.1%	17.6%	20.2%	21.9%
United Kingdom	15.9%	15.4%	16.7%	16.9%	18.1%	19.6%
Euro Zone	15.2%	14.7%	15.2%	16.0%	18.5%	21.3%
Switzerland	15.6%	16.0%	16.0%	16.5%	17.7%	19.9%

**At-the-money-forward property implied volatility (capital index)**

Table 5.8

as of March 31, 2008

	1 Year	2 Year	5 Year	10 Year	20 Year	40 Year
Economy						
United States	15.5%	15.7%	16.1%	17.7%	20.1%	21.7%
United Kingdom	15.9%	15.4%	16.6%	17.0%	18.1%	19.4%
Euro Zone	15.2%	14.8%	15.2%	15.9%	18.2%	20.5%
Switzerland	15.6%	16.0%	16.0%	16.4%	17.6%	18.9%

### Inflation

Inflation assumptions have been derived from the yields on index linked bonds relative to the risk free yield curve, where index linked bonds exist. Elsewhere, a statistical approach based on past inflation has been used.

Appropriate allowance has been made for expense inflation to exceed the assumed level of price inflation as life company expenses include a large element of salary related expenses.

The following table shows price inflation assumptions for the stochastically modeled economies, derived from the simulations used in the EV:

Table 5.9

as of June 30, 2008

### Inflation assumptions (annualized forward inflation)

	1 Year	2 Year	5 Year	10 Year	20 Year	40 Year
<b>Economy</b>						
United States	2.3%	2.4%	2.7%	2.7%	2.6%	2.5%
United Kingdom	3.5%	3.5%	3.7%	3.8%	4.0%	4.4%
Euro Zone	2.6%	2.7%	2.6%	2.6%	2.6%	2.4%
Switzerland	1.4%	1.5%	1.6%	1.7%	1.9%	2.3%

Table 5.10

as of March 31, 2008

### Inflation assumptions (annualized forward inflation)

	1 Year	2 Year	5 Year	10 Year	20 Year	40 Year
<b>Economy</b>						
United States	2.2%	1.9%	2.4%	2.7%	2.7%	2.3%
United Kingdom	3.7%	3.0%	3.0%	3.3%	3.7%	4.1%
Euro Zone	2.8%	2.3%	2.1%	2.3%	2.4%	2.2%
Switzerland	0.9%	0.6%	0.7%	1.1%	1.6%	2.0%

### Risk discount rate

Under the "risk neutral" approach, risk discount rates are based on the same risk free yield curves as those used to project the investment return.

For stochastic modeling, the risk discount rates are simulation specific and also vary by calendar year consistently with the projected risk free yields in each simulation.

### "Expected return" for the analysis of movement – Investment return assumptions

The expected return for the analysis of movement is based on a projection from beginning of period to end-of-period. This requires assumptions regarding the investment returns expected to be achieved over the period on different asset classes. The investment return assumptions (for this purpose only) are based on the "real world" returns expected by the Group. The use of real world investment assumptions gives a more realistic basis for the expected return calculation and allows for the risk underlying each asset. Any under or over performance will be reported through economic variance.

For fixed interest assets, the "real world" investment return assumptions are based on the gross redemption yield on the assets, less an allowance for defaults where appropriate, together with an adjustment to reflect the change over the year implied in the yield curve assumptions.

For equity and property assets, the investment return assumptions are based on the 10 year swap rate at the beginning of period plus a margin to reflect the additional risk associated with investment in these asset classes.

These assumptions have been set by asset class and separately for each sub-fund in each life business in order to best reflect the actual assets held.

**Participating business**

Rates of future bonus or crediting rates have been set at levels consistent with the risk neutral investment return assumptions and current bonus plans. In the UK, bonus rates have been set so as to exhaust any remaining assets in the relevant long-term funds. In other European life businesses and in the US, bonuses have been set to be consistent with the investment return assumptions and with the book value approach used by these life businesses in practice.

**Taxation**

Current tax legislation and rates have been assumed to continue unaltered, except where changes in future tax rates or practices have been announced.

