

Half Year Report 2010



Report for the six months ended June 30, 2010

Zurich HelpPoint

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We delivered a robust operating performance from our core businesses in a challenging economic environment, demonstrating the underlying strength of our business strategy.

Dear Shareholder,

We are pleased to present the Group's financial results for the first half of 2010. We delivered a robust operating performance from our core businesses in a challenging economic environment, demonstrating the underlying strength of our business strategy. General Insurance posted a solid performance, protecting margins despite top-line pressures due to weak demand. Global Life continued to produce top-line and bottom-line growth. Farmers delivered another set of high-quality results by continuing to focus on margin, while fully leveraging the 21st Century acquisition.

The Group's business operating profit and net income attributable to shareholders were impacted by the provisions of USD 330 million we announced in July related to our banking activities in Ireland and the UK, which are included in our Non-Core Businesses segment, and by the earthquake in Chile and other weather-related losses. Business operating profit fell 10 percent to USD 2,286 million. Net income attributable to shareholders fell 16 percent to USD 1,642 million. The reduction in net income year-on-year also reflects a restatement in connection with the implementation of a dynamic hedge in the first quarter on a closed U.S. life portfolio. Without the restatement, we would have shown an increase against the USD 1,254 million of net income as published last year. Our capital and solvency positions remain very strong with a Solvency I ratio of 232 percent.

The operating performances of our core business segments were as follows:

In General Insurance, our business operating profit was USD 1,377 million. This is down 20 percent compared with

the same period in 2009, largely due to the Chile earthquake. While customer retention levels remain strong, our continued disciplined approach to underwriting constrains the amount of new business we choose to write in the current market environment.

Global Life continued to reap the benefits of its strategy of targeted proposition and distribution excellence. The results are evident across all key metrics. Business operating profit increased by 12 percent, to USD 720 million. New business value also continued its upward trend, increasing by 18 percent to USD 392 million, and annual premium equivalent increased by 9 percent to USD 1,716 million.

Farmers Management Services (FMS) grew its management fees and other related revenues by 12 percent to USD 1,399 million, driven by a 9 percent rise in gross written premiums to USD 9,207 million at the Farmers Exchanges, which are managed but not owned by a wholly-owned subsidiary of Zurich. Growth at the Exchanges was driven by the contribution from 21st Century, which was acquired last year. Business operating profit for Farmers, which includes FMS and Farmers Re, rose by 17 percent, to USD 845 million.

We would like to express our thanks to the 60,000 employees of Zurich. These are demanding times and change is constant. We are therefore especially grateful for the spirit and dynamism our colleagues have shown, especially those who have taken on new or added responsibilities. Together, we look forward to meeting the challenges ahead.



Dr. Manfred Gentz
Chairman of the Board of Directors



Martin Senn
Chief Executive Officer

Financial highlights (unaudited)

The following table presents the summarized consolidated results of the Group for the six months ended June 30, 2010 and 2009, and the financial position as of June 30, 2010 and December 31, 2009, 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 Financial Report 2009 for the Zurich Financial Services Group available on www.zurich.com and with its unaudited Consolidated financial statements as of June 30, 2010. Certain comparatives have been restated to reflect a change in accounting policy as set out in note 1 of the unaudited Consolidated financial statements.

Financial highlights

in USD millions, for the six months ended June 30, unless otherwise stated	2010	2009	Change ¹
Business operating profit	2,286	2,552	(10%)
Net income attributable to shareholders	1,642	1,967	(16%)
General Insurance gross written premiums and policy fees	17,940	18,247	(2%)
Global Life gross written premiums, policy fees and insurance deposits	13,111	11,569	13%
Farmers Management Services management fees and other related revenues	1,399	1,247	12%
Farmers Re gross written premiums and policy fees	2,491	2,883	(14%)
General Insurance business operating profit	1,377	1,714	(20%)
General Insurance combined ratio	98.0%	96.2%	(1.7 pts)
Global Life business operating profit	720	641	12%
Global Life new business annual premium equivalent (APE)	1,716	1,579	9%
Global Life new business margin, after tax (as % of APE)	22.8%	21.0%	1.8 pts
Global Life new business value, after tax	392	332	18%
Farmers business operating profit	845	724	17%
Farmers Management Services gross management result	681	610	12%
Farmers Management Services managed gross earned premium margin	7.4%	7.3%	0.1 pts
Group investments average invested assets ²	190,565	184,799	3%
Group investments result, net	3,979	2,274	75%
Group investments return (as % of average invested assets)	2.1%	1.2%	0.9 pts
Total return on Group investments	3.6%	1.6%	2.0 pts
Shareholders' equity ³	28,469	29,304	(3%)
Solvency I ratio ³	232% ⁴	195% ⁵	37 pts
Diluted earnings per share (in CHF)	12.14	15.68	(23%)
Book value per share (in CHF) ³	207.69	206.58	1%
Return on common shareholders' equity (ROE)	11.5%	17.6%	(6.0 pts)
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)	12.4%	17.3%	(4.9 pts)

¹ Parentheses around numbers represent an adverse variance.

² Excluding average cash received as collateral for securities lending of USD 396 million and USD 285 million in the six months ended June 30, 2010 and 2009, respectively.

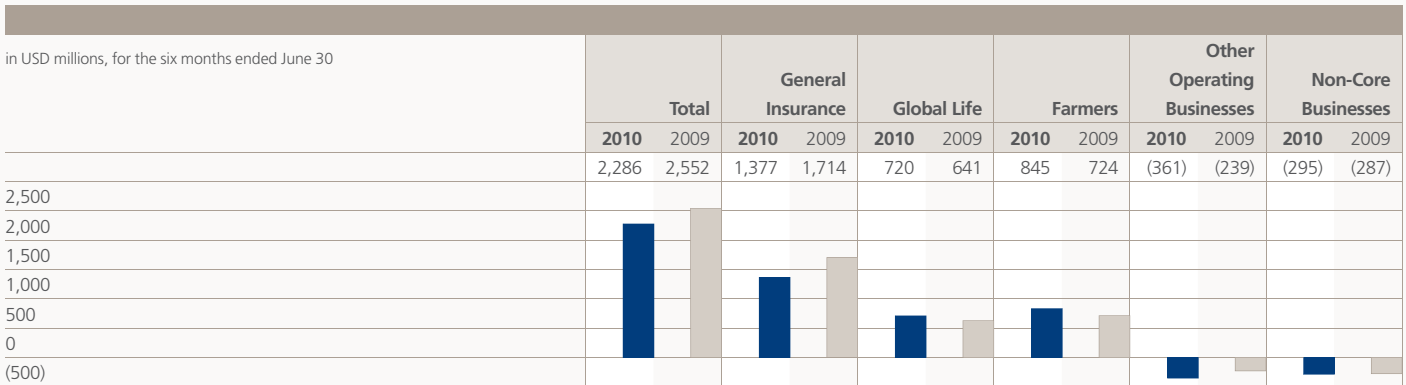
³ As of June 30, 2010 and December 31, 2009, respectively.

⁴ After taking into account a dividend accrual of CHF 8.00 per share. The 2010 dividend proposed to the Annual General Meeting will be the decision of the Board in February 2011. Including a 10 pts increase due to refined methodology.

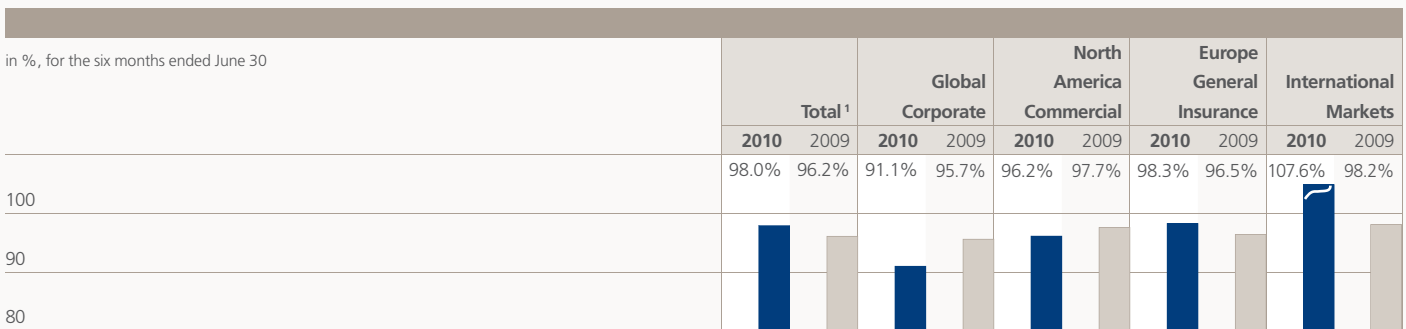
⁵ Finalized, restated for accounting change and as filed with the Swiss regulator; after 2009 dividend.

Key performance indicators

Business operating profit

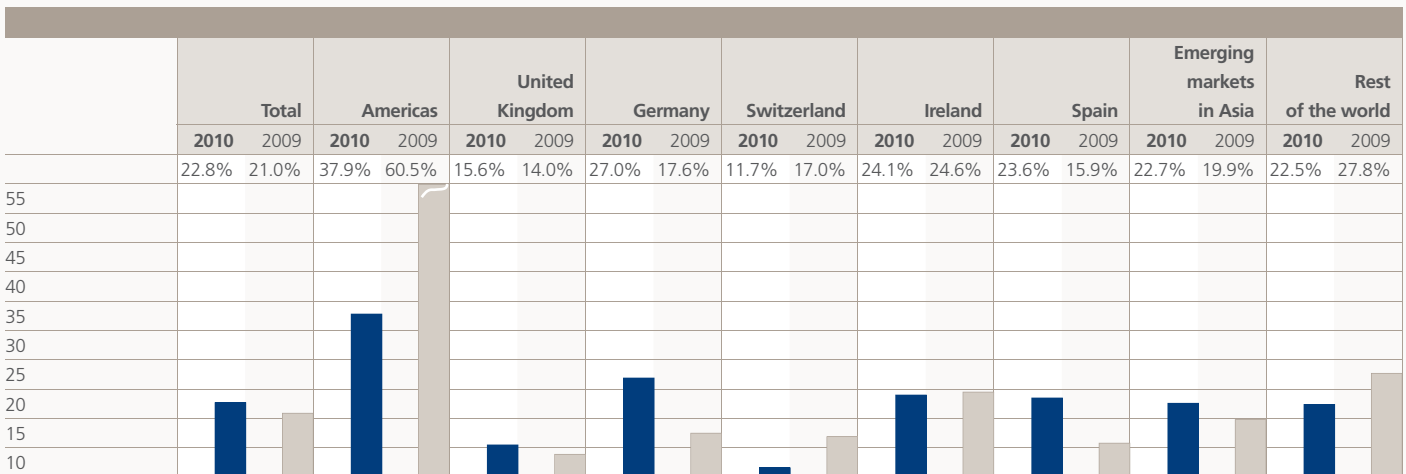


General Insurance – combined ratio



¹ Including 'GI Global Functions including Group Reinsurance'

Global Life – new business margin, after tax (as % of APE) ¹



¹ In %, for the six months ended June 30

Financial review

The information contained within the Financial review is unaudited. This document should be read in conjunction with the Financial Report 2009 and with the unaudited Consolidated financial statements as of June 30, 2010, for the Zurich Financial Services Group. Comparatives are for the six months ended June 30, 2009, or as of December 31, 2009, unless otherwise stated. All amounts, unless otherwise specified, are shown in U.S. dollars and rounded to the nearest million with the consequence that the rounded amounts may not add to the rounded total in all cases. All ratios and variances are calculated using the underlying amount rather than the rounded amount. Certain comparatives have been restated to reflect the change in accounting policy as set out in note 1 of the unaudited Consolidated financial statements.

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in USD millions, for the six months ended June 30, unless otherwise stated	2010	2009	Change ¹
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Group investments result, net	3,979	2,274	75%
Group investments return (as % of average invested assets)	2.1%	1.2%	0.9 pts
Total return on Group investments	3.6%	1.6%	2.0 pts
Shareholders' equity ³	28,469	29,304	(3%)
Solvency I ratio ³	232% ⁴	195% ⁵	37 pts
Diluted earnings per share (in CHF)	12.14	15.68	(23%)
Book value per share (in CHF) ³	207.69	206.58	1%
Return on common shareholders' equity (ROE)	11.5%	17.6%	(6.0 pts)
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)	12.4%	17.3%	(4.9 pts)

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⁵ Finalized, restated for accounting change and as filed with the Swiss regulator; after 2009 dividend.

Performance
overview for the
six months ended
June 30, 2010

Zurich Financial Services Ltd and its subsidiaries (collectively "the Group") delivered a set of results below that of prior year after allowing for a number of significant events in the first six months of the year. These included losses from the earthquake in Chile of USD 200 million and increases on the banking loan loss provisions of USD 330 million. However, the Group's strong focus on profitability allowed it to deliver robust underlying performance in all its core businesses with significant increases in business operating profit in Global Life and Farmers. The Group's capital and solvency positions remain strong with an increase of 37 percentage points in the Solvency I position since December 31, 2009, to 232 percent, and with shareholders' equity at USD 28.5 billion after paying USD 2.2 billion in dividends in the first six months of the year. Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE) for the six months ended June 30, 2010, was 12.4 percent.

Business operating profit decreased by USD 266 million or 10 percent to USD 2.3 billion in U.S. dollar terms and by 9 percent on a local currency basis.

- **General Insurance** business operating profit decreased by USD 337 million or 20 percent to USD 1.4 billion in U.S. dollar terms and by 19 percent on a local currency basis. The business experienced a higher level of event and weather-related losses, including USD 200 million from the Chilean earthquake in the first three months of the year, and lower levels of investment income. The ongoing focus on profitability and rate increases continued to positively impact the underlying underwriting result for the period in a competitive market.
- **Global Life** business operating profit increased by USD 79 million or 12 percent to USD 720 million in U.S. dollar terms, and also by 12 percent on a local currency basis. During the first six months of 2010, both the expense and the investment margin increased, benefiting from the recovery in global financial markets, while focus on protection business also led to an improved risk margin.
- **Farmers** business operating profit increased by USD 121 million or 17 percent to USD 845 million. **Farmers Management Services** business operating profit increased by USD 51 million, or 8 percent, supported by the successful acquisition and integration of 21st Century which was acquired in July 2009 by the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Group. **Farmers Re** business operating profit increased by USD 70 million or 88 percent to USD 151 million, reflecting its increased participation in the All Lines quota share reinsurance treaty, favorable underlying underwriting trends and the 21st Century acquisition.

Other Operating Businesses business operating loss increased by USD 121 million to USD 361 million. The result reflects a more normalized run-rate for Group financing costs. The prior year included one-off gains associated with buy-backs of subordinated debt.

Non-Core Businesses, comprising the Group's run-off businesses and the Group's banking activities, business operating loss increased by USD 7 million to USD 295 million. The loss in the first six months of the year arose from the increase in banking loan loss provisions in the second three months of USD 330 million as a result of a review of its loans for commercial property development in the UK and Ireland. The loss in the same period of the prior year arose from reserve increases driven by volatile markets. This has been mitigated in the current year through the dynamic hedge strategy implemented in the first three months of the year.

Total Group business volumes, comprising gross written premiums, policy fees, insurance deposits and management fees, increased by USD 1.0 billion or 3 percent in U.S. dollar terms and by 1 percent on a local currency basis. This is aligned to the Group's strategy to grow in chosen markets. Business volumes in the main operating segments developed as follows:

- **General Insurance** gross written premiums and policy fees decreased by USD 306 million or 2 percent to USD 17.9 billion in U.S. dollar terms and by 4 percent on a local currency basis. Average rate increases of 2 percentage points were achieved through continuing disciplined underwriting focused on profit margin. However, these positive actions did not fully compensate for the impact of the economic environment and competitive markets which led to lower levels of new business as well as reduced insured customer exposures. Customer retention levels remain strong across the business.
- **Global Life** gross written premiums, policy fees and insurance deposits increased by USD 1.5 billion or 13 percent to USD 13.1 billion in U.S. dollar terms and by 12 percent on a local currency basis. This increase was primarily driven by higher levels of single premium products manufactured cross-border and continued growth in the Private Banking Client Solutions and Corporate Life & Pensions businesses.
- **Farmers Management Services** management fees and other related revenues increased by USD 152 million or 12 percent to USD 1.4 billion reflecting the underlying increase of 10 percent in the gross earned premiums of the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Group. 21st Century generated USD 179 million in fees and revenues. The 14 percent decrease to USD 2.5 billion in the gross written premiums of **Farmers Re** reflects the changes in the All Lines quota share reinsurance treaty and associated portfolio transfers.

Net income attributable to shareholders decreased by USD 324 million or 16 percent to USD 1.6 billion. The **shareholders' effective tax rate** was 23.2 percent for the six months ended June 30, 2010, compared with 24.4 percent for the same period in the prior year and 22.7 percent for the year ended December 31, 2009.

ROE of 11.5 percent was affected by a number of factors in the first six months of the year, including the additional banking loan loss provisions, the impact of the Chile earthquake and the continued strengthening of the Group's capital position. **BOPAT ROE** was 12.4 percent. **Diluted earnings per share** decreased by 23 percent to CHF 12.14 for the six months ended June 30, 2010, compared with CHF 15.68 for the same period in the prior year.

General Insurance

in USD millions, for the six months ended June 30	2010	2009	Change
Gross written premiums and policy fees	17,940	18,247	(2%)
Net earned premiums and policy fees	13,778	14,231	(3%)
Insurance benefits and losses, net of reinsurance	(9,785)	(10,047)	3%
Net underwriting result	279	535	(48%)
Net investment income	1,439	1,533	(6%)
Net non-technical result (excl. items not included in BOP)	(333)	(403)	17%
Business operating profit	1,377	1,714	(20%)
Loss ratio	71.0%	70.6%	(0.4 pts)
Expense ratio	27.0%	25.6%	(1.3 pts)
Combined ratio	98.0%	96.2%	(1.7 pts)

in USD millions, for the six months ended June 30	Business operating profit		Combined ratio	
	2010	2009	2010	2009
Global Corporate	462	354	91.1%	95.7%
North America Commercial	558	576	96.2%	97.7%
Europe General Insurance	420	624	98.3%	96.5%
International Markets	16	74	107.6%	98.2%
GI Global Functions including Group Reinsurance	(80)	87	nm	nm
Total	1,377	1,714	98.0%	96.2%

General Insurance delivered a set of results below that of the same period of the prior year, driven by losses from catastrophe and weather-related events, including the Chilean earthquake of USD 200 million, as well as the continuing impact of the recessionary environment and lower investment yields. However, rate increases and targeted underwriting actions implemented over the past year are evidenced in lower underlying loss ratios since the prior year end.

Business operating profit decreased by USD 337 million or by 20 percent to USD 1.4 billion in U.S. dollar terms and by 19 percent on a local currency basis. The decrease is mainly attributable to the impact of the Chilean earthquake and the higher occurrence of weather-related losses in both Europe and North America. Investment returns declined mainly due to a decrease in yields and a lower asset base after the repatriation of capital to the Group. Rate increases achieved in recent quarters are now earning into the result. The non-technical result improved mainly due to improved foreign exchange positions, including benefits from currency revaluations in Latin America.

Gross written premiums and policy fees decreased by USD 306 million or 2 percent to USD 17.9 billion in U.S. dollar terms and by 4 percent on a local currency basis. In line with strategy to maintain margins, average rate increases of 2 percentage points have been achieved during the first six months of the year with higher increases achieved in European markets compared with North America. The depressed levels of economic activity have reduced many of the insured customer exposures and lower levels of new business activity are evident. Despite this, premium growth has been achieved in International Markets, as well as in certain commercial units in North America and specific market segments in Europe. In the North American market, competitors are aggressively defending their portfolios and the market is experiencing rate decreases. European volumes are under pressure because of higher unemployment and other recessionary impacts, particularly in the personal lines motor business. Overall, customer retention levels continued to develop favorably.

The **net underwriting result** decreased by USD 256 million to USD 279 million with the combined ratio at 98.0 percent, having deteriorated by 1.7 percentage points compared with the same period in the prior year. The loss ratio was impacted by the Chilean earthquake, the Tennessee floods and the higher occurrence of severe weather in both Europe and North America after benign experience in the prior year. Excluding these impacts, the underlying result continues to develop favorably with a decrease in the loss ratio since the prior year end and higher favorable development of reserves established in prior years. The expense ratio developed unfavorably by 1.3 percentage points to 27.0 percent. A major driver was the reduction in net earned premiums resulting from lower business volumes and return premiums and reinstatement premiums recorded in the first six months of the year. Within the overall expense ratio, the commission ratio increased as a result of a change in reinsurance structure and profit commissions related to the North America crop business. The Group continued to focus on expense management and maintaining a balance between strategic investments and expense management actions.

Global Corporate

in USD millions, for the six months ended June 30	2010	2009	Change
Gross written premiums and policy fees	4,245	4,249	–
Net underwriting result	213	104	nm
Business operating profit	462	354	31%
Loss ratio	70.9%	76.4%	5.5 pts
Expense ratio	20.1%	19.3%	(0.9 pts)
Combined ratio	91.1%	95.7%	4.6 pts

Business operating profit increased by USD 109 million or 31 percent to USD 462 million in U.S. dollar terms and by 27 percent on a local currency basis. The increase was attributable to the significantly improved underlying underwriting result despite the losses incurred by corporate customers who were impacted by the Chilean earthquake in the first three months of the year and the Tennessee floods in the second three months of the year. The improvement in the underwriting result was offset by a reduction in investment income due to reduced yields, capital repatriation to the Group and a reduction in hedge fund gains compared with the prior year. The non-technical result benefited from favorable foreign currency gains on transactions.

Gross written premiums and policy fees remained broadly flat at USD 4.2 billion, while decreasing by 2 percent on a local currency basis. Focus continues to be on underwriting and pricing discipline. As a result average rate increases of 2 percent were achieved on business written in the first six months of the year with most of the increases arising in European markets while rates in North America remained mostly flat. Recession-related impacts on insured customer exposures have driven premium reductions in both Europe and North America. In North America, the market environment remains very competitive, and reduced new business volumes have been accepted in order to maintain required margins. In Europe new business production increased compared with the prior year. Asia-Pacific and Middle East premiums have increased by 38 percent, although from a small base, reflecting the strategy to expand the Group's presence in Asia. Despite the reduction in overall business volumes, retention results have improved compared with the prior year.

The **net underwriting result**, which improved by USD 110 million to USD 213 million, resulted in the 4.6 percentage point improvement in the combined ratio. The loss ratio improved by 5.5 percentage points to 70.9 percent driven by a significant improvement in the underlying loss ratio as a result of actions to increase rates and to improve risk selection through segmentation strategies in underwriting. Benefits realized from favorable development of reserves established in prior years increased compared with the same period in the prior year. These improvements were partially offset by losses related to the Chilean earthquake and the floods in Tennessee. In addition, large loss results increased over the prior year, mainly reflecting a benign 2009 experience. The expense ratio increased 0.9 percentage points to 20.1 percent driven mainly by commissions which were impacted by a reduction in received reinsurance commissions following a change in external reinsurance programs. Other underwriting expenses were broadly flat, with reductions in the larger developed markets being offset by strategic investments, in particular to generate growth in the Middle East.

North America Commercial

in USD millions, for the six months ended June 30	2010	2009	Change
Gross written premiums and policy fees	4,995	5,177	(4%)
Net underwriting result	142	94	51%
Business operating profit	558	576	(3%)
Loss ratio	65.3%	69.4%	4.1 pts
Expense ratio	30.9%	28.3%	(2.6 pts)
Combined ratio	96.2%	97.7%	1.5 pts

Business operating profit decreased by USD 18 million or 3 percent to USD 558 million. This result was achieved against the backdrop of difficult economic conditions in some key market segments, along with lower investment income and increased non-technical expenses related to various one-off charges. However, focus on rate and targeted underwriting actions enabled improvement in the underwriting result.

Gross written premiums and policy fees decreased by USD 182 million or 4 percent to USD 5.0 billion. The decrease resulted from the continuing effect of economic conditions which has led to significant reductions in insured customer exposures, particularly in the construction and automotive segments. The focus remains on the retention of profitable business through risk selection and segmentation strategies, and as such, the renewal retention ratio has improved compared with the same period in the prior year. Leading premium indicators, particularly in certain specific areas such as middle market commercial business and accident and health, show quarter-on-quarter improvement. Overall, rates in North America decreased 1 percentage point in a highly competitive market environment.

The **net underwriting result** increased by USD 48 million to USD 142 million reflected in the 1.5 percentage points improvement in the combined ratio to 96.2 percent. The loss ratio improved compared with the prior year by 4.1 percentage points driven by higher favorable development of reserves established in prior years, which were partially offset by higher weather-related losses and trade credit losses in the surety line of business. The expense ratio increased by 2.6 percentage points driven mostly by the reduction in earned premiums and return premiums. The commission ratio increased due to profit commission paid relating to profits arising from the prior year on crop business. The other underwriting expense ratio also increased, although absolute expense amounts were reduced.

Europe General Insurance

in USD millions, for the six months ended June 30	2010	2009	Change
Gross written premiums and policy fees	7,520	7,846	(4%)
Net underwriting result	114	234	(52%)
Business operating profit	420	624	(33%)
Loss ratio	72.6%	71.7%	(0.9 pts)
Expense ratio	25.7%	24.8%	(0.9 pts)
Combined ratio	98.3%	96.5%	(1.8 pts)

Business operating profit decreased by USD 204 million or 33 percent to USD 420 million in U.S. dollar terms and by 34 percent on a local currency basis. The decrease in the underwriting result was driven by adverse claims development in certain markets including the UK, Italy and Russia and by an increased frequency of weather-related events during the first three months of the year. Other markets successfully maintained profitability despite the continuing difficult economic environment. Lower favorable development of reserves established in prior years also had an adverse impact. A reduction in investment income resulted from lower yields, a reduction in hedge fund gains and the repatriation of capital to the Group. Non-technical expenses were higher, due to one-off benefits from the sale of own use property in the same period of the prior year.

Gross written premiums and policy fees decreased by USD 326 million or 4 percent to USD 7.5 billion in U.S. dollar terms and by 6 percent on a local currency basis. The market environment in many European countries remained challenging with depressed economic activity and higher unemployment levels. A focus on margin improvement enabled the business to achieve average rate increases of 3 percent on business written in the first six months of the year with major increases in the UK, Italy and Ireland. This has led to additional downward pressure on volumes in a competitive market environment. Premium growth was achieved in certain segments of commercial and specialties lines of business.

