Zurich Financial Services Group

Half Year Report 2011

ZURICH®

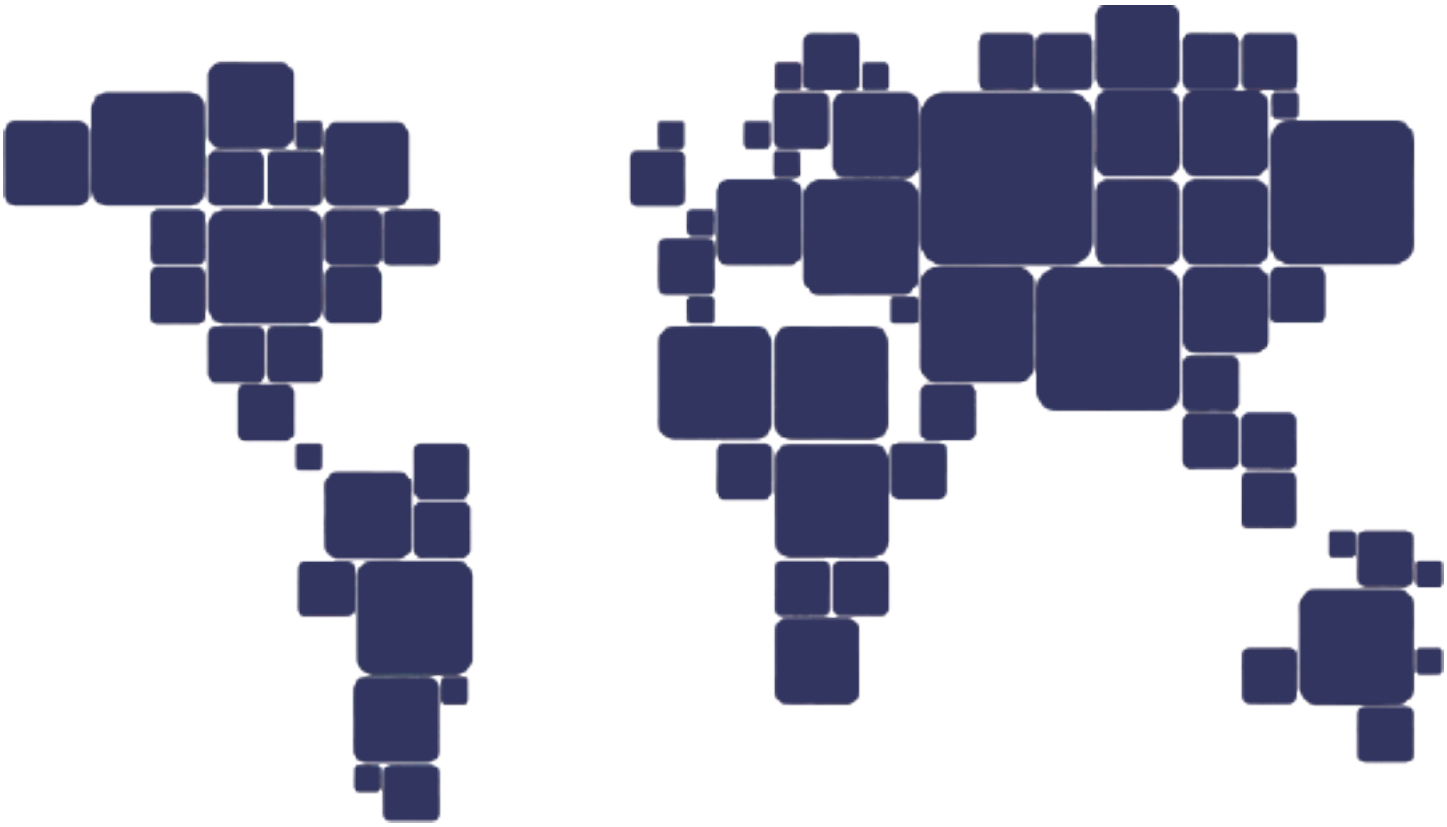
Report for the six months to June 30, 2011

Zurich HelpPoint

About Zurich

Zurich is one of the world's largest insurance groups, and one of the few to operate on a truly global basis. Our mission is to help our customers understand and protect themselves from risk.

With over 60,000 employees serving customers in more than 170 countries, we aspire to become the best global insurer as measured by our shareholders, customers and employees.



Contents

Message from the Chairman and CEO

Dr. Manfred Gentz Martin Senn

Dear Shareholder,

We are pleased to present the Group's financial results for the first half of 2011. Our business operating profit over the first half of the year was USD 2.1 billion, of which USD 1.3 billion was generated in the second quarter alone. This strong second quarter result represents a 25 percent increase in business operating profit compared with the same period in 2010. Net income attributable to shareholders in the first six months was USD 2.0 billion, 20 percent higher than in the first half of 2010. It was also enhanced by realized gains recorded in the second quarter of USD 441 million before tax on the sales of shares in New China Life Insurance Co., Ltd.

These solid results were achieved in a very challenging period. More than USD 500 million in losses were recognized from the five natural disasters in Australia, New Zealand and Japan. An increase in large and weather-related losses, including the multiple tornadoes and hail storms which hit the U.S. in April and May, accounted for additional losses of USD 200 million. Economic recovery remained slow in the U.S. and Europe.

These demanding conditions highlight the benefit of our strict margin and underwriting strategies. This is particularly the case in General Insurance, where we have shown continued improvement in the underlying loss ratio. We have executed on our strategy to deepen our presence in markets where the outlook for economic growth is positive, as with the signing of an agreement to acquire composite insurer Malaysian Assurance Alliance Berhad and the signing of the definitive agreements to establish a long-term alliance with Banco Santander in Latin America. The successful execution of our emerging market strategy is already visible, notably in our Global Life business, where we are approaching our target of generating 30 percent of new business value in Latin America, Asia-Pacific and the Middle East.

In General Insurance our business operating profit for the first half of 2011 was USD 1.1 billion, a decrease of USD 271 million compared with the same period in 2010. In line with our strategy to protect margins, we achieved average rate increases of 3 percent with no significant impact on customer retention levels when compared with the same period in 2010. The combined ratio in the second quarter was 95.3 percent, an improvement of 1.6 percentage points over the same period in 2010 and 8.3 percentage points over the catastrophe-affected first quarter.

Global Life business operating profit increased by USD 8 million to USD 728 million for the first half of the year. We continue to proactively counteract difficult market conditions, particularly in Spain and Ireland, and we are generating an increasing share of our business in high-growth markets. Corporate Life & Pensions and Private Banking Client Solutions generated additional growth in Europe.

Farmers business operating profit decreased by USD 116 million to USD 729 million. Farmers Management Services business operating profit decreased by USD 21 million to USD 674 million, largely as a result of the planned run-off of the 21st Century agency auto book of business in the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Group. Excluding this effect, gross written premiums in the Exchanges grew by 1 percent for the first six months of 2011. Gross written premiums at Farmers Re decreased compared with the same period in 2010, reflecting the reduction of the participation level of the quota share reinsurance treaty from 35 percent to 12 percent. Farmers Re's business operating profit decreased to USD 55 million as a result of this change, and due to the significant increase in weather-related losses in the second quarter of 2011.

Our capital and solvency positions remain strong and all core businesses continue to generate substantial cash flows. The capitalization ratio under the new Swiss Solvency Test (SST), as filed with the regulator for December 31, 2010, was 223 percent. Shareholders' equity decreased by USD 0.8 billion to USD 31.1 billion after recording the payout of USD 2.7 billion for the dividend of CHF 17.00 per share approved in March 2011. In that same month, Moody's Investors Service upgraded Zurich Insurance Company Ltd's insurance financial strength rating to Aa3 from A1 and also upgraded its debt ratings.

We would like to express our thanks to the more than 60,000 employees of Zurich. We are proud of the dedication our employees continue to show in helping our customers understand and manage the risks they face, as well as the one Zurich spirit in which they do so. We are confident that we will be ready to meet the challenges ahead.

Dr. Manfred Gentz
Chairman of the Board of Directors

Martin Senn
Chief Executive Officer

Operating and financial review

The information contained within the Operating and financial review is unaudited. This document should be read in conjunction with the Annual Report 2010 and with the unaudited Consolidated financial statements as of June 30, 2011, for the Zurich Financial Services Group. Comparatives are for the six months ended June 30, 2010, or as of December 31, 2010, unless otherwise stated. All amounts are shown in U.S. dollars, 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.

In addition to the figures stated according to the International Financial Reporting Standards (IFRS), Zurich Financial Services Group uses business operating profit (BOP) measures and other performance indicators to enhance the understanding of its results. These additional measures should be viewed as complementary to, and not a substitute for, the figures determined according to the IFRS. For a reconciliation of BOP to net income after income taxes see note 14 of the unaudited Consolidated financial statements.

Financial highlights

in USD millions, for the six months ended June 30, unless otherwise stated	**2011**	2010	Change[1]
Business operating profit	**2,132**	2,286	(7%)
Net income attributable to shareholders	**1,965**	1,642	20%
General Insurance gross written premiums and policy fees	**18,876**	17,940	5%
Global Life gross written premiums, policy fees and insurance deposits	**13,267**	13,111	1%
Farmers Management Services management fees and other related revenues	**1,375**	1,399	(2%)
Farmers Re gross written premiums and policy fees	**1,481**	2,491	(41%)
General Insurance business operating profit	**1,106**	1,377	(20%)
General Insurance combined ratio	**99.3%**	98.0%	(1.4 pts)
Global Life business operating profit	**728**	720	1%
Global Life new business annual premium equivalent (APE)	**1,899**	1,716	11%
Global Life new business margin, after tax (as % of APE)[2]	**26.9%**	23.6%	3.3 pts
Global Life new business value, after tax[2]	**511**	405	26%
Farmers business operating profit	**729**	845	(14%)
Farmers Management Services gross management result	**651**	681	(4%)
Farmers Management Services managed gross earned premium margin	**7.2%**	7.4%	(0.2 pts)
Average Group investments	**200,636**	190,092[3]	6%
Net investment result on Group investments	**4,216**	3,979	6%
Net investment return on Group investments[4]	**2.1%**	2.1%	–
Total return on Group investments[4]	**1.7%**	3.6%	(1.8 pts)
Shareholders' equity[5]	**31,153**	31,984	(3%)
Swiss Solvency Test capitalization ratio	**–**	223%[6]	n/a
Diluted earnings per share (in CHF)	**12.07**	12.14	(1%)
Book value per share (in CHF)[5]	**179.50**	202.69	(11%)
Return on common shareholders' equity (ROE)	**12.5%**	11.5%	1.0 pts
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)	**10.5%**	12.4%	(1.8 pts)

[1] Parentheses around numbers represent an adverse variance.
[2] Changes to the basis of calculation of embedded value, including new business, are set out in the Embedded value report and in the Global Life section of the Operating and financial review.
[3] Excluding average cash received as collateral for securities lending of USD 396 million for the six months ended June 30, 2010
[4] Not annualized and calculated on average Group investments
[5] As of June 30, 2011 and December 31, 2010, respectively
[6] As filed with the regulator for the year ended December 31, 2010, based on the results for the Group on a consolidated basis, subject to the Group regulator's review and the regulator's approval of the Group's internal model

Performance overview for the six months to June 30, 2011

Zurich Financial Services Ltd and its subsidiaries, collectively "the Group," continued to record solid performance in its core businesses with strong results in the second three months of 2011 driven by excellent underwriting performance. This was achieved despite the slow economic recovery in the U.S. and parts of Europe, where a significant proportion of the Group's business is conducted, while the Group continued to develop its business in emerging markets where the outlook for economic growth remains positive. This was demonstrated with the signing of definitive agreements with Banco Santander SA to enter into a long-term alliance in Latin America and with the announced acquisition of composite insurer Malaysian Assurance Alliance Berhad, which provides the Group further presence and size in the Asia-Pacific region.

The results for the first six months of 2011 were impacted by the significant natural catastrophes in the Asia-Pacific region, as well as high large and weather-related losses, including the multiple tornadoes and hail storms which hit the U.S. in April and May 2011. Together these events have led to a lower business operating profit compared with the first six months of 2010, which included the Chilean earthquake and an increase in banking loan loss provisions in Non-Core Businesses.

In spite of the impact of continued extraordinary events, the second three months of 2011 showed a significant improvement compared with the same period of 2010, with the underlying result continuing to improve reflecting the Group's focus on margins. The overall result for the second three months of 2011 also benefited from realized gains on the sale of part of the Group's share in New China Life Insurance Co., Ltd.