**Exchange rates**

EV for June 30, 2008 and June 30, 2007 have been converted to Group presentation currency, US dollar, using the respective balance sheet exchange rates. The rates can be found in the Financial Supplement. The analysis of movements, including new business, has been translated at average exchange rates over the period.

**b) Operating assumptions****Demographic assumptions**

The assumed future mortality, morbidity and lapse rates have been derived from recent operating experience and relevant industry statistics. Where operating experience or industry statistics are limited, the assumptions are derived from a best estimate of future developments and are subject to regular review as more experience emerges. Where appropriate, surrender and option take-up rate assumptions that vary according to the investment simulation under consideration have been used, based on our assessment of likely policyholder behavior.

**Expense assumptions**

Management expenses have been analyzed between expenses related to acquisition of new business, the maintenance of in-force business and, where appropriate, one-off project costs. Future expense assumptions allow for expected levels of maintenance expenses. In addition, Corporate Center expenses relating to covered business have been allocated to business units and are reflected in assumed future expenses.

The maintenance expense assumptions allow for the expected cost of providing future service benefits in respect of the Group staff pension schemes. An adjustment to the EV is noted in section 2.b for pension scheme liabilities under IAS 19 and no allowance is made in the expense assumptions for any contributions as a result of past service benefits.

No allowance has been made for future productivity improvements in the expense assumptions.

None of the life companies included in the EV is considered to be in a "start-up" situation and so no allowance has been made for future development expenses.

Where service companies have been valued on a look through basis, the value of profits or losses arising from these services have been included in the EV and new business value.

**c) Dynamic decisions**

To reflect more realistically the outcome of stochastic simulations, the assumptions for each simulation make allowance for the behaviors of policyholders and management actions in response to the investment conditions modeled.

In many life businesses, policyholders can exercise an option against the life company in certain circumstances, such as to surrender a policy. This leads to an increase in the assumed lapse rates when interest rates rise (or a corresponding reduction when interest rates fall). This dynamic effect in relation to lapse rates has been allowed for in the stochastic models.

The stochastic models allow, where appropriate, for management actions to change investment strategy in response to market conditions.

## 6. Statement of External Review

### REPORT ON EMBEDDED VALUE METHODOLOGY AND ASSUMPTIONS

To the Board of Directors of Zurich Financial Services

We have performed a limited assurance engagement on Zurich Financial Services' process for preparing the Embedded Value Report for the half year ended June 30, 2008, including compliance of the applied methodology with the European Embedded Value ("EEV") principles and the reasonableness of the assumptions used.

The Board of Directors is responsible for the preparation of the Embedded Value Report, including the applied methodology and the assumptions used. Our responsibility is to provide conclusions on the subject matter based on our work.

Our engagement was carried out in accordance with International Standard on Assurance Engagements (ISAE 3000). This standard requires that we comply with ethical requirements and plan and perform the engagement to obtain limited assurance on the subject matter of the review. In our engagement, we performed analytical procedures to assess whether the methodology as applied by Zurich Financial Services is in accordance with the EEV principles and the assumptions used are reasonable. In addition we performed procedures to assess the consistent application of the methodology across Zurich Financial Services. We did not carry out an audit or review of the Embedded Value Report or of the models or of the underlying data.

In our opinion nothing has come to our attention which indicates that the methodology as applied by Zurich Financial Services does not comply with the EEV principles and has not been implemented consistently, or the assumptions determined by Zurich Financial Services are not reasonable to derive the information included in the Embedded Value Report.