The **net underwriting result** decreased by USD 121 million to USD 114 million reflected in a 1.8 percentage points increase in the combined ratio to 98.3 percent. The business also experienced increased weather-related and large losses in the first three months of the year including winter storm Xynthia, floods in Spain, freeze losses in Ireland and large losses in Turkey. In addition, Europe General Insurance was impacted by the deterioration of certain personal lines motor markets particularly in the UK, Italy and Russia. The increase in the UK loss ratio was attributable to the claims farming experience which continues to increase the underlying loss ratio. Efforts to improve profitability in this market will take time to earn into the result. Profit improvement strategies in Italy continue to improve the underlying loss ratio. There was also an overall lower level of positive development from reserves established in prior periods. The expense ratio increase was mainly driven by the impact of lower premium volumes and a number of one-off items.

International Markets

in USD millions, for the six months ended June 30	2010	2009	Change
Gross written premiums and policy fees	1,443	1,295	11%
Net underwriting result	(79)	18	nm
Business operating profit	16	74	(78%)
Loss ratio	71.8%	62.5%	(9.3 pts)
Expense ratio	35.9%	35.7%	(0.2 pts)
Combined ratio	107.6%	98.2%	(9.4 pts)

The **business operating profit** decreased by USD 58 million or 78 percent to USD 16 million in U.S. dollar terms and by 36 percent on a local currency basis. The decrease measured in local currency was attributable to a lower underwriting result in both the Asia-Pacific and Latin America regions due to earthquakes in Chile, Mexico and Australia as well as severe weather events in Australia. This result was partially offset by an improved investment result driven by higher yields and a non-technical benefit related to currency revaluations in Latin America.

Gross written premiums and policy fees increased by USD 148 million or 11 percent to USD 1.4 billion in U.S. dollar terms and by 6 percent on a local currency basis. Excluding the impact of transfers to the Global Life segment, premiums in Latin America grew by 8 percent on a local currency basis driven by growth in Brazil and Argentina. Asia-Pacific premiums increased by 8 percent on a local currency basis which reflected growth in the motor book in Australia, wholesale business in Japan, and continued growth in emerging Asian markets, although from a small base. Overall the International Markets businesses achieved average rate increases of 3 percent on business written in the first six months of the year. The increase was achieved mainly in Australia, where focus is on margins, as well as in certain Latin American countries.

The **net underwriting result** decreased by USD 96 million to a loss of USD 79 million reflected in a 9.4 percentage points increase in the combined ratio to 107.6 percent. The impact of natural catastrophes, particularly the earthquake in Chile, severe weather and higher frequency large losses drove the increased loss ratio of 71.8 percent, or an increase of 9.3 percentage points. The expense ratio deteriorated, which reflects the costs related to investments in both the Asia-Pacific and Latin America regions.

Global Life

in USD millions, for the six months ended June 30	2010	2009	Change
Insurance deposits	7,324	5,546	32%
Gross written premiums and policy fees	5,787	6,023	(4%)
Net investment income on Group investments	1,952	2,022	(3%)
Insurance benefits and losses, net of reinsurance	(4,663)	(5,211)	11%
Underwriting and policy acquisition costs, net of reinsurance	(751)	(784)	4%
Administrative and other operating expenses	(1,018)	(910)	(12%)
of which:			
Amortization and impairments of intangible assets	(152)	(124)	(22%)
Depreciation and impairments of property and equipment	(16)	(16)	(1%)
Business operating profit	720	641	12%
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts ¹	165,490	180,145	(8%)
Assets under management ^{1,2}	198,845	214,512	(7%)
Net policyholder flows ³	2,949	1,670	nm
New business – highlights			
New business annual premium equivalent (APE)	1,716	1,579	9%
Present value of new business premiums (PVNBP)	14,619	12,275	19%
New business margin, after tax (as % of APE)	22.8%	21.0%	1.8 pts
New business margin, after tax (as % of PVNBP)	2.7%	2.7%	0 pts
New business value, after tax	392	332	18%

¹ As of June 30, 2010 and December 31, 2009.

² Assets under management comprise Group and unit-linked investments that are included in the Global Life balance sheet plus assets that are managed by third parties, on which the Group earns fees.

³ Net policyholder flows are defined as the sum of gross written premiums and policy fees and deposits, less policyholder benefits and reinsurance.

in USD millions, for the six months ended June 30	New business value (NBV), after tax		New business annual premium equivalent (APE)		New business margin, after tax (as % of APE)		Business operating profit	
	2010	2009	2010	2009	2010	2009	2010	2009
Americas	54	69	144	114	37.9%	60.5%	168	140
of which:								
United States	28	55	45	47	61.7%	117.7%	120	117
Latin America	26	14	99	67	26.9%	20.5%	49	22
United Kingdom	70	48	445	341	15.6%	14.0%	155	141
Germany	73	45	270	255	27.0%	17.6%	166	145
Switzerland	5	10	42	57	11.7%	17.0%	112	113
Ireland	49	32	202	129	24.1%	24.6%	27	23
Spain	58	57	245	357	23.6%	15.9%	17	11
Emerging Markets in Asia	50	46	222	229	22.7%	19.9%	42	29
of which:								
ZIS	48	41	195	204	24.5%	19.9%	45	18
Hong Kong	3	5	27	25	10.0%	20.3%	2	10
Rest of the World	33	27	146	96	22.5%	27.8%	33	38
Total	392	332	1,716	1,579	22.8%	21.0%	720	641

New business value, after tax, increased by USD 60 million or 18 percent to USD 392 million in U.S. dollar terms and by 17 percent on a local currency basis. The major movements were the increase in domestic and cross-border IFA/Broker sales in and manufactured from Ireland, higher Corporate Life & Pensions business sales volumes in the UK and Latin America, growth in Private Banking Client Solutions in the UK, and the beneficial impacts of higher interest rates and lower volatilities on savings products in Germany. These improvements were partially offset by the business in the U.S. with higher interest rates adversely impacting the margin on protection products. Overall, the new business margin after tax was 22.8 percent, an increase of 1.8 percentage points compared with the same period in the prior year.

New business annual premium equivalent (APE) increased by USD 137 million or 9 percent to USD 1.7 billion in U.S. dollar terms and by 8 percent on a local currency basis. In Ireland, APE increased by 57 percent in both U.S. dollar terms and on a local currency basis due to the successful domestic sales of long-term savings products and continued growth in cross-border sales. In the UK, APE increased by 31 percent in U.S. dollar terms and by 28 percent on a local currency basis with the main drivers being the Private Banking Client Solutions and Corporate Life & Pensions businesses. In Switzerland, APE decreased by 27 percent in U.S. dollar terms and by 30 percent on a local currency basis as customers anticipated the reduction in the technical interest rate effective January 1, 2010, during the later part of 2009, leading to reduced sales in 2010. In the Americas, APE increased by 26 percent in U.S. dollar terms and by 27 percent on a local currency basis which was driven by strong growth in Latin America, especially from Corporate Life & Pensions and Bank Distribution sales. APE in Emerging Markets in Asia decreased by 3 percent in U.S. dollar terms and by 2 percent on a local currency basis. Higher sales through a bank partner in Hong Kong and the market recovery, which benefited the International/Expats business, were partly offset by lower international corporate business. APE in Spain decreased by 31 percent in both U.S. dollar terms and on a local currency basis primarily due to lower volumes of short-term savings products in a highly competitive market, partly offset by growth in protection sales. APE in the Rest of the World increased by 52 percent in U.S. dollar terms and by 46 percent on a local currency basis, driven by cross-border sales through the Private Banking Client Solutions hub in Luxembourg into Italy, as well as by strong IFA/Broker sales through the Finanza e Futuro distribution channel in Italy.

Business operating profit increased by USD 79 million or 12 percent to USD 720 million in U.S. dollar terms, and also by 12 percent on a local currency basis. The improved performance was driven by increases in the investment, expense and risk margins. The investment margin improved in particular due to foreign exchange gains in Switzerland and a net positive impact from interest rate movements on spread products. The expense margin benefited from the recovery in financial markets that increased fee income, especially in the UK, and the focus on expense management in all territories. The risk margin increased as a result of the social security business in Chile that commenced in the third quarter of 2009, and favorable experience in Australia.

Insurance deposits increased by USD 1.8 billion or 32 percent to USD 7.3 billion in U.S. dollar terms and by 31 percent on a local currency basis, driven by growth in Ireland, the UK, Hong Kong and Germany.

Gross written premiums and policy fees decreased by USD 236 million or 4 percent to USD 5.8 billion in U.S. dollar terms and by 5 percent on a local currency basis. The decrease was primarily due to a reduction in sales of short-term saving products in Spain.

Net reserves decreased by 8 percent in U.S. dollar terms compared with December 31, 2009. On a local currency basis the net reserves increased by 1 percent due to increased net policyholder flows, the improved financial markets, which resulted in higher interest and bonuses credited to policyholders, as well as increases to net reserves which flow directly through shareholders' equity. **Assets under management** decreased by 7 percent in U.S. dollar terms and increased by 1 percent on a local currency basis, compared with December 31, 2009. **Net policyholder flows** increased by USD 1.3 billion in U.S. dollar terms over the same period of the prior year driven by new business flows as well as focused efforts on in-force management.

NBV and APE
by pillar

in USD millions, for the six months ended June 30

	New business value (NBV), after tax		New business annual premium equivalent (APE)		New business margin, after tax (as % of APE)	
	2010	2009	2010	2009	2010	2009
Bank Distribution	105	85	422	535	24.8%	15.8%
IFA/Brokers	97	74	497	413	19.6%	17.8%
Agents	56	83	217	206	25.6%	40.3%
Corporate Life & Pensions	58	40	285	248	20.2%	16.3%
International/Expats	34	30	123	110	27.4%	27.5%
Private Banking Client Solutions	6	1	114	16	5.2%	3.7%
Direct and Central Initiatives	37	20	58	50	64.1%	38.9%
Total	392	332	1,716	1,579	22.8%	21.0%

Bank Distribution increased new business value by USD 20 million or 24 percent to USD 105 million in U.S. dollar terms, and by 31 percent on a local currency basis. This improvement was predominantly driven by margin improvements in Germany, benefiting from lower interest rates and volatilities, a higher margin in Spain due to growth in protection sales, as well as higher sales through Global Life's banking partners in Italy and Venezuela more than offsetting reduced volumes of short-term savings in Spain.

IFA/Brokers increased new business value by USD 24 million or 32 percent to USD 97 million in U.S. dollar terms, and by 22 percent on a local currency basis. Substantially increased cross-border business into Italy manufactured from Ireland, increased domestic sales in Ireland, and improved margins in Germany fuelled this growth.

Agents new business value decreased by USD 28 million or 33 percent to USD 56 million in U.S. dollar terms, and by 33 percent on a local currency basis. Higher sales in Germany and Italy were more than offset by the impact of rising U.S. interest rates depressing the margin for protection business, and the impact of lower sales volumes in Switzerland.

Corporate Life & Pensions increased new business value by USD 17 million or 42 percent to USD 58 million in U.S. dollar terms, and by 39 percent on a local currency basis. This growth was mainly driven by increased pension sales in the UK and Ireland, increased protection sales in Latin America, and increased protection margins in the international corporate business.

International/Expats increased new business value by USD 3 million or 11 percent to USD 34 million in U.S. dollar terms, and by 10 percent on a local currency basis. This increase was a result of improved sales of investment products, reflecting the recovery of financial markets in 2010 and higher protection business sales.

Private Banking Client Solutions increased new business value by USD 5 million to USD 6 million in U.S. dollar terms compared with the same period in the prior year. The growth in new business value was driven by the continued placements of tranches of an investment bond through bank partners in the UK as well as sales from the Private Bank Client Solutions hub in Luxembourg into Italy.

Direct and Central Initiatives increased new business value by USD 18 million to USD 37 million in U.S. dollar terms. An increase in fee income from investment business in the UK was the main contributor to this growth.

Farmers

Farmers business operating profit was USD 845 million compared with USD 724 million in the same period of the prior year. Farmers Management Services contributed USD 694 million (compared with USD 643 million), and Farmers Re contributed USD 151 million (compared with USD 80 million).

Farmers Management Services

in USD millions, for the six months ended June 30	2010	2009	Change
Management fees and other related revenues	1,399	1,247	12%
Management and other related expenses	(718)	(636)	(13%)
Gross management result	681	610	12%
Other net income	13	33	(60%)
Business operating profit	694	643	8%
Managed gross earned premium margin	7.4%	7.3%	0.1 pts

Business operating profit increased by USD 51 million or 8 percent to USD 694 million, supported by the USD 82 million contribution from 21st Century, which was acquired in July 2009 by the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Group. This was partially offset by lower investment income. The underlying gross management result was driven by a lower contribution from the business, excluding 21st Century, as volumes decreased.

Management fees and other related revenues increased by USD 152 million or 12 percent to USD 1.4 billion driven by a 10 percent increase in gross earned premiums in the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Group. 21st Century contributed USD 179 million in the first six months of 2010. This contribution was partially offset by a reduction in management fees from the auto line of business, reflecting continuing economic pressures in the U.S.

Management and other related expenses increased by USD 82 million or 13 percent to USD 718 million driven by USD 91 million related to 21st Century. The underlying expenses of the remaining business were lower compared with the same period in the prior year reflecting continued strict expense discipline and the benefits of ongoing operational transformation. Overall, the gross management result improved by USD 71 million or 12 percent to USD 681 million while the **managed gross earned premium margin** remained broadly flat at 7.4 percent.

Farmers Re

in USD millions, for the six months ended June 30	2010	2009	Change
Gross written premiums and policy fees	2,491	2,883	(14%)
Net underwriting result	49	7	nm
Business operating profit	151	80	88%
Loss ratio	67.3%	70.1%	2.8 pts
Expense ratio	31.1%	29.5%	(1.6 pts)
Combined ratio	98.5%	99.7%	1.2 pts

Business operating profit increased by USD 70 million or 88 percent to USD 151 million. This result was driven by increased participation in the All Lines quota share reinsurance treaty from the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Group. On June 30, 2009 the All Lines quota share participation increased from 25 percent to 37.5 percent, reduced to 35 percent on December 31, 2009 and further reduced to 25 percent on June 30, 2010. As a result of the changes in participation and associated portfolio transfers, **gross written premiums and policy fees** decreased by USD 392 million or 14 percent to USD 2.5 billion over the same period of the prior year.

The loss ratio improved 2.8 percentage points as a result of improved underwriting trends, particularly in the auto line of business, in the first six months compared with the same period of the prior year. Following historically low levels of weather-related losses in the first three months, the impact in the six months was in line with the same period of the prior year. The higher expense ratio resulted from an increase in the ceding commission on the All Lines quota share reinsurance treaty, reflecting changes to the underlying business mix in the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Group.

Farmers Exchanges

in USD millions, for the six months ended June 30	2010	2009	Change
Gross written premiums	9,207	8,438	9%
Gross earned premiums	9,211	8,363	10%

Gross earned premiums in the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Group, increased by USD 847 million or 10 percent to USD 9.2 billion as a result of the 21st Century acquisition in July 2009.

Other Operating Businesses

in USD millions, for the six months ended June 30	2010	2009	Change
Business operating profit:			
Holding and financing	(307)	(209)	(47%)
Headquarters	(38)	(17)	nm
Alternative investments	(16)	(14)	(11%)
Total business operating profit	(361)	(239)	(51%)

Holding and financing increased its business operating loss by USD 99 million or 47 percent to USD 307 million. This reflects a more normalized run-rate for Group financing costs. The prior period included USD 73 million of one-off gains associated with buy-backs of subordinated debt. **Headquarters** business operating loss increased by USD 21 million to USD 38 million compared with the same period in the prior year, primarily as a result of expense timing differences.

Non-Core Businesses

in USD millions, for the six months ended June 30	2010	2009	Change
Business operating profit:			
Centre	3	57	(95%)
Banking activities	(318)	(25)	nm
Centrally managed businesses	21	(322)	nm
Other run-off	–	2	nm
Total business operating profit	(295)	(287)	(3%)

Centre business operating profit decreased by USD 55 million to USD 3 million, driven by the negative impact of financial markets on an insurance portfolio where both assets and liabilities are carried at fair value, and also due to reserve increases. **Banking activities** decreased by USD 293 million to a loss of USD 318 million predominantly driven by an increase in loan loss provisions of USD 330 million during the second three months of 2010 as a result of a review of its loans for commercial property development in the UK and Ireland. **Centrally managed businesses**, which comprise portfolios that are managed with the intention to achieve a profitable run-off over time, improved by USD 343 million to a profit of USD 21 million, primarily driven by the lower impact of reserve increases as a consequence of the implementation of a dynamic hedge strategy in the first three months of 2010. As set out in note 1 of the unaudited Consolidated financial statements, there has been a change in accounting policy for a closed block of variable annuity products. Along with implementation of the dynamic hedge strategy, this will reduce future volatility and the economic exposure associated with this block of business.

Investment position and performance

Breakdown of investments

in USD millions, as of	Group investments		Unit-linked investments	
	06/30/10	12/31/09	06/30/10	12/31/09
Cash and cash equivalents	9,747	11,631	6,191	5,840
Equity securities:	9,819	12,450	71,296	78,311
Common stocks, including equity unit trusts	7,196	8,839	62,459	69,004
Unit trusts (debt securities, real estate and short-term investments)	2,059	2,477	8,837	9,307
Common stock portfolios backing participating with-profit policyholder contracts	414	673	–	–
Trading equity portfolios in capital markets and banking activities	150	461	–	–
Debt securities	134,910	136,344	9,744	10,194
Real estate held for investment	7,313	7,789	3,791	3,897
Mortgage loans	10,923	12,736	–	–
Policyholders' collateral and other loans	12,765	15,077	1,370	924
Equity method accounted investments	187	232	–	–
Total	185,664	196,258	92,392	99,167

Group investments decreased by USD 10.6 billion or 5 percent to USD 185.7 billion since December 31, 2009, driven by currency translation effects. In local currency terms, total Group investments increased by 2 percent largely driven by positive revaluations of debt securities.

Unit-linked investments decreased by USD 6.8 billion or 7 percent to USD 92.4 billion since December 31, 2009. On a local currency basis, unit-linked investments increased by USD 1.6 billion or 2 percent driven by positive cash flows and performance of financial markets in the first six months of 2010.

The quality of the Group's investment portfolio remains high. Investment grade securities comprise 98.3 percent of the Group's debt securities, of which 52.9 percent are rated AAA as of June 30, 2010. The Group's investment policy remains conservative and the Group continues to selectively reduce those risks for which it believes that the compensation received is not appropriate or which incur high regulatory capital costs.

Performance of Group investments	in USD millions, for the six months ended June 30		
	2010	2009	Change
Net investment income	3,561	3,739	(5%)
Net capital gains/(losses) on investments and impairments	418	(1,465)	nm
of which: net capital gains/(losses) on investments and impairments attributable to shareholders	46	(1,138)	nm
Net investment result	3,979	2,274	75%
Net investment return on Group investments	2.1%	1.2%	0.9 pts
Movements in net unrealized gains/(losses) on investments included in total equity	2,828	722	nm
Total investment result, net of investment expenses¹	6,807	2,996	nm
Average group investments ²	190,565	184,799	3%
Total return on Group investments	3.6%	1.6%	2.0 pts

¹ After deducting investment expenses of USD 109 million and USD 107 million for the six months ended June 30, 2010 and 2009, respectively.

² Excluding average cash received as collateral for securities lending of USD 396 million and USD 285 million for the six months ended June 30, 2010 and 2009, respectively.

Total return, net of investment expenses, on average Group investments was positive 3.6 percent. This was driven largely from debt securities, which are invested to match the Group's insurance liability profiles, and returned positive 4.6 percent. Equity securities returned negative 0.1 percent. Other investments returned a positive 1.7 percent, which includes the USD 330 million in additional banking loan loss provisions.

Total **net investment income** decreased by USD 178 million or 5 percent to USD 3.6 billion in U.S. dollar terms and by 6 percent on a local currency basis. Net investment income yield was 1.9 percent, a decrease of 15 basis points compared with the same period of the prior year. This decrease was driven by cash balances yielding lower return rates and lower income from debt securities.

Total **net capital gains on investments and impairments** were USD 418 million, comprising net realized gains of USD 501 million, and positive asset revaluations of USD 680 million which were offset by impairments of USD 763 million. Asset revaluations on securities booked as fair value through profit and loss were driven by gains on equity securities at fair value of USD 86 million, gains on debt securities at fair value of USD 397 million and gains from derivatives of USD 197 million, mainly from hedging activity. Impairments consisted of USD 393 million attributable to equity securities, USD 345 million to mortgages, mainly from the Group's banking activities in the UK and Ireland, and USD 24 million on equity method accounted investments.

Net unrealized gains included in total equity increased by USD 2.8 billion since December 31, 2009, primarily due to a USD 2.7 billion increase in net unrealized gains on debt securities principally as a consequence of lower interest rates. In general, credit spreads on corporate and mortgage backed securities widened slightly, but did not exceed the favorable effects of the fall in interest rates. Net unrealized gains on equity securities remained broadly flat at USD 61 million.

Performance of
unit-linked
investments

in USD millions, for the six months ended June 30	2010	2009	Change
Net investment income	767	811	(5%)
Net capital (losses)/gains on investments and impairments	(402)	112	nm
Net investment result, net of investment expenses ¹	364	923	(61%)
Average investments	95,779	81,539	17%
Total return on unit-linked investments²	0.4%	1.1%	(0.8 pts)

¹ After deducting investment expenses of USD 264 million and USD 215 million for the six months ended June 30, 2010 and 2009, respectively.

² Total return is not annualized.

Total return on unit-linked investments delivered a positive 0.4 percent compared with 1.1 percent in the same period of the prior year. The reduction in the total return was due to net capital losses of USD 402 million compared with net capital gains of USD 112 million in the same period of the prior year, resulting from the developments of financial markets in the first six months of 2010 compared with the same period of the prior year. Net investment income decreased by USD 44 million or 5 percent, primarily due to lower dividend income on equity investments.

Insurance and investment contract liabilities

Reserves for losses and loss adjustment expenses

The majority of the Group's reserves for losses and loss adjustment expenses are attributable to General Insurance. The remaining reserves relate to Farmers Re and to Non-Core Businesses.

in USD millions	General Insurance		Other segments		Total Group	
	2010	2009	2010	2009	2010	2009
As of January 1						
Gross reserves for losses and loss adjustment expenses	63,476	61,396	4,609	3,821	68,086	65,218
Reinsurers' share	(10,962)	(10,867)	(1,220)	(1,365)	(12,182)	(12,232)
Net reserves for losses and loss adjustment expenses	52,514	50,530	3,390	2,457	55,903	52,986
Net losses and loss adjustment expenses incurred	9,775	10,030	2,308	1,600	12,083	11,630
Current year	10,353	10,425	2,234	1,620	12,588	12,045
Prior years	(579)	(395)	74	(20)	(505)	(414)
Total net losses and loss adjustment expenses paid	(9,703)	(10,135)	(2,109)	(1,570)	(11,813)	(11,706)
Acquisitions/(divestments) and transfers	1	93	17	2	19	95
Foreign currency translation effects	(2,511)	1,161	(111)	61	(2,622)	1,222
As of June 30						
Net reserves for losses and loss adjustment expenses	50,075	51,678	3,495	2,550	53,571	54,228
Reinsurers' share	(10,934)	(11,101)	(1,058)	(1,342)	(11,992)	(12,444)
Gross reserves for losses and loss adjustment expenses	61,009	62,779	4,554	3,893	65,563	66,672

As of June 30, 2010, the Group **net reserves for loss and loss adjustment expenses** decreased by USD 2.3 billion to USD 53.6 billion compared with December 31, 2009. This decrease was mainly due to the effects of foreign currency translation of USD 2.6 billion and includes a USD 505 million decrease emerging from reserves established in prior years. Further details of reserve developments are shown in note 4 of the unaudited Consolidated financial statements.

Reserves for life insurance contracts and liabilities for investment contracts

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 predominantly to companies that are in run-off or are centrally managed, and are included only in this first table.

Group reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts	in USD millions		Global Life		Other segments		Total Group	
			2010	2009	2010	2009	2010	2009
As of January 1								
Net reserves			180,145	154,700	17,655	18,994	197,800	173,694
Movements in net reserves			(14,656)	8,768	(315)	(1,255)	(14,971)	7,513
As of June 30								
Net reserves			165,490	163,468	17,339	17,740	182,829	181,208

The following provides further detail on the development and composition of reserves and liabilities in the **Global Life** business.

Global Life – development of reserves and liabilities	in USD millions		Unit-linked insurance and investment contracts ¹		Other life insurance liabilities ²		Total reserves and liabilities	
			2010	2009	2010	2009	2010	2009
As of January 1								
Gross reserves			92,841	71,299	89,452	85,393	182,293	156,692
Reinsurers' share			–	–	(2,148)	(1,992)	(2,148)	(1,992)
Net reserves			92,841	71,299	87,304	83,401	180,145	154,700
Premiums and claims ³			1,607	484	(1,267)	(879)	341	(395)
Interest and bonuses credited to policyholders			564	735	1,702	1,422	2,266	2,157
Change in assumptions			–	–	32	15	32	15
Acquisitions/(Divestments)			26	–	(29)	92	(3)	92
Changes recorded in shareholders' equity			(32)	2	793	(265)	761	(263)
Foreign currency translation effects			(8,867)	6,241	(9,185)	921	(18,052)	7,163
As of June 30								
Net reserves			86,140	78,761	79,350	84,706	165,490	163,468
Reinsurers' share			–	–	(1,804)	(2,134)	(1,804)	(2,134)
Gross reserves			86,140	78,761	81,154	86,840	167,294	165,601

¹ Includes reserves for unit-linked contracts, the net amounts of which were USD 43.4 billion and USD 39.4 billion, and liabilities for investment contracts, the net amounts of which were USD 42.8 billion and USD 39.3 billion as of June 30, 2010 and 2009, respectively.

² Includes reserves for future life policyholders' benefits, the net amounts of which were USD 64.4 billion and USD 71.9 billion and policyholders' contract deposits and other funds, the net amounts of which were USD 14.9 billion and USD 12.8 billion as of June 30, 2010 and 2009, respectively.

³ Premiums and claims include all balance sheet policyholder cash flows, fund deductions and profit and loss experience.

Total reserves and liabilities for insurance and investment contracts, net of reinsurance, decreased by USD 14.7 billion or 8 percent in U.S. dollar terms compared with December 31, 2009 and increased by USD 4.0 billion or 2 percent on a local currency basis. The increase in local currency was driven by improved financial markets and positive net policyholder flows. The positive economic environment resulted in higher interest and bonuses credited to policyholders as well as increases to net reserves which flow directly through shareholders' equity.