The Group's capital position remains strong. Shareholders' equity has decreased by USD 0.8 billion to USD 31.2 billion after recording the total cost of USD 2.7 billion for the dividend of CHF 17.00 per share approved by shareholders at the Annual General Meeting on March 31, 2011. In March 2011, Moody's Investors Service upgraded the insurance financial strength rating of Zurich Insurance Company Ltd to Aa3 from A1 and also upgraded its debt ratings.

Business operating profit for the first six months of 2011 decreased by USD 154 million to USD 2.1 billion, or by 7 percent in U.S. dollar terms and 11 percent on a local currency basis.

- **General Insurance** business operating profit decreased by USD 271 million to USD 1.1 billion, or by 20 percent in U.S. dollar terms and 23 percent on a local currency basis. The ongoing focus on profitability continued to positively impact the underlying underwriting result for the period, but these improvements were more than offset by the extraordinary frequency and severity of loss events, as well as higher large losses in the Global Corporate business. Aggregate net losses of USD 477 million were recorded in the first three months of 2011 for the three major natural disasters in Asia-Pacific and in the second three months USD 80 million was recorded for the earthquake aftershocks in New Zealand as well as USD 200 million for the multiple tornadoes and hail storms in the U.S.

- **Global Life** business operating profit increased by USD 8 million to USD 728 million, or by 1 percent in U.S. dollar terms, but 6 percent lower on a local currency basis. Difficult market conditions in Spain and Ireland as well as a comparatively high level of positive one-off items recorded in the same period of 2010 were the main factors contributing to the local currency decrease. After allowing for these factors, underlying business operating profit remained stable in local currency terms with increases in fee levels and margins on protection business funding transformational investments.

- **Farmers** business operating profit decreased by USD 116 million to USD 729 million or by 14 percent. **Farmers Management Services** business operating profit decreased by USD 21 million to USD 674 million or by 3 percent, driven by reduced revenues, largely as a result of the planned run-off of the 21st Century agency auto book of business in 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 decreased by USD 95 million to USD 55 million or by 63 percent reflecting the reduction in the All Lines quota share reinsurance treaty with the Farmers Exchanges (All Lines quota share treaty), exceptionally high weather-related losses in the second three months of 2011, and lower investment income.

Other Operating Businesses reported an increase in its business operating loss of USD 36 million to USD 397 million primarily as a result of positive one-off items included in 2010.

Non-Core Businesses reported a business operating loss of USD 34 million compared with USD 295 million in the same period of 2010. The improvement resulted mainly from lower banking loan loss provisions of USD 51 million compared with USD 343 million in the same period of 2010.

Operating and financial review *continued*

Business volumes for the core business segments, comprising gross written premiums, policy fees, insurance deposits and management fees, increased slightly to USD 35.0 billion, but decreased 5 percent on a local currency basis. Volumes developed as follows:

- **General Insurance** gross written premiums and policy fees increased by USD 935 million to USD 18.9 billion, or by 5 percent in U.S. dollar terms, but remained flat on a local currency basis. The General Insurance strategy is to pursue selective growth through disciplined underwriting focused on profit margins. Despite the slow economic recovery in the U.S. and some European countries, average rate increases of 3 percent were achieved. Growth was generated in the Global Corporate business as well as in International Markets in Latin America and Asia-Pacific.

- **Global Life** gross written premiums, policy fees and insurance deposits increased by USD 156 million to USD 13.3 billion or by 1 percent in U.S. dollar terms but 5 percent lower on a local currency basis. Volume increases in strategic growth markets in Latin America and Asia-Pacific and Middle East were offset by lower volumes in Ireland and Spain as difficult market conditions persisted in those countries, together with the impact of the divestment of Caixa Sabadell in Spain.

- **Farmers Management Services** management fees and other related revenues decreased by USD 24 million to USD 1.4 billion or by 2 percent in line with a decrease of 2 percent in gross earned premiums in the Farmers Exchanges, due mainly to the planned run-off of the 21st Century agency auto book of business. The 41 percent decrease to USD 1.5 billion in gross written premiums of **Farmers Re** reflects the reduction in the All Lines quota share treaty.

Net income attributable to shareholders increased by USD 323 million to USD 2.0 billion, or by 20 percent, with the decrease in business operating profit more than offset by gains from the sale of part of the Group's share in New China Life Insurance Co. Ltd. The **shareholders' effective tax rate** was 22.6 percent for the six months ended June 30, 2011, compared with 23.2 percent for the same period in 2010 and 20.3 percent for the year ended December 31, 2010. The shareholders' effective tax rate for the year ended December 31, 2010, was primarily impacted by a combination of favorable tax settlements and shifts in the geographic profit mix.

ROE of 12.5 percent increased by 1.0 percentage point due to the effect of both the increase in net income attributable to shareholders and the reduction in shareholders' equity as a result of charges for the 2011 dividend. **BOPAT ROE** was 10.5 percent. **Diluted earnings per share** decreased slightly to CHF 12.07 for the six months ended June 30, 2011, compared with CHF 12.14 for the same period in 2010.

General Insurance

in USD millions, for the six months ended June 30	2011	2010	Change
Gross written premiums and policy fees	18,876	17,940	5%
Net earned premiums and policy fees	14,318	13,778	4%
Insurance benefits and losses, net of reinsurance	(10,429)	(9,785)	(7%)
Net underwriting result	95	279	(66%)
Net investment income	1,426	1,439	(1%)
Net non-technical result (excl. items not included in BOP)	(432)	(333)	(30%)
Business operating profit	**1,106**	**1,377**	**(20%)**
Loss ratio	72.8%	71.0%	(1.8 pts)
Expense ratio	26.5%	27.0%	0.5 pts
Combined ratio	**99.3%**	**98.0%**	**(1.4 pts)**

in USD millions, for the six months ended June 30	Business operating profit (BOP)		Combined ratio	
	2011	2010	2011	2010
Global Corporate	60	462	107.0%	91.1%
North America Commercial	426	558	99.3%	96.2%
Europe	714	410	93.5%	98.3%
International Markets	(141)	26	113.0%	105.0%
GI Global Functions including Group Reinsurance	47	(80)	nm	nm
Total	**1,106**	**1,377**	**99.3%**	**98.0%**

Business operating profit decreased by USD 271 million to USD 1.1 billion, or by 20 percent in U.S. dollar terms and 23 percent on a local currency basis. The decrease was mainly attributable to the underwriting impacts of significant natural catastrophes in the Asia-Pacific region in the first three month of 2011. In the second three months, results have returned to more normal levels despite the significant weather events in the U.S. and the New Zealand earthquake aftershocks, demonstrating a robust underlying performance. Investment income declined by 1 percent in U.S. dollar terms mainly due to lower yields in Europe and the U.S., but this was partially offset by hedge fund gains. The non-technical result returned to normal levels following the benefit realized from currency revaluations in Latin America and foreign currency gains on transactions in Global Corporate in the same period of 2010.

Gross written premiums and policy fees increased by USD 935 million to USD 18.9 billion or by 5 percent in U.S. dollar terms, but remained flat on a local currency basis. In line with the strategy to maintain margins, average rates increased by 3 percent, an improvement of 1 percentage point compared with the same period of 2010. Despite these rate increases, customer retention levels remained flat compared with the same period of 2010. Premium growth has been achieved in the Global Corporate business and International Markets. In the North American market, where the Group's customer insured exposures have continued to decrease in some sectors compared with the same period of 2010, competitors have aggressively defended their portfolios and the market continued to experience rate decreases, albeit at a reduced level. European volumes continued to decline mainly due to underwriting actions implemented to improve profitability, particularly in the personal lines motor business.

The **net underwriting result** decreased by USD 183 million to USD 95 million with the combined ratio at 99.3 percent, a deterioration of 1.4 percentage points compared with the same period of 2010. The loss ratio was impacted by the significant natural catastrophes in the Asia-Pacific region and the U.S. together with higher levels of large losses. The impact of these events was partially offset by improved underwriting results based on turnaround actions implemented in certain European markets which are now benefiting the result. Overall, the underlying loss ratio continued to improve as the Group's rate increases and targeted underwriting actions continue to earn into the result. The expense ratio developed favorably by 0.5 percentage points to 26.5 percent, driven mainly by expense management actions but partially offset by the impact of reduced net earned premiums expressed in local currency.

Operating and financial review *continued*

Global Corporate

in USD millions, for the six months ended June 30	**2011**	2010	Change
Gross written premiums and policy fees	4,714	4,245	11%
Net underwriting result	(187)	213	nm
Business operating profit	**60**	**462**	**(87%)**
Loss ratio	87.4%	70.9%	(16.5 pts)
Expense ratio	19.6%	20.1%	0.5 pts
Combined ratio	**107.0%**	**91.1%**	**(16.0 pts)**

Business operating profit of USD 60 million deteriorated by USD 403 million from a profit of USD 462 million in the same period of 2010. The decrease was attributable to losses incurred by corporate customers from the Japan and New Zealand earthquakes and weather-related events in Australia and North America as well as a higher occurrence of large losses. The negative underwriting result was partially offset by an improved investment result driven by higher invested assets in Europe and hedge fund gains in North America. The non-technical result returned to normal levels following the benefit realized from foreign currency gains on transactions in the same period of 2010.

Gross written premiums and policy fees increased by USD 469 million to USD 4.7 billion, or by 11 percent in U.S. dollar terms and 5 percent on a local currency basis. This increase included a higher level of fronting business for corporate customers. Focus remained on underwriting and pricing discipline. As a result average rate increases of 3 percent were obtained on business written with increases in both the European and North American markets. Despite the very competitive market environment in North America higher retention rates and strong new business growth have been achieved. Asia-Pacific and Middle East premiums increased by 20 percent, although from a small base, reflecting the strategy to expand the Group's presence in those markets.

The **net underwriting result** deteriorated by USD 400 million to a loss of USD 187 million as reflected in the 16.0 percentage point increase in the combined ratio to 107.0 percent. The loss ratio increased by 16.5 percentage points compared with the same period in 2010 driven by the impact of the weather-related and catastrophe events. In addition to these events, Global Corporate experienced higher levels of large losses, mainly in Europe. The underlying loss ratio improved compared with the same period of 2010 as a result of increased rates and improved risk selection. The expense ratio improved 0.5 percentage points to 19.6 percent driven mainly by a reduction in other underwriting expenses as a result of the disciplined approach to cost management. This was partially offset by continued strategic investments in both Asia-Pacific and the Middle East.

North America Commercial

in USD millions, for the six months ended June 30	**2011**	2010	Change
Gross written premiums and policy fees	4,852	4,995	(3%)
Net underwriting result	26	142	(81%)
Business operating profit	**426**	**558**	**(24%)**
Loss ratio	69.2%	65.3%	(3.8 pts)
Expense ratio	30.1%	30.9%	0.8 pts
Combined ratio	**99.3%**	**96.2%**	**(3.1 pts)**

Business operating profit decreased by USD 132 million to USD 426 million, or by 24 percent. This reduction arose from a lower underwriting result compared with the same period of 2010 driven by weather-related losses, lower levels of favorable development of reserves established in prior years, and lower levels of net earned premiums as a result of reduced volumes. Investment income was lower compared with the same period of 2010 due to lower yields but partially offset by an increase in hedge fund gains. The non-technical result benefited from a lower level of external professional services expenses, compared with the same period of 2010.

Gross written premiums and policy fees decreased by USD 143 million to USD 4.9 billion, or by 3 percent, resulting from the continued challenging economic environment in a number of sectors in the U.S. Volumes continued to be negatively impacted by strong competition and the effects of rate-tiering strategies which resulted in the non-renewal of certain unprofitable accounts. Focus remained on the retention of profitable business through risk selection and segmentation strategies. New business decreased by 4 percent compared with the same period of 2010. However, excluding certain portfolios which have undergone significant reshaping activities, new business has improved slightly over the same period of 2010, achieved in specific segments such as middle market commercial business, energy casualty, management solutions, healthcare, direct markets and segmented programs. Overall, North America Commercial achieved average rate increases of 3 percent in a highly competitive marketplace compared with 1 percent average rate decreases in the same period of 2010.

The **net underwriting result** decreased by USD 115 million to USD 26 million, or by 81 percent in U.S. dollar terms and 82 percent on a local currency basis, reflected in the 3.1 percentage point deterioration in the combined ratio to 99.3 percent. The underwriting result was impacted by higher weather-related losses due to a series of severe events which hit the Midwest and Southeast regions of the U.S. in April and May. The underwriting result was further impacted by a lower level of favorable development of reserves established in prior years, and lower net earned premiums. The loss ratio has also been adversely impacted due to a deterioration in workers' compensation business where increasing loss trends have been observed and corrective actions are being taken. The expense ratio improved by 0.8 percentage points driven primarily by a reduction in commissions paid relating to certain one-off impacts including profit commissions on crop business paid in the prior year. The other technical expense ratio increased as a result of the lower earned premiums and certain one-off items.