PricewaterhouseCoopers AG

Patrick Shoumlin

Ray Kunz

Zurich, August 12, 2008

# Appendix

## Embedded Value – Global Life

### Embedded Value Results, after tax – Global Life

in USD millions, for the six months ended June 30

	United States		United Kingdom	
	2008	2007	2008	2007
New business premiums including deposits, of which:	82	93	3,218	3,123
Annual premiums	48	55	167	142
Single premiums	34	38	3,051	2,981
New business annual premium equivalent (APE)	51	59	472	440
Present value of new business premiums (PVNBP)	484	537	3,835	3,852
Embedded value information:				
Opening Embedded Value	2,432	2,326	4,880	5,133
Operating profit expected from value of business in-force and shareholders' net assets	84	73	152	156
New business value	47	57	49	56
Operating variance	(25)	(38)	10	77
<b>Operating profit</b>	<b>106</b>	<b>92</b>	<b>211</b>	<b>288</b>
Economic variance	(74)	(4)	(474)	(84)
<b>Embedded Value profit</b>	<b>33</b>	<b>89</b>	<b>(262)</b>	<b>204</b>
Dividends and capital movements	(6)	(56)	(7)	(7)
Foreign currency translation effects	–	–	11	135
<b>Closing Embedded Value</b>	<b>2,459</b>	<b>2,359</b>	<b>4,622</b>	<b>5,465</b>
Adjusted operating return on opening EV – annualized	9.8%	9.6%	8.5%	9.7%
Adjusted return on opening EV – annualized	6.7%	9.4%	(1.3%)	8.1%
Operating return expected from in-force business and net assets, after tax – annualised	7.1%	6.3%	6.4%	6.1%
New business margin (as % of APE)	90.9%	96.4%	10.5%	12.6%
New business margin (as % of PVNBP)	9.6%	10.6%	1.3%	1.4%



	Germany		Switzerland		Ireland		Emerging markets		Rest of the world		Global Life	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	566	375	245	187	586	687	963	814	704	791	6,363	6,070
	307	200	42	37	95	81	271	242	61	39	990	796
	259	175	203	150	490	606	692	572	643	753	5,373	5,274
	333	218	62	52	144	142	340	299	125	114	1,528	1,323
	3,225	1,983	624	531	1,004	1,057	1,987	1,717	1,064	1,044	12,223	10,721
	2,087	1,296	1,895	1,570	1,217	998	1,516	1,223	1,908	1,546	15,935	14,092
	51	28	93	54	33	24	43	39	65	53	522	428
	104	64	21	19	28	31	78	73	15	19	342	319
	11	121	42	125	1	6	(10)	(37)	(1)	(1)	27	254
	<b>166</b>	<b>214</b>	<b>156</b>	<b>198</b>	<b>62</b>	<b>62</b>	<b>111</b>	<b>75</b>	<b>79</b>	<b>71</b>	<b>891</b>	1,001
	(85)	81	(161)	130	(120)	21	(2)	35	(234)	(25)	(1,150)	154
	<b>81</b>	294	<b>(5)</b>	328	<b>(58)</b>	83	<b>109</b>	110	<b>(156)</b>	46	<b>(258)</b>	1,155
	(6)	112	-	-	(32)	-	65	(12)	78	(1)	93	35
	166	41	210	(2)	93	27	(7)	18	147	55	620	274
	<b>2,328</b>	<b>1,743</b>	<b>2,100</b>	<b>1,897</b>	<b>1,220</b>	<b>1,108</b>	<b>1,683</b>	<b>1,339</b>	<b>1,976</b>	<b>1,646</b>	<b>16,389</b>	15,556
	14.7%	22.5%	13.2%	17.4%	10.0%	11.7%	14.7%	15.4%	8.1%	9.2%	10.8%	12.3%
	10.8%	28.4%	5.3%	25.7%	0.3%	13.8%	14.6%	18.3%	(3.9%)	7.6%	3.7%	13.4%
	4.8%	4.2%	9.3%	6.9%	5.5%	4.8%	5.6%	6.4%	6.8%	6.8%	6.5%	6.0%
	31.2%	29.4%	34.3%	36.4%	19.6%	22.2%	22.8%	24.5%	11.8%	16.3%	22.4%	24.1%
	3.2%	3.2%	3.4%	3.5%	2.8%	3.0%	3.9%	4.3%	1.4%	1.8%	2.8%	3.0%