Global Life – reserves and liabilities, net of reinsurance, by region

in USD millions, as of

	Unit-linked insurance and investment contracts		Other life insurance liabilities		Total reserves and liabilities	
	06/30/10	12/31/09	06/30/10	12/31/09	06/30/10	12/31/09
Americas	1,189	1,233	6,788	6,730	7,977	7,964
of which:						
United States	770	789	5,057	5,002	5,827	5,791
Latin America	419	444	1,731	1,729	2,150	2,173
United Kingdom	47,187	51,968	4,613	4,394	51,800	56,363
Germany	8,641	9,467	37,631	42,645	46,272	52,111
Switzerland	1,769	1,842	15,348	15,678	17,116	17,520
Ireland	8,302	8,484	1,256	1,337	9,559	9,821
Spain	4,398	4,411	7,702	9,670	12,100	14,080
Emerging Markets in Asia	7,301	7,486	1,130	1,115	8,432	8,601
of which:						
ZIS	6,931	7,121	237	252	7,168	7,373
Hong Kong	370	365	862	852	1,233	1,218
Rest of the world	7,352	7,951	4,881	5,735	12,233	13,686
Eliminations	–	–	–	(2)	–	(2)
Total	86,140	92,841	79,350	87,304	165,490	180,145

Unit-linked insurance and investment contracts, net of reinsurance, decreased by USD 6.7 billion or 7 percent in U.S. dollar terms compared with December 31, 2009, but increased by USD 2.3 billion or 3 percent on a local currency basis. The increase in local currency was driven by positive net policyholder flows and the positive performance of unit-linked funds in the first six months of 2010.

Other life insurance liabilities, net of reinsurance, decreased by USD 8.0 billion or 9 percent in U.S. dollar terms compared with December 31, 2009 and by USD 1.7 billion or 2 percent on a local currency basis. The increase in local currency was driven by higher interest and bonuses credited to policyholders.

Indebtedness

in USD millions, as of	06/30/10					06/30/10	12/31/09	Change
	Repurchase agreements	Collateralized loans	Capital markets and banking ¹	Senior debt ²	Subordinated debt			
Operational debt	3,471	926	472	862	–	5,730	6,940	(17.4%)
Financial debt	–	–	409	4,679	4,817	9,905	10,422	(5.0%)
Total operational and financial debt	3,471	926	881	5,540	4,817	15,636	17,362	(9.9%)

¹ The operational debt in capital markets and banking activities relates to notes and loans payable held by Zurich Financial Services EUB Holdings Limited.

² The operational senior debt contains the book value of the USD 750 million senior debt issued under the EMTN Programme by Zurich Finance (Luxembourg) S.A. in September 2009, which was loaned directly to the Group's capital markets and banking activities. This issue was recognized as operational debt by Moody's but not by Standard & Poor's. In addition, it includes an adjustment of USD 100 million for non-recourse debt.

Total debt decreased by USD 1.7 billion or 9.9 percent to USD 15.6 billion.

Operational debt decreased by USD 1.2 billion or 17 percent in U.S. dollar terms. The main driver was a decrease in obligations to repurchase securities of USD 506 million. A further USD 200 million reduction was due to the repayment of debt drawn under a credit facility for the sole purpose of financing surplus notes, Leschi Life Assurance Company, which expired in June 2010, while collateralized loans decreased by USD 175 million. In addition, the Group's banking activities utilized excess liquidity to repay corporate and institutional deposits of USD 342 million.

Financial debt decreased by USD 517 million or 5 percent in U.S. dollar terms. The decrease was mainly driven by the strengthening of the U.S. dollar against the currencies of the debt issued, which more than offset an increase of USD 375 million in commercial paper issued by Zurich Capital Markets.

Details of debt issuances are set out in note 10 of the unaudited Consolidated financial statements.

Capitalization

in USD millions	Shareholders' equity	Non-controlling interests	Total equity
As of December 31, 2009, as previously reported	29,678	1,800	31,478
Adjustment arising from the change in accounting policy ¹	(374)	–	(374)
As of December 31, 2009, as restated	29,304	1,800	31,104
Proceeds from issuance of share capital	171	–	171
Proceeds from treasury share transactions	(38)	–	(38)
Dividends	(2,207)	(6)	(2,214)
Share-based payment transactions	(82)	–	(82)
Change of ownership with no loss of control	(3)	–	(3)
Total comprehensive income	1,324	(225)	1,098
Net income after taxes	1,642	36	1,679
Net other recognized income and expenses	(319)	(262)	(580)
Net changes in capitalization and non-controlling interests	–	(51)	(51)
As of June 30, 2010	28,469	1,518	29,986

¹ See note 1 of the unaudited Consolidated financial statements.

Total equity decreased by USD 1.1 billion or 4 percent to USD 30.0 billion compared with USD 31.1 billion as of December 31, 2009. USD 2.2 billion of this arose from the charge for the gross dividend of CHF 16.00 per share, which was approved by the shareholders at the Annual General Meeting on March 30, 2010. Changes in net other recognized income and expenses of USD 580 million further reduced equity, driven primarily by changes in net unrealized gains of USD 1.5 billion, more than offset by negative currency translation adjustments of USD 1.4 billion and changes in net actuarial losses on pension plans of USD 589 million. Net income after tax of USD 1.7 billion only partially offsets these decreases.

Cash flows

Summary of cash flows

in USD millions, for the six months ended June 30	2010	2009
Net cash provided by/(used in) operating activities	2,566	1,574
Net cash used in investing activities	(26)	(111)
Net cash provided by/(used in) financing activities	(2,401)	1,536
Foreign currency translation effects on cash and cash equivalents	(1,478)	678
Change in cash and cash equivalents excluding change in cash received as collateral for securities lending	(1,340)	3,678
Cash and cash equivalents as of January 1 ¹	16,978	16,711
Cash and cash equivalents as of June 30 ¹	15,639	20,389
Change in cash received as collateral for securities lending	(193)	216
Cash and cash equivalents as of January 1 ²	17,471	16,888
Cash and cash equivalents as of June 30²	15,938	20,782

¹ Excluding cash received as collateral for securities lending.

² Including cash received as collateral for securities lending.

Net cash provided by operating activities, which includes cash movements in and out of, as well as within, total investments, was USD 2.6 billion for the six months ended June 30, 2010. Net cash used in investing activities of USD 26 million was primarily related to net cash outflows from purchases and sales of property and equipment, offset by cash received from the disposal of 15.1 percent of Zurich Insurance Company South Africa Limited. Net cash outflows from financing activities of USD 2.4 billion were primarily the result of the payments of dividends of USD 2.2 billion (see Capitalization section) and the repayment of outstanding debt of USD 200 million (see Indebtedness section).

Currency translation impact

The Group operates worldwide in multiple currencies and seeks to match foreign exchange exposures on an economic basis.

As the Group has chosen the U.S. dollar as its presentation currency, differences arise when functional currencies are translated into the Group's 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 for the six months ended June 30, 2010 and 2009	in USD	
		millions	in %
	Gross written premiums and policy fees	456	2%
	Insurance benefits and losses, gross of reinsurance	(315)	(2%)
	Net income attributable to shareholders	(20)	(1%)
	Business operating profit	(27)	(1%)

The income statements are translated at average exchange rates. In the first six months of 2010, the U.S. dollar has on average weakened against the British pound and the Swiss franc and remained flat against the euro compared with the first six months of 2009. The result has been an increase in U.S. dollar terms in gross written premium and policy fees which was partially offset by an increase in U.S. dollar terms in insurance benefits and losses.

Selected Group balance sheet line items	variance over December 31, 2009, as of June 30, 2010	in USD	
		millions	in %
	Total investments	(22,707)	(8%)
	Reserves for insurance contracts, gross	(18,365)	(7%)
	Cumulative translation adjustment in shareholders' equity	(1,372)	(5%)

The balance sheets are translated at end-of-period rates. The U.S. dollar has strengthened against the British pound, Swiss franc and the euro as of June 30, 2010 compared with December 31, 2009, resulting in a decrease in U.S. dollar terms in most balance sheet line items.

Consolidated financial statements (unaudited)

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Consolidated income statements (unaudited)

In USD millions	Notes	Restated		Restated	
		2010	2009	2010	2009
		for the	for the	for the	for the
		three months	three months	six months	six months
		ended June 30	ended June 30	ended June 30	ended June 30
Revenues					
Gross written premiums and policy fees		11,403	13,184	26,387	27,426
Less premiums ceded to reinsurers		(1,559)	(1,639)	(3,084)	(3,095)
Net written premiums and policy fees		9,844	11,544	23,303	24,331
Net change in reserves for unearned premiums		826	(347)	(707)	(1,853)
Net earned premiums and policy fees		10,670	11,198	22,595	22,478
Farmers management fees and other related revenues		696	624	1,399	1,247
Net investment result on Group investments	3	2,008	1,515	3,979	2,274
Net investment income on Group investments		1,782	1,907	3,561	3,739
Net capital gains/(losses) and impairments on Group investments		227	(392)	418	(1,465)
Net investment result on unit-linked investments	3	(4,169)	4,226	364	923
Net gain/(loss) on divestments of businesses		1	–	1	(4)
Other income		331	406	641	792
Total revenues		9,537	17,969	28,979	27,709
Benefits, losses and expenses					
Insurance benefits and losses, gross of reinsurance	6	9,457	8,278	19,705	17,816
Less ceded insurance benefits and losses	6	(923)	(738)	(2,264)	(1,510)
Insurance benefits and losses, net of reinsurance	6	8,535	7,540	17,441	16,306
Policyholder dividends and participation in profits, net of reinsurance	6	(3,936)	4,418	845	1,189
Underwriting and policy acquisition costs, net of reinsurance		2,123	2,018	4,384	4,036
Administrative and other operating expense		1,863	1,735	3,575	3,225
Interest expense on debt	10	139	141	284	275
Interest credited to policyholders and other interest		127	122	267	244
Total benefits, losses and expenses		8,851	15,974	26,796	25,275
Net income before income taxes		686	1,995	2,183	2,434
Income tax expense	9	40	(565)	(505)	(466)
attributable to policyholders	9	239	(104)	3	170
attributable to shareholders	9	(199)	(460)	(508)	(636)
Net income after taxes		726	1,430	1,679	1,968
attributable to non-controlling interests		19	(5)	36	1
attributable to shareholders		707	1,434	1,642	1,967
in USD					
Basic earnings per share	11	4.86	10.03	11.32	13.99
Diluted earnings per share	11	4.82	9.96	11.22	13.89
in CHF					
Basic earnings per share	11	5.26	11.32	12.24	15.80
Diluted earnings per share	11	5.21	11.24	12.14	15.68

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

Consolidated statements of comprehensive income (unaudited)

in USD millions, for the six months ended June 30

	Net income attributable to shareholders	Net unrealized gains/(losses) on available- for-sale investments
2009, as restated		
Comprehensive income for the period	1,967	725
Details of movements during the period		
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		343
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		751
Deferred income tax (before foreign currency translation effects)		(313)
Foreign currency translation effects		(56)
2010		
Comprehensive income for the period	1,642	1,545
Details of movements during the period		
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		2,017
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		27
Deferred income tax (before foreign currency translation effects)		(444)
Foreign currency translation effects		(55)

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

	Cash flow hedges	Cumulative foreign currency translation adjustment	Revaluation reserve	Net actuarial gains/(losses) on pension plans	Total other comprehensive income attributable to shareholders	Total comprehensive income attributable to shareholders	Comprehensive income attributable to non-controlling interests	Total comprehensive income
	(22)	889	(1)	571	2,163	4,130	22	4,152
	37	889	–	756	2,025			
	(52)	–	–	–	699			
	(8)	–	(1)	(191)	(513)			
	1	–	–	7	(48)			
	69	(1,372)	28	(589)	(319)	1,324	(225)	1,098
	406	(1,371)	41	(920)	173			
	(344)	(1)	–	–	(318)			
	(8)	–	(13)	260	(205)			
	15	–	–	71	31			

Consolidated statements of comprehensive income (unaudited)

in USD millions, for the three months ended June 30

	Net income attributable to shareholders	Net unrealized gains/(losses) on available- for-sale investments
2009, as restated		
Comprehensive income for the period	1,434	1,379
Details of movements during the period		
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		1,810
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		163
Deferred income tax (before foreign currency translation effects)		(475)
Foreign currency translation effects		(119)
2010		
Comprehensive income for the period	707	631
Details of movements during the period		
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		743
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		102
Deferred income tax (before foreign currency translation effects)		(182)
Foreign currency translation effects		(32)

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

	Cash flow hedges	Cumulative foreign currency translation adjustment	Revaluation reserve	Net actuarial gains/(losses) on pension plans	Total other comprehensive income attributable to shareholders	Total comprehensive income attributable to shareholders	Comprehensive income attributable to non-controlling interests	Total comprehensive income
	(29)	1,119	(1)	(118)	2,351	3,785	99	3,885
	77	1,119	–	(115)	2,890			
	(104)	–	–	–	59			
	1	–	(1)	41	(433)			
	(2)	–	–	(44)	(165)			
	34	(681)	25	(448)	(438)	269	(142)	127
	245	(681)	37	(678)	(333)			
	(228)	–	–	–	(126)			
	1	–	(12)	198	5			
	15	–	–	32	15			

Consolidated balance sheets (unaudited)

Assets	in USD millions, as of	Notes	06/30/10	Restated 12/31/09	Restated 12/31/08
Investments					
Total Group investments			185,664	196,258	179,570
Cash and cash equivalents			9,747	11,631	12,428
Equity securities			9,819	12,450	14,303
Debt securities			134,910	136,344	118,287
Real estate held for investment			7,313	7,789	7,524
Mortgage loans			10,923	12,736	12,820
Other loans			12,765	15,077	13,988
Equity method accounted investments			187	232	220
Investments for unit-linked contracts			92,392	99,167	78,203
Total investments		3	278,056	295,425	257,773
Reinsurers' share of reserves for insurance contracts		4	18,801	18,751	18,778
Deposits made under assumed reinsurance contracts			3,474	3,861	2,397
Deferred policy acquisition costs		7	15,032	16,181	14,323
Deferred origination costs		7	784	856	770
Accrued investment income			2,380	2,744	2,429
Receivables			12,715	13,182	13,229
Other assets			3,622	3,327	4,095
Mortgage loans given as collateral			926	1,102	1,233
Deferred tax assets			2,306	2,421	3,165
Assets held for sale ¹			12	67	–
Property and equipment			1,619	1,942	1,889
Goodwill		8	2,180	2,297	1,677
Other intangible assets		8	6,296	7,044	6,633
Total assets			348,202	369,202	328,391

¹ Includes land and buildings formerly classified as held for own use.

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	06/30/10	Restated 12/31/09	Restated 12/31/08
Liabilities					
			564	649	620
Reserve for premium refunds					
Liabilities for investment contracts		5	42,510	46,124	35,979
Deposits received under ceded reinsurance contracts			1,361	1,558	1,619
Deferred front-end fees			5,113	5,543	4,695
Reserves for insurance contracts		4	228,204	242,094	224,078
Obligations to repurchase securities			3,471	3,976	3,608
Accrued liabilities			2,457	2,839	2,820
Other liabilities			18,370	17,485	16,944
Collateralized loans			926	1,102	1,233
Deferred tax liabilities			4,000	4,445	3,273
Debt related to capital markets and banking activities		10	881	839	2,527
Senior and subordinated debt		10	10,358	11,444	8,455
Total liabilities			318,216	338,098	305,850
Equity					
Share capital			10	10	10
Additional paid-in capital			11,491	11,400	10,131
Net unrealized gains/(losses) on available-for-sale investments			1,933	387	(3,024)
Cash flow hedges			60	(9)	(16)
Cumulative foreign currency translation adjustment			(1,768)	(396)	(1,341)
Revaluation reserve			126	98	99
Retained earnings			16,102	17,253	14,441
Common shareholders' equity			27,954	28,743	20,301
Preferred securities			515	561	561
Shareholders' equity			28,469	29,304	20,862
Non-controlling interests			1,518	1,800	1,678
Total equity			29,986	31,104	22,540
Total liabilities and equity			348,202	369,202	328,391

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

Consolidated statements of cash flows (unaudited)

in USD millions, for the six months ended June 30	2010	Restated 2009
Cash flows from operating activities		
Net income attributable to shareholders	1,642	1,967
Adjustments for:		
Net (gain)/loss on divestments of businesses	(1)	4
Income from equity method accounted investments	(9)	3
Depreciation, amortization and impairments of fixed and intangible assets	434	356
Other non-cash items	(485)	(120)
Underwriting activities:	3,716	931
<i>Reserves for insurance contracts, gross</i>	3,759	2,299
<i>Reinsurers' share of reserves for insurance contracts</i>	(727)	(130)
<i>Liabilities for investment contracts</i>	738	(100)
<i>Deferred policy acquisition costs</i>	(325)	(562)
<i>Deferred origination costs</i>	(2)	20
<i>Deposits made under assumed reinsurance contracts</i>	380	(614)
<i>Deposits received under ceded reinsurance contracts</i>	(108)	19
Investments:	(2,880)	(4,616)
<i>Net capital (gains)/losses on total investments and impairments</i>	(16)	1,353
<i>Net change in trading securities and derivatives</i>	(97)	138
<i>Net change in money market investments</i>	327	(630)
<i>Sales and maturities</i>		
<i>Debt securities</i>	98,250	38,390
<i>Equity securities</i>	27,387	22,252
<i>Other</i>	8,368	3,522
<i>Purchases</i>		
<i>Debt securities</i>	(102,809)	(43,754)
<i>Equity securities</i>	(26,071)	(22,257)
<i>Other</i>	(8,219)	(3,631)
Proceeds from sale and repurchase agreements	(212)	21
Movements in receivables and payables	405	3,602
Net changes in debt for capital markets and banking activities	96	(733)
Net changes in other operational assets and liabilities	274	(114)
Deferred income tax, net	(415)	273
Net cash provided by/(used in) operating activities	2,566	1,574

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	2010	Restated 2009
Cash flows from investing activities		
Sales of property and equipment	30	42
Purchase of property and equipment	(89)	(145)
Investments in equity method accounted investments, net	2	3
Divestments of companies, net of cash balances	30	(10)
Dividends from equity method accounted investments	1	–
Net cash used in investing activities	(26)	(111)
Cash flows from financing activities		
Dividends paid	(2,214)	(1,413)
Issuance of share capital	51	797
Net movement in treasury shares	(38)	340
Issuance of debt	–	2,159
Repayments of debt outstanding	(200)	(347)
Net cash provided by/(used in) financing activities	(2,401)	1,536
Foreign currency translation effects on cash and cash equivalents	(1,478)	678
Change in cash and cash equivalents excluding change in cash held as collateral for securities lending	(1,340)	3,678
Cash and cash equivalents as of January 1, excluding cash held as collateral for securities lending	16,978	16,711
Cash and cash equivalents as of June 30, excluding cash held as collateral for securities lending	15,639	20,389
Change in cash held as collateral for securities lending	(193)	216
Cash and cash equivalents as of January 1, including cash held as collateral for securities lending	17,471	16,888
Cash and cash equivalents as of June 30, including cash held as collateral for securities lending	15,938	20,782
of which:		
– cash and cash equivalents – Group investments	9,747	15,554
– cash and cash equivalents – unit linked	6,191	5,228
Other supplementary cash flow disclosures		
Other interest income received	3,616	3,666
Dividend income received	801	848
Other interest expense paid	(503)	(476)
Income tax paid	(608)	(451)

As of June 30, 2010 and 2009, cash and cash equivalents restricted as to use were USD 1,292 million and USD 3,048 million, respectively.

Cash and cash equivalents	in USD millions, as of June 30	2010	2009
Cash and cash equivalents comprise the following:			
Cash at bank and in hand		6,087	8,666
Cash equivalents		9,551	11,723
Cash held as collateral for securities lending		299	393
Total		15,938	20,782

Consolidated statements of changes in equity (unaudited)

in USD millions	Share capital	Additional paid-in capital	Net unrealized gains/(losses) on available-for-sale investments
Balance as of December 31, 2008, as previously reported	10	10,131	(2,957)
Total adjustments due to restatement	–	–	(66)
Balance as of December 31, 2008, as restated	10	10,131	(3,024)
Issuance of share capital ¹	–	910	–
Dividends to shareholders	–	–	–
Share-based payment transactions	–	(62)	–
Treasury share transactions ²	–	100	–
Total comprehensive income for the period, net of tax	–	–	725
<i>Net income</i>	–	–	–
<i>Net unrealized gains/(losses) on available-for-sale investments</i>	–	–	725
<i>Cash flow hedges</i>	–	–	–
<i>Cumulative foreign currency translation adjustment</i>	–	–	–
<i>Net actuarial gains/(losses) on pension plans</i>	–	–	–
Net changes in capitalization and non-controlling interests	–	–	–
Balance as of June 30, 2009, as restated	10	11,079	(2,299)
Balance as of December 31, 2009, as previously reported	10	11,400	334
Total adjustments due to restatement	–	–	53
Balance as of December 31, 2009, as restated	10	11,400	387
Issuance of share capital ¹	–	171	–
Dividends to shareholders	–	–	–
Share-based payment transactions	–	(82)	–
Treasury share transactions ²	–	2	–
Change of ownership with no loss of control	–	–	–
Total comprehensive income for the period, net of tax	–	–	1,545
<i>Net income</i>	–	–	–
<i>Net unrealized gains/(losses) on available-for-sale investments</i>	–	–	1,545
<i>Cash flow hedges</i>	–	–	–
<i>Cumulative foreign currency translation adjustment</i>	–	–	–
<i>Revaluation reserve</i>	–	–	–
<i>Net actuarial gains/(losses) on pension plans</i>	–	–	–
Net changes in capitalization and non-controlling interests	–	–	–
Balance as of June 30, 2010	10	11,491	1,933

¹ The number of common shares issued as of June 30, 2010 was 146,374,524 (June 30, 2009: 147,349,860, December 31, 2009: 147,473,068, December 31, 2008: 142,122,620).

² The number of treasury shares deducted from equity as of June 30, 2010 amounted to 1,413,946 (June 30, 2009: 3,285,622, December 31, 2009: 3,269,338, December 31, 2008: 5,219,803). On March 30, 2010, the cancellation of the 1,836,404 shares with nominal value of CHF 0.10 each repurchased through the Group share buy-back program until December 2008 was approved by the Annual General Meeting. The effective date of the capital reduction was June 15, 2010.

	Cash flow hedges	Cumulative foreign currency translation adjustment	Revaluation reserve	Retained earnings	Common shareholders' equity	Preferred securities	Shareholders' equity	Non-controlling interests	Total equity
	(16)	(1,341)	99	15,616	21,542	561	22,103	1,678	23,781
	-	-	-	(1,174)	(1,241)	-	(1,241)	-	(1,241)
	(16)	(1,341)	99	14,441	20,301	561	20,862	1,678	22,540
	-	-	-	-	910	-	910	-	910
	-	-	-	(1,389)	(1,389)	(12)	(1,401)	(12)	(1,413)
	-	-	-	-	(62)	-	(62)	-	(62)
	-	-	-	240	340	-	340	-	340
	(22)	889	(1)	2,526	4,118	12	4,130	22	4,152
	-	-	-	1,955	1,955	12	1,967		
	-	-	-	-	725	-	725		
	(22)	-	-	-	(22)	-	(22)		
	-	889	-	-	889	-	889		
	-	-	-	571	571	-	571		
	-	-	-	-	-	-	-	43	43
	(38)	(451)	98	15,818	24,218	561	24,779	1,731	26,510
	(9)	(396)	98	17,680	29,117	561	29,678	1,800	31,478
	-	-	-	(427)	(374)	-	(374)	-	(374)
	(9)	(396)	98	17,253	28,743	561	29,304	1,800	31,104
	-	-	-	-	171	-	171	-	171
	-	-	-	(2,202)	(2,202)	(6)	(2,207)	(6)	(2,214)
	-	-	-	-	(82)	-	(82)	-	(82)
	-	-	-	7	8	(46)	(38)	-	(38)
	-	-	-	(3)	(3)	-	(3)	-	(3)
	69	(1,372)	28	1,047	1,318	6	1,324	(225)	1,098
	-	-	-	1,637	1,637	6	1,642		
	-	-	-	-	1,545	-	1,545		
	69	-	-	-	69	-	69		
	-	(1,372)	-	-	(1,372)	-	(1,372)		
	-	-	28	-	28	-	28		
	-	-	-	(589)	(589)	-	(589)		
	-	-	-	-	-	-	-	(51)	(51)
	60	(1,768)	126	16,102	27,954	515	28,469	1,518	29,986

1. Basis of presentation

General information

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

The unaudited Consolidated financial statements for the six months ended June 30, 2010 of Zurich Financial Services Ltd and its subsidiaries (collectively the Group) have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting". The accounting policies used to prepare the unaudited Consolidated financial statements comply with International Financial Reporting Standards (IFRS), and are consistent with those set out in the notes to the Consolidated financial statements in the Financial Report 2009 of the Group except as outlined below.

The accounting policies applied by the reportable segments are the same as those applied by the Group. The Group accounts for inter-segment revenues and transfers as if the transactions were with third parties at current market prices, with the exception of dividends, realized capital gains as well as gains and losses on transfer of net assets, which are eliminated against equity. For the Consolidated financial statements inter-segment revenues and transfers are eliminated.

The unaudited Consolidated financial statements should be read in conjunction with the Group's Financial Report 2009.

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

Interest on reinsurance deposits previously presented under "Net investment income" amounting to USD 38 million for the six months ended June 30, 2009 is now presented under "Other income". This change in presentation is reflected in the consolidated income statements.

All amounts in the unaudited 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. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts.

Table 1 summarizes the principal exchange rates that have been used for translation purposes. Net gains on foreign currency transactions included in the unaudited consolidated income statements were USD 190 million and USD 29 million for the six months ended June 30, 2010 and 2009, respectively. Foreign currency exchange forward and swap gains and (losses) included in these amounts were USD (24) million and USD 228 million for the six months ended June 30, 2010 and 2009, respectively.

USD per foreign currency unit	Balance sheets		Income statements and cash flows	
	06/30/10	12/31/09	06/30/10	06/30/09
	Euro	1.2291	1.4333	1.3295
Swiss franc	0.9285	0.9649	0.9248	0.8857
British pound	1.4951	1.6164	1.5266	1.4915

Implementation of new accounting standards

The following new accounting standards or amendments to and interpretations of standards relevant to the Group have been implemented for the financial year beginning January 1, 2010 with no material impact on the Group's financial position or performance.