Operating and financial review *continued*

Europe

in USD millions, for the six months ended June 30	**2011**	2010	Change
Gross written premiums and policy fees	7,480	7,092	5%
Net underwriting result	416	104	nm
Business operating profit	**714**	**410**	**74%**
Loss ratio	68.2%	73.3%	5.0 pts
Expense ratio	25.3%	25.1%	(0.2 pts)
Combined ratio	**93.5%**	**98.3%**	**4.8 pts**

Business operating profit increased by USD 304 million to USD 714 million, or by 74 percent in U.S. dollar terms and 57 percent on a local currency basis. The performance was driven mainly by the significant improvement in the underwriting result following the continued focus on underwriting strategies, including rate increases, as well as benign weather conditions compared with the same period of 2010. On a local currency basis, investment income decreased mainly due to lower yields and capital repatriation to the Group reducing the asset base, however this was partially offset by the non-technical result which benefited from reduced regional costs in the first six months of the year.

Gross written premiums and policy fees increased by USD 388 million to USD 7.5 billion, or by 5 percent in U.S. dollar terms but 3 percent lower on a local currency basis. The overall market and economic environment in many European countries continued to remain challenging with depressed economic activity and higher unemployment. Actions taken to improve profitability have resulted in lower volumes. Overall rate increases of 4 percent were achieved in the first six months of 2011, with the highest increases in the UK, Italy and Spain. Despite this, customer retention levels increased compared with the same period of 2010. Local currency growth in Germany was achieved mainly from motor lines in both the commercial and personal lines of business.

The **net underwriting result** increased by USD 312 million to USD 416 million. This is reflected in an improvement in the combined ratio of 4.8 percentage points to 93.5 percent. The loss ratio benefited from improvements in the underlying loss ratio due to continued and sustained underwriting improvement strategies, benign weather-related losses and higher favorable development of reserves established in prior years. Corrective actions on personal motor lines in the UK, Italy and Russia significantly improved the overall result. The other technical expense ratio increased due to the impact of lower net earned premiums with the absolute amount of other technical expenses having slightly decreased.

International Markets

in USD millions, for the six months ended June 30	**2011**	2010	Change
Gross written premiums and policy fees	2,212	1,858	19%
Net underwriting result	(211)	(69)	nm
Business operating profit	**(141)**	**26**	**nm**
Loss ratio	78.9%	69.1%	(9.8 pts)
Expense ratio	34.2%	35.9%	1.7 pts
Combined ratio	**113.0%**	**105.0%**	**(8.1 pts)**

Business operating loss of USD 141 million deteriorated by USD 167 million from a profit of USD 26 million in the same period of 2010. Losses from the earthquakes in Japan and New Zealand and severe weather events in Australia impacted the Asia-Pacific region and were the driver of the International Markets result. Latin America benefited from a benign catastrophe and large loss experience compared with the same period of 2010. In addition, higher investment income was achieved due to higher yields as well as a higher asset base driven by portfolio growth. Non-technical expenses reverted to normal levels following favorable currency revaluations in Latin America in the same period of 2010.

Gross written premiums and policy fees increased by USD 354 million to USD 2.2 billion, or by 19 percent in U.S. dollar terms and 11 percent on a local currency basis. Growth in Latin America was 16 percent, mainly driven by overall growth in Brazil as well as growth in motor business in Argentina and property business in Chile. Premiums in the Middle East and Africa decreased slightly on a local currency basis as a result of re-underwriting actions in South Africa.

The **net underwriting result** decreased by USD 142 million to a loss of USD 211 million reflected in the 8.1 percentage point increase in the combined ratio to 113.0 percent. The loss ratio increased by 9.8 percentage points to 78.9 percent, which was impacted by the Japan and New Zealand earthquakes and the weather events in Australia including the Brisbane floods as well as the Victoria storms and cyclone Yasi. These impacts were partially offset by benign catastrophe experience in Latin America, where the Chilean earthquake impacted the results in the same period of 2010. The underlying loss ratio improved due to targeted rate and re-underwriting strategies to improve profitability. The lower expense ratio was mainly driven by targeted expense reductions in Latin America and in the Middle East and Africa, and by a reduction in the commission ratio in Latin America due to changes in the business mix.

Operating and financial review *continued*

Global Life

in USD millions, for the six months ended June 30	2011	2010	Change
Insurance deposits	7,174	7,324	(2%)
Gross written premiums and policy fees	6,092	5,787	5%
Net investment income on Group investments	2,082	1,952	7%
Insurance benefits and losses, net of reinsurance	(4,853)	(4,663)	(4%)
Underwriting and policy acquisition costs, net of reinsurance	(848)	(763)	(11%)
Administrative and other operating expenses	(1,204)	(1,006)	(20%)
Business operating profit	**728**	**720**	**1%**
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts[1]	199,342	187,196	6%
Assets under management[1, 2]	236,712	222,326	6%
Net policyholder flows[3]	1,155	2,949	(61%)
New business – highlights[4, 5]			
New business annual premium equivalent (APE)	**1,899**	**1,716**	**11%**
Present value of new business premiums (PVNBP)	15,631	14,619	7%
New business margin, after tax (as % of APE)	**26.9%**	**23.6%**	**3.3 pts**
New business margin, after tax (as % of PVNBP)	3.3%	2.8%	0.5 pts
New business value, after tax	**511**	**405**	**26%**

[1] As of June 30, 2011, and December 31, 2010
[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 business earns fees.
[3] Net policyholder flows are defined as the sum of gross written premiums and policy fees and deposits, less policyholder benefits.
[4] In 2011 new business figures have been determined including a liquidity premium in the discount rate and, for greater consistency with other European Insurers, a cost of capital applied to residual non-hedgeable risks of 4 percent. The 2010 comparatives have been restated to reflect these changes.
[5] A refinement in methodology for calculating new business value for corporate protection business was introduced in 2011 contributing USD 84 million to new business value, after tax, of which USD 82 million relates to international group protection business included in Other businesses, and 4.4 percent to new business margin, after tax, in the first six months of 2011. The refinement results from the inclusion of the value expected to be generated over the entire life of the contract in corporate protection business rather than the value expected to be generated up to the next review date in those contracts.

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 (BOP)	
	2011	2010	2011	2010	2011	2010	2011	2010
North America	22	27	50	45	44.1%	59.5%	127	120
Latin America	33	25	138	99	23.6%	25.8%	30	49
Europe	269	284	1,322	1,300	20.4%	21.9%	502	510
of which:								
United Kingdom	*73*	*61*	*536*	*445*	*13.7%*	*13.6%*	*149*	*156*
Germany	*82*	*89*	*274*	*270*	*30.1%*	*33.0%*	*170*	*166*
Switzerland	*13*	*4*	*75*	*42*	*17.4%*	*10.0%*	*127*	*112*
Ireland	*33*	*54*	*181*	*206*	*18.3%*	*26.0%*	*15*	*26*
Spain	*50*	*58*	*156*	*245*	*31.7%*	*23.5%*	*13*	*17*
Rest of Europe	*18*	*19*	*100*	*92*	*17.9%*	*21.0%*	*29*	*34*
Asia-Pacific and Middle East	73	49	307	215	23.8%	22.9%	61	45
Other	114	19	83	57	138.7%	32.8%	8	(4)
Total	**511**	**405**	**1,899**	**1,716**	**26.9%**	**23.6%**	**728**	**720**

Global Life continues to progress against its strategic objective of diversifying into the higher growth markets of Latin America, Asia-Pacific and the Middle East approaching its target of 30 percent of total new business value being generated in these regions. The new business annual premium equivalent (APE) and new business value (NBV) generated by growth in these regions mitigated challenging market conditions in Spain and Ireland where pricing behavior in the market on certain lines of business was on terms considered uneconomic by the Group. In addition, protection products, which generate higher margins, contributed to volume growth across all regions. Whilst maintaining growth momentum, the global operations strategy continued to be implemented, necessitating a higher level of transformational spend compared with the same period of 2010.

New business value, after tax, excluding the effect of the refinement in methodology, described in note 5 of the table increased by USD 22 million or by 6 percent in U.S. dollar terms and remained flat in local currency. Growth in Asia-Pacific and Middle East was driven by sales of unit linked and corporate savings business while growth in Latin America came from increased Corporate Life & Pensions business and sales through the affinity distribution channel in Brazil. Growth in Other arose from international group protection business which is to a large extent distributed in Asia-Pacific and Middle East.

New business margin, after tax, excluding the effect of the methodology refinement, was at a strong level of 22.5 percent with increased volumes of higher margin protection products, particularly in Spain and the international group protection business, largely compensating for the downward pressure on margin in Ireland and the effects of a change in persistency assumptions in North America.

New business annual premium equivalent (APE) increased by USD 183 million to USD 1.9 billion or by 11 percent in U.S. dollar terms and by 4 percent on a local currency basis. In Europe, the main areas of growth were the UK, which increased by 20 percent in U.S. dollar terms or by 14 percent on a local currency basis, and Switzerland which increased by 81 percent in U.S. dollar terms or by 51 percent on a local currency basis. This growth offset reduced volumes in Ireland and Spain due to the effects of competitive and economic pressures in these markets, with a further negative volume effect in Spain due to the divestment of Caixa Sabadell which ceased to be consolidated in September 2010.

Business operating profit increased by USD 8 million to USD 728 million or by 1 percent in U.S. dollar terms but 6 percent lower on a local currency basis. Difficult market conditions, particularly in Spain and Ireland, as well as a comparatively high level of positive one-off items recorded in the same period of 2010, were the main factors contributing to this decrease. Administrative and other operating expenses put further strain on the business with an increase of USD 197 million or 20 percent in U.S. dollar terms and 11 percent on a local currency basis although increases in fee income largely mitigated this effect. The primary drivers of the increase in expenses were the higher customer, distribution and transformation expenses arising from the global operations strategy and a higher allocation of Group expenses driven by the growth of Global Life. Continued growth in protection business and sums assured combined with stable claims experience drove an increase in margins, while net investment margin remained flat on a local currency basis.

Insurance deposits decreased by USD 150 million to USD 7.2 billion or by 2 percent in U.S. dollar terms and 7 percent on a local currency basis driven by the reduction in volumes in Spain and Ireland.

Gross written premiums and policy fees increased by USD 305 million to USD 6.1 billion or by 5 percent in U.S. dollar terms and reduced by 3 percent on a local currency basis, mainly as a result of lower single premium business in Ireland and the divestment of Caixa Sabadell in Spain.

Net reserves increased by USD 12.1 billion or by 6 percent in U.S. dollar terms, but remained flat on a local currency basis compared with December 31, 2010. **Assets under management** increased by USD 14.4 billion or by 6 percent in U.S. dollar terms and also remained flat on a local currency basis compared with December 31, 2010. **Net policyholder flows** remained positive at USD 1.2 billion despite the lower deposit and premium volumes in Spain and Ireland.

Operating and financial review *continued*

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)	
	2011	2010	**2011**	2010	**2011**	2010
Bank Distribution	94	113	318	422	29.5%	26.7%
IFA/Brokers	85	98	485	497	17.4%	19.8%
Agents	59	58	235	217	25.1%	26.8%
International/Expats	45	33	156	123	28.9%	26.5%
Total Retail pillars	**282**	**302**	**1,194**	**1,259**	**23.7%**	**24.0%**
Corporate Life & Pensions	181	60	501	285	36.2%	21.2%
Private Banking Client Solutions	9	6	139	114	6.5%	4.9%
Direct and Central Initiatives	39	37	66	58	58.5%	63.3%
Total	**511**	**405**	**1,899**	**1,716**	**26.9%**	**23.6%**

Bank Distribution decreased new business value by USD 19 million to USD 94 million or by 17 percent in U.S. dollar terms and 21 percent in local currency. Increased volumes in Latin America and several European countries were more than offset by the significantly reduced volumes of savings business in Spain where pricing behavior in the market was on terms considered uneconomic by the Group and led to lower participation in this business. However increased volumes of higher margin protection products in Spain drove an overall improvement in new business margin of 2.8 percentage points to 29.5 percent.