## Embedded Value – Emerging markets and Rest of the world by country

in USD millions, for the six months ended June 30		Emerging markets				
		ZIS		Hong Kong		
		2008	2007	2008	2007	
<b>Embedded Value Results, after tax – Emerging markets and Rest of the world</b>	New business premiums including deposits, of which:	750	671	59	66	
	Annual premiums	197	162	44	49	
	Single premiums	553	508	15	17	
	New business annual premium equivalent (APE)	252	213	45	51	
	Present value of new business premiums (PVNBP)	1,537	1,346	210	231	
	Embedded value information:					
	New business value	53	44	13	23	
	<b>Operating profit</b>	<b>92</b>	<b>46</b>	<b>7</b>	<b>4</b>	
	Adjusted operating return on opening EV	19.4%	16.5%	8.1%	11.2%	
	New business margin (as % of APE)	20.9%	20.5%	28.6%	45.2%	
	New business margin (as % of PVNBP)	3.4%	3.2%	6.2%	9.9%	

	Emerging markets								Rest of the World			
	Latin America		Total		Italy		Spain		Other		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	154	77	963	814	330	450	236	176	138	165	704	791
	31	30	271	242	25	9	8	7	27	22	61	39
	124	47	692	572	305	441	228	169	110	143	643	753
	43	35	340	299	55	53	31	24	38	36	125	114
	240	139	1,987	1,717	438	477	284	228	343	339	1,064	1,044
	12	7	78	73	12	10	7	6	(4)	2	15	19
	<b>12</b>	<b>25</b>	<b>111</b>	<b>75</b>	<b>26</b>	<b>23</b>	<b>33</b>	<b>27</b>	<b>20</b>	21	<b>79</b>	71
	10.2%	17.9%	14.7%	15.4%	9.8%	11.6%	12.2%	12.3%	4.7%	6.1%	8.1%	9.2%
	28.0%	18.8%	22.8%	24.5%	21.8%	19.1%	21.2%	24.6%	(10.3%)	6.6%	11.8%	16.3%
	5.0%	4.7%	3.9%	4.3%	2.8%	2.1%	2.3%	2.6%	(1.2%)	0.7%	1.4%	1.8%

# Shareholder Information

## Zurich Financial Services registered share data

Key indicators	06/30/2008		12/31/2007
	Number of shares issued	142,114,320	145,546,820
Number of dividend-bearing shares	142,114,320	145,546,820	145,546,820
Market capitalization (in CHF millions at end of period)	37,163	48,394	
Authorized capital, number of shares	6,000,000	6,000,000	
Contingent capital, number of shares	8,684,407	8,684,407	

Per share data	06/30/2008		06/30/2007
	in CHF		
Gross dividend	15.00 <sup>1</sup>	11.00 <sup>2</sup>	
Basic earnings per share	20.11	22.68	
Diluted earnings per share	19.94	22.48	
Nominal value per share	0.10	0.10	
Price at end of period	261.50	379.25	
Price period high	336.50	393.25	
Price period low	257.75	328.00	

<sup>1</sup> Gross dividend per registered share; payment date was on April 8, 2008.

<sup>2</sup> Gross dividend per registered share; payment date was on April 10, 2007.



Source: Datastream

## Shareholder Information

## Financial Calendar

## Results Reporting for the Nine Months to September 30, 2008

November 13, 2008

## Annual Results Reporting 2008

February 5, 2009

## Annual General Meeting 2009

April 2, 2009

## Results Reporting for the Three Months to March 31, 2009

May 7, 2009

## Half Year Results Reporting 2009

August 6, 2009

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## American Depositary Receipts

Zurich Financial Services has an American Depositary Receipt program with The Bank of New York (BNY), a subsidiary of The Bank of New York Mellon. For more information call BNY Mellon's Shareowner Services in the USA at +1-888-BNY-ADRs (1-888-269-2377) or outside the USA on +1-212-815-3700. ADR holder assistance may also be obtained from The Bank of New York Mellon at [www.adrbny.com](http://www.adrbny.com).

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The Half Year Report is published in English.

Design by Addison Corporate Marketing Ltd., London, England.

Cover photograph by Elisabeth Real, Zurich, Switzerland.

Production by Multimedia Solutions AG, Zurich, Switzerland.

Printed end of August 2008 by St Ives Westerham Press Ltd., England.



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Printed end of August 2008 by St Ives Westerham Press Ltd., England, ISO14001, FSC certified and CarbonNeutral®.

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