- IFRS 3 "Business Combinations" revised
- Amendments to IAS 27 "Consolidated and separate Financial Statements"
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurements - Eligible Hedged Items"
- Amendments to IFRS 2 "Share-based Payment - Group Cash-settled Share-based Payment Transactions"
- Several minor amendments as part of the IASB's annual improvement project including amendments regarding IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", IAS 38 "Intangible Assets", IFRIC 9 "Reassessment of Embedded Derivatives" and IFRIC 10 "Interim Financial Reporting and Impairment"
- IFRIC 17 "Distributions of Non-cash Assets to Owners"
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

The Group has not early adopted the following Standards:

- Amendments to IAS 32 "Financial Instruments: Presentation – Classification of Rights Issues" effective for reporting periods beginning on or after February 1, 2010
- Amendments to IAS 24 "Related Party Disclosures" effective for reporting periods beginning on or after January 1, 2011
- IFRS 9 "Financial Instruments" effective for reporting periods beginning on or after January 1, 2013

Change in accounting policies in 2010

The Group decided to dynamically hedge the risks associated with its closed U.S. life book included in its Non-Core Businesses segment, starting in March 2010. In order to offset the accounting volatility from the fair valuation of the hedge, the Group concluded that it should measure the underlying insurance liabilities in this book of business at current value and as a consequence has changed its accounting policy for this closed U.S. life book by exercising the option in IFRS 4 to remeasure designated insurance liabilities using current financial and non-financial assumptions. All financial assets, which were previously designated as available-for-sale, related to these insurance liabilities have therefore also been redesignated at fair value through profit or loss. As a consequence of this change in accounting policy, prior year figures have been restated to ensure comparability. Business operating profit (BOP) has not been restated, as the business was not managed on a fair value basis in 2009, prior to the implementation of the dynamic hedge and therefore to restate BOP would not be a fair reflection of a sustainable operating profit nor provide comparability with the previous period.

Restatement and reclassifications of consolidated income statement

Table 1.1

in USD millions, for the six months ended June 30, 2009

	As reported	Amount of restatement	Reclassifications	As restated
Revenues				
Gross written premiums and policy fees	27,426	–	–	27,426
Less premiums ceded to reinsurers	(3,095)	–	–	(3,095)
Net written premiums and policy fees	24,331	–	–	24,331
Net change in reserves for unearned premiums	(1,853)	–	–	(1,853)
Net earned premiums and policy fees	22,478	–	–	22,478
Farmers management fees and other related revenues	1,247	–	–	1,247
Net investment result on Group investments	2,435	(123)	(38)	2,274
Net investment income on Group investments	3,777	–	(38)	3,739
Net capital gains/(losses) and impairments on Group investments	(1,342)	(123)	–	(1,465)
Net investment result on unit-linked investments	923	–	–	923
Net gain/(loss) on divestments of businesses	(4)	–	–	(4)
Other income	754	–	38	792
Total revenues	27,832	(123)	–	27,709
Benefits, losses and expenses				
Insurance benefits and losses, gross of reinsurance	18,927	(1,111)	–	17,816
Less ceded insurance benefits and losses	(1,560)	50	–	(1,510)
Insurance benefits and losses, net of reinsurance	17,367	(1,060)	–	16,306
Policyholder dividends and participation in profits, net of reinsurance	1,189	–	–	1,189
Underwriting and policy acquisition costs, net of reinsurance	4,036	–	–	4,036
Administrative and other operating expense	3,225	–	–	3,225
Interest expense on debt	275	–	–	275
Interest credited to policyholders and other interest	244	–	–	244
Total benefits, losses and expenses	26,336	(1,060)	–	25,275
Net income before income taxes	1,496	938	–	2,434
Income tax expense	(242)	(225)	–	(466)
attributable to policyholders	170	–	–	170
attributable to shareholders	(411)	(225)	–	(636)
Net income after taxes	1,255	713	–	1,968
attributable to non-controlling interests	1	–	–	1
attributable to shareholders	1,254	713	–	1,967
in USD				
Basic earnings per share	8.89	5.10	–	13.99
Diluted earnings per share	8.82	5.07	–	13.89
in CHF				
Basic earnings per share	10.03	5.76	–	15.80
Diluted earnings per share	9.96	5.72	–	15.68

Restatement of consolidated balance sheet

Table 1.2

in USD millions, as of December 31, 2009

	As reported	Amount of restatement	As restated
Investments			
Total Group investments	196,258	–	196,258
Cash and cash equivalents	11,631	–	11,631
Equity securities	12,450	–	12,450
Debt securities	136,344	–	136,344
Real estate held for investment	7,789	–	7,789
Mortgage loans	12,736	–	12,736
Other loans	15,077	–	15,077
Equity method accounted investments	232	–	232
Investments for unit-linked contracts	99,167	–	99,167
Total investments	295,425	–	295,425
Reinsurers' share of reserves for insurance contracts	18,627	124	18,751
Deposits made under assumed reinsurance contracts	3,861	–	3,861
Deferred policy acquisition costs	16,181	–	16,181
Deferred origination costs	856	–	856
Accrued investment income	2,744	–	2,744
Receivables	13,182	1	13,182
Other assets	3,327	–	3,327
Mortgage loans given as collateral	1,102	–	1,102
Deferred tax assets	2,257	164	2,421
Assets held for sale	67	–	67
Property and equipment	1,942	–	1,942
Goodwill	2,297	–	2,297
Other intangible assets	7,044	–	7,044
Total assets	368,914	288	369,202
Liabilities			
Reserve for premium refunds	649	–	649
Liabilities for investment contracts	46,124	–	46,124
Deposits received under ceded reinsurance contracts	1,558	–	1,558
Deferred front-end fees	5,543	–	5,543
Reserves for insurance contracts	241,412	682	242,094
Obligations to repurchase securities	3,976	–	3,976
Accrued liabilities	2,839	–	2,839
Other liabilities	17,485	–	17,485
Collateralized loans	1,102	–	1,102
Deferred tax liabilities	4,464	(20)	4,445
Debt related to capital markets and banking activities	839	–	839
Senior and subordinated debt	11,444	–	11,444
Total liabilities	337,435	662	338,098
Equity			
Shareholders' equity	29,678	(374) ¹	29,304
Non-controlling interests	1,800	–	1,800
Total equity	31,478	(374)	31,104
Total liabilities and equity	368,914	288	369,202

¹ Of the USD (374) million restatement of total equity, USD 867 million relates to 2009, and USD (1,241) million relates to 2008 and prior years.

2. Acquisitions and divestments

Recent developments

In line with the ongoing restructuring of the banking industry in Spain various banks and savings institutions are engaging in different forms of cooperation or mergers. In 2008 the Group acquired 50 percent interests in life and general insurance companies of, and entered into distribution agreements with, several of these banks and savings institutions. One of these savings institutions, Caixa d'Estalvis de Sabadell merged into Caixa d'Estalvis Unió de Caixes Manlleu Sabadell y Terrassa (Unnim) as of July 1, 2010. The Group is continuing to review and assess, as details emerge, the effects of this merger and of related industry developments on determination of control and its distribution agreements.

Transactions in 2010

On February 15, 2010, Royal Bafokeng Finance (Pty) Limited (RBF), an investment company based in South Africa and wholly owned by Royal Bafokeng Holdings (Pty) Limited, based in South Africa and responsible for the management and development of the commercial assets of the Royal Bafokeng Nation, increased its share holding in Zurich Insurance Company South Africa Limited, of which the Group owned 73.6 percent, by 15.1 percent from 10.0 percent to 25.1 percent against USD 32 million in cash with option rights to increase up to 51.0 percent or sell the entire stake back to the Group. To appropriately reflect the nature of the put and the call options on the shares, the Group has reclassified the 25.1 percent non-controlling interest of RBF as a liability measured at fair value in the unaudited Consolidated financial statements.

On June 4, 2010 the Group signed an agreement to acquire 80 percent of PT Mayapada Life, a life insurer based in Indonesia focused on the distribution of group and individual life and health plans. Mayapada Group will continue to hold 20 percent of PT Mayapada Life. Subject to the approval of the relevant regulatory authorities, the transaction is expected to close in the fourth quarter of 2010.

3. Investments

Table 3.1a

Investment result
for total
investments

in USD millions, for the six months ended June 30

	Net investment income		Net capital gains/ (losses) on investments and impairments		Investment result	
	2010	2009	2010	2009	2010	2009
Cash and cash equivalents	80	102	3	29	83	131
Equity securities	834	848	(1,063)	243	(228)	1,091
Debt securities	2,784	2,873	1,109	(778)	3,893	2,095
Real estate held for investment	381	387	181	(592)	563	(204)
Mortgage loans	256	280	(345)	(59)	(89)	221
Other loans	355	353	(10)	1	346	353
Equity method accounted investments	9	(3)	(27)	–	(18)	(3)
Other investments ¹	–	31	166	(197)	166	(165)
Investment result, gross	4,699	4,871	16	(1,353)	4,715	3,518
Investment expenses	(372)	(321)	–	–	(372)	(321)
Investment result, net	4,327	4,550	16	(1,353)	4,343	3,197

¹ Including net capital gains/(losses) on derivative financial instruments of USD 166 million and USD (164) million for the six months ended June 30, 2010 and 2009, respectively, of which net capital gains/(losses) on derivatives attributable to cash flow hedge ineffectiveness amounted to USD 16 million and USD 10 million for the six months ended June 30, 2010 and 2009, respectively.

Rental operating expenses for real estate held for investment included in investment expenses for total investments amounted to USD 91 million and USD 66 million for the six months ended June 30, 2010 and 2009, respectively.

Table 3.1b

Investment result
for Group
investments

in USD millions, for the six months ended June 30

	Net investment income		Net capital gains/ (losses) on investments and impairments		Investment result	
	2010	2009	2010	2009	2010	2009
Cash and cash equivalents	27	68	1	(1)	28	67
Equity securities	173	195	(239)	(499)	(66)	(304)
Debt securities	2,632	2,727	827	(691)	3,459	2,036
Real estate held for investment	226	224	3	(8)	229	216
Mortgage loans	256	280	(345)	(59)	(89)	221
Other loans	347	352	1	1	347	353
Equity method accounted investments	9	(3)	(27)	–	(18)	(3)
Other investments ¹	–	2	197	(207)	197	(204)
Investment result, gross for Group investments	3,669	3,845	418	(1,465)	4,087	2,381
Investment expenses for Group investments	(109)	(107)	–	–	(109)	(107)
Investment result, net for Group investments	3,561	3,739	418	(1,465)	3,979	2,274

¹ The net capital gains/(losses) in other investments arise entirely from derivative financial instruments and include net capital gains/(losses) on derivatives attributable to cash flow hedge ineffectiveness amounted to USD 16 million and USD 10 million for the six months ended June 30, 2010 and 2009, respectively.

For the six months ended June 30, 2010 and 2009, respectively, impairment charges on Group investments included in net capital gains/(losses) amounted to USD 763 million and USD 738 million, of which impairment charges on mortgage loans, other loans and equity method accounted investments comprised in total USD 368 million and USD 59 million, respectively.

Table 3.1c

Investment result
for unit-linked
contracts

in USD millions, for the six months ended June 30

	Net investment income		Net capital gains/ (losses) on investments		Investment result	
	2010	2009	2010	2009	2010	2009
Cash and cash equivalents	53	34	2	30	55	64
Equity securities	662	654	(824)	742	(162)	1,396
Debt securities	152	146	282	(87)	433	59
Real estate held for investment	155	163	179	(583)	334	(420)
Other loans	9	–	(10)	–	(1)	–
Other investments ¹	–	29	(31)	10	(31)	39
Investment result, gross for unit-linked contracts	1,030	1,026	(402)	112	628	1,138
Investment expenses for unit-linked contracts	(264)	(215)	–	–	(264)	(215)
Investment result, net unit-linked contracts	767	811	(402)	112	364	923

¹ Including net capital gains/(losses) on derivative financial instruments of USD (31) million and USD 43 million for the six months ended June 30, 2010 and 2009, respectively.

Table 3.2

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

in USD millions, for the six months ended June 30

	Equity securities		Debt securities		Total	
	2010	2009	2010	2009	2010	2009
Securities at fair value through profit or loss:	(738)	776	679	(398)	(59)	378
Net capital gains/(losses) on Group investments	86	34	397	(312)	483	(278)
<i>of which:</i>						
<i>Trading securities</i>	18	(10)	9	(4)	27	(14)
<i>Securities designated at fair value through profit or loss</i>	68	44	388	(308)	456	(264)
Net capital gains/(losses) for unit-linked contracts	(824)	742	282	(87)	(542)	655
Available-for-sale securities:	(325)	(533)	391	(359)	66	(892)
Realized capital gains on Group investments	144	116	627	436	771	552
Realized capital losses on Group investments	(74)	(258)	(197)	(528)	(271)	(785)
Impairments on Group investments	(395)	(392)	(39)	(268)	(434)	(659)
Held-to-maturity securities	–	–	40	(20)	40	(20)
Total net capital gains/(losses) and impairments	(1,063)	243	1,109	(778)	46	(535)

Details of total investments by category	as of	Total investments			
		06/30/10		12/31/09	
		USD millions	% of total	USD millions	% of total
Cash and cash equivalents		15,938	5.7	17,471	5.9
Equity securities:					
Fair value through profit or loss		75,087	27.0	83,329	28.2
<i>of which: trading</i>		487	0.2	879	0.3
<i>of which: trading equity portfolios in capital markets and banking activities</i>		150	0.1	461	0.2
Available-for-sale		6,029	2.2	7,432	2.5
Total equity securities		81,115	29.2	90,761	30.7
Debt securities:					
Fair value through profit or loss		17,686	6.4	17,878	6.1
<i>of which: trading</i>		295	0.1	82	0.0
Available-for-sale		122,105	43.9	123,516	41.8
Held-to-maturity		4,863	1.7	5,143	1.7
Total debt securities		144,653	52.0	146,538	49.6
Real estate held for investment		11,104	4.0	11,686	4.0
Mortgage loans		10,923	3.9	12,736	4.3
Other loans		14,135	5.1	16,001	5.4
Equity method accounted investments		187	0.1	232	0.1
Total investments		278,056	100.0	295,425	100.0

Details of Group investments by category	as of	Group investments			
		06/30/10		12/31/09	
		USD millions	% of total	USD millions	% of total
Cash and cash equivalents		9,747	5.2	11,631	5.9
Equity securities:					
Fair value through profit or loss		3,791	2.0	5,018	2.6
<i>of which: trading</i>		487	0.3	879	0.4
<i>of which: trading equity portfolios in capital markets and banking activities</i>		150	0.1	461	0.2
Available-for-sale		6,029	3.2	7,432	3.8
Total equity securities		9,819	5.3	12,450	6.3
Debt securities:					
Fair value through profit or loss		7,942	4.3	7,684	3.9
<i>of which: trading</i>		295	0.2	82	0.0
Available-for-sale		122,105	65.8	123,516	62.9
Held-to-maturity		4,863	2.6	5,143	2.6
Total debt securities		134,910	72.7	136,344	69.5
Real estate held for investment		7,313	3.9	7,789	4.0
Mortgage loans		10,923	5.9	12,736	6.5
Other loans		12,765	6.9	15,077	7.7
Equity method accounted investments		187	0.1	232	0.1
Total Group investments		185,664	100.0	196,258	100.0

Cash and investments with a carrying value of USD 5,407 million and USD 4,908 million were deposited with regulatory authorities as of June 30, 2010 and December 31, 2009, respectively.

Securities under security lending and repurchase agreements

As of June 30, 2010 and December 31, 2009, investments included USD 6,187 million and USD 5,073 million, respectively, of loaned securities. These loaned securities were mainly debt securities. Cash and cash equivalents included USD 299 million and USD 493 million of cash received as collateral for loaned securities as of June 30, 2010 and December 31, 2009, respectively. Liabilities for cash collateral received for securities lending comprised USD 302 million and USD 508 million as of June 30, 2010 and December 31, 2009, respectively. Non-cash collateral received for loaned securities comprised mainly equity and debt securities and amounted to USD 6,183 million and USD 5,046 million as of June 30, 2010 and December 31, 2009, respectively. The Group can sell or repledge the collateral only in the event of default by a counterparty.

As of June 30, 2010 and December 31, 2009, respectively, debt securities with a carrying value of USD 3,474 million and USD 3,938 million have been sold to financial institutions under repurchase agreements. These securities continue to be recognized as investments in the balance sheets. Obligations to repurchase these securities amounted to USD 3,471 million and USD 3,976 million as of June 30, 2010 and December 31, 2009, respectively. The Group retains the rights to the risks and the benefits of ownership of loaned securities and securities under repurchase agreements. These risks and benefits include changes in market values and income earned.

Table 3.3c

Details of investments held for unit-linked contracts	as of	Investments for unit-linked contracts			
		06/30/10		12/31/09	
		USD millions	% of total	USD millions	% of total
Cash and cash equivalents		6,191	6.7	5,840	5.9
Equity securities		71,296	77.2	78,311	79.0
Debt securities		9,744	10.5	10,194	10.3
Real estate held for investment		3,791	4.1	3,897	3.9
Other loans		1,370	1.5	924	0.9
Total investments for unit-linked contracts		92,392	100.0	99,167	100.0

Investments held under unit-linked investments contracts are classified as designated at fair value through profit or loss.

Table 3.4

Net unrealized gains/(losses) on Group investments included in shareholders' equity	in USD millions, as of	Total	
		06/30/10	12/31/09
Equity securities: available-for-sale		173	112
Debt securities: available-for-sale		4,285	1,586
Other		77	9
Less: amount of net unrealized gains/(losses) on investments attributable to:			
Life policyholder dividends and other policyholder liabilities		(1,533)	(904)
Life deferred acquisition costs		(262)	(97)
Deferred income taxes		(742)	(312)
Non-controlling interests		(6)	(15)
Total¹		1,993	379

¹ Net unrealized gains/(losses) include net gains arising on cash flow hedges of USD 60 million and losses of USD (9) million as of June 30, 2010 and December 31, 2009, respectively.

4. Reserves for insurance contracts and reinsurers' share of reserves for insurance contracts

Reserves for insurance contracts	in USD millions, as of					
	Gross		Ceded		Net	
	06/30/10	12/31/09	06/30/10	12/31/09	06/30/10	12/31/09
Reserves for losses and loss adjustment expenses	65,563	68,086	(11,992)	(12,182)	53,571	55,903
Reserves for unearned premiums	17,770	17,676	(2,354)	(2,000)	15,416	15,676
Future life policyholders' benefits	70,922	79,271	(2,170)	(2,199)	68,752	77,072
Policyholders' contract deposits and other funds	18,975	18,857	(2,382)	(2,457)	16,593	16,400
Reserves for unit-linked contracts	54,974	58,204	–	–	54,974	58,204
Total reserves for insurance contracts¹	228,204	242,094	(18,899)	(18,839)	209,305	223,255

¹ The total reserves for insurance contracts ceded are gross of allowance for uncollectible amounts of USD 98 million and USD 88 million as of June 30, 2010 and December 31, 2009, respectively.

Development of reserves for losses and loss adjustment expenses	in USD millions					
	Gross		Ceded		Net	
	2010	2009	2010	2009	2010	2009
As of January 1	68,086	65,218	(12,182)	(12,232)	55,903	52,986
Losses and loss adjustment expenses incurred:						
Current year	14,799	13,267	(2,211)	(1,223)	12,588	12,045
Prior years	(766)	(346)	261	(68)	(505)	(414)
Total incurred	14,033	12,921	(1,950)	(1,291)	12,083	11,630
Losses and loss adjustment expenses paid:						
Current year	(4,381)	(3,797)	302	141	(4,079)	(3,656)
Prior years	(9,015)	(9,235)	1,281	1,185	(7,733)	(8,050)
Total paid	(13,396)	(13,031)	1,583	1,326	(11,813)	(11,706)
Acquisitions/(divestments) and transfers	(10)	94	29	1	19	95
Foreign currency translation effects	(3,150)	1,470	529	(248)	(2,622)	1,222
As of June 30	65,563	66,672	(11,992)	(12,444)	53,571	54,228

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 4.2 shows the development of reserves for losses and loss adjustment expenses during the first half-year of 2010. The decrease of USD 2.3 billion in total net reserves included USD 505 million of favorable reserve development emerging from reserves established in prior years from various regions and lines of business. Favorable development arose in the General Insurance business partially offset by strengthening in other segments. The positive development includes reduced exposures associated with return premiums in North America.

Table 4.3

Development of future life policyholders' benefits	in USD millions		Gross		Ceded		Net	
	2010	2009	2010	2009	2010	2009	2010	2009
As of January 1	79,271	78,118	(2,199)	(2,056)	77,072	76,061		
Premiums and claims	(1,338)	(1,834)	(51)	53	(1,388)	(1,781)		
Interest and bonuses credited to policyholders	1,295	1,287	(37)	(35)	1,258	1,252		
Change in assumptions	208	23	(19)	6	189	29		
Acquisitions/transfers	(29)	–	–	–	(29)	–		
Changes recorded in shareholders' equity	19	(6)	–	–	19	(6)		
Foreign currency translation effects	(8,503)	748	135	(115)	(8,368)	633		
As of June 30	70,922	78,336	(2,170)	(2,147)	68,752	76,189		

Table 4.4

Policyholders' contract deposits and other funds gross	in USD millions, as of	
	06/30/10	12/31/09
Annuities	2,753	2,760
Universal life and other contracts	10,724	10,801
Policyholder dividends	5,498	5,297
Total	18,975	18,857

Table 4.5

Development of policyholders' contract deposits and other funds	in USD millions	Gross		Ceded		Net	
		2010	2009	2010	2009	2010	2009
		As of January 1	18,857	17,047	(2,457)	(2,690)	16,400
Premiums and claims	58	(346)	98	210	156	(136)	
Interest and bonuses credited to policyholders	550	294	(43)	(44)	507	249	
Acquisitions	–	92	–	–	–	92	
Changes recorded in shareholders' equity	774	(259)	–	–	774	(259)	
Foreign currency translation effects	(1,264)	314	20	(5)	(1,244)	309	
As of June 30		18,975	17,141	(2,382)	(2,530)	16,593	14,612

Table 4.6

Development of reserves for unit-linked contracts	in USD millions	Gross		Ceded		Net	
		2010	2009	2010	2009	2010	2009
		As of January 1	58,204	47,297	–	–	58,204
Premiums and claims	834	286	–	–	834	286	
Interest and bonuses credited/(charged) to policyholders	420	704	–	–	420	704	
Acquisitions/transfers	29	–	–	–	29	–	
Foreign currency translation effects	(4,513)	3,053	–	–	(4,513)	3,053	
As of June 30		54,974	51,341	–	–	54,974	51,341

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

Table 5.1			
Liabilities for investment contracts	in USD millions, as of	06/30/10	12/31/09
	Liabilities related to unit-linked investment contracts	36,744	40,143
	Liabilities related to investment contracts (amortized cost)	359	254
	Liabilities related to investment contracts with DPF	5,407	5,728
	Total	42,510	46,124

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 5.2			
Development of liabilities for investment contracts	in USD millions	2010	2009
	As of January 1	46,124	35,979
	Premiums and claims	456	(385)
	Interest and bonuses charged/(credited) to policyholders	319	282
	Acquisitions/transfers	(3)	–
	Changes recorded in shareholders' equity	(32)	2
	Foreign currency translation effects	(4,354)	3,189
	As of June 30	42,510	39,067

6. Gross and ceded insurance revenues and expenses

Insurance benefits and losses	in USD millions, for the six months ended June 30					
	Gross		Ceded		Net	
	2010	2009	2010	2009	2010	2009
Losses and loss adjustment expenses	14,033	12,921	(1,950)	(1,291)	12,083	11,630
Life insurance death and other benefits	5,627	5,386	(220)	(243)	5,407	5,143
Change in future life policyholders' benefits	45	(491)	(94)	24	(50)	(467)
Total insurance benefits and losses	19,705	17,816	(2,264)	(1,510)	17,441	16,306

Policyholder dividends and participation in profits	in USD millions, for the six months ended June 30					
	Gross		Ceded		Net	
	2010	2009	2010	2009	2010	2009
Change in policyholders' contract deposits and other funds	309	175	(1)	(1)	307	174
Change in reserves for unit-linked products	174	673	–	–	174	673
Change in liabilities for investment contracts – unit-linked	257	301	–	–	257	301
Change in liabilities for investment contracts – other	100	61	–	–	100	61
Change in unit-linked liabilities related to UK capital gains tax	8	(21)	–	–	8	(21)
Total policyholder dividends and participation in profits	847	1,190	(1)	(1)	845	1,189

7. Deferred policy acquisition costs and deferred origination costs

Table 7.1

Development of deferred policy acquisition costs	in USD millions		General Insurance		Global Life		Other segments ¹		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	As of January 1	3,374	3,247	12,276	10,768	531	308	16,181	14,323	
Acquisition costs deferred	1,541	1,433	833	664	512	597	2,886	2,693		
Amortization	(1,426)	(1,307)	(451)	(400)	(690)	(430)	(2,567)	(2,137)		
Amortization charged/ (credited) to shareholders' equity	–	–	(151)	3	–	(1)	(151)	3		
Foreign currency translation effects	(165)	66	(1,151)	561	–	–	(1,316)	627		
As of June 30	3,324	3,439	11,355	11,596	353	474	15,032	15,509		

¹ Net of eliminations from inter-segment transactions.

Table 7.2

Development of deferred origination costs	in USD millions		2010	2009
	As of January 1		856	770
Origination costs deferred		56	31	
Amortization		(54)	(53)	
Foreign currency translation effects		(75)	76	
As of June 30		784	825	

8. Goodwill and other intangible assets

Table 8.1 in USD millions								
		Goodwill	PVFP	Distribution agreements	Software	Other intangible assets	Attorney-in-fact relationships	Total
Gross carrying value as of January 1, 2010		2,331	2,749	3,426	3,430	224	1,025	13,186
Less: accumulated amortization/impairments		(34)	(1,612)	(251)	(1,861)	(85)	–	(3,844)
Net carrying value as of January 1, 2010		2,297	1,137	3,174	1,569	139	1,025	9,342
Additions and transfers		–	–	–	254	–	–	254
Divestments and transfers		–	–	–	(8)	–	–	(8)
Amortization		–	(54)	(72)	(179)	(9)	–	(314)
Amortization charged to shareholders' equity		–	(23)	–	–	–	–	(23)
Impairments		–	–	–	(8)	(5)	–	(13)
Foreign currency translation effects		(118)	(117)	(440)	(77)	(10)	–	(762)
Net carrying value as of June 30, 2010		2,180	943	2,662	1,550	115	1,025	8,475
Plus: accumulated amortization/impairments		19	1,568	283	1,932	89	–	3,890
Gross carrying value as of June 30, 2010		2,199	2,510	2,946	3,482	203	1,025	12,366

As of June 30, 2010, the intangible assets related to non-controlling interests were USD 182 million from present value of future profits (PVFP) of acquired insurance contracts, USD 1,246 million from distribution agreements and USD 5 million from software. As of December 31, 2009, the comparative figures were USD 224 million, USD 1,484 million and USD 8 million, respectively.