IFA/Brokers decreased new business value by USD 13 million to USD 85 million or by 14 percent in U.S. dollar terms and 20 percent in local currency. Growth in North America, Latin America and Asia-Pacific and Middle East was more than offset by lower sales in the domestic Irish market and reduced volumes for cross-border business manufactured in the European hub in Ireland for distribution in Italy, where 2010 benefited from additional sales resulting from an Italian fiscal amnesty. Lower volumes also put pressure on new business margins which fell by 2.4 percentage points.

Agents increased new business value by USD 1 million to USD 59 million or by 1 percent in U.S. dollar terms but 2 percent lower in local currency. Increased sales in Switzerland and Latin America improved new business value, but were offset by the negative impact of the reduced new business margin in North America resulting from a change in persistency assumptions.

International/Expats increased new business value by USD 12 million to USD 45 million or by 38 percent in U.S. dollar terms and 30 percent in local currency. This was predominantly driven by volume growth in Asia-Pacific and Middle East together with an improvement of 2.4 percentage points in the overall new business margin to 28.9 percent.

Corporate Life & Pensions increased new business value by USD 121 million to USD 181 million. Excluding the corporate protection methodology refinement, new business value increased by USD 37 million or by 62 percent in U.S. dollar terms and 45 percent on a local currency basis. Global relationships with major employee benefit consultants and leverage of the Group's Global Corporate presence drove volume increases in all regions, the most significant of which were in Europe where growth in the UK and Switzerland more than offset a decrease in Ireland.

Private Banking Client Solutions increased new business value by USD 3 million to USD 9 million. The growth in new business value was driven by the continued placements of tranches of an investment bond through bank partners in the UK.

Direct and Central Initiatives increased new business value by USD 2 million to USD 39 million or by 5 percent in U.S. dollar terms but 2 percent lower in local currency.

Farmers

Farmers business operating profit decreased by USD 116 million to USD 729 million or by 14 percent. This reduction reflects lower gross earned premiums in the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Group, and the reduced participation in the All Lines quota share treaty in Farmers Re as well as a significant increase in weather-related losses compared with the same period of 2010.

Farmers Management Services

in USD millions, for the six months ended June 30	**2011**	2010	Change
Management fees and other related revenues	1,375	1,399	(2%)
Management and other related expenses	(724)	(718)	(1%)
Gross management result	651	681	(4%)
Other net income and expenses	23	13	70%
Business operating profit	**674**	**694**	**(3%)**
Managed gross earned premium margin	7.2%	7.4%	(0.2 pts)

Business operating profit of USD 674 million decreased by USD 21 million or by 3 percent driven by a lower gross management result. This was partially offset by an increase in other net income and expenses driven mainly by a reduction of integration costs relating to 21st Century.

Management fees and other related revenues of USD 1.4 billion decreased by USD 24 million or by 2 percent largely driven by the planned run-off of the 21st Century agency auto book of business. This was partially offset by continued increasing gross earned premiums in the Farmers Exchanges from small business solutions and specialty businesses. **Management and other related expenses** of USD 724 million increased by USD 6 million or by 1 percent. This was partially affected by one-off costs for IT investments to improve operational efficiency.

As a result of the reduced management fees and increased expenses, the **gross management result** decreased by USD 30 million to USD 651 million, or by 4 percent, while the **managed gross earned premium margin** decreased by 0.2 percentage points to 7.2 percent.

Operating and financial review *continued*

Farmers Re

in USD millions, for the six months ended June 30	**2011**	2010	Change
Gross written premiums and policy fees	1,481	2,491	(41%)
Net underwriting result	(16)	49	nm
Business operating profit	**55**	**151**	**(63%)**
Loss ratio	70.4%	67.3%	(3.1 pts)
Expense ratio	30.6%	31.1%	0.5 pts
Combined ratio	**101.1%**	**98.5%**	**(2.6 pts)**

Business operating profit of USD 55 million decreased by USD 95 million or by 63 percent primarily due to the reduction in the All Lines quota share treaty, from 35 percent to 25 percent effective June 30, 2010, and further to 12 percent effective December 31, 2010, as well as a significant increase in weather-related losses in the second three months of 2011. As a result of the reduction in the All Lines quota share treaty, **gross written premiums and policy fees** decreased by USD 1.0 billion or by 41 percent to USD 1.5 billion and investment income decreased by USD 31 million or by 30 percent.

The **net underwriting result** decreased by USD 66 million to a loss of USD 16 million primarily due to higher losses assumed from the Farmers Exchanges during the first six months of 2011, as well as the reduction in the All Lines quota share treaty and the resulting lower contribution from net earned premiums.

The **loss ratio** increased 3.1 percentage points compared with the same period of 2010, which was mainly driven by the increase of 3.2 percentage points of the weather-related impact of catastrophes (as defined by Farmers).

Farmers Exchanges

in USD millions, for the six months ended June 30	**2011**	2010	Change
Gross written premiums	9,168	9,207	–
Gross earned premiums	9,001	9,211	(2%)

Gross written premiums in the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Group, decreased by USD 39 million to USD 9.2 billion driven mainly by the impact of the planned run-off of the 21st Century agency auto book of business. Excluding this effect gross written premiums grew by 2 percent in the second three months of 2011 driven by underlying volume growth, resulting in cumulative growth of 1 percent for the first six months of 2011.

Gross earned premiums in the Farmers Exchanges decreased by USD 209 million to USD 9.0 billion, or by 2 percent, driven mainly by the impact of the planned run-off of the 21st Century agency auto book of business flowing through to earned premiums.

Other Operating Businesses

in USD millions, for the six months ended June 30	2011	2010	Change
Business operating profit:			
Holding and financing	(285)	(307)	7%
Headquarters	(104)	(38)	nm
Alternative investments	(9)	(16)	45%
Total business operating profit	**(397)**	**(361)**	**(10%)**

Holding and financing reduced its business operating loss by USD 22 million to USD 285 million or by 7 percent. This improvement was driven by favorable movements in foreign currencies. Business operating loss in **Headquarters** increased by USD 66 million to USD 104 million, partly driven by the translation effect of the strong Swiss franc. Additionally, the prior year was favorably impacted by a number of one-offs, including a reduction in pension expenses as a consequence of the outsourcing of an IT data center.

Non-Core Businesses

in USD millions, for the six months ended June 30	2011	2010	Change
Business operating profit:			
Centrally managed businesses:	(50)	(254)	80%
Centre	12	3	nm
Banking activities	(32)	(318)	90%
Other centrally managed businesses	(30)	61	nm
Other run-off	16	(40)	nm
Total business operating profit	**(34)**	**(295)**	**88%**

Centrally managed businesses, which comprise run-off portfolios that are managed with the intention to proactively reduce capital risk while maximizing profit opportunities, reported a loss of USD 50 million, compared with a loss of USD 254 million in the same period of 2010. This change was primarily driven by lower loan loss provisions in Zurich's Banking activities of USD 51 million compared with USD 343 million in the first half of 2010. Other centrally managed businesses reported a loss of USD 30 million driven by costs and accounting-related charges in connection with the run-off of Zurich Specialties London Limited. In the first six months of 2010 Other centrally managed businesses showed a profit of USD 61 million, mainly driven by positive reserve developments.

Other run-off, which largely comprises U.S. life insurance and annuity portfolios, improved business operating profit by USD 56 million to a profit of USD 16 million primarily because of negative market-driven reserve developments in the first six months of 2010.

Operating and financial review *continued*

Investment position and performance

Breakdown of investments

in USD millions, as of	Group investments		Unit-linked investments	
	06/30/11	12/31/10	**06/30/11**	12/31/10
Cash and cash equivalents	9,708	8,182	1,375	1,544
Equity securities:	12,501	13,729	88,029	85,765
Common stocks, including equity unit trusts	9,388	9,881	77,879	76,187
Unit trusts (debt securities, real estate and short-term investments)	2,546	3,208	10,150	9,577
Common stock portfolios backing participating with-profit policyholder contracts	470	515	–	–
Trading equity portfolios in capital markets and banking activities	97	125	–	–
Debt securities	147,667	140,254	11,417	9,376
Real estate held for investment	9,265	8,274	4,173	4,081
Mortgage loans	12,312	11,851	–	–
Policyholders' collateral and other loans	13,725	13,419	7,503	7,182
Equity method accounted investments	196	188	–	–
Total	**205,375**	**195,898**	**112,498**	**107,947**

Group investments have increased by 5 percent or USD 9.5 billion since December 31, 2010, mainly due to currency translation. In local currency terms, total Group investments decreased by 1 percent.

Unit-linked investments increased by USD 4.6 billion to USD 112.5 billion since December 31, 2010, or by 4 percent in U.S. dollar terms and flat on a local currency basis.

The quality of the Group's investment portfolio remains high. Investment grade securities comprise 98 percent of the Group's debt securities, of which 52 percent are rated AAA as of June 30, 2011. The Group's investment strategy remains disciplined and the Group continues to selectively reduce risks which it believes to be unacceptable, where the risks are not adequately compensated, or which incur disproportionately high regulatory capital charges.

Performance of Group investments

in USD millions, for the six months ended June 30	2011	2010	Change
Net investment income	3,655	3,561	3%
Net capital gains/(losses) on investments and impairments	561	418	34%
of which: net capital gains/(losses) on investments and impairments attributable to shareholders	473	46	nm
Net investment result	4,216	3,979	6%
Net investment return on Group investments[1]	**2.1%**	**2.1%**	**–**
Movements in net unrealized gains/(losses) on investments included in total equity	(706)	2,828	nm
Total investment result, net of investment expenses[2]	**3,510**	**6,807**	**(48%)**
Average Group investments[3]	200,636	190,092	6%
Total return on Group investments[1]	**1.7%**	**3.6%**	**(1.8 pts)**

[1] Net investment return and total return are not annualized.
[2] After deducting investment expenses of USD 117 million and USD 109 million for the for the six months ended June 30, 2011 and 2010, respectively
[3] Excluding average cash received as collateral for securities lending of USD 396 million for the six months ended June 30, 2010

Total **net investment income** increased by 3 percent in U.S. dollar terms to USD 3.7 billion, but decreased 3 percent on a local currency basis, driven mainly by lower yields on debt securities.

Total **net capital gains on investments and impairments** were USD 561 million, compared with gains of USD 418 million in the same period of 2010. The net capital gains comprised USD 650 million of gains realized from active management, impairments of USD 152 million and positive asset revaluations of USD 63 million. The net capital gains from active management include USD 441 million from the sale of shares in New China Life Insurance Co., Ltd., reducing the Group's participation from 20 percent to 15 percent. Positive asset revaluations on securities booked at fair value through profit and loss were driven by gains on equity securities at fair value of USD 99 million and gains on debt securities at fair value of USD 44 million, partially offset by losses on other investments of USD 80 million. Impairments consisted of USD 85 million attributable to equity securities, USD 53 million to mortgages and other investments and USD 14 million to debt securities.

Net investment return on Group investments remained flat at 2.1 percent compared with the same period of 2010 as the net investment result and average Group investments both rose by 6 percent.

Net unrealized gains/losses on investments included in total equity decreased by USD 706 million since December 31, 2010, mainly driven by lower net unrealized gains on debt securities of USD 416 million, as European interest rates rose. Net unrealized gains on equity securities fell by USD 281 million mainly driven by the realization of gains on the sale of shares in New China Life Insurance Co., Ltd., offset by equity market improvements.

Total return, net of investment expenses, on average Group investments was 1.7 percent, a decrease of 1.8 percentage points compared with the same period of 2010. This decrease was due to a reduction in net unrealized gains on debt securities as interest rates rose, compared to an increase in net unrealized gains on debt securities in the same period of 2010 when interest rates fell significantly. Debt securities, which are invested to match the Group's insurance liability profiles, returned 1.7 percent. Equity securities returned 3.8 percent and other investments, mainly real estate and mortgages, returned 1.7 percent.

Operating and financial review *continued*

Performance of unit-linked investments

in USD millions, for the six months ended June 30	**2011**	2010	Change
Net investment income	933	767	22%
Net capital (losses)/gains on investments and impairments	(130)	(402)	68%
Net investment result, net of investment expenses[1]	804	364	nm
Average investments	110,222	95,779	15%
Total return on unit-linked investments[2]	**0.7%**	**0.4%**	**0.3 pts**

[1] After deducting investment expenses of USD 276 million and USD 264 million for the six months ended June 30, 2011 and 2010, respectively
[2] Total return is not annualized.

Total return on unit-linked investments delivered 0.7 percent compared with 0.4 percent in the same period of 2010. The increase in the total return was due to a reduction in net capital losses of USD 272 million, reflecting developments in the financial markets in the first six month of 2011 compared with the same period of 2010. Net investment income increased by USD 166 million or 22 percent in U.S. dollar terms.