Table 8.2 in USD millions, as of June 30, 2010								
		Goodwill	PVFP	Distribution agreements	Software	Other intangible assets	Attorney-in-fact relationships	Total
General Insurance		963	–	594	601	88	–	2,246
Global Life		391	943	2,069	298	26	–	3,727
Farmers		821	–	–	436	–	1,025	2,283
Other Operating Businesses		5	–	–	212	–	–	217
Non-Core Businesses		–	–	–	3	–	–	3
Net carrying value as of June 30, 2010		2,180	943	2,662	1,550	115	1,025	8,475

Intangible assets –
prior period

Table 8.3

in USD millions

	Goodwill	PVFP	Distribution agreements	Software	Other intangible assets	Attorney-in-fact relationships	Total
Gross carrying value as of January 1, 2009	1,696	2,617	3,075	2,791	247	1,025	11,451
Less: accumulated amortization/impairments	(19)	(1,364)	(42)	(1,635)	(80)	–	(3,141)
Net carrying value as of January 1, 2009	1,677	1,252	3,032	1,156	166	1,025	8,310
Additions and transfers	91	5	191	270	(9)	–	547
Amortization	–	(14)	(94)	(124)	(7)	–	(239)
Amortization charged to shareholders' equity	–	(11)	–	–	–	–	(11)
Impairments	–	(2)	–	–	(8)	–	(10)
Foreign currency translation effects	35	25	26	20	13	–	119
Net carrying value as of June 30, 2009	1,802	1,256	3,155	1,323	155	1,025	8,716
Plus: accumulated amortization/impairments	21	1,502	136	1,674	100	–	3,432
Gross carrying value as of June 30, 2009	1,823	2,757	3,291	2,996	255	1,025	12,148

Intangible assets
by segment –
prior period

Table 8.4

in USD millions, as of December 31, 2009

	Goodwill	PVFP	Distribution agreements	Software	Other intangible assets	Attorney-in-fact relationships	Total
General Insurance	1,029	–	705	607	108	–	2,448
Global Life	442	1,137	2,470	363	31	–	4,443
Farmers	821	–	–	372	–	1,025	2,218
Other Operating Businesses	5	–	–	218	–	–	223
Non-Core Businesses	–	–	–	9	–	–	9
Net carrying value as of December 31, 2009	2,297	1,137	3,174	1,569	139	1,025	9,342

9. Income taxes

Table 9.1		2010	2009
Income tax expense – current/deferred split	in USD millions, for the six months ended June 30		
	Current	685	457
	Deferred	(180)	9
	Total income tax expense/(benefit)	505	466

Table 9.2		2010	2009
Income tax expense – policyholder/shareholder attribution	in USD millions, for the six months ended June 30		
	Total income tax expense/(benefit) attributable to policyholders	(3)	(170)
	Total income tax expense/(benefit) attributable to shareholders	508	636
	Total income tax expense/(benefit)	505	466

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

Table 9.3		Rate	2010	Rate	2009
Expected and actual income tax expense	in USD millions, for the six months ended June 30				
	Net income before income taxes		2,183		2,434
	Less: income tax (expense)/benefit attributable to policyholders		3		170
	Net income before income taxes attributable to shareholders		2,186		2,603
	Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%	481	22.0%	573
	Increase/(reduction) in taxes resulting from:				
	<i>Tax rate differential in foreign jurisdictions</i>		181		120
	<i>Tax exempt and lower taxed income</i>		(30)		(24)
	<i>Non-deductible expenses</i>		30		49
	<i>Tax losses previously unrecognized or no longer recognized</i>		41		65
	<i>Prior year adjustments and other</i>		(195)		(147)
	Actual income tax expense attributable to shareholders	23.2%	508	24.4%	636
	Plus: income tax expense/(benefit) attributable to policyholders		(3)		(170)
	Actual income tax expense/(benefit)	23.1%	505	19.1%	466

Table 9.3 sets out the factors that cause the actual income tax expense to differ from the expected expense computed by applying the Swiss Statutory tax rate of 22.0 percent, which is the rate applicable in the jurisdiction where the ultimate parent company is resident.

10. Debt

Table 10.1

in USD millions, as of		06/30/10	12/31/09
Debt			
Debt related to capital markets and banking activities			
Zurich Capital Markets	Various debt instruments payable within 1 year	409	25
Zurich Financial Services			
EUB Holdings Limited	Various debt instruments payable within 1 year	471	813
	Various debt instruments payable in more than 1 year	1	1
Debt related to capital markets and banking activities		881	839
Senior debt			
Zurich Finance (USA), Inc.	3.50% CHF 300 bond, due November 2011 ^{1,6}	280	291
	4.50% EUR 1,000 bond, due September 2014 ^{2,6}	1,245	1,443
	4.875% EUR 800 bond, due April 2012 ⁶	980	1,143
	6.50% EUR 600 bond, due October 2015 ^{3,6}	735	857
Zurich Finance (Luxembourg) S.A.	3.25% USD 750 bond, due September 2013 ^{5,6}	762	747
Zurich Insurance Company Ltd	3.875% CHF 1,000 bond, due July 2011	929	965
	3.75% CHF 500 bond, due September 2013 ⁶	460	478
	Various debt instruments payable within 1 year	–	200
Other	Various debt instruments payable within 1 year	2	5
	Various debt instruments payable in more than 1 year	147	149
Senior debt		5,540	6,277
Subordinated debt			
Zurich Insurance Company Ltd	12.0% EUR 143 capital notes, undated ⁶	174	203
	7.5% EUR 425 bond, due July 2039 ⁶	517	603
Zurich Finance (UK) plc	6.625% GBP 450 bond, undated notes ^{4,6}	663	717
Zurich Finance (USA), Inc.	5.75% EUR 500 bond, due October 2023 ⁶	607	707
	4.5% EUR 500 bond, due June 2025 ^{5,6}	649	730
ZFS Finance (USA) Trust I	Series I 6.15% USD 600 ECAPS, due December 2065	568	567
ZFS Finance (USA) Trust II	Series II 6.45% USD 700 ECAPS, due December 2065	673	672
ZFS Finance (USA) Trust III	Series III Floating Rate USD 400 ECAPS, due December 2065	200	200
ZFS Finance (USA) Trust IV	Series IV 5.875% USD 500 Trust Preferred Securities, due May 2062	249	249
ZFS Finance (USA) Trust V	Series V 6.5% USD 1,000 Trust Preferred Securities, due May 2067	496	496
Other	Various debt instruments payable in more than 1 year	20	22
Subordinated debt		4,817	5,167
Total senior and subordinated debt		10,358	11,444
Total debt		11,238	12,283

¹ The bond is economically hedged, but hedge accounting treatment has not been applied.

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

³ The bond is part of a qualifying cash flow hedge.

⁴ 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.

⁵ This bond is part of a qualifying fair value hedge.

⁶ Issued under the Group's Euro Medium Term Note Programme (EMTN Programme).

None of the debt instruments listed above were in default as of June 30, 2010 and December 31, 2009.

Debt related to capital markets and banking activities

Debt related to capital markets and banking activities increased by USD 42 million from USD 839 million as of December 31, 2009 to USD 881 million as of June 30, 2010. Zurich Capital Markets' debt increased by USD 384 million, largely due to an increase in commercial paper issues, partially offset by a decrease of USD 342 million in the level of corporate and institutional deposits held by the Group's banking operations.

Senior and subordinated debt

To facilitate the issuance of debt, the Group has in place a Euro Medium Term Note Programme (EMTN Programme) allowing for the issuance of senior and subordinated notes up to a maximum of USD 15 billion. All issuances under this programme are either issued or guaranteed by Zurich Insurance Company Ltd. The Group has also issued debt instruments outside this programme when deemed appropriate. There were no new issues in 2010.

i) Senior debt

Senior debt decreased from USD 6.3 billion to USD 5.5 billion primarily due to the strengthening of the USD against the issuing currencies and the USD 200 million repayment of debt drawn under a credit facility for the sole purpose of financing surplus notes issued by the Leschi Life Assurance Company (Leschi), which expired in June 2010.

ii) Subordinated debt

Subordinated debt decreased from USD 5.2 billion as of December 31, 2009 to USD 4.8 billion as of June 30, 2010, mainly as a result of the strengthening of the USD against the issuing currencies.

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.

Description and features of significant subordinated debt

Table 10.2

in millions		Coupon conditions	Call/ redemption date	Redemption conditions
Description				
12.00% EUR 143 bond, undated notes		12.00% payable annually up to July 15, 2014 and then reset quarterly to 3-month EURIBOR plus 10.33%.	Quarterly on or after July 15, 2014	Redeemable in whole at par plus any accrued interest.
7.5% EUR 425 bond, due July 2039		7.5% payable annually up to July 24, 2019 and then reset quarterly to 3-month EURIBOR plus 5.85%.	Quarterly on or after July 24, 2019	Redeemable in whole or in part at par plus any accrued interest.
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. ¹	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 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 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%. ²	Quarterly on or after December 15, 2010	Redeemable in whole or in part at par plus any accrued interest.
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%. ²	Quarterly on or after June 15, 2016	Redeemable in whole or in part at par plus any accrued interest.
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 accrued interest.
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 accrued interest.
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 accrued interest.

¹ 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.

² 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.

Maturity schedule of outstanding debt	in USD millions, as of	06/30/10		12/31/09	
		Carrying value	Undiscounted cash flow	Carrying value	Undiscounted cash flow
< 1 year		882	1,446	1,044	1,644
1 to 2 years		2,202	2,751	1,272	1,872
2 to 3 years		11	462	1,143	1,721
3 to 4 years		1,222	1,659	1,235	1,731
4 to 5 years		1,351	1,717	1,448	1,890
5 to 10 years		753	2,093	975	2,456
> 10 years		4,817	6,785	5,167	7,265
Total		11,238	16,913	12,283	18,579

Debt maturities shown in table 10.3 reflect original contractual dates without taking early redemption options into account. For call/redemption dates, refer to table 10.2. The total notional amount of debt due in each period is not materially different from the total carrying amount disclosed in table 10.3. Undiscounted cash flows include interest and principal cash flows on debt outstanding as of June 30, 2010 and December 31, 2009, respectively. All debt is assumed to mature within 20 years of the balance sheet date without refinancing and where the Group has the option to repay the debt, the option is assumed to expire. Floating interest rates are assumed to remain constant as of June 30, 2010 and December 31, 2009, respectively. The aggregated cash flows are translated into USD at end-of-period rates.

Interest expense on debt	in USD millions, for the six months ended June 30	2010	2009
		Debt related to capital markets and banking activities	4
Senior debt		131	86
Subordinated debt		149	146
Total		284	275

Interest expense on debt

Interest expense on debt increased from USD 275 million to USD 284 million. The higher interest expense was mainly caused by two new issued senior bonds in 2009. Interest expense on debt related to capital markets and banking activities decreased due to debt reductions and a decrease of general short term interest rates.

Credit facilities

The Group has access to a syndicated revolving credit facility of USD 3 billion that terminates in 2012. Zurich Financial Services Ltd together with Zurich Insurance Company Ltd 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, 2010 or December 31, 2009.

Dunbar Bank and Zurich Bank have access to various committed credit facilities totalling GBP 150 million and GBP 180 million, respectively. As of June 30, 2010 and December 31, 2009, GBP 50 million have been drawn under these credit facilities.

In addition, Zurich Insurance Company Ltd has access to a revolving credit facility of USD 150 million which will expire in June 2013. As of June 30, 2010 no borrowings have been drawn under this facility.

11. Earnings per share

Table 11					
Earnings per share	for the six months ended June 30	Net income attributable to common shareholders	Weighted average number of shares	Per share (USD)	Per share (CHF) ¹
		(in USD millions)			
2010					
	Basic earnings per share	1,637	144,608,370	11.32	12.24
	Effect of potentially dilutive shares related to share-based compensation plans		1,207,816	(0.09)	(0.10)
	Diluted earnings per share	1,637	145,816,186	11.22	12.14
2009					
	Basic earnings per share	1,955	139,711,609	13.99	15.80
	Effect of potentially dilutive shares related to share-based compensation plans		1,010,896	(0.10)	(0.11)
	Diluted earnings per share	1,955	140,722,505	13.89	15.68

¹ 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, 2010 and 2009, respectively.

12. 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 U.S. state attorneys general and state insurance regulators in connection with investigations in the U.S. 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, and the appellate court has upheld the settlement approval. A number of individual claims not covered by the class action settlement remain pending against the Group.

Zurich Financial Services (now Zurich Financial Services Ltd) was a defendant in putative class-action securities lawsuits relating to its divestiture of its interest in Converium (now Scor Holding (Switzerland) AG). On July 25, 2008, Zurich Financial Services and the class-action plaintiffs entered into an amended stipulation of settlement that called for a payment of USD 28 million to settle the case in two parts on behalf of all persons and entities who purchased Converium securities between January 7, 2002 and September 2, 2004: one settlement in the U.S. court, covering all U.S. persons and entities, and all other persons who purchased Converium securities on U.S. markets, and another settlement in the Amsterdam Court of Appeal, in the Netherlands, covering all non-U.S. persons and entities who purchased Converium securities on non-U.S. markets. The U.S. and Dutch settlements are both subject to court approval and are independent of each other. The U.S. court approved the U.S. settlement on December 12, 2008, but a notice of appeal was filed. The appeal, however, was dismissed by stipulation of the parties on June 25, 2009 and the U.S. settlement is now considered final. The Dutch settlement papers were filed with the Dutch court on July 10, 2010.

Zurich Financial Services Ltd. has been added as a defendant in a putative class action pending in California state court captioned Benjamin Fogel v. Farmers Group, Inc (Farmers). The case, originally filed in August 2003, is brought on behalf of a putative class of all policyholders of the Farmers Exchanges from 1999 to the present. The plaintiff alleges that Farmers Group, Inc. and certain of its affiliates, which acted as the attorneys-in-fact for policyholders of the Farmers Exchanges, collected excessive and unreasonable management fees. The complaint seeks, amongst other things, disgorgement, as well as damages and injunctive relief. In February 2005, the trial court granted Farmers' motion for summary judgment, and plaintiff appealed. In 2008, a California appellate court reversed the trial court's ruling and reinstated the litigation. On September 9, 2009, plaintiff filed a motion seeking to certify a nationwide class of all policyholders of the Farmers Exchanges since August 1, 1999. A hearing on the motion is scheduled for September 9, 2010. The Group maintains that the litigation is without merit and intends to continue to defend itself vigorously.

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

13. Segment information

The Group pursues a customer-centric strategy and is managed on a matrix basis, reflecting both businesses and geography. The Group's operating segments have been identified on the basis of the businesses operated by the Group and how these are strategically managed to offer different products and services to specific customer groups. Segment information is presented accordingly. The Group's reportable 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 strategy with market-leading propositions in unit-linked and protection products through global distribution and proposition pillars to develop leadership positions in its chosen segments.

Farmers provides through Farmers Group, Inc. and its subsidiaries (FGI) non-claims related management services to the Farmers Exchanges. FGI receives fee income for the provision of services to the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc. a wholly owned subsidiary of the Group. This segment also includes the Farmers Re business, which includes all reinsurance assumed from the Farmers Exchanges by the Group. Farmers Exchanges are prominent writers of personal lines and small commercial lines business in the U.S.

For the purpose of discussing our financial performance we consider General Insurance, Global Life and Farmers to be our core operating segments.

The Group's new management structure effective July 1, 2010, reconfirms the three core operating segments.

Other Operating Businesses predominantly consist of the Group's Headquarter and Holding & Financing activities. In addition, certain alternative investment positions not allocated to core operating segments are carried in this segment.

Non-Core Businesses include insurance businesses that the Group does not consider core to its operations and that are therefore mostly managed to achieve a beneficial run-off. In addition, Non-Core Businesses also include the Group's banking activities.

The Group also manages its business on a geographic structure. The Group's identified regions are as follows:

Americas

Europe & Africa

Asia-Pacific & Middle East

Central Region

The segment information includes the Group's internal performance measure, business operating profit (BOP). This measure is the basis on which business units are managed. It indicates the underlying performance of the business units by eliminating the impact of financial market volatility and other non-operational variables. BOP reflects adjustments for shareholders' taxes, net capital gains on investments and impairments (except for the capital markets and banking operations included in Non-Core Businesses and investments in hedge funds and certain securities held for specific economic hedging purposes), policyholders' share of investment results for the life businesses, nonoperational foreign exchange movements, and significant items arising from special circumstances, including restructuring charges and gains and losses on divestments of businesses.

Business operating profit by business segment

Table 13.1

in USD millions, for the six months ended June 30

	General Insurance		Global Life	
	2010	2009	2010	2009
Revenues				
Direct written premiums and policy fees ¹	16,860	17,427	5,738	5,969
Assumed written premiums	1,080	820	49	54
Gross written premiums and policy fees	17,940	18,247	5,787	6,023
Less premiums ceded to reinsurers	(2,769)	(2,815)	(399)	(360)
Net written premiums and policy fees	15,171	15,432	5,388	5,663
Net change in reserves for unearned premiums	(1,393)	(1,201)	(10)	6
Net earned premiums and policy fees	13,778	14,231	5,379	5,669
Farmers management fees and other related revenues	–	–	–	–
Net investment result on Group investments	1,444	1,584	2,176	1,824
Net investment income on Group investments	1,439	1,533	1,952	2,022
Net capital gains/(losses) and impairments on Group investments	5	50	224	(198)
Net investment result on unit-linked investments	–	–	358	826
Other income	313	341	375	384
Total BOP revenues	15,534	16,156	8,288	8,704
<i>of which: inter-segment revenues</i>	<i>(184)</i>	<i>(169)</i>	<i>(116)</i>	<i>(112)</i>
Benefits, losses and expenses				
Insurance benefits and losses, net	9,785	10,047	4,663	5,211
Losses and loss adjustment expenses, net	9,775	10,030	31	23
Life insurance death and other benefits, net	9	17	5,024	4,770
(Decrease)/increase in future life policyholders' benefits, net ¹	1	–	(392)	418
Policyholder dividends and participation in profits, net	1	6	910	1,081
Income tax expense/(benefit) attributable to policyholders	–	–	(3)	(170)
Underwriting and policy acquisition costs, net	2,641	2,595	751	784
Administrative and other operating expense (excl. depreciation/amortization)	1,541	1,612	850	771
Interest credited to policyholders and other interest	23	18	211	200
Restructuring provisions and other items not included in BOP	(86)	(45)	(40)	(19)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	13,904	14,233	7,343	7,858
Business operating profit (before interest, depreciation and amortization)	1,630	1,922	945	846
Depreciation and impairments of property and equipment	39	32	16	16
Amortization and impairments of intangible assets	89	77	152	124
Interest expense on debt	113	99	35	48
Business operating profit before non-controlling interests	1,390	1,715	743	658
Non-controlling interests	13	1	23	17
Business operating profit	1,377	1,714	720	641
Supplementary information				
Additions and capital improvements to property, equipment and intangible assets	112	250	26	262

¹ The Global Life segment includes approximately USD 617 million and USD 1,435 million of gross written premiums and future life policyholders' benefits for certain universal life-type contracts in our Spanish operations for the six months ended June 30, 2010 and 2009, respectively (see note 3 of the Group's Financial Report 2009).

² As outlined in note 1 to the unaudited Consolidated Financial Statements, business operating profit (BOP) has not been restated for the change in the current value of certain insurance liabilities and assets amounting to USD 938 million in order to ensure a fair reflection of sustainable operating profit and comparability.

	Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	-	-	-	-	183	258	-	(3)	22,781	23,651
	2,491	2,883	65	70	39	70	(120)	(121)	3,605	3,775
	2,491	2,883	65	70	223	328	(120)	(124)	26,387	27,426
	-	-	(24)	(27)	(11)	(18)	120	124	(3,084)	(3,095)
	2,491	2,883	41	43	211	310	-	-	23,303	24,331
	691	(660)	1	1	1	2	3	-	(707)	(1,853)
	3,182	2,222	42	44	212	312	3	-	22,595	22,478
	1,399	1,247	-	-	-	-	-	-	1,399	1,247
	83	85	260	139	360	77	(437)	(418)	3,886	3,291
	83	85	260	220	263	296	(437)	(418)	3,561	3,739
	-	-	-	(80)	96	(220)	-	-	326	(448)
	-	-	-	-	6	97	-	-	364	923
	47	32	369	509	58	108	(521)	(583)	641	792
	4,712	3,587	671	692	636	593	(955)	(1,001)	28,886	28,730
	(36)	(45)	(585)	(635)	(34)	(39)	955	1,001	-	-
	2,143	1,559	37	(30)	813	(481)	-	-	17,441	16,306
	2,143	1,559	-	2	133	12	-	5	12,083	11,630
	-	-	37	41	338	314	-	1	5,407	5,143
	-	-	-	(72)	342	(807)	-	(6)	(50)	(467)
	-	-	-	-	(68)	102	3	-	845	1,189
	-	-	-	-	-	-	-	-	(3)	(170)
	990	656	-	-	3	4	(2)	(2)	4,384	4,036
	659	577	507	392	96	82	(512)	(556)	3,141	2,877
	1	-	1	-	33	33	(1)	(8)	267	244
	(16)	-	(82)	56	(5)	1,062	-	-	(229)	1,053
	3,777	2,792	463	418	870	802	(512)	(566)	25,846	25,536
	935	795	208	274	(234)	(208)	(443)	(434)	3,040	3,194
	37	33	13	16	2	2	-	-	107	99
	53	33	26	14	7	2	-	-	327	249
	-	5	530	483	51	75	(443)	(434)	284	275
	845	724	(361)	(239)	(294)	(287)	-	-	2,322	2,571
	-	-	-	-	-	-	-	-	36	19
	845	724	(361)	(239)	(295)	(287)²	-	-	2,286	2,552
	172	151	30	36	2	4	-	-	343	703

Reconciliation of
BOP to net income
after income taxes

Table 13.2

in USD millions, for the six months ended June 30

	General Insurance		Global Life	
	2010	2009	2010	2009
Business operating profit	1,377	1,714	720	641
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	19	(460)	11	(288)
Net gain/(loss) on divestments of businesses	–	(2)	–	–
Restructuring provisions and other	(86)	(45)	(40)	(19)
Add back:				
Business operating profit attributable to non-controlling interests	13	1	23	17
Net income before shareholders' taxes	1,322	1,209	714	351
Income tax expense attributable to policyholders	–	–	(3)	(170)
Net income before income taxes	1,322	1,209	711	181
Income tax expense (attributable to policyholders and shareholders)				
Net income after taxes				

¹ Business operating profit (BOP) has not been restated for the change in the current value of certain insurance liabilities and assets amounting to USD 938 million in order to ensure a fair reflection of sustainable operating profit and comparability (see note 1 to the unaudited Consolidated Financial Statements).

	Farmers		Other Operating Businesses		Non-Core Businesses		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	845	724	(361)	(239)	(295)	(287)	2,286	2,552
	(1)	(31)	82	(120)	(18)	(117)	92	(1,017)
	-	-	-	-	1	(3)	1	(4)
	(16)	-	(82)	56	(5)	1,062 ¹	(229)	1,053
	-	-	-	-	-	-	36	19
	828	692	(360)	(304)	(317)	655	2,186	2,603
	-	-	-	-	-	-	(3)	(170)
	828	692	(360)	(304)	(317)	655	2,183	2,434
							(505)	(466)
							1,679	1,968

Assets and liabilities by business segment

Table 13.3

in USD millions, as of

	General Insurance		Global Life	
	06/30/10	12/31/09	06/30/10	12/31/09
Assets				
Total Group Investments	81,321	85,413	93,700	101,597
Cash and cash equivalents	8,002	9,940	4,027	4,385
Equity securities	4,023	4,743	3,975	5,342
Debt securities	63,077	63,594	60,337	62,883
Real estate held for investment	2,791	3,004	4,179	4,408
Mortgage loans	1,338	1,483	7,796	9,021
Other loans	2,082	2,623	13,288	15,432
Equity method accounted investments	8	25	97	125
Investments for unit-linked contracts	–	–	80,798	87,430
Total investments	81,321	85,413	174,498	189,026
Reinsurers' share of reserves for insurance contracts	13,255	12,957	1,816	2,160
Deposits made under assumed reinsurance contracts	62	66	5	3
Deferred policy acquisition costs	3,324	3,374	11,355	12,276
Deferred origination costs	–	–	784	856
Goodwill	963	1,029	391	442
Other intangible assets	1,283	1,419	3,336	4,000
Other assets ¹	14,559	15,339	6,812	6,730
Total assets (after cons. of investments in subsidiaries)	114,768	119,597	198,996	215,494
Liabilities				
Liabilities for investment contracts	–	–	42,759	46,374
Reserves for insurance contracts	78,162	79,900	124,873	136,256
Reserves for losses and loss adjustment expenses	61,009	63,476	60	35
Reserves for unearned premiums	16,004	15,191	278	302
Future life policyholders' benefits	87	98	66,139	74,760
Policyholders' contract deposits and other funds	1,062	1,135	15,015	14,691
Reserves for unit-linked contracts	–	–	43,381	46,468
Debt related to capital markets and banking activities	–	–	–	–
Senior debt	3,697	3,462	167	265
Subordinated debt	1,687	2,054	747	1,019
Other liabilities	14,139	14,942	17,236	17,615
Total liabilities	97,685	100,357	185,782	201,530
Equity				
Common shareholders' equity				
Preferred securities				
Shareholders' equity				
Non-controlling interests				
Total equity				
Total liabilities and equity				

¹ The General Insurance segment, includes assets held for sale of USD 12 million and USD 67 million as of June 30, 2010 and December 31, 2009, respectively, related to land and buildings formerly classified as held for own use.

	Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
	06/30/10	12/31/09	06/30/10	12/31/09	06/30/10	12/31/09	06/30/10	12/31/09	06/30/10	12/31/09
	4,563	4,561	17,059	18,027	15,207	15,826	(26,186)	(29,167)	185,664	196,258
	1,047	734	6,250	6,226	2,698	2,762	(12,278)	(12,417)	9,747	11,631
	72	85	1,330	1,538	419	742	–	–	9,819	12,450
	1,321	1,302	3,366	2,920	7,739	6,669	(930)	(1,024)	134,910	136,344
	139	149	44	46	160	181	–	–	7,313	7,789
	–	–	–	–	1,789	2,264	–	(33)	10,923	12,736
	1,983	2,290	6,064	7,294	2,325	3,129	(12,978)	(15,693)	12,765	15,077
	–	–	5	3	78	79	–	–	187	232
	–	–	–	–	11,594	11,737	–	–	92,392	99,167
	4,563	4,561	17,059	18,027	26,801	27,563	(26,186)	(29,167)	278,056	295,425
	211	211	–	(95)	4,563	4,812	(1,045)	(1,293)	18,801	18,751
	2,896	3,158	–	–	537	664	(25)	(29)	3,474	3,861
	351	529	–	–	2	2	–	–	15,032	16,181
	–	–	–	–	–	–	–	–	784	856
	821	821	5	5	–	–	–	–	2,180	2,297
	1,462	1,397	212	219	3	9	–	–	6,296	7,044
	1,206	1,547	1,541	1,737	1,313	1,470	(1,852)	(2,037)	23,580	24,786
	11,510	12,224	18,817	19,893	33,218	34,521	(29,107)	(32,527)	348,202	369,202
	–	–	–	–	–	–	(249)	(250)	42,510	46,124
	3,517	3,946	59	365	22,620	22,903	(1,027)	(1,276)	228,204	242,094
	2,055	1,793	50	49	3,155	3,531	(765)	(799)	65,563	68,086
	1,462	2,153	4	5	32	33	(9)	(7)	17,770	17,676
	–	–	6	311	4,943	4,572	(253)	(470)	70,922	79,271
	–	–	–	–	2,897	3,030	1	1	18,975	18,857
	–	–	–	–	11,593	11,736	–	–	54,974	58,204
	–	–	577	553	2,103	2,584	(1,800)	(2,298)	881	839
	–	–	20,383	23,224	1,237	1,082	(19,945)	(21,756)	5,540	6,277
	–	–	4,850	5,206	137	155	(2,604)	(3,268)	4,817	5,167
	1,864	1,801	1,807	1,709	4,700	5,208	(3,483)	(3,679)	36,264	37,596
	5,381	5,747	27,677	31,058	30,797	31,932	(29,107)	(32,527)	318,216	338,098
									27,954	28,743
									515	561
									28,469	29,304
									1,518	1,800
									29,986	31,104
									348,202	369,202

General Insurance –
customer segment
overview

Table 13.4

in USD millions, for the six months ended June 30

	Global Corporate		North America Commercial	
	2010	2009	2010	2009
Gross written premiums and policy fees	4,245	4,249	4,995	5,177
Net earned premiums and policy fees	2,382	2,402	3,715	4,121
Insurance benefits and losses, net	1,690	1,835	2,426	2,861
Policyholder dividends and participation in profits, net	(1)	–	4	6
Total net technical expenses	480	463	1,143	1,161
Net underwriting result	213	104	142	94
Net investment income	278	308	554	579
Net capital gains/(losses) and impairments on investments	1	16	3	24
Net non-technical result (excl. items not included in BOP)	(30)	(73)	(140)	(120)
Business operating profit before non-controlling interests	462	354	558	576
Non-controlling interests	–	–	–	–
Business operating profit	462	354	558	576
Ratios, as % of net earned premiums and policy fees				
Loss ratio	70.9%	76.4%	65.3%	69.4%
Expense ratio	20.1%	19.3%	30.9%	28.3%
Combined ratio	91.1%	95.7%	96.2%	97.7%

	Europe General Insurance		International Markets		GI Global Functions including Group Reinsurance		Eliminations		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	7,520	7,846	1,443	1,295	260	208	(522)	(528)	17,940	18,247
	6,625	6,710	1,030	979	26	20	–	–	13,778	14,231
	4,811	4,812	739	612	119	(73)	–	–	9,785	10,047
	(3)	–	–	–	–	–	–	–	1	6
	1,704	1,663	369	349	16	17	1	(11)	3,713	3,643
	114	234	(79)	18	(110)	75	(1)	11	279	535
	493	554	80	74	32	25	2	(6)	1,439	1,533
	1	11	–	–	–	–	–	–	5	50
	(189)	(176)	28	(17)	(2)	(13)	(1)	(4)	(333)	(403)
	419	624	30	75	(80)	87	–	–	1,390	1,715
	(1)	–	13	1	–	–	–	–	13	1
	420	624	16	74	(80)	87	–	–	1,377	1,714
	72.6%	71.7%	71.8%	62.5%	nm	nm	n/a	n/a	71.0%	70.6%
	25.7%	24.8%	35.9%	35.7%	nm	nm	n/a	n/a	27.0%	25.6%
	98.3%	96.5%	107.6%	98.2%	nm	nm	n/a	n/a	98.0%	96.2%

General Insurance –
revenues by region

Table 13.5

in USD millions, for the six months ended June 30

	Gross written premiums and policy fees from external customers	
	2010	2009
Global Corporate		
North America	1,406	1,465
Europe	2,426	2,472
Rest of Global Corporate	262	189
Subtotal	4,093	4,126
Europe & Africa		
United Kingdom	1,442	1,486
Germany	1,696	1,765
Switzerland	1,561	1,496
Italy	1,007	1,055
Spain	640	687
Southern Africa	323	313
Rest of Europe & Africa	865	986
Subtotal	7,533	7,788
Americas		
United States	4,623	4,828
Rest of North America	268	221
Latin America	638	625
Subtotal	5,529	5,674
Asia-Pacific & Middle East		
Asia-Pacific Mature Markets	647	531
China & South East Asia	121	114
Subtotal	768	646
Central Region		
Europe	2	–
Subtotal	2	–
Total	17,925	18,234

General Insurance – assets by region	Table 13.6	
	in USD millions, as of	
	Property / equipment and intangible assets	
	06/30/10	12/31/09
Europe & Africa		
United Kingdom	202	222
Germany	213	253
Switzerland	122	127
Italy	61	75
Spain	624	747
Southern Africa	18	22
Rest of Europe & Africa	1,350	1,437
Subtotal	2,589	2,883
Americas		
United States	221	216
Rest of North America	6	6
Latin America	163	164
Subtotal	390	386
Asia-Pacific & Middle East		
Asia-Pacific Mature Markets	96	93
China & South East Asia	22	24
Subtotal	118	117
Total	3,098	3,385

Global Life –
overview

Table 13.7

in USD millions, for the six months ended June 30

	Americas		United Kingdom		Germany	
	2010	2009	2010	2009	2010	2009
Revenues						
Life insurance deposits	146	317	2,257	1,505	1,291	954
Gross written premiums and policy fees ¹	752	566	698	420	1,447	1,524
Net earned premiums and policy fees	599	448	601	334	1,400	1,473
Net investment income on Group investments	228	216	148	163	815	851
Net capital gains/(losses) and impairments on Group investments	2	4	160	(56)	52	(117)
Net investment result on Group investments	230	220	307	108	867	734
Net investment income on unit-linked investments	(7)	(2)	694	739	8	12
Net capital gains/(losses) and impairments on unit-linked investments	(33)	48	(724)	(1,105)	18	494
Net investment result on unit-linked investments	(40)	46	(30)	(366)	26	506
Other income	59	56	91	99	69	86
Total BOP revenues	848	771	970	174	2,362	2,800
Benefits, losses and expenses						
Insurance benefits and losses, net ¹	394	291	295	188	1,535	1,608
Policyholder dividends and participation in profits, net	(35)	44	114	(355)	254	583
Income tax expense/(benefit) attributable to policyholders	–	–	(37)	(203)	23	18
Underwriting and policy acquisition costs, net	98	100	217	240	153	181
Administrative and other operating expense (excl. depreciation/amortization)	121	99	199	184	111	161
Interest credited to policyholders and other interest	84	84	5	6	75	74
Restructuring provisions and other items not included in BOP	1	–	(9)	(18)	–	–
Total BOP benefits, losses and expenses	663	618	784	42	2,152	2,625
Business operating profit (before interest, depreciation and amortization)	185	153	185	132	210	175
Depreciation and impairments of property and equipment	1	1	5	4	6	6
Amortization and impairments of intangible assets	11	9	23	(20)	34	20
Interest expense on debt	1	1	3	7	–	–
Business operating profit before non-controlling interests	172	142	155	141	170	149
Non-controlling interests	4	2	–	–	5	4
Business operating profit	168	140	155	141	166	145
Supplementary information						
Gross written premiums and policy fees from external customers	752	566	695	417	1,422	1,497
Property, equipment and intangible assets ²	281	297	398	446	831	1,020

¹ The Global Life segment includes approximately USD 617 million and USD 1,435 million of gross written premiums and future life policyholders' benefits for certain universal life-type contracts in our Spanish operations for the six months ended June 30, 2010 and 2009, respectively (see note 3 of the Group's Financial Report 2009).

² As of June 30, 2010 and December 31, 2009, respectively.

	Switzerland		Ireland		Spain		Emerging Markets in Asia		Rest of the world		Eliminations		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	19	23	1,239	570	1,086	1,231	601	600	684	347	-	-	7,324	5,546
	914	945	309	176	988	1,881	210	118	497	408	(27)	(16)	5,787	6,023
	911	942	258	128	957	1,857	190	101	462	386	-	-	5,379	5,669
	300	294	47	45	211	254	21	23	181	176	-	-	1,952	2,022
	(2)	11	22	(18)	-	2	1	(2)	(11)	(24)	-	-	224	(198)
	298	305	70	27	211	256	22	22	170	152	-	-	2,176	1,824
	7	1	102	96	53	32	2	1	57	38	-	-	916	917
	(10)	15	89	168	(64)	65	186	82	(22)	139	-	-	(557)	(91)
	(3)	16	192	265	(11)	97	189	83	36	177	-	-	358	826
	24	24	-	1	23	20	25	31	86	69	(2)	(1)	375	384
	1,230	1,287	520	421	1,180	2,231	426	236	755	784	(2)	(1)	8,288	8,704
	891	865	171	17	1,002	1,929	60	39	315	273	-	-	4,663	5,211
	59	108	226	291	(10)	103	185	81	116	226	-	-	910	1,081
	-	-	9	8	-	-	-	-	2	7	-	-	(3)	(170)
	77	77	43	52	13	44	78	29	71	62	-	-	751	784
	86	94	28	28	58	32	48	31	201	143	(2)	(1)	850	771
	7	9	20	-	1	7	14	13	5	6	-	-	211	200
	(4)	18	(5)	-	(13)	(24)	(5)	10	(3)	(5)	-	-	(40)	(19)
	1,116	1,172	492	397	1,051	2,091	380	203	706	712	(2)	(1)	7,343	7,858
	114	115	28	24	129	140	46	33	48	72	-	-	945	846
	2	1	-	1	-	-	2	2	1	1	-	-	16	16
	-	-	-	1	71	84	1	2	11	28	-	-	152	124
	1	1	-	-	27	33	-	-	3	5	-	-	35	48
	112	113	27	23	31	22	42	29	33	38	-	-	743	658
	-	-	-	-	15	11	-	-	-	-	-	-	23	17
	112	113	27	23	17	11	42	29	33	38	-	-	720	641
	914	945	309	176	988	1,881	181	97	490	402	-	-	5,750	5,982
	138	198	5	5	2,386	2,859	8	11	124	163	-	-	4,169	4,998

Farmers –
overview

Table 13.8

in USD millions, for the six months ended June 30

	Total	
	2010	2009
Farmers Management Services		
Management fees and other related revenues	1,399	1,247
Management and other related expenses	718	636
Gross management result	681	610
Other net income (excl. items not included in BOP)	13	33
Business operating profit before non-controlling interest	694	643
Business operating profit	694	643
Farmers Re		
Gross written premiums and policy fees	2,491	2,883
Net earned premiums and policy fees	3,182	2,222
Insurance benefits and losses, net	(2,143)	(1,559)
Total net technical expenses	(990)	(657)
Net underwriting result	49	7
Net non-technical result (excl. items not relevant for BOP)	45	31
Net investment result income	57	43
Business operating profit before non-controlling interests	151	80
Business operating profit	151	80
Farmers business operating profit	845	724
Ratios, as % of net earned premiums and policy fees		
Farmers Re combined ratio	98.5%	99.7%
Supplementary information		
Property, equipment and intangible assets ¹	2,545	2,541

¹ As of June 30, 2010 and December 31, 2009, respectively.

Other Operating
Businesses –
overview

Table 13.9

in USD millions, for the six months ended June 30

	Alternative Investments	
	2010	2009
Gross written premiums and policy fees	–	–
Net earned premiums and policy fees	–	–
Net investment income	–	5
Net capital gains/(losses) and impairments on investments	–	–
Other income	6	5
Total BOP revenues	6	10
Insurance benefits and losses, incl. PH dividends, net	–	–
Administrative and other operating expense (excl. depreciation/amortization)	11	12
Other expenses (excl. items not included in BOP)	–	–
Depreciation, amortization and impairments of property, equipment and intangible assets	–	–
Interest expense on debt	12	12
Business operating profit before non-controlling interests	(16)	(14)
Business operating profit	(16)	(14)

	Holding & Financing		Headquarters		Eliminations		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	62	67	3	3	–	–	65	70
	38	40	4	4	–	–	42	44
	247	217	15	2	(2)	(4)	260	220
	–	(80)	–	–	–	–	–	(80)
	22	14	404	523	(64)	(34)	369	509
	307	191	424	530	(66)	(39)	671	692
	36	(31)	1	1	–	–	37	(30)
	38	(100)	521	515	(63)	(34)	507	392
	19	56	(100)	–	–	–	(81)	56
	–	–	39	30	–	–	39	30
	520	475	–	–	(2)	(4)	530	483
	(307)	(209)	(38)	(17)	–	–	(361)	(239)
	(307)	(209)	(38)	(17)	–	–	(361)	(239)

Non-Core
Businesses –
overview

Table 13.10

in USD millions, for the six months ended June 30

	Total	
	2010	2009
Gross written premiums and policy fees	223	328
Net earned premiums and policy fees	212	312
Insurance benefits and losses, net	813	(481)
Policyholder dividends and participation in profits, net	(68)	102
Total net technical expenses	24	(18)
Net underwriting result	(556)	709
Net investment income	114	190
Net capital gains/(losses) and impairments on investments	251	(17)
Net non-technical result (excl. items not included in BOP)	(104)	(1,169)
Business operating profit before non-controlling interests	(294)	(287)
Business operating profit	(295)	(287)¹

¹ Business operating profit (BOP) has not been restated for the change in the current value of certain insurance liabilities and assets amounting to USD 938 million in order to ensure a fair reflection of sustainable operating profit and comparability (see note 1 to the unaudited Consolidated financial statements).

Review report of the auditors

Review report of the auditors

To the Board of Directors of Zurich Financial Services Ltd

Introduction

We have reviewed the Consolidated financial statements (consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity and related notes on pages 29 to 82) of Zurich Financial Services Ltd for the period ended June 30, 2010. The Board of Directors is responsible for the preparation and presentation of these consolidated financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these Consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

PricewaterhouseCoopers AG

Patrick Shouvin

Ray Kunz

Zurich, August 4, 2010

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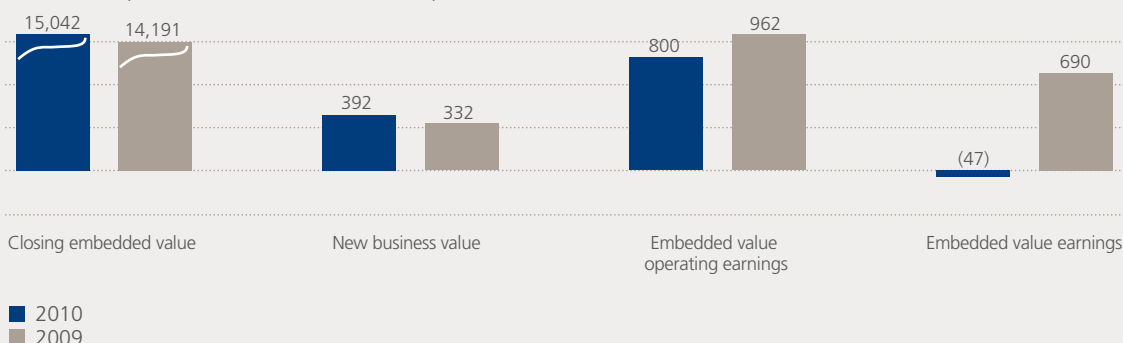
This report describes the development of the embedded value of the Zurich Financial Services Group (the Group) for the six months ended June 30, 2010.

The majority of this report, Sections 1 to 7, relates to Global Life, but summary information relating to the non-core life business is given in Section 8 and to the total Group in Section 9.

Embedded value report – Global Life

Key results

in USD millions, for the six months ended June 30, 2010



Embedded value key results

in USD millions, for the six months ended June 30

	2010	2009	Change
Opening embedded value (January 1)	16,752	12,818	
Closing embedded value (June 30)	15,042	14,191	
Embedded value operating earnings	800	962	(162)
<i>of which new business value</i>	392	332	60
Embedded value earnings	(47)	690	(736)
Return on opening embedded value	4.4%	10.9%	

Global Life generated USD 800 million of embedded value operating earnings during the first six months of the year comprising USD 392 million of New business value, USD 370 million of expected contributions from the in-force and a further USD 38 million in operating variances. This positive impact was however more than offset by the adverse impacts of negative economic variances, most importantly the reduction in risk free interest rates and the widening in credit spreads in certain European countries, which reduced value by USD 0.9 billion. Further, the appreciation of the U.S. dollar reduced value by USD 1.2 billion as a result of the effects of currency translation. In total the embedded value has decreased by USD 1.7 billion after allowing for additional non-operating variances, dividends and capital movements.

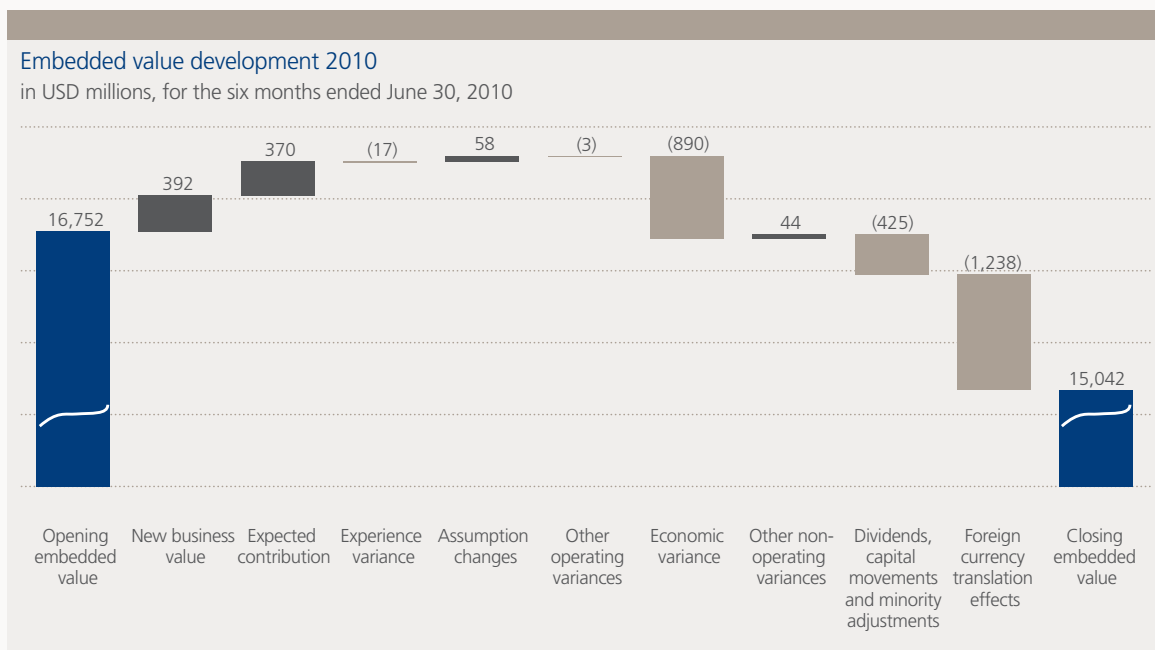
New business value increased by USD 60 million or 18 percent to USD 392 million in U.S. dollar terms and by 17 percent on a local currency basis compared to 2009. The major movements were the increase in domestic and cross-border IFA/Broker sales in Ireland, higher corporate pensions sales volumes in the UK and Latin America, growth in private banking sales in the UK, and the beneficial impacts of higher interest rates and lower volatilities on products in Germany. These improvements were partially offset by the U.S. with higher interest rates adversely impacting the margin on protection products. Overall, the new business margin was 22.8 percent, an increase of 1.8 percentage points compared with the same period in the prior year.

Embedded value operating earnings excluding the impact of new business were USD 408 million. Of this, USD 370 million was the expected emergence in value from the in-force business. The low interest rate environment globally continues to generate a low level of expected return. The expected emergence in value was supplemented by further small positive operating variances.

Economic variance was negative USD 0.9 billion as a result of lower swap rates negatively impacting the value of spread business. This was exacerbated by the increase in credit spreads in certain European countries and falls in equity markets. This negative impact was partially offset by the increase in value of protection business that occurs under the reduced interest rate scenario.

Total embedded value earnings were slightly negative as the operating profits were outweighed by the negative economic variance.

1. Analysis of embedded value earnings



Analysis of embedded value earnings, 2010

in USD millions,
for the six months ended June 30, 2010

	Required capital	Free surplus	Shareholders' net assets	Value of business in force	Total
Opening embedded value	3,705	2,849	6,554	10,198	16,752
Dividends and capital movements	52	(353)	(301)	(97)	(398)
New business value Global Life	(31)	(389)	(420)	811	392
<i>New business net of non-controlling interests</i>	(51)	(366)	(417)	782	366
Expected contribution at reference rate	8	42	50	64	114
Expected contribution in excess of reference rate	10	14	25	231	256
Transfer to free surplus	171	403	574	(574)	-
Experience variance	(16)	21	6	(23)	(17)
Assumption changes	25	6	32	26	58
Other operating variances	413	(156)	258	(260)	(3)
Operating earnings	582	(57)	525	275	800
Economic variance	416	(89)	327	(1,218)	(890)
Other non-operating variances	50	61	111	(67)	44
Embedded value earnings	1,047	(85)	963	(1,010)	(47)
Minority adjustments	(20)	23	3	(29)	(26)
Foreign currency translation effects	(371)	(262)	(633)	(605)	(1,238)
Closing embedded value	4,413	2,172	6,585	8,457	15,042

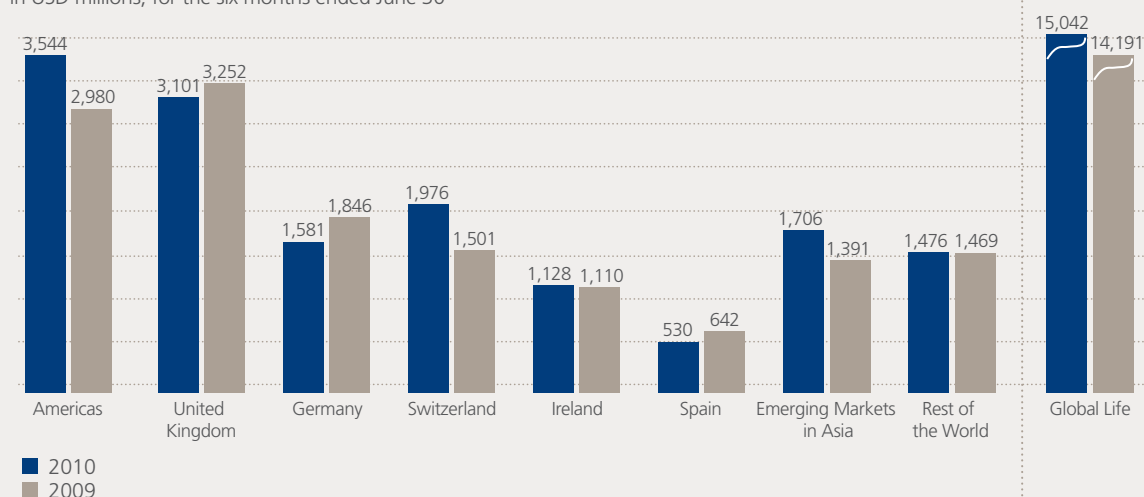
Analysis of embedded value earnings, 2009

in USD millions,
for the six months ended June 30, 2009

	Required capital	Free surplus	Shareholders' net assets	Value of business in force	Total
Opening embedded value	4,235	1,212	5,447	7,371	12,818
New business value global Life	169	(511)	(343)	675	332
Expected contribution at reference rate	(20)	81	61	105	166
Expected contribution in excess of reference rate	6	14	20	201	221
Transfer to free surplus	127	346	473	(473)	–
Experience variance	(19)	26	7	(47)	(40)
Assumption changes	–	–	–	(32)	(32)
Other operating variances	(783)	825	42	273	315
Operating earnings	(520)	781	260	702	962
Economic variance	(81)	147	67	(83)	(16)
Other non-operating variances	(31)	(151)	(182)	(75)	(257)
Embedded value earnings	(632)	777	145	544	690
Minority adjustments	(29)	31	2	(28)	(26)
Dividends & capital movements	(54)	66	13	112	125
Foreign currency translation effects	181	77	258	327	585
Closing embedded value	3,700	2,164	5,864	8,327	14,191

Embedded value by territory

in USD millions, for the six months ended June 30



The Group has applied the CFO Forum Market Consistent Embedded Value ('MCEV') Principles© for its embedded value calculations for the six months ended June 30, 2010.