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 mostly relate to Farmers Re and Non-Core Businesses.

in USD millions	Total Group		of which General Insurance	
	2011	2010	**2011**	2010
As of January 1				
Gross reserves for losses and loss adjustment expenses	68,069	68,086	63,826	63,476
Reinsurers' share	(12,093)	(12,182)	(11,192)	(10,962)
Net reserves for losses and loss adjustment expenses	**55,976**	**55,903**	**52,634**	**52,514**
Net losses and loss adjustment expenses incurred	10,869	12,083	10,418	9,775
Current year	11,530	12,588	11,020	10,353
Prior years	(661)	(505)	(601)	(579)
Total net losses and loss adjustment expenses paid	(11,497)	(11,813)	(10,231)	(9,703)
Current year	(3,625)	(4,079)	(2,952)	(2,850)
Prior years	(7,872)	(7,733)	(7,279)	(6,853)
Acquisitions/(divestments)	(1)	19	–	1
Foreign currency translation effects	1,881	(2,622)	1,864	(2,511)
As of June 30				
Net reserves for losses and loss adjustment expenses	**57,227**	**53,571**	**54,686**	**50,075**
Reinsurers' share	(12,962)	(11,992)	(11,591)	(10,934)
Gross reserves for losses and loss adjustment expenses	70,190	65,563	66,278	61,009

As of June 30, 2011, the Group **net reserves for losses and loss adjustment expenses** increased by USD 1.3 billion to USD 57.2 billion compared with December 31, 2010. This increase was entirely due to the effects of foreign currency translation of USD 1.9 billion, as underlying net reserves fell with the implementation of a reinsurance contract relating to the run-off insurance business of Zurich Specialties London Limited, in anticipation of a portfolio transfer to be executed following regulatory approval. Prior year favorable development amounted to USD 661 million. Further details of reserve developments are shown in note 4 of the unaudited Consolidated financial statements.

Operating and financial review *continued*

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	
	2011	2010	**2011**	2010	**2011**	2010
Net reserves as of January 1	187,196	180,145	17,331	17,655	204,527	197,800
Movements in net reserves	12,145	(14,656)	590	(315)	12,735	(14,971)
Net reserves as of June 30	**199,342**	**165,490**	**17,921**	**17,339**	**217,263**	**182,829**

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	
	2011	2010	**2011**	2010	**2011**	2010
As of January 1						
Gross reserves	100,891	92,841	88,299	89,452	189,189	182,293
Reinsurers' share	–	–	(1,993)	(2,148)	(1,993)	(2,148)
Net reserves	**100,891**	**92,841**	**86,306**	**87,304**	**187,196**	**180,145**
Premiums	7,745	7,789	4,870	4,879	12,615	12,668
Claims	(7,295)	(5,313)	(4,920)	(5,179)	(12,214)	(10,492)
Fee income and other expenses	(978)	(868)	(1,110)	(967)	(2,088)	(1,835)
Interest and bonuses credited to policyholders	852	564	1,696	1,702	2,548	2,266
Change in assumptions	–	–	(80)	32	(80)	32
(Divestments)/acquisitions and transfers	24[3]	26	(29)[3]	(29)	(5)	(3)
(Decreases)/increases recorded in other comprehensive income	(4)	(32)	(406)	793	(409)	761
Foreign currency translation effects	4,912	(8,867)	6,868	(9,185)	11,780	(18,052)
As of June 30						
Net reserves	**106,146**	**86,140**	**93,195**	**79,350**	**199,342**	**165,490**
Reinsurers' share	–	–	(2,157)	(1,804)	(2,157)	(1,804)
Gross reserves	106,146	86,140	95,352	81,154	201,499	167,294

[1] Includes reserves for unit-linked contracts, the net amounts of which were USD 52.6 billion and USD 43.4 billion, and liabilities for investment contracts, the net amounts of which were USD 53.5 billion and USD 42.8 billion as of June 30, 2011 and 2010, respectively
[2] Includes reserves for future life policyholders' benefits, the net amounts of which were USD 79.2 billion and USD 64.4 billion and policyholders' contract deposits and other funds, the net amounts of which were USD 14.0 billion and USD 14.9 billion as of June 30, 2011 and 2010, respectively
[3] The 2011 movement mainly relates to a transfer of USD 27 million related to the shift of other life insurance liabilities to liabilities for investment contracts following a review of contract classifications (see note 1 of the unaudited Consolidated financial statements).

Total reserves and liabilities for insurance and investment contracts, net of reinsurance, increased by USD 12.1 billion compared with December 31, 2010, or by 6 percent in U.S. dollar terms and flat on a local currency basis. In local currency, the increase in reserves from positive net policyholder cash flows and interest and bonuses credited to policyholders was offset by decreases in 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	
	06/30/11	12/31/10	**06/30/11**	12/31/10	**06/30/11**	12/31/10
North America	873	845	5,143	5,107	6,016	5,952
Latin America	519	505	2,145	2,042	2,664	2,547
Europe	91,829	87,287	84,221	77,507	176,051	164,794
of which:						
United Kingdom	*56,494*	*54,757*	*4,888*	*4,792*	*61,383*	*59,549*
Germany	*11,467*	*10,666*	*44,858*	*41,347*	*56,325*	*52,013*
Switzerland	*714*	*650*	*20,906*	*18,688*	*21,620*	*19,339*
Ireland	*11,630*	*10,430*	*1,534*	*1,318*	*13,164*	*11,748*
Spain	*5,555*	*5,352*	*7,100*	*6,783*	*12,655*	*12,134*
Rest of Europe	*5,969*	*5,432*	*4,935*	*4,579*	*10,904*	*10,011*
Asia-Pacific and Middle East	11,198	10,701	1,380	1,378	12,577	12,080
Other	1,727	1,552	305	267	2,032	1,819
Eliminations	–	–	1	4	1	4
Total	**106,146**	**100,891**	**93,195**	**86,306**	**199,342**	**187,196**

Unit-linked insurance and investment contracts, net of reinsurance, increased by USD 5.3 billion compared with December 31, 2010, or by 5 percent in U.S. dollar terms and flat on a local currency basis.

Other life insurance liabilities, net of reinsurance, increased by USD 6.9 billion compared with December 31, 2010, or by 8 percent in U.S. dollar terms and flat on a local currency basis. In local currency, an increase in interest and bonuses credited to policyholders was offset by decreases to reserves which flow directly to shareholders' equity, resulting from decreases in market values of investments attributable to life policyholders.

Operating and financial review *continued*

Indebtedness

in USD millions, as of	Repurchase agreements		Collateralized loans		Senior debt		Subordinated debt		Total	
	06/30/11	12/31/10	**06/30/11**	12/31/10	**06/30/11**	12/31/10	**06/30/11**	12/31/10	**06/30/11**	12/31/10
Operational debt	2,361	3,330	688	743	868[1]	865[1]	–	–	3,917	4,938
Financial debt					6,070[2]	5,588[2]	5,862	5,004	11,932	10,592
Total	**2,361**	**3,330**	**688**	**743**	**6,938**	**6,453**	**5,862**	**5,004**	**15,849**	**15,530**

[1] Operational senior debt contains the book value of the USD 750 million in senior debt issued under the EMTN Programme by Zurich Finance (Luxembourg) S.A. in September 2009, which was loaned directly to the Group's banking activities. This issue was recognized as operational debt by Moody's but not by Standard & Poor's. In addition, operational senior debt includes an adjustment of USD 100 million for non-recourse debt.
[2] Financial senior debt contains the book value of USD 400 million that was previously presented in a separate column, "Capital markets."

Total operational and financial debt increased by USD 319 million to USD 15.8 billion or by 2 percent.

Operational debt decreased by USD 1.1 billion to USD 3.9 billion since December 31, 2010, or by 21 percent. The main drivers were a decrease of USD 969 million in obligations to repurchase securities as a result of changes in investment allocation and a decrease of USD 55 million in collateralized loans.

Financial debt increased by USD 1.3 billion to USD 11.9 billion, or by 13 percent in U.S. dollar terms and 5 percent on a local currency basis. The increase in local currency was due to the additional issuance in March 2011 of CHF 500 million of subordinated notes under the Euro Medium Term Note Programme (EMTN Programme).

In March 2011, Moody's Investor Service upgraded Zurich Insurance Company Ltd's financial strength rating by one notch to Aa3 from A1. Debt ratings were also upgraded by one notch, resulting in its senior debt ratings moving to A1, subordinated to A2(hyb) and preferred to A3(hyb).

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, 2010	**31,984**	**1,337**	**33,321**
Proceeds from issuance of share capital	205	–	205
Proceeds from treasury share transactions	20	–	20
Dividends	(1,916)	(9)	(1,925)
Redemption of preferred securities	(476)	–	(476)
Share-based payment transactions	(70)	–	(70)
Total comprehensive income	1,406	129	1,535
Net income after taxes	1,965	32	1,997
Net other recognized income and expenses	(559)	97	(462)
Net changes in capitalization and non-controlling interests	–	52	52
As of June 30, 2011	**31,153**	**1,508**	**32,662**

Total equity decreased by USD 659 million to USD 32.7 billion, or by 2 percent. The net reduction in equity was after deduction of USD 2.7 billion for the dividend of CHF 17.00 per share, which was approved at the Annual General Meeting on March 31, 2011, and was paid out from the newly created capital contribution reserve. USD 1.9 billion has been shown as dividend and USD 795 million has been included in cumulative translation expenses. The early redemption of preferred securities further decreased equity by USD 476 million and was funded mainly by the EMTN issuance of CHF 500 million in March 2011. Net income after tax of USD 2.0 billion only partially offset the decrease.

The Swiss Solvency Test (SST) has become fully effective and mandatory as of January 1, 2011. Under SST, the Group is required to use a company-specific internal model to calculate risk-bearing and target capital. The Group is required to file the SST on a biannual basis. For December 31, 2010, the Group filed on a consolidated basis an SST capitalization ratio of 223 percent. The ratio is subject to the regulator's review and to the regulator's approval of the Group's internal model. The Group plans to report the SST capitalization ratio as of June 30, 2011, as part of its nine months result reporting in November 2011.

The Group continues to be subject to Solvency I requirements based on the Swiss Insurance Supervisory Law. The Solvency I ratio as of June 30, 2011, increased to 242 percent compared with 239 percent as of March 31, 2011, and 232 percent as of December 31, 2010.

Operating and financial review *continued*

Cash flows

Summary of cash flows

in USD millions, for the six months ended June 30	**2011**	2010
Net cash provided by/(used in) operating activities	3,190	2,550
Net cash used in investing activities	(88)	(26)
Net cash provided by/(used in) financing activities	(2,578)	(2,017)
Foreign currency translation effects on cash and cash equivalents	834	(1,417)
Change in cash and cash equivalents excluding change in cash received as collateral for securities lending	1,358	(911)
Cash and cash equivalents as of January 1[1]	9,726	10,749
Cash and cash equivalents as of June 30[1]	11,084	9,839
Change in cash received as collateral for securities lending	–	(193)
Cash and cash equivalents as of January 1[2]	9,726	11,242
Cash and cash equivalents as of June 30[2]	**11,084**	**10,138**

[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 included cash movements in and out of, as well as within, total investments, was USD 3.2 billion for the six months ended June 30, 2011. Net cash used in investing activities of USD 88 million was primarily related to net cash outflows from the net purchases and sales of property and equipment of USD 101 million and the divestment of a participation of USD 11 million. Net cash outflows from financing activities of USD 2.6 billion were primarily related to the payment of dividends and the early redemption of preferred securities for USD 476 million partially offset by the issuance of debt of CHF 500 million under the EMTN Programme.

Currency translation impact

The Group operates worldwide in multiple currencies and seeks to match foreign exchange exposures on an economic basis. Details of principal exchange rates are set out in note 1 of the unaudited Consolidated financial statements.

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 over the prior period, for the six months ended June 30, 2011 and 2010	in USD millions	in %
Gross written premiums and policy fees	1,467	6%
Insurance benefits and losses, gross of reinsurance	(1,115)	(6%)
Net income attributable to shareholders	84	4%
Business operating profit	91	4%

The income statements are translated at average exchange rates. In the first six months of 2011, the U.S. dollar has on average been weaker against the euro and British pound, and significantly weaker against the Swiss franc, compared with the first six months of 2010. The net result has been an increase in U.S. dollar terms in gross written premiums 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, 2010, as of June 30, 2011	in USD millions	in %
Total investments	15,324	5%
Reserves for insurance contracts, gross	12,583	5%
Cumulative translation adjustment in shareholders' equity	(379)	(1%)

The balance sheets are translated at end-of-period rates. The U.S. dollar has weakened against the euro, British pound and especially against the Swiss franc as of June 30, 2011, compared with December 31, 2010, resulting in an increase in U.S. dollar terms in total investments and reserves for insurance contracts. The decrease in the cumulative translation adjustment in shareholders' equity includes USD 795 million relating to the dividend offset by underlying currency translation gains of USD 416 million.