Embedded value
by territory,
2010

in USD millions, as of June 30, 2010										
	Required Capital	Free Surplus	Required capital (% SM) ¹	Shareholders' net assets	CE ²	FC ³	TVFOG ⁴	CRNHR ⁵	Value of business in force	Total
Americas	486	786	187.3%	1,272	2,737	(65)	(189)	(211)	2,273	3,544
<i>United States</i>	351	510	259.6%	861	2,520	(50)	(154)	(200)	2,117	2,978
<i>Latin America</i>	136	275	108.8%	411	216	(15)	(34)	(11)	156	567
United Kingdom	1,436	(88)	165.3%	1,348	2,309	(123)	(371)	(62)	1,753	3,101
Germany	604	786	100.7%	1,390	1,098	(260)	(567)	(80)	191	1,581
Switzerland	374	2	100.0%	376	1,900	(24)	(212)	(63)	1,600	1,976
Ireland	287	98	150.0%	385	791	(16)	(10)	(22)	743	1,128
Spain	354	69	125.0%	422	172	(18)	(24)	(22)	108	530
Emerging Markets in Asia	222	229	150.8%	451	1,311	(6)	(18)	(33)	1,255	1,706
<i>ZIS⁶</i>	171	235	164.7%	406	1,008	(6)	–	(25)	976	1,383
<i>Hong Kong</i>	51	20	117.4%	71	304	–	(18)	(7)	278	349
<i>Other</i>	–	(26)	NA	(26)	–	–	–	–	–	(26)
Rest of the World	650	292	107.2%	941	750	(65)	(106)	(44)	535	1,476
<i>Italy</i>	232	126	100.0%	358	269	(14)	(94)	(10)	152	509
<i>Other</i>	418	166	111.6%	584	481	(51)	(13)	(33)	384	967
Global Life	4,413	2,172	132.5%	6,585	11,070	(578)	(1,498)	(537)	8,457	15,042

¹ SM is the local minimum solvency margin.

² CE is the certainty equivalent value of business in force.

³ FC is the frictional cost.

⁴ TVFOG is the time value of financial options and guarantees.

⁵ CRNHR is the cost of residual non-hedgeable risk (see Section 10 for further details).

⁶ ZIS is Zurich International Solutions, the international business based in the Isle of Man.

Embedded value
by territory,
2009

in USD millions, as of June 30, 2009										
	Shareholders' net assets	Certainty equivalent value	Frictional costs	TVFOG ¹	CRNHR ²	Value of business in force	Total			
Americas	787	2,581	(62)	(192)	(134)	2,194	2,980			
<i>United States</i>	565	2,357	(46)	(190)	(115)	2,006	2,571			
<i>Latin America</i>	221	224	(16)	(1)	(19)	188	409			
United Kingdom	1,287	2,352	(128)	(162)	(98)	1,965	3,252			
Germany	1,408	1,103	(263)	(329)	(74)	438	1,846			
Switzerland	142	1,534	(10)	(106)	(59)	1,359	1,501			
Ireland	426	741	(13)	(6)	(37)	684	1,110			
Spain	497	213	(22)	(24)	(21)	145	642			
Emerging Markets in Asia	387	1,059	(5)	(1)	(50)	1,004	1,391			
<i>ZIS³</i>	326	821	(5)	–	(44)	772	1,097			
<i>Hong Kong</i>	69	239	–	(1)	(6)	232	302			
<i>Other</i>	(8)	–	–	–	–	–	(8)			
Rest of the World	931	750	(57)	(106)	(49)	538	1,469			
<i>Italy</i>	388	351	(13)	(92)	(12)	234	622			
<i>Other</i>	544	399	(44)	(14)	(37)	303	847			
Global Life	5,864	10,333	(560)	(925)	(521)	8,327	14,191			

¹ TVFOG is the time value of financial options and guarantees.

² CRNHR is the cost of residual non-hedgeable risk (see Section 10 for further details).

³ ZIS is Zurich International Solutions, the international business based in the Isle of Man.

Movement in
embedded value,
after tax

in USD millions, for the six months ended June 30, 2010		Opening embedded value	EV operating earnings	Economic and non operating variance	EV earnings	Dividends, capital movements and minority adjustments	Foreign currency translation effects	Closing embedded value
Americas		3,154	227	189	416	18	(44)	3,544
<i>United States</i>		2,655	153	203	356	(34)	–	2,978
<i>Latin America</i>		499	74	(14)	60	52	(44)	567
United Kingdom		3,672	103	(29)	74	(376)	(269)	3,101
Germany		2,401	93	(608)	(515)	(2)	(303)	1,581
Switzerland		2,010	114	(61)	53	(12)	(76)	1,976
Ireland		1,251	54	5	59	–	(183)	1,128
Spain		816	68	(197)	(130)	(54)	(102)	530
Emerging Markets in Asia		1,677	80	39	119	13	(103)	1,706
<i>ZIS¹</i>		1,360	73	53	126	–	(103)	1,383
<i>Hong Kong</i>		339	12	(14)	(2)	13	(1)	349
<i>Other</i>		(22)	(5)	–	(5)	–	1	(26)
Rest of the World		1,770	61	(185)	(123)	(13)	(158)	1,476
<i>Italy</i>		762	20	(174)	(154)	(2)	(97)	509
<i>Other</i>		1,008	42	(11)	31	(11)	(61)	967
Global Life		16,752	800	(847)	(47)	(425)	(1,238)	15,042

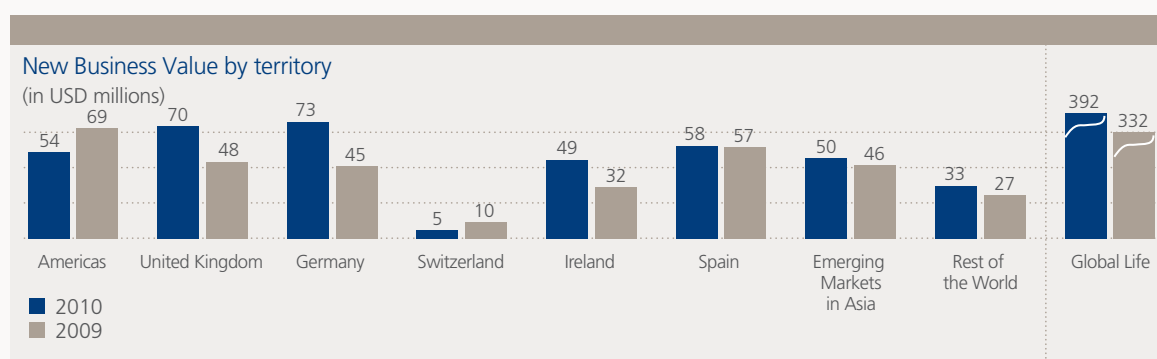
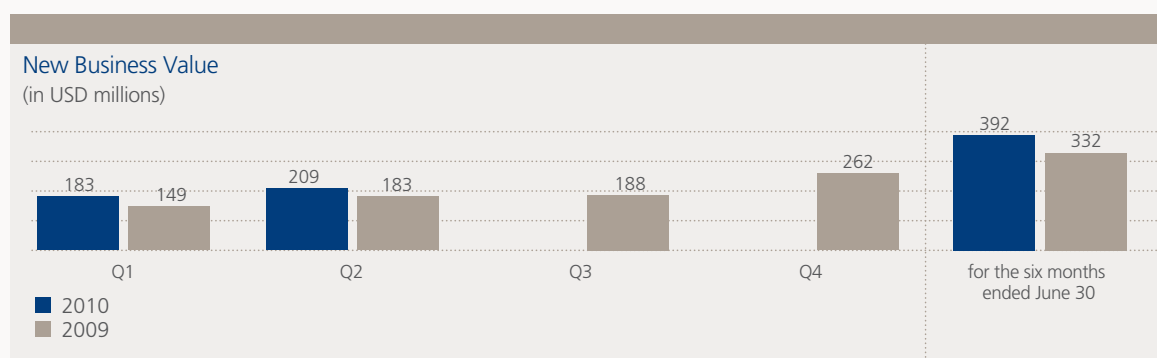
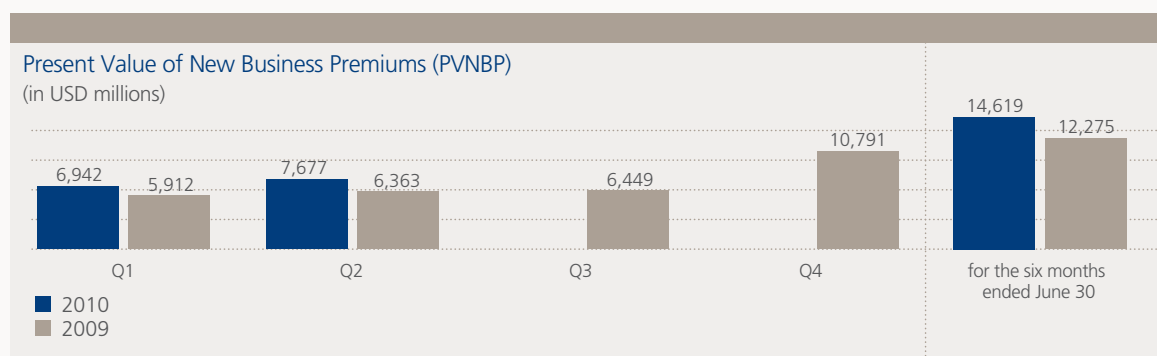
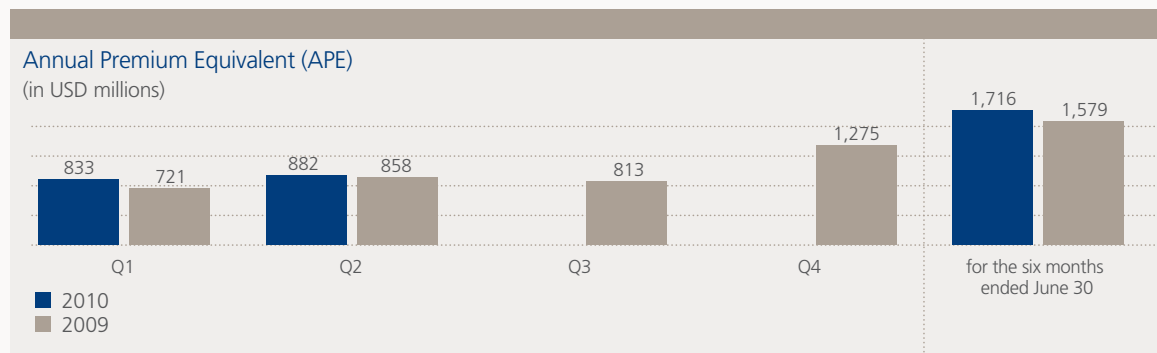
¹ ZIS is Zurich International Solutions, the international business based in the Isle of Man.

 EV operating
earnings

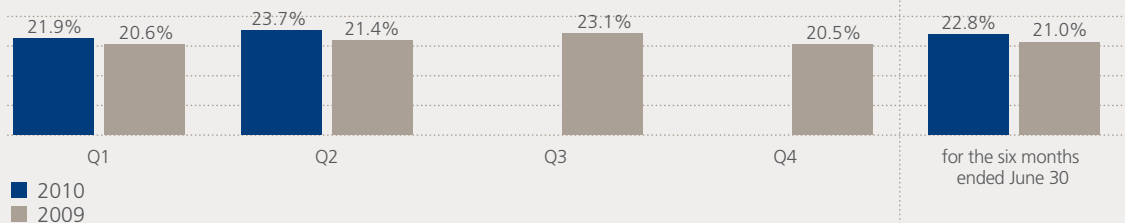
in USD millions, for the six months ended June 30, 2010		Expected contribution	New business value	Operating experience variances	Operating assumption changes	Other experience variances	EV operating earnings
Americas		103	54	(11)	(9)	89	227
<i>United States</i>		88	28	(24)	(9)	71	153
<i>Latin America</i>		15	26	14	–	18	74
United Kingdom		59	70	1	36	(63)	103
Germany		66	73	–	(27)	(19)	93
Switzerland		47	5	(5)	32	35	114
Ireland		12	49	8	18	(33)	54
Spain		20	58	(5)	(2)	(3)	68
Emerging Markets in Asia		27	50	3	7	(8)	80
<i>ZIS¹</i>		18	48	3	7	(3)	73
<i>Hong Kong</i>		9	3	1	–	–	12
<i>Other</i>		–	–	–	–	(5)	(5)
Rest of the World		36	33	(10)	3	(1)	61
<i>Italy</i>		8	14	(4)	–	2	20
<i>Other</i>		28	19	(6)	3	(2)	42
Global Life		370	392	(17)	58	(3)	800

¹ ZIS is Zurich International Solutions, the international business based in the Isle of Man.

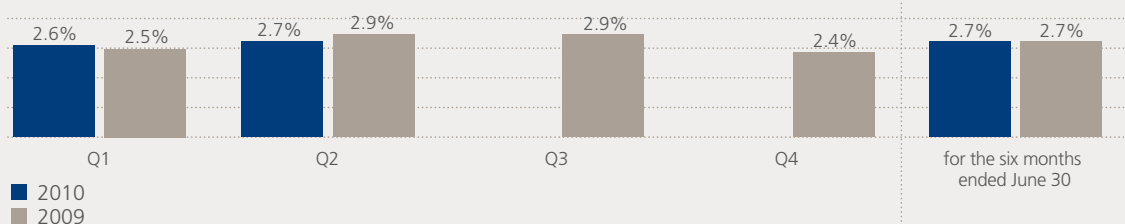
2. New business



New Business Margin (%APE) (in percent)



New Business Margin (%PVNBP) (in percent)



New business by discrete quarter

	2010					2009				
	Q1	Q2	Q3	Q4	Q2 YTD	Q1	Q2	Q3	Q4	Q2 YTD
Annual premium equivalent (APE)¹	833	882			1,716	721	858	813	1,275	1,579
Annual premiums	419	460			880	420	485	459	629	905
Single premiums	4,139	4,221			8,361	3,014	3,727	3,539	6,464	6,741
Present value of new business premiums (PVNBP) ²	6,942	7,677			14,619	5,912	6,363	6,449	10,791	12,275
Average annual premium multiplier	6.7	7.5			7.1	6.9	5.4	6.3	6.9	6.1
New business value	183	209			392	149	183	188	262	332
New business margin (as % APE)	21.9%	23.7%			22.8%	20.6%	21.4%	23.1%	20.5%	21.0%
New business margin (as % PVNBP)	2.6%	2.7%			2.7%	2.5%	2.9%	2.9%	2.4%	2.7%

¹ APE is new annual premiums plus 10% of single premiums.

² PVNBP is new single premiums plus the present value of new annual premiums.

New business by territory

in USD millions, for the six months ended June 30	APE		PVNBP		New business value		New business margin			
							as % APE		as % PVNBP	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Americas	144	114	940	835	54	69	37.9%	60.5%	5.8%	8.3%
<i>United States</i>	45	47	424	524	28	55	61.7%	117.7%	6.6%	10.6%
<i>Latin America</i>	99	67	516	311	26	14	26.9%	20.5%	5.1%	4.5%
United Kingdom	445	341	4,020	2,926	70	48	15.6%	14.0%	1.7%	1.6%
Germany	270	255	2,832	1,783	73	45	27.0%	17.6%	2.6%	2.5%
Switzerland	42	57	367	551	5	10	11.7%	17.0%	1.3%	1.8%
Ireland	202	129	1,700	900	49	32	24.1%	24.6%	2.9%	3.5%
Spain	245	357	2,326	3,267	58	57	23.6%	15.9%	2.5%	1.7%
Emerging Markets in Asia	222	229	993	1,079	50	46	22.7%	19.9%	5.1%	4.2%
<i>ZIS¹</i>	195	204	887	966	48	41	24.5%	19.9%	5.4%	4.2%
<i>Hong Kong</i>	27	25	105	114	3	5	10.0%	20.3%	2.6%	4.4%
Rest of the World	146	96	1,442	933	33	27	22.5%	27.8%	2.3%	2.9%
<i>Italy</i>	74	59	748	565	14	12	19.0%	21.1%	1.9%	2.2%
<i>Other</i>	71	37	693	368	19	14	26.2%	38.3%	2.7%	3.9%
Global Life	1,716	1,579	14,619	12,275	392	332	22.8%	21.0%	2.7%	2.7%

¹ ZIS is Zurich International Solutions, the international business based in the Isle of Man.

New business value is significantly higher than the prior year. This is the result of increased sales directly feeding through to increased value as well as the impact of improved acquisition unit cost efficiency and an improved sales mix.

New business value in the **Americas** declined, primarily as a result of the increase in interest rates in the U.S. lowering new business value on protection business. Latin America recorded a substantial increase in new business value with higher sales of profitable protection business generating a higher margin.

The **UK** achieved a significant recovery in sales principally through its flagship Sterling Bond and individual protection products from the depressed levels in the first six months of 2009. This increase in sales along with a different sales mix has contributed to an improvement in the new business margin. The Corporate Life & Pensions pillar grew strongly in pension products although this was partially offset by a slow start in corporate protection products.

In **Germany**, the economically sensitive new business margin improved significantly due to higher interest rates and lower volatilities which, along with increased sales, led to a strong rise in new business value.

In **Switzerland**, sales were negatively impacted by the reduction in the technical interest rate that applied from January 1, 2010, which resulted in lower sales opportunities in the first six months of the year. The lower 2010 sales performance coupled with relatively fixed non-commission acquisition expenses, partially offset by higher interest rates, has led to a decrease in new business value and margin.

In **Ireland**, the domestic business achieved a significant recovery in sales of long-term savings products. In addition, cross-border sales rose strongly emanating largely from Italy (Finanza e Futuro broker channel) and the UK through a bank partnership.

Sales in **Spain** have decreased as we have chosen not to aggressively compete for guaranteed savings products with banks and other providers. Despite the lower sales, new business value increased as a result of higher sales of protection business which generate significantly higher new business margins.

For **ZIS**, sales have decreased however value has actually increased as a result of its focus on expense control and from improved claims experience in corporate protection business. This was partially offset by a reduction in margin on unit-linked products resulting from the costs of a special sales promotion in the first six months of 2010.

3. Expected contribution and transfer to free surplus

a) Expected contribution at reference rate

The expected contribution at reference rate is the projected change in the embedded value over the period using risk free investment returns.

Expected contributions were lower through the six months of 2010 compared with the same period in 2009 due to the lower interest rate environment.

b) Expected contribution in excess of reference rate

The expected contribution in excess of reference rate is the additional value expected to be created if "real world" expected investment returns emerge.

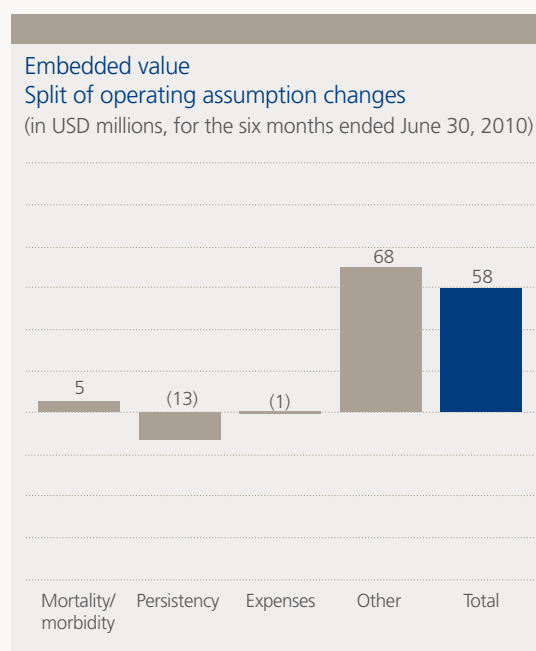
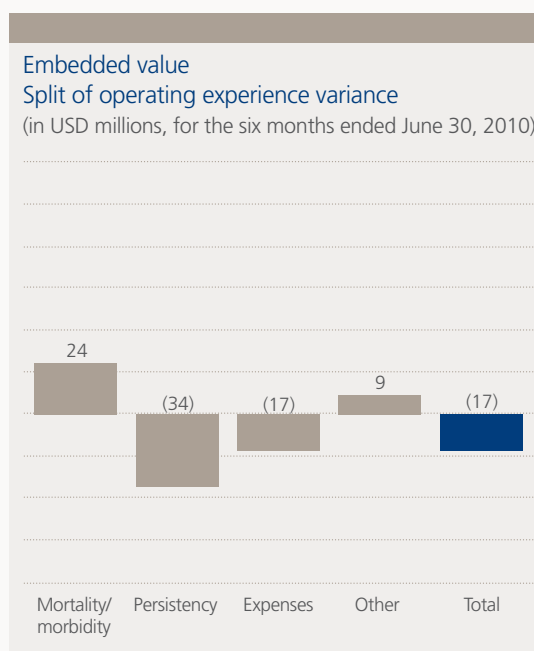
c) Transfer to free surplus

The expected transfer 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.

4. Operating, economic and other non-operating variances

Operating variances

Operating variance measures the difference between actual experience during the period and that implied by the operating assumptions. Experience variations occur in the normal course of business as short-term experience fluctuates around the long-term assumptions. Operating variance also includes the impact of changes in assumptions about future operating experience.



Mortality experience increased the embedded value by USD 24 million, primarily arising in Chile where the actual experience on the Disability and Survivorship scheme has turned out to be better than originally anticipated. There has also been positive experience in the UK and Ireland which was offset to some extent by negative experience in Farmers. As a result of regular reviews of mortality around Global Life, the Group has updated our assumptions in Japan and Spain. The net effect of this was to increase the embedded value by USD 5 million.

Persistency experience decreased the embedded value by USD 34 million. The main contributors to this variance were Farmers and ZIS. Revisions to the persistency assumptions further decreased the embedded value by USD 13 million. This has arisen in Spain, where the transfers between the pensions business and the life business in Banc Sabadell have now been treated as lapses instead of replacement contracts. However, the Group notes that these transfers will emerge as new business written.

Expense overruns decreased the embedded value by USD 17 million. The main contributors to this were Switzerland where business volumes have been lower than plan and Luxembourg where start up costs exceed the expense allowances while the business develops scale. Expense assumption changes led to a mixture of positive and negative impacts, giving an overall negative impact of USD 1 million.

Other assumption changes increased the embedded value by USD 68 million. The main contributors to this were Switzerland and the UK. In Switzerland, there was a benefit from the change in profit sharing rules and an increase in fees on unit-linked funds. Changes to the intra-group risk diversification factors reduced the CRNHR in the UK and there was also a smaller impact from the reduction of the counterparty risk default assumptions on fund reinsurance arrangements.

Operating variances	in USD millions	2010				
		Q1	Q2	Q3	Q4	YTD
Other operating variances						
Global development expense		(18)	(20)			(37)
Modelling changes		(5)	63			57
One-off expenses		(35)	(10)			(46)
Other		74	(51)			23
Total		15	(18)			(3)

Other operating variances decreased the embedded value by USD 3 million. Global development expenses as well as one-off expenses incurred in the UK and Ireland resulted in a negative impact which was offset largely by the positive effect of modelling changes in Germany, Switzerland and ZIS.

Economic variances

Economic variances are the difference between actual experience during the period and that implied by the economic assumptions and also includes the impact of changes in assumptions in respect of future economic experience.

During the first six months of 2010 risk free interest rates decreased in the developed economies in which the business operates in. This reduction has adversely affected the value of spread business. This impact has been exacerbated by the increase in credit spreads in Italy and Spain. Protection business, on the other hand, benefits from the reduction in interest rates hence the Farmers business, and to a lesser extent Australia, benefits from these conditions. The net effect of the economic variances has been a reduction in value of USD 1.1 billion.

Other non-operating variances

Other non-operating variances includes the impact of legal, tax and regulatory changes in the period.

The non-operating variance of USD 44 million is mainly due to positive currency effects which stem from offshore sales from ZIS.

5. Adjustments

a) Dividends and capital movements

Dividends and capital movements reflect dividends paid by Global Life 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.

In addition the adjustment to embedded value to remove non-controlling interests from the new business value is included here, and arose from the joint ventures in Spain.

The most significant capital movement comes from the UK, where a dividend of USD 283 million was paid to the Group.

b) Foreign currency translation effects

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

The strengthening of the U.S. dollar against all major operating currencies during the first six months of 2010 had a negative impact on embedded value.

6. Reconciliation of IFRS equity to embedded value

Reconciliation of Global Life IFRS shareholders' equity to embedded value	in USD billions, as of June 30	Total	
			2010
	IFRS shareholders' net assets¹		13.2
	Less non-controlling interests ²		(1.1)
	IFRS shareholders' equity net of joint ventures and non-controlling interests		12.1
	Plus IAS 19 liabilities ³		0.5
	Less Intangible assets ⁴		(6.0)
	<i>Deferred acquisition costs/Deferred origination costs</i>		(12.0)
	<i>Deferred front end fees</i>		5.1
	<i>Present value of profits of acquired insurance contracts</i>		(0.8)
	<i>Policyholder share of actuarial intangibles net of tax</i>		1.5
	<i>Tax on shareholder share of actuarial intangibles</i>		2.0
	<i>Goodwill</i>		(0.4)
	<i>Other Intangibles</i>		(1.4)
	Valuation differences ⁵		(0.1)
	Embedded value shareholders' net assets⁶		6.6
	Value of business in force ⁷		8.5
	Embedded value		15.0

¹ Global Life balance sheet value.

² Includes Spanish joint ventures and other non-controlling interests.

³ Since IAS 19 liabilities are included in IFRS equity but not EV shareholders' net assets.

⁴ Actuarial intangibles (after allowance for tax and ph sharing), goodwill and other intangibles.

⁵ Unrealized gains/losses on investments, statutory vs. IFRS reserving requirements.

⁶ EV shareholders' net assets net of joint ventures and non-controlling interests.

⁷ EV value of business in force.

7. Sensitivities

Sensitivities

in USD millions, as of June 30, 2010

	Change in embedded value			Change in new business value
	Shareholders' net assets	Value of business in force	Total	
Actual embedded value	6,585	8,457	15,042	392
Operating sensitivities				
10% increase in initial expenses and commissions	n/a	n/a	n/a	(50)
10% decrease in maintenance expenses	–	405	405	24
10% increase in voluntary discontinuance rates	–	(433)	(433)	(37)
10% decrease in voluntary discontinuance rates	–	625	625	50
5% improvement in mortality and morbidity for assurances	1	307	309	19
5% improvement in mortality for annuities	(4)	(104)	(108)	(2)
Required capital set equal to minimum solvency capital	–	60	60	–
Economic sensitivities				
100 basis points increase in risk free yield curve	(291)	462	171	48
100 basis points decrease in risk free yield curve	140	(1,151)	(1,010)	(113)
10% fall in equity market values	(56)	(162)	(218)	–
10% fall in property market values	(32)	(220)	(251)	2
25% increase in implied volatilities for risk free yields	(37)	(197)	(233)	(2)
25% decrease in implied volatilities for risk free yields	(1)	259	257	14
25% increase in implied volatilities for equities and properties	–	(132)	(132)	4
25% decrease in implied volatilities for equities and properties	–	112	112	4

The key assumption changes represented by each of these sensitivities is given in Section 10(r).