Consolidated financial statements (unaudited)

Contents

Consolidated income statements (unaudited)

in USD millions	Notes	2011 for the three months ended June 30	Restated 2010 for the three months ended June 30	2011 for the six months ended June 30	Restated 2010 for the six months ended June 30
Revenues					
Gross written premiums		11,879	10,925	25,389	25,182
Policy fees		710	478	1,291	1,205
Gross written premiums and policy fees		12,589	11,403	26,680	26,387
Less premiums ceded to reinsurers		(2,360)	(1,559)	(3,944)	(3,084)
Net written premiums and policy fees		10,229	9,844	22,737	23,303
Net change in reserves for unearned premiums		82	826	(1,597)	(707)
Net earned premiums and policy fees		10,311	10,670	21,139	22,595
Farmers management fees and other related revenues		693	696	1,375	1,399
Net investment result on Group investments	3	2,517	2,008	4,216	3,979
Net investment income on Group investments		1,875	1,782	3,655	3,561
Net capital gains/(losses) and impairments on Group investments		643	227	561	418
Net investment result on unit-linked investments	3	501	(4,169)	804	364
Net gain/(loss) on divestments of businesses		10	1	10	1
Other income		368	331	713	641
Total revenues		14,400	9,537	28,258	28,979
Benefits, losses and expenses					
Insurance benefits and losses, gross of reinsurance	6	9,588	9,457	18,804	19,705
Less ceded insurance benefits and losses	6	(2,131)	(923)	(2,828)	(2,264)
Insurance benefits and losses, net of reinsurance	6	7,457	8,535	15,976	17,441
Policyholder dividends and participation in profits, net of reinsurance	6	845	(3,936)	1,374	845
Underwriting and policy acquisition costs, net of reinsurance		2,068	2,168	4,006	4,467
Administrative and other operating expense		2,025	1,817	3,819	3,492
Interest expense on debt	10	152	138	287	283
Interest credited to policyholders and other interest		122	128	244	268
Total benefits, losses and expenses		12,668	8,851	25,706	26,796
Net income before income taxes		1,732	686	2,552	2,183
Income tax expense	9	(379)	40	(555)	(505)
attributable to policyholders	9	5	239	29	3
attributable to shareholders	9	(384)	(199)	(583)	(508)
Net income after taxes		**1,353**	726	**1,997**	1,679
attributable to non-controlling interests		25	19	32	36
attributable to shareholders		1,328	707	1,965	1,642
in USD					
Basic earnings per share	11	9.10	4.86	13.47	11.32
Diluted earnings per share	11	9.02	4.82	13.36	11.22
in CHF					
Basic earnings per share	11	8.22	5.26	12.17	12.24
Diluted earnings per share	11	8.15	5.21	12.07	12.14

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

Consolidated financial statements *continued*

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
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)
2011		
Comprehensive income for the period	1,965	(276)
Details of movements during the period		
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		146
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(522)
Deferred income tax (before foreign currency translation effects)		18
Foreign currency translation effects		82

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
69	(1,372)	28	(589)	(319)	1,324	(225)	1,098
422	(1,371)	41	(920)	189			
(344)	(1)	–	–	(318)			
(8)	–	(13)	260	(205)			
–	–	–	71	16			
(5)	(379)	34	68	(559)	1,406	129	1,535
144	(378)	43	197	153			
(156)	(1)	–	–	(679)			
3	–	(9)	(60)	(48)			
3	–	–	(69)	16			

Consolidated financial statements *continued*

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
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)
2011		
Comprehensive income for the period	1,328	(14)
Details of movements during the period		
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		480
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(509)
Deferred income tax (before foreign currency translation effects)		(64)
Foreign currency translation effects		79

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
34	(681)	25	(448)	(438)	269	(142)	127
261	(681)	37	(678)	(317)			
(228)	–	–	–	(126)			
1	–	(12)	198	5			
–	–	–	32	–			
52	(165)	34	6	(88)	1,240	54	1,294
112	(163)	43	58	531			
(67)	(2)	–	–	(578)			
(17)	–	(10)	(11)	(102)			
24	–	–	(41)	61			

Consolidated financial statements *continued*

Consolidated balance sheets (unaudited)

Assets

in USD millions, as of	Notes	06/30/11	Restated 12/31/10	Restated 01/01/10
Investments				
Total Group investments		205,375	195,898	195,658
Cash and cash equivalents		9,708	8,182	10,318
Equity securities		12,501	13,729	12,581
Debt securities		147,667	140,254	136,723
Real estate held for investment		9,265	8,274	7,789
Mortgage loans		12,312	11,851	12,736
Other loans		13,725	13,419	15,279
Investments in associates and joint ventures		196	188	232
Investments for unit-linked contracts		112,498	107,947	99,167
Total investments	3	317,872	303,845	294,825
Reinsurers' share of reserves for insurance contracts	4	20,296	18,809	18,751
Deposits made under assumed reinsurance contracts		2,462	2,837	3,870
Deferred policy acquisition costs	7	17,810	16,326	16,181
Deferred origination costs	7	891	866	856
Accrued investment income		2,491	2,749	2,744
Receivables		15,063	13,935	13,782
Other assets		4,203	3,736	3,318
Mortgage loans given as collateral		688	743	1,102
Deferred tax assets		1,932	2,067	2,421
Assets held for sale[1]		–	–	67
Property and equipment		1,727	1,689	1,942
Goodwill	8	2,184	2,104	2,297
Other intangible assets	8	6,162	5,954	7,044
Total assets		**393,781**	**375,661**	**369,202**

[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	06/30/11	Restated 12/31/10	Restated 01/01/10
Liabilities				
Reserve for premium refunds		517	518	649
Liabilities for investment contracts	5	53,526	50,667	46,124
Deposits received under ceded reinsurance contracts		1,636	1,362	1,558
Deferred front-end fees		5,937	5,626	5,543
Reserves for insurance contracts	4	257,350	242,646	242,094
Obligations to repurchase securities		2,361	3,330	3,976
Accrued liabilities		3,073	3,011	2,839
Other liabilities		18,552	18,396	18,299
Collateralized loans		688	743	1,102
Deferred tax liabilities		4,679	4,585	4,445
Senior and subordinated debt	10	12,800	11,457	11,469
Total liabilities		**361,119**	**342,340**	**338,098**
Equity				
Share capital		10	10	10
Additional paid-in capital		9,818	11,630	11,400
Net unrealized gains/(losses) on available-for-sale investments		2,192	2,468	387
Cash flow hedges		51	56	(9)
Cumulative foreign currency translation adjustment		(1,505)	(1,125)	(396)
Revaluation reserve		160	126	98
Retained earnings		20,427	18,344	17,253
Common shareholders' equity		31,153	31,509	28,743
Preferred securities		–	475	561
Shareholders' equity		31,153	31,984	29,304
Non-controlling interests		1,508	1,337	1,800
Total equity		**32,662**	**33,321**	**31,104**
Total liabilities and equity		**393,781**	**375,661**	**369,202**

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

Consolidated financial statements *continued*

Consolidated statements of cash flows (unaudited)

in USD millions, for the six months ended June 30	**2011**	Restated 2010
Cash flows from operating activities		
Net income attributable to shareholders	1,965	1,642
Adjustments for:		
Net (gain)/loss on divestments of businesses	(10)	(1)
Income from equity method accounted investments	(6)	(9)
Depreciation, amortization and impairments of fixed and intangible assets	443	434
Other non-cash items	742	(485)
Underwriting activities:	1,676	3,718
Reserves for insurance contracts, gross	*2,430*	3,759
Reinsurers' share of reserves for insurance contracts	*(937)*	(727)
Liabilities for investment contracts	*253*	738
Deferred policy acquisition costs	*(665)*	(325)
Deferred origination costs	*13*	(2)
Deposits made under assumed reinsurance contracts	*388*	382
Deposits received under ceded reinsurance contracts	*193*	(108)
Investments:	601	(2,708)
Net capital (gains)/losses on total investments and impairments	*(432)*	(16)
Net change in trading securities and derivatives	*(211)*	(97)
Net change in money market investments	*535*	(27)
Sales and maturities		
Debt securities	*50,570*	106,794
Equity securities	*28,562*	27,890
Other	*51,108*	21,950
Purchases		
Debt securities	*(52,235)*	(111,164)
Equity securities	*(26,657)*	(26,451)
Other	*(50,639)*	(21,587)
Proceeds from sale and repurchase agreements	(1,077)	(212)
Movements in receivables and payables	(189)	601
Net changes in other operational assets and liabilities	(869)	(16)
Deferred income tax, net	(86)	(415)
Net cash provided by/(used in) operating activities	3,190	2,550

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	2011	Restated 2010
Cash flows from investing activities		
Sales of property and equipment	29	30
Purchases of property and equipment	(130)	(89)
Disposal of equity method accounted investments, net	1	2
Divestments of companies, net of cash balances	11	30
Dividends from equity method accounted investments	1	1
Net cash used in investing activities	(88)	(26)
Cash flows from financing activities		
Dividends paid	(2,745)	(2,214)
Issuance of share capital	73	51
Net movement in treasury shares and preferred securities	20	(38)
Redemption of preferred securities and repayments to non-controlling interests	(476)	–
Issuance of debt	549	384
Repayments of debt outstanding	–	(200)
Net cash provided by/(used in) financing activities	(2,578)	(2,017)
Foreign currency translation effects on cash and cash equivalents	834	(1,417)
Change in cash and cash equivalents excluding change in cash held as collateral for securities lending	1,358	(911)
Cash and cash equivalents as of January 1, excluding cash held as collateral for securities lending	9,726	10,749
Cash and cash equivalents as of June 30, excluding cash held as collateral for securities lending	**11,084**	**9,839**
Change in cash held as collateral for securities lending	–	(193)
Cash and cash equivalents as of January 1, including cash held as collateral for securities lending	9,726	11,242
Cash and cash equivalents as of June 30, including cash held as collateral for securities lending	**11,084**	**10,138**
of which:		
– cash and cash equivalents – Group investments	9,708	8,954
– cash and cash equivalents – unit linked	1,375	1,184
Other supplementary cash flow disclosures		
Other interest income received	4,012	3,616
Dividend income received	967	801
Other interest expense paid	(436)	(503)
Income tax received (paid)	(705)	(608)

As of June 30, 2011 and 2010, cash and cash equivalents held to meet local regulatory requirements were USD 981 million and USD 907 million, respectively.

Cash and cash equivalents

in USD millions, as of June 30	2011	Restated 2010
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	6,598	5,245
Cash equivalents	4,486	4,592
Cash held as collateral for securities lending	–	299
Total	**11,084**	**10,138**

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

Consolidated financial statements *continued*

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, 2009	10	11,400	387
Issuance of share capital[1]	–	171	–
Dividends to shareholders	–	–	–
Share-based payment transactions	–	(82)	–
Treasury share transactions[4]	–	2	–
Change of ownership with no loss of control	–	–	–
Total comprehensive income for the period, net of tax	–	–	1,545
Net income	–	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–	*1,545*
Cash flow hedges	–	–	–
Cumulative foreign currency translation adjustment	–	–	–
Revaluation reserve	–	–	–
Net actuarial gains/(losses) on pension plans	–	–	–
Net changes in capitalization of non-controlling interests	–	–	–
Balance as of June 30, 2010	10	11,491	1,933
Balance as of December 31, 2010	10	11,630	2,468
Issuance of share capital[1]	–	205	–
Dividends to shareholders[2]	–	(1,912)	–
Redemption of preferred securities[3]	–	(15)	–
Share-based payment transactions	–	(70)	–
Treasury share transactions[4]	–	(20)	–
Total comprehensive income for the period, net of tax	–	–	(276)
Net income	–	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–	*(276)*
Cash flow hedges	–	–	–
Cumulative foreign currency translation adjustment	–	–	–
Revaluation reserve	–	–	–
Net actuarial gains/(losses) on pension plans	–	–	–
Net changes in capitalization of non-controlling interests	–	–	–
Balance as of June 30, 2011	**10**	**9,818**	**2,192**

[1] The number of common shares issued as of June 30, 2011 was 147,357,598 (June 30, 2010: 146,374,524, December 31, 2010: 146,586,896, December 31, 2009: 147,473,068).
[2] As approved by the Annual General Meeting on March 31, 2011, the dividend of CHF 17 per share was paid out of the capital contribution reserve. The difference of USD 795 million between the dividend at transaction day exchange rates amounting to USD 2,706 million and the dividend at historical exchange rates amounting to USD 1,912 million is reflected in the cumulative foreign currency translation adjustment.
[3] Zurich RegCaPS Funding Trusts II, V & VI redeemed USD 575 million of Trust Capital Securities II, V & VI on March 30, 2011 (Series II), on April 4, 2011 (Series V) and on April 25, 2011 (Series VI) respectively.
[4] The number of treasury shares deducted from equity as of June 30, 2011 amounted to 1,386,547 (June 30, 2010: 1,413,946, December 31, 2010: 1,399,080, December 31, 2009: 3,269,338).

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	Retained earnings	Common shareholders' equity	Preferred securities	Shareholders' equity	Non-controlling interests	Total equity
(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
56	(1,125)	126	18,344	31,509	475	31,984	1,337	33,321
–	–	–	–	205	–	205	–	205
–	–	–	–	(1,912)	(4)	(1,916)	(9)	(1,925)
–	–	–	–	(15)	(462)	(476)	–	(476)
–	–	–	–	(70)	–	(70)	–	(70)
–	–	–	54	34	(14)	20	–	20
(5)	(379)	34	2,029	1,402	4	1,406	129	1,535
–	–	–	*1,961*	*1,961*	*4*	*1,965*		
–	–	–	–	*(276)*	–	*(276)*		
(5)	–	–	–	*(5)*	–	*(5)*		
–	*(379)*	–	–	*(379)*	–	*(379)*		
–	–	*34*	–	*34*	–	*34*		
–	–	–	*68*	*68*	–	*68*		
–	–	–	–	–	–	–	52	52
51	**(1,505)**	**160**	**20,427**	**31,153**	**–**	**31,153**	**1,508**	**32,662**

Consolidated financial statements *continued*

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, 2011 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 Annual Report 2010 of the Group.

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

The unaudited Consolidated financial statements should be read in conjunction with the Group's Annual Report 2010.

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.

Certain balances erroneously reported as cash and cash equivalents amounting to USD 376 million and USD 723 million as of December 31, 2010, and January 1, 2010, respectively, are now presented as other loans. In addition, certain balances erroneously reported as unit-linked cash and cash equivalents amounting to USD 5,619 million and USD 4,917 million as of December 31, 2010, and January 1, 2010, respectively, are now presented under unit-linked other loans. These changes, as well as a change in presentation of certain debt during 2011 result in a decrease of net cash provided by operating activities of USD 16 million, a decrease in net cash used in financing activities of USD 384 million, an increase of foreign currency translation effects of USD 61 million and a decrease of cash and cash equivalents by USD 5,800 million as of June 30, 2010 as presented in the cash flow statement. These changes in presentation are reflected in the consolidated balance sheets, consolidated income statements, consolidated statements of cash flows and note 3.

Premium taxes erroneously reported under administrative and other operating expense amounting to USD 83 million for the six months ended June 30, 2010, are now presented under underwriting and policy acquisition costs.

The Group erroneously classified certain life insurance products. The classification has been corrected in the current year as the impact on the Group's consolidated balance sheet and consolidated income statement is not material. The reclassifications in the balance sheet from other liabilities to reserves for future life policyholders' benefits and liabilities for investment contracts as well as the reclassification from reserves for future life policyholders' benefits to liabilities for investment contracts, and from liabilities for investment contracts to reserves for unit-linked contracts are shown in notes 4 and 5.

All amounts in the unaudited Consolidated financial statements are shown in USD million, 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 consolidated income statements were USD 52 million and USD 190 million for the six months ended June 30, 2011 and 2010, respectively. Foreign currency exchange forward and swap gains and (losses) included in these amounts were USD 33 million and USD (24) million for the six months ended June 30, 2011 and 2010, respectively.

Principal exchange rates

Table 1

USD per foreign currency unit	Balance sheets		Income statements and cash flows	
	06/30/2011	12/31/2010	**06/30/2011**	06/30/2010
Euro	1.4526	1.3391	1.4042	1.3295
Swiss franc	1.1890	1.0707	1.1069	0.9248
British pound	1.6069	1.5596	1.6166	1.5266

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, 2011, with no material impact on the Group's financial position or performance:

- Amendments to IAS 24 "Related Party Disclosures"
- Amendments to IAS 32 "Financial Instruments: Presentation" – Classification of Rights Issues
- Several minor amendments as part of the IASB's annual improvement project including amendments regarding IFRS 3 "Business Combinations," IFRS 7 "Financial Instruments Disclosures," IAS 27 "Consolidated and Separate financial statements,"IAS 34 "Interim Financial Reporting" and IFRIC 13 "Customer Loyalty Programmes"
- IFRIC 14 "IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

The Group has not early-adopted the following standard:

- IFRS 9 "Financial Instruments" required to be effective for reporting periods beginning on or after January 1, 2013

Significant transactions and events

Transfer of UK run-off business

During the second quarter 2011, one of the Group's non-core operations in the UK, Zurich Specialties London Limited, entered into a reinsurance agreement to transfer the risk associated with a run-off portfolio as of April 1, 2011. This agreement is a first step in a transaction by which, subject to local regulatory and court approvals, the policies will be transferred to the reinsurer, who will directly assume the rights and obligations under the policies. As of June 30, 2011, both, premiums ceded to reinsurers and ceded insurance benefits and losses increased by USD 0.7 billion. This transaction forms an integral part of the Group's strategy to divest most of its non-core business and focus on enhancing its proposition in its chosen target markets.

Consolidated financial statements *continued*

2. Acquisitions and divestments

Transactions in 2011

Recent developments

In line with the ongoing restructuring of the banking industry in Spain a number of banks and savings institutions are engaging in different forms of cooperation or mergers. In 2008, the Group acquired a 50.0 percent interest in the general insurance company Can Soluciones Integrales S.A. from, and entered into distribution agreements with, Caja de Ahorros y Monte de Piedad de Navarra (Caja Navarra) based in Spain. On June 21, 2011, Caja Navarra merged all its assets and liabilities into Banca Cìvica. The Group is continuing to review and assess, as details emerge, the effects of this merger and of related industry developments on the determination of its control over this investment and its distribution agreement.

Acquisitions

On July 14, 2011, the Group signed a definitive agreement with Banco Santander, S.A. (Santander), a banking group based in Spain, to acquire a 51.0 percent participation in the life insurance, pension and general insurance operations of Santander in Brazil, Mexico, Chile, Argentina and Uruguay. As part of the transaction, the Group will enter into a long-term strategic distribution arrangement with Santander in Latin America. The scope, structure and financial terms of the agreements have been based on the key principles agreed in the memorandum of understanding which was signed on February 21, 2011. This transaction is in line with the Group's emerging-market strategy in both Global Life and General Insurance and is significantly expanding the Group's presence in Latin America. The initial consideration will amount to USD 1.67 billion, subject to purchase price and other adjustments. In addition, an earn-out component based on future performance under the distribution agreement and a protection mechanism component has been agreed. The transaction is expected to close before year end 2011 and is subject to applicable anti-trust and insurance regulatory approvals, as well as other customary closing conditions.

On July 12, 2011, as part of its preparations for local regulatory changes, the Group completed the acquisition of 75.0 percent of 2Plan Group Limited, an independent financial advice firm based in the UK. The total purchase price for the acquisition amounted to approximately USD 3 million. The remaining 25.0 percent shareholding continues to be held by members of the founder management team who have options to sell their remaining shareholding to the Group at a price contingent upon future profits.

On June 20, 2011, the Group signed an agreement to acquire 100 percent of Malaysian Assurance Alliance Bhd (MAA), including 100 percent of four service companies, a composite insurer based in Malaysia. The acquisition of MAA is in line with the Group's emerging-market strategy of expanding the Group's presence in the Asia-Pacific region. The total purchase price will be paid in Ringgit and amounts to approximately USD 115 million, subject to purchase price adjustment. In addition, the Group is required to inject approximately USD 172 million of capital into MAA within three months of completion of the transaction. Subject to the approval of the seller's shareholders and other customary closing conditions, the transaction is expected to close in the third quarter of 2011.

Divestments

On June 30, 2011, the Group sold all of its shares in Lonsec Limited including three wholly owned subsidiaries, a research and broking company based in Australia, in an effort to focus on its core business lines, recording a pre-tax gain on disposal in aggregate of USD 10 million. Total cash and net assets divested in 2011 were USD 8 million and USD 6 million, respectively. The total consideration received in 2011, net of immaterial transaction costs, amounted to USD 17 million subject to purchase price adjustments.

Transactions in 2010

Acquisitions

On November 1, 2010, the Group completed the acquisition of 80.0 percent of PT Zurich Topas Life (formerly 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 20.0 percent of PT Zurich Topas Life. Through this transaction, the Group established its presence in the Indonesian life insurance market. Total acquisition costs amounted to less than USD 1 million. PT Zurich Topas Life has been included in the Group's Consolidated financial statements as of January 1, 2011.

On December 1, 2010, the Group completed the acquisition of 99.99 percent of Compagnie Libanaise d'Assurances SAL, a composite insurer based in Lebanon with branch operations in the United Arab Emirates, Kuwait and Oman. With this transaction the Group accelerated the expansion of its operations in the Middle East. The total purchase price amounted to USD 60 million. Following a preliminary purchase price adjustment the total purchase price reduced to USD 33 million. As of June 30, 2011, the Group was still in the process of preparing the initial accounting and, therefore, the adjusted total purchase price was recorded as an unconsolidated investment in other assets.

Divestments and loss of control

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 shareholding in Zurich Insurance Company South Africa Limited (ZICSA), of which the Group owned 73.61 percent, by 15.1 percent from 10.0 percent to 25.1 percent for consideration of USD 32 million in cash with option rights to increase its shareholding 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 of ZICSA, the Group has reclassified the 25.1 percent non-controlling interest of RBF as a liability measured at fair value in the Consolidated financial statements. Following this transaction and the acquisition of 0.44 percent of ZICSA shares, the Group owned 58.95 percent of ZICSA shares as of December 31, 2010.

The Group lost control from an accounting perspective in CaixaSabadell Vida, S.A. de Seguros y Reaseguros and CaixaSabadell Compagnia d'Assegurances Generals, S.A. as of September 30, 2010, following the merger of the bank distribution partner Caixa d'Estalvis de Sabadell (Caixa Sabadell) together with two other Spanish savings banks to form Caixa d'Estalvis Unió de Caixes de Manlleu, Sabadell i Terrassa (Unnim) on July 1, 2010. Subsequently, on November 16, 2010 the Group entered into a definitive agreement to sell back to Unnim its 50 percent stakes in the life and general insurance bancassurance companies, CaixaSabadell Vida, S.A. de Seguros y Reaseguros and CaixaSabadell Companyia d'Assegurances Generals, S.A., respectively, jointly owned with Unnim (the Unnim Jointly Owned Companies). The Group derecognized the assets and liabilities at their carrying amount and recognized its retained investment in the Unnim Jointly Owned Companies as an equity security classified as available-for-sale as of September 30, 2010. USD 52 million was recorded within net gain on divestments of businesses in 2010. Following approval by the relevant regulatory authorities, the transaction was closed on February 28, 2011. Unnim paid a cash consideration of USD 393 million (EUR 285 million) to the Group in exchange for the Group's Unnim Jointly Owned Companies stakes, which the Group acquired in 2008 from Caixa Sabadell.

As of December 31, 2010, the Group no longer has control in Futuro de Bolivia S.A. Administradora de Fondos de Pensiones following changes in the regulatory environment. The Group derecognized the assets and liabilities at their carrying amount and recorded a net loss of USD 16 million within net gain on divestments of businesses. During 2010, the Group also divested all of its shares in Trent Insurance Company Limited, a company based in the UK and Maryland Insurance Company, a company based in the U.S., for a pre-tax gain on disposal in aggregate of USD 2 million with immaterial cash and net assets sold.