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised conditions. The results include any impact of the assumption changes on the time value of financial options and guarantees.

The 100 basis points increase in risk free yield curve reduces the value of some products, such as term assurance, with fixed cash flows that are discounted at higher rates. This reduction is offset by the increase in the value of other products, such as those with profit sharing, due to the higher assumed investment returns on investment of net cash flows.

The Group has also estimated the effect on the embedded value of allowing for a liquidity premium of 10 basis points. The estimated impact would be an increase of USD 72 million and has been derived from linear interpolation of the "100 basis points increase in risk free yield" sensitivity on the individual savings and annuity lines of business.

8. Non-core life business

The Group has written life business in Kemper Investors Life Insurance Company and in its Centre operations, some of which is not managed in Global Life. The main products that have been 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 embedded value of these businesses based on the same principles as for the Global Life business, including deductions for the time value of financial options and guarantees, frictional costs and the cost of residual non-hedgeable risk, but using more approximate models. The results are set out in the following table.

Estimated embedded value of life businesses in Non-Core Businesses	in USD billions, as of June 30	2010	2009
		Shareholders' net assets	1.1
	<i>Certainty equivalent value</i>	(0.1)	(0.1)
	<i>Time value of financial options and guarantees</i>	(0.1)	(0.1)
	<i>Frictional costs</i>	(0.0)	(0.0)
	<i>Cost of residual non-hedgeable risk</i>	(0.1)	(0.3)
	Value of business in force	(0.2)	(0.5)
	Embedded value	0.9	0.6

The Group implemented a dynamic hedge on the Destinations variable annuities block in the first three months of 2010. This has reduced the sensitivity of the non-core life business embedded value to changes in interest rates and equity market returns.

9. Group MCEV

The Group MCEV is presented in the following table as the Global Life covered business which is valued under the MCEV principles and the non-covered business which is valued as the unadjusted IFRS net asset value. Non-covered business includes the non-core life businesses managed outside Global Life and the remaining Group non-life business.

Group MCEV,
2010

in USD billions, as of June 30

	Covered Business MCEV	Non covered business	Total Group MCEV
Opening Group MCEV	16.8	17.0	33.7
<i>Opening adjustments¹</i>	0.0	(0.4)	(0.4)
<i>Adjusted Opening MCEV</i>	16.8	16.6	33.4
<i>Operating MCEV earnings²</i>	0.8	1.2	2.0
<i>Non-operating MCEV earnings</i>	(0.8)	0.0	(0.8)
<i>Total MCEV Earnings</i>	(0.0)	1.2	1.2
<i>Other movements in IFRS net equity³</i>	0.0	0.7	0.7
<i>Closing adjustments⁴</i>	(1.7)	(3.2)	(4.9)
Closing Group MCEV	15.0	15.3	30.4

¹ Opening adjustments refer to the opening balance restatement of December 31, 2009 in respect of the Killico Destinations fair value methodology change.

² For non-covered business this is set equal to the change in Net Income After Tax (NIAT) over the period.

³ For non-covered business this is set equal to the change in Other Comprehensive Income (OCI) excluding the currency translation adjustment over the period.

⁴ Closing adjustments refer to dividend and capital movements, minority adjustments and foreign currency translation effects.

10. Embedded value methodology

The Group has applied the Market Consistent Embedded Value Principles issued by the CFO Forum in October 2009, 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, 2010. This report primarily relates to Global Life, but information relating to the Non-Core Businesses is given in Section 8 and to the total Group in Section 9. The embedded value 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. Where markets exhibit a limited capacity, the valuation is based on historical averages.

Embedded value represents the shareholders' interests in the entities included in Global Life as set out in the Group's unaudited consolidated IFRS financial statements. Embedded value excludes any value from future new business.

a) Covered business

Covered business includes all business written by companies that are included in the Global Life segment, 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 embedded value has been calculated but these companies have been included in the embedded value at their shareholders' equity value, as calculated in accordance with IFRS. The contribution from these companies to the embedded value is approximately 2.4 percent.

b) Reporting of embedded value

In line with the Market Consistent Embedded Value Principles, the embedded value 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.

c) Shareholders' net assets

Shareholders' net assets represent the market value of net assets held in respect of the covered business, and consists of the required capital and free surplus. The level of required capital reflects the amount of capital considered by the local Directors to be appropriate to manage the business. This would be set at least at the level equal to the regulatory required capital, at which the regulator would intervene to request a capital injection and in addition, for the main territories, an adequate buffer to cover short term volatilities in solvency due to financial and non-financial risks or to achieve the capital required to maintain the desired credit rating.

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 embedded value 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.

d) Value of business in force

The value of business in force is the present value of future projected profits, distributable after tax to shareholders from the covered business. It is 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 residual non-hedgeable 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 financial 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 required capital plus investment management costs. In Germany, the policyholders share of investment income on the capital is also included.

For the purpose of these calculations, required capital is assumed to run off in line with existing business.

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 financial 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 Market Consistent 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 separately 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 financial options and guarantees has been derived using closed form solutions.

Where appropriate, the calculation of the time value of financial 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.

The **Cost of Residual Non-Hedgeable Risk (CRNHR)** is an explicit deduction for non hedgeable financial risks (non-hedgeable ALM risks, reinsurance credit risk), and non-financial risks (mortality, persistency, expenses and operational risk). The certainty equivalent value allows for the best estimate shareholder cashflows. The Cost of Residual Non-Hedgeable Risk is largely an allowance for uncertainty in shareholder cashflows, and for risks which are not already considered in the certainty equivalent value or time value of financial options and guarantees, such as operational risk. Most residual non-hedgeable risks have a symmetric impact on embedded value apart from operational risk.

It is calculated as a charge on the capital held for residual non-hedgeable risks. This is calculated according to Zurich's internal risk based capital model by applying 1 in 2000 shocks to the embedded value assumptions. To align with the MCEV Principles the risk based capital is scaled to 99.5 percent confidence level by using empirical distributions where available, or assuming probability distributions as appropriate.

The capital is projected over the lifetime of the business using appropriate risk drivers for each risk type. The present value of the risk capital is calculated by applying the swap curve as at the valuation date. The Cost of Residual Non-Hedgeable Risk allows for diversification across risk types and across geographical segments. It complies with all areas of the MCEV Principles except Guidance 9.7. This is because it allows for diversification between covered and non-covered business, which is consistent with the management view of the business and adds an estimated USD 217 million to embedded value.

A 2.5 percent cost of capital charge has been applied to the diversified present value of non-hedgeable risk based capital. This represents the risk premium that would be demanded by investors on capital exposed to non-hedgeable risks. It has been determined according to research performed by the CRO Forum which indicated that a suitable charge is in the range 2.5-4.5 percent. As the CRO Forum calculation allowed for financial distress costs and agency costs which are explicitly excluded from the embedded value calculation, the Group took the lower end of the range. The Cost of Residual Non-Hedgeable Risk varies linearly with the charge.

e) 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 financial options and guarantees, and cost of non residual non-hedgeable risk. New business value is valued using actual 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 financial options and guarantees for business written in prior years. This effect is taken into account in the new business value by valuing on a marginal approach, the difference between embedded value with and without new business. This captures the effect of cross-subsidies between in-force and new business due to, for example, different interest rate guarantees operating in a shared common pool of assets.

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.

f) Asset and liability data

The majority of the Group's embedded value, has been calculated using a "hard close" approach. This means that all asset and liability data reflect the actual position as of the valuation date.

Germany has followed an approach where liability model points were set up in advance, using the structure of a previous run, and then projected to June 30, 2010 values, by scaling to match the expected balance sheet figures. The new business model points were set up at April 30, 2010, and scaled along the expected development of the APE.

g) 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 embedded value. 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.

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 (U.S. dollars, euros, British pounds 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.

h) Economic Scenario Generator

All operations use actual yield curves observable as of June 30, 2010 for the calculation of the certainty equivalent value of business in force.

The calculations of the time value of financial 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 financial options and guarantees reflect the actual yield curves and implied volatilities observable as of June 30, 2010.

Simulations are produced for the economies in the U.S., the UK, Switzerland and the eurozone. In each economic area, 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 U.S. dollar simulations as their principal liabilities are U.S. 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 11.

i) Corporate Center costs

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

j) Holding companies

Holding companies that belong to Global Life have been consolidated in the embedded value 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 embedded value of the covered business.

k) Consolidation adjustments

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

Embedded value is shown net of non-controlling interests. Where the Group has a controlling interest in a subsidiary company, the new business value and the premium information are shown gross of non-controlling interests. The non-controlled share of new business value is eliminated through "Dividends & capital movements".

l) Debt

Where a loan exists between a company in Global Life and a Group company outside of Global Life, the loan is valued for embedded value purposes as if contracted with an external party.

m) "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) is included in the embedded value 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 embedded value and the new business value.

n) Employee pension schemes

Actuarial gains and losses arising from defined benefit pension and other defined benefit post-retirement plans are recognized in full in the period in which they occur and are presented on a separate line in the statement of comprehensive income. In the Group's consolidated IFRS financial statements, a liability is recognized for IAS 19 Employee Benefit deficits. This adjustment has not been made in the detailed embedded value described in this embedded value report. If the adjustment had been made the embedded value as of June 30, 2010 would have been lower by USD 539 million. The actuarial and economic assumptions used for this adjustment are consistent with those 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.

o) Employee share options

The costs of share options granted to employees are not included in the embedded value, 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 consolidated IFRS financial statements.

p) Change in legislation or solvency regime

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

q) Translation to Group presentation currency

To align embedded value reporting with the Group's consolidated IFRS financial statements, relevant results have been converted to the Group presentation currency, U.S. dollar, using average exchange rates for the period. This applies to new business value, new business volumes (APE and PVNBP) for the current period and comparative figures for June 30, 2009. This approach has also been applied to the analysis of movement. Valuations are translated at end-of-period exchange rates.

The rates can be found in note 1 to the Consolidated financial statements.

r) Sensitivities

The key assumption changes represented by each of the sensitivities in Section 7 are as follows:

Operating sensitivities

A 10 percent decrease in initial expenses and commissions was considered for new business values only.

A 10 percent decrease in maintenance expenses means that, for example, a base assumption of USD 30 p.a. would decrease to USD 27 p.a.

A 10 percent decrease in voluntary discontinuance rates means that, for example, a base assumption of 5 percent p.a. would decrease to 4.5 percent p.a.

A 5 percent improvement in mortality and morbidity assumptions for assurances means that, for example, if the base mortality assumption for assurances was 90 percent of a particular table, this would decrease to 85.5 percent.

A 5 percent improvement in mortality assumptions for annuities means that, for example, if the base mortality assumption for annuities was 90 percent of a particular table, this would decrease to 85.5 percent.

Economic sensitivities

A 100 basis points increase and decrease (subject to a minimum of zero percent) was applied to the risk free yield curve across all durations.

A 10 percent fall in equity and property market values was assessed for embedded value only. This is not applicable for new business.

A 25 percent increase in implied risk free volatilities means that, for example, a volatility of 20 percent p.a. would increase to 25 percent p.a.

A 25 percent increase in implied equity and property volatilities means that, for example, a volatility of 20 percent p.a. would increase to 25 percent p.a.

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised conditions. The results include any impact of the assumption changes on the time value of financial options and guarantees.

11. Embedded value assumptions

Projections of future shareholder cash flows expected to emerge from covered business and for new 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 efficiency are not anticipated in the assumptions – in particular for expenses and persistency.

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 conditions at the start of the relevant quarter.

Details of the economic assumptions for the major economies in which Zurich Global Life carries out business can be downloaded in a spreadsheet from the Investors section of www.zurich.com.

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:

- risk free rates;
- implied volatilities of different assets; and,
- correlations between different asset returns.

Expected asset returns in excess of the risk free rate have no bearing on the calculated embedded value other than in the expected return used for the analysis of movement. The expected return for equities comprises an equity risk premium added to the beginning of period one year swap rate. The expected return on corporate bonds is equal to the beginning of period one year swap rate plus a risk premium estimated by comparing the market yield on corporate bonds with the swap rates for equivalent durations. In addition, a reduction must be made to the yield to allow for the expected level of defaults.

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, 2010. These curves were used to extract forward reinvestment yields that are used for all asset classes. The yield curves are consistent with the assumptions used by investment banks to derive their option prices and their use ensures consistency with the derivation of implied volatilities. They also have the advantage of being available for most of the markets in which the Group operates. Domestic yield curves are used by businesses in other countries, except Hong Kong and Argentina which use the U.S. dollar, as their liabilities are principally U.S. dollar-dominated.

Implied asset volatility

The Group’s embedded value model is based on market consistent assumptions. Interest volatility is derived from 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, a fact that is reflected in the economic scenarios. The equity volatilities are based on at-the-money forward European options on capital indices, consistent with traded options in the market. Volatility of property investments is derived from relevant historical return data for each modelled economy.

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.

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.

Liquidity premiums

The CFO Forum continues to develop suitable methodology to quantify the liquidity premium. In advance of completion of this work, the Group has chosen to continue its previous market-consistent approach with a liquidity premium of zero.

"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 assets for units where there is a substantial equity allocation, the investment return assumption is based on the long term "real world" expected return allowing for reversion to the mean over a period of five years. For equity assets for units without a material equity allocation the investment return assumption is based on the 1 year swap rate at the beginning of period plus a margin to reflect the additional risk associated with investment in this asset class.

For property assets, the investment return assumptions is based on the 1 year swap rate at the beginning of period plus a margin to reflect the additional risk associated with investment in this asset class.

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.

"Return on opening embedded value" (as shown in the Embedded value key results)

The return on opening embedded value is calculated as the sum of the annualised new business value, annualized expected contributions, economic variance for the year to date and operating and non-operating variances for the year to date divided by the opening embedded value less beginning of period dividend and capital movements.

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 certain scenarios shareholder injections may be required to meet existing guaranteed benefits and this additional cost is included in the TVFOG.

In other European life businesses and in the U.S., 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. Existing practice, contractual and regulatory requirements as well as the reasonable expectations of policyholders are considered in setting bonuses.

Taxation

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

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 embedded value is noted in Section 10.n 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.

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 embedded value and new business value.

Where significant development work is performed in one country that is intended to have wider application across Global Life, that cost is shown under "Global Development Expenses".

The restart of business in Luxembourg is treated as a start-up operation with acquisition and maintenance expenses set at expected medium term levels. Any actual expenses incurred in excess of policy allowances is treated as an expense overrun and shown as an expense experience variation. The expense overrun is expected to be eliminated by 2012.

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.

Appendix

Embedded value results Global Life

in USD millions, for the six months ended June 30

	Americas		United Kingdom	
	2010	2009	2010	2009
Embedded value information:				
Opening embedded value	3,154	2,570	3,672	2,895
Dividends and capital movements	18	61	(376)	66
New business value Global Life	54	69	70	48
Expected contribution	103	109	59	120
Experience variance	(11)	(1)	1	(10)
Assumption changes	(9)	41	36	26
Other operating variances	89	90	(63)	(43)
Operating earnings	227	308	103	141
Economic variance	193	23	(46)	(84)
Other non-operating variances	(4)	(17)	17	(127)
Embedded value earnings	416	313	74	(70)
Minority adjustments	–	(1)	–	–
Foreign currency translation effects	(44)	36	(269)	361
Closing embedded value	3,544	2,980	3,101	3,252
New business information:				
Annual premiums	110	96	161	126
Single premiums	340	182	2,846	2,149
Annual premium equivalent (APE)	144	114	445	341
Present value of new business premiums (PVNBP)	940	835	4,020	2,926
New business value	54	69	70	48
New business margin (as % of APE)	37.9%	60.5%	15.6%	14.0%
New business margin (as % of PVNBP)	5.8%	8.3%	1.7%	1.6%
Returns				
Expected return	6.5%	8.3%	3.6%	8.1%
Operating return	12.1%	18.5%	7.0%	10.4%
Embedded value return	18.1%	18.7%	6.1%	3.3%

	Germany		Switzerland		Ireland		Spain		Emerging Markets in Asia		Rest of the World		Global Life	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	2,401	1,627	2,010	1,284	1,251	1,086	816	657	1,677	1,328	1,770	1,371	16,752	12,818
	(1)	(6)	(12)	(27)	–	–	(28)	(4)	13	(2)	(13)	38	(398)	125
	73	45	5	10	49	32	58	57	50	46	33	27	392	332
	66	26	47	55	12	18	20	12	27	20	36	27	370	387
	–	–	(5)	2	8	8	(5)	(2)	3	(38)	(10)	2	(17)	(40)
	(27)	56	32	–	18	(49)	(2)	(14)	7	31	3	(7)	58	85
	(19)	66	35	47	(33)	3	(3)	15	(8)	(10)	(1)	29	(3)	198
	93	193	114	114	54	12	68	68	80	49	61	77	800	962
	(608)	38	(35)	55	3	16	(203)	(57)	(19)	50	(174)	(56)	(890)	(16)
	–	(26)	(26)	89	3	(12)	6	(1)	58	(140)	(11)	(24)	44	(257)
	(515)	205	53	258	59	16	(130)	10	119	(41)	(123)	(2)	(47)	690
	–	(1)	–	–	–	–	(26)	(24)	–	–	–	–	(26)	(26)
	(303)	21	(76)	(15)	(183)	8	(102)	3	(103)	107	(158)	63	(1,238)	585
	1,581	1,846	1,976	1,501	1,128	1,110	530	642	1,706	1,391	1,476	1,469	15,042	14,191
	203	225	26	36	68	83	37	68	206	217	69	54	880	905
	664	307	153	211	1,348	460	2,081	2,892	166	116	762	424	8,361	6,741
	270	255	42	57	202	129	245	357	222	229	146	96	1,716	1,579
	2,832	1,783	367	551	1,700	900	2,326	3,267	993	1,079	1,442	933	14,619	12,275
	73	45	5	10	49	32	58	57	50	46	33	27	392	332
	27.0%	17.6%	11.7%	17.0%	24.1%	24.6%	23.6%	15.9%	22.7%	19.9%	22.5%	27.8%	22.8%	21.0%
	2.6%	2.5%	1.3%	1.8%	2.9%	3.5%	2.5%	1.7%	5.1%	4.2%	2.3%	2.9%	2.7%	2.7%
	5.5%	3.2%	4.7%	8.7%	1.9%	3.3%	5.1%	3.7%	3.2%	3.0%	4.1%	3.8%	4.5%	6.0%
	9.7%	16.3%	8.3%	14.2%	9.2%	5.7%	18.5%	20.9%	9.3%	8.6%	7.4%	9.3%	9.5%	13.0%
	(15.7%)	17.0%	5.2%	25.7%	9.6%	6.0%	(6.5%)	12.0%	11.6%	1.8%	(3.1%)	3.6%	4.4%	10.9%

Embedded value results Americas, Emerging Markets in Asia and Rest of the World

in USD millions, for the six months ended June 30

	Americas					
	United States		Latin America		Total	
	2010	2009	2010	2009	2010	2009
Embedded value information:						
Opening embedded value	2,655	2,271	499	299	3,154	2,570
Dividends and capital movements	(34)	68	52	(6)	18	61
New business value Global Life	28	55	26	14	54	69
Expected contribution	88	101	15	8	103	109
Experience variance	(24)	–	14	(1)	(11)	(1)
Assumption changes	(9)	44	–	(4)	(9)	41
Other operating variances	71	67	18	23	89	90
Operating earnings	153	267	74	41	227	308
Economic variance	208	(15)	(15)	38	193	23
Other non-operating variances	(5)	(20)	1	3	(4)	(17)
Embedded value earnings	356	232	60	81	416	313
Minority adjustments	–	–	–	(1)	–	(1)
Foreign currency translation effects	–	–	(44)	36	(44)	36
Closing embedded value	2,978	2,571	567	409	3,544	2,980
New business information:						
Annual premiums	41	44	69	52	110	96
Single premiums	42	29	298	153	340	182
Annual premium equivalent (APE)	45	47	99	67	144	114
Present value of new business premiums (PVNBP)	424	524	516	311	940	835
New business value	28	55	26	14	54	69
New business margin (as % of APE)	61.7%	117.7%	26.9%	20.5%	37.9%	60.5%
New business margin (as % of PVNBP)	6.6%	10.6%	5.1%	4.5%	5.8%	8.3%
Returns						
Expected return	6.7%	8.6%	5.5%	5.6%	6.5%	8.3%
Operating return	10.3%	18.1%	20.9%	21.5%	12.1%	18.5%
Embedded value return	18.0%	16.6%	18.4%	35.3%	18.1%	18.7%

		Emerging Markets in Asia								Rest of the World					
ZIS		Hong Kong		Other		Total		Italy		Other		Total			
2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009		
1,360	1,002	339	336	(22)	(9)	1,677	1,328	762	539	1,008	831	1,770	1,371		
-	-	13	(2)	-	-	13	(2)	(2)	48	(11)	(11)	(13)	38		
48	41	3	5	-	-	50	46	14	12	19	14	33	27		
18	12	9	8	-	-	27	20	8	12	28	15	36	27		
3	(33)	1	(5)	-	-	3	(38)	(4)	4	(6)	(3)	(10)	2		
7	58	-	(27)	-	-	7	31	-	-	3	(7)	3	(7)		
(3)	(14)	-	3	(5)	1	(8)	(10)	2	3	(2)	26	(1)	29		
73	63	12	(16)	(5)	1	80	49	20	31	42	46	61	77		
(5)	34	(14)	17	-	-	(19)	50	(167)	4	(8)	(60)	(174)	(56)		
58	(108)	-	(32)	-	-	58	(140)	(7)	(8)	(3)	(15)	(11)	(24)		
126	(11)	(2)	(32)	(5)	1	119	(41)	(154)	27	31	(29)	(123)	(2)		
-	-	-	-	-	-	-	-	-	-	-	-	-	-		
(103)	107	(1)	-	1	-	(103)	107	(97)	8	(61)	55	(158)	63		
1,383	1,097	349	302	(26)	(8)	1,706	1,391	509	622	967	847	1,476	1,469		
179	193	27	24	-	-	206	217	34	29	35	25	69	54		
161	111	5	5	-	-	166	116	399	296	364	128	762	424		
195	204	27	25	-	-	222	229	74	59	71	37	146	96		
887	966	105	114	-	-	993	1,079	748	565	693	368	1,442	933		
48	41	3	5	-	-	50	46	14	12	19	14	33	27		
24.5%	19.9%	10.0%	20.3%	n/a	n/a	22.7%	19.9%	19.0%	21.1%	26.2%	38.3%	22.5%	27.8%		
5.4%	4.2%	2.6%	4.4%	n/a	n/a	5.1%	4.2%	1.9%	2.2%	2.7%	3.9%	2.3%	2.9%		
2.7%	2.3%	5.0%	4.9%	n/a	n/a	3.2%	3.0%	2.1%	4.0%	5.7%	3.6%	4.1%	3.8%		
10.2%	11.5%	6.8%	(0.8%)	n/a	n/a	9.3%	8.6%	5.5%	9.4%	8.9%	9.2%	7.4%	9.3%		
14.1%	4.1%	2.8%	(5.5%)	n/a	n/a	11.6%	1.8%	(17.4%)	8.6%	7.8%	0.0%	(3.1%)	3.6%		

Statement by Directors

This embedded value report has been prepared in all material respects in accordance with the Market Consistent Embedded Value Principles and Guidance issued by the European Insurance CFO Forum in October 2009.

The methodology and assumptions underlying the report are described in Sections 10 and 11.

Auditor's report on embedded value

Zurich, August 4, 2010

To the Board of Directors of
Zurich Financial Services Ltd
Zurich

Report on embedded value methodology and assumptions

We have performed a limited assurance engagement on Zurich Financial Services Ltd's process for preparing the Embedded Value Report ("EV Report") for the half year ended June 30, 2010 for the companies and businesses reported in its Global Life segment, including compliance of the applied methodology with the Market Consistent Embedded Value ("MCEV") Principles and Guidance issued by the European Insurance CFO Forum, as described on pages 101 to 106, and the reasonableness of the assumptions used.

The Board of Directors is responsible for the preparation of the EV 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 Ltd's Global Life segment is in accordance with the MCEV Principles and Guidance and the assumptions used are reasonable. In addition we performed procedures to assess the consistent application of the methodology across the Zurich Financial Services Ltd's Global Life segment. We did not carry out an audit or review of the EV 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 Ltd's Global Life segment does not comply with the MCEV Principles and Guidance (as described on pages 101 to 106) and has not been implemented consistently, or the assumptions determined by the Zurich Financial Services Ltd's Global Life segment are not reasonable to derive the information included in the EV Report.

PricewaterhouseCoopers AG

Patrick Shouvlin

Ray Kunz

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Zurich Financial Services Ltd registered share data

Key indicators	as of	06/30/2010	06/30/2009
		Number of shares issued	145,636,664
Number of dividend-bearing shares ¹		145,636,664	146,922,620
Market capitalization (in CHF millions at end of period)		34,880	28,121
Authorized capital, number of shares		10,000,000	5,200,000
Contingent capital, number of shares		15,000,000	13,194,279

¹ Treasury shares are not entitled to dividends.

Per share data	in CHF	06/30/2010	06/30/2009
		Gross dividend	16.00 ¹
Basic earnings per share		12.24	15.80
Diluted earnings per share		12.14	15.68
Nominal value per share		0.10	0.10
Price at end of period		239.50	191.40
Price period high		271.20	245.00
Price period low		224.90	127.80

¹ Gross dividend per registered share; payment date was on April 8, 2010.

² Gross dividend per registered share; payment date was on April 7, 2009

Zurich share performance (indexed) over one year, ending June 2010



Source: Thomson Reuters

Financial calendar

Results Reporting for the Nine Months to September 30, 2010

November 4, 2010

Investors' Day

December 2, 2010

Annual Results Reporting 2010

February 10, 2011

Annual General Meeting 2011

March 31, 2011

Results Reporting for the Three Months to March 31, 2011

May 5, 2011

Half Year Results Reporting 2011

August 4, 2011

Results Reporting for the Nine Months to September 30, 2011

November 10, 2011

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American Depositary Receipts

Zurich Financial Services Ltd has an American Depositary Receipt program with The Bank of New York Mellon (BNY). For information relating to an ADR account, please call BNY Mellon's Shareowner Services in the USA on +1-888-BNY-ADRs (1-888-269-2377) or outside the USA on +1-201-680-6825. General information on the company's ADR-program can be obtained from The Bank of New York Mellon at www.adrbnymellon.com

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

Persons requiring advice should consult an independent adviser.

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

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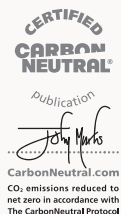
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