Consolidated financial statements *continued*

3. Investments

Investment result for total investments

Table 3.1a

in USD millions, for the six months ended June 30	Net investment income		Net capital gains/(losses) on investments and impairments		Investment result	
	2011	2010	**2011**	2010	**2011**	2010
Cash and cash equivalents	29	29	(12)	28	16	57
Equity securities	1,002	834	430	(1,063)	1,432	(228)
Debt securities	2,841	2,784	145	1,109	2,986	3,893
Real estate held for investment	424	381	34	181	458	563
Mortgage loans	248	256	(53)	(345)	195	(89)
Other loans	432	407	37	(34)	469	372
Investments in associates and joint ventures	6	9	(50)	(27)	(44)	(18)
Derivative financial instruments[1]	–	–	(99)	166	(99)	166
Investment result, gross	4,981	4,699	432	16	5,413	4,715
Investment expenses	(393)	(372)	–	–	(393)	(372)
Investment result, net	**4,588**	**4,327**	**432**	**16**	**5,020**	**4,343**

[1] Net capital gains/(losses) on derivatives attributable to cash flow hedge ineffectiveness amounted to USD (13) million and USD 16 million for the six months ended June 30, 2011 and 2010, respectively.

Rental operating expenses for real estate held for investment included in investment expenses for total investments amounted to USD 99 million and USD 91 million for the six months ended June 30, 2011 and 2010, respectively.

Investment result for Group investments

Table 3.1b

in USD millions, for the six months ended June 30	Net investment income		Net capital gains/(losses) on investments and impairments		Investment result	
	2011	2010	**2011**	2010	**2011**	2010
Cash and cash equivalents	26	27	–	1	27	28
Equity securities	212	173	563	(239)	775	(66)
Debt securities	2,696	2,632	94	827	2,789	3,459
Real estate held for investment	258	226	49	3	307	229
Mortgage loans	248	256	(53)	(345)	195	(89)
Other loans	326	347	37	1	362	347
Investments in associates and joint ventures	6	9	(50)	(27)	(44)	(18)
Derivative financial instruments[1]	–	–	(78)	197	(78)	197
Investment result, gross for Group investments	3,772	3,669	561	418	4,333	4,087
Investment expenses for Group investments	(117)	(109)	–	–	(117)	(109)
Investment result, net for Group investments	**3,655**	**3,561**	**561**	**418**	**4,216**	**3,979**

[1] Net capital gains/(losses) on derivatives attributable to cash flow hedge ineffectiveness amounted to USD (13) million and USD 16 million for the six months ended June 30, 2011 and 2010, respectively.

For the six months ended June 30, 2011 and 2010, respectively, impairment charges on Group investments included in net capital gains/(losses) amounted to USD 152 million and USD 763 million, including USD 53 million and USD 368 million, respectively, for impairment charges on mortgage loans and investments in associates and joint ventures.

Investment result for unit-linked contracts

Table 3.1c

in USD millions, for the six months ended June 30	Net investment income		Net capital gains/(losses) on investments		Investment result	
	2011	2010	**2011**	2010	**2011**	2010
Cash and cash equivalents	2	2	(13)	27	(10)	28
Equity securities	790	662	(133)	(824)	657	(162)
Debt securities	145	152	51	282	196	433
Real estate held for investment	166	155	(14)	179	151	334
Other loans	106	60	–	(35)	106	25
Derivative financial instruments	–	–	(21)	(31)	(21)	(31)
Investment result, gross for unit-linked contracts	1,209	1,030	(130)	(402)	1,079	628
Investment expenses for unit-linked contracts	(276)	(264)	–	–	(276)	(264)
Investment result, net unit-linked contracts	**933**	**767**	**(130)**	**(402)**	**804**	**364**

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

Table 3.2

in USD millions, for the six months ended June 30	Equity securities		Debt securities		Total	
	2011	2010	**2011**	2010	**2011**	2010
Securities at fair value through profit or loss:	(34)	(738)	95	679	61	(59)
Net capital gains/(losses) on Group investments	99	86	44	397	143	483
of which:						
Trading securities	*23*	18	–	9	*23*	27
Securities designated at fair value through profit or loss	*76*	68	*44*	388	*120*	456
Net capital gains/(losses) for unit-linked contracts	(133)	(824)	51	282	(82)	(542)
Available-for-sale securities:	464	(325)	50	391	514	66
Realized capital gains on Group investments	613	144	549	627	1,162	771
Realized capital losses on Group investments	(63)	(74)	(486)	(197)	(549)	(271)
Impairments on Group investments	(85)	(395)	(14)	(39)	(99)	(434)
Held-to-maturity securities[1]	–	–	–	40	–	40
Total net capital gains/(losses) and impairments	**430**	**(1,063)**	**145**	**1,109**	**575**	**46**

[1] 2010 gain arises entirely from the reversal of impairments.

Consolidated financial statements *continued*

Details of total investments by category

Table 3.3a

as of	Total investments			
	06/30/11		12/31/10	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	11,084	3.5	9,726	3.2
Equity securities:				
Fair value through profit or loss	91,673	28.8	89,695	29.5
of which:				
Trading securities	*472*	*0.1*	*473*	*0.2*
Securities designated at fair value through profit or loss	*91,201*	*28.7*	*89,223*	*29.4*
Available-for-sale[1]	8,857	2.8	9,798	3.2
Total equity securities	100,530	31.6	99,494	32.7
Debt securities:				
Fair value through profit or loss	18,154	5.7	16,245	5.3
of which:				
Trading securities	*45*	*0.0*	*43*	*0.0*
Securities designated at fair value through profit or loss	*18,109*	*5.7*	*16,202*	*5.3*
Available-for-sale	135,031	42.5	128,257	42.2
Held-to-maturity	5,899	1.9	5,129	1.7
Total debt securities	159,084	50.0	149,630	49.2
Real estate held for investment	13,438	4.2	12,355	4.1
Mortgage loans	12,312	3.9	11,851	3.9
Other loans	21,228	6.7	20,601	6.8
Investments in associates and joint ventures	196	0.1	188	0.1
Total investments	**317,872**	**100.0**	**303,845**	**100.0**

[1] As of June 30, 2011 and December 31, 2010 this includes the Group's investment of 15 percent and 20 percent, respectively in New China Life Insurance Company Ltd. over which the Group has no significant influence.

Details of Group investments by category

Table 3.3b

as of	Group investments			
	06/30/11		12/31/10	
	USD millions	**% of total**	USD millions	% of total
Cash and cash equivalents	9,708	4.7	8,182	4.2
Equity securities:				
Fair value through profit or loss	3,644	1.8	3,931	2.0
of which:				
Trading securities	*472*	*0.2*	*473*	*0.2*
Securities designated at fair value through profit or loss	*3,172*	*1.5*	3,458	1.8
Available-for-sale[1]	8,857	4.3	9,798	5.0
Total equity securities	12,501	6.1	13,729	7.0
Debt securities:				
Fair value through profit or loss	6,737	3.3	6,869	3.5
of which:				
Trading securities	*45*	*0.0*	*43*	*0.0*
Securities designated at fair value through profit or loss	*6,692*	*3.3*	*6,826*	*3.5*
Available-for-sale	135,031	65.7	128,257	65.5
Held-to-maturity	5,899	2.9	5,129	2.6
Total debt securities	147,667	71.9	140,254	71.6
Real estate held for investment	9,265	4.5	8,274	4.2
Mortgage loans	12,312	6.0	11,851	6.0
Other loans	13,725	6.7	13,419	6.9
Investments in associates and joint ventures	196	0.1	188	0.1
Total Group investments	**205,375**	**100.0**	**195,898**	**100.0**

[1] As of June 30, 2011, and December 31, 2010, this includes the Group's investment of 15 percent and 20 percent, respectively in New China Life Insurance Company Ltd. over which the Group has no significant influence.

Cash and investments with a carrying value of USD 6,010 million and USD 5,176 million were deposited with regulatory authorities as of June 30, 2011, and December 31, 2010, respectively.

Consolidated financial statements *continued*

Securities under security lending and repurchase agreements

As of June 30, 2011, and December 31, 2010, investments included USD 7,110 million and USD 5,873 million, respectively, of loaned securities. These loaned securities were mainly debt securities. Liabilities for cash collateral received for securities lending comprised USD 653 million and USD 485 million as of June 30, 2011, and December 31, 2010, respectively. Non-cash collateral received for loaned securities comprised mainly equity and debt securities and amounted to USD 6,855 million and USD 5,663 million as of June 30, 2011, and December 31, 2010, respectively. The Group can sell or repledge the collateral only in the event of default by a counterparty.

As of June 30, 2011, and December 31, 2010, respectively, debt securities with a carrying value of USD 2,370 million and USD 3,383 million have been sold to financial institutions under repurchase agreements. These securities continue to be recognized as investments in the Group's consolidated balance sheets. Obligations to repurchase these securities amounted to USD 2,361 million and USD 3,330 million as of June 30, 2011, and December 31, 2010, 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.

Details of investments held for unit-linked contracts

Table 3.3c

as of	Investments for unit-linked contracts			
	06/30/11		12/31/10	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	1,375	1.2	1,544	1.4
Equity securities	88,029	78.2	85,765	79.5
Debt securities	11,417	10.1	9,376	8.7
Real estate	4,173	3.7	4,081	3.8
Other loans	7,503	6.7	7,182	6.7
Total investments for unit-linked contracts	**112,498**	**100.0**	**107,947**	**100.0**

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

Accrued interest on unit-linked investments disclosed under accrued investment income amounted to USD 260 million and USD 247 million as of June 30, 2011, and December 31, 2010, respectively.

Net unrealized gains/(losses) on Group investments included in other comprehensive income

Table 3.4

in USD millions, as of	Total	
	06/30/11	12/31/10
Equity securities: available-for-sale	1,599	1,880
Debt securities: available-for-sale	1,846	2,262
Other	67	76
Less: amount of net unrealized gains/(losses) on investments attributable to:		
Life policyholder dividends and other policyholder liabilities	(287)	(662)
Life deferred acquisition costs	(96)	(154)
Deferred income taxes	(881)	(869)
Non-controlling interests	(7)	(9)
Total[1]	**2,243**	**2,524**

[1] Net unrealized gains/(losses) include net gains arising on cash flow hedges of USD 51 million and USD 56 million as of June 30, 2011 and December 31, 2010, respectively.

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

Reserves for insurance contracts

Table 4.1

in USD millions, as of	Gross		Ceded		Net	
	06/30/11	12/31/10	**06/30/11**	12/31/10	**06/30/11**	12/31/10
Reserves for losses and loss adjustment expenses	70,190	68,069	(12,962)	(12,093)	57,227	55,976
Reserves for unearned premiums	18,625	16,046	(2,677)	(2,179)	15,948	13,868
Future life policyholders' benefits	85,899	79,315	(2,593)	(2,423)	83,306	76,891
Policyholders' contract deposits and other funds	18,158	17,430	(2,206)	(2,246)	15,952	15,184
Reserves for unit-linked contracts	64,479	61,786	–	–	64,479	61,786
Total reserves for insurance contracts[1]	**257,350**	**242,646**	**(20,438)**	**(18,942)**	**236,912**	**223,704**

[1] The total reserves for insurance contracts ceded are gross of allowances for uncollectible amounts of USD 142 million and USD 132 million as of June 30, 2011, and December 31, 2010, respectively.

Development of reserves for losses and loss adjustment expenses

Table 4.2

in USD millions	Gross		Ceded		Net	
	2011	2010	**2011**	2010	**2011**	2010
As of January 1	68,069	68,086	(12,093)	(12,182)	55,976	55,903
Losses and loss adjustment expenses incurred:						
Current year	13,960	14,799	(2,430)	(2,211)	11,530	12,588
Prior years	(575)	(766)	(86)	261	(661)	(505)
Total incurred	13,385	14,033	(2,516)	(1,950)	10,869	12,083
Losses and loss adjustment expenses paid:						
Current year	(3,964)	(4,381)	340	302	(3,625)	(4,079)
Prior years	(9,447)	(9,015)	1,575	1,281	(7,872)	(7,733)
Total paid	(13,411)	(13,396)	1,914	1,583	(11,497)	(11,813)
Acquisitions/(divestments) and transfers	(2)	(10)	–	29	(1)	19
Foreign currency translation effects	2,148	(3,150)	(268)	529	1,881	(2,622)
As of June 30	**70,190**	**65,563**	**(12,962)**	**(11,992)**	**57,227**	**53,571**

Consolidated financial statements *continued*

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 six months of 2011. The increase of USD 1,251 million in total net reserves included USD 661 million of favorable reserve development emerging from reserves established in prior years from various regions and lines of business. Favorable development was especially experienced in Switzerland's motor line of business and in North America, where the general liability, motor liability, medical malpractice and surety lines of business were the main contributors. This positive development was partially offset by adverse development related to weather events during the last few days of 2010 and adverse experience in North America's workers compensation business.

Development of future life policyholders' benefits

Table 4.3

in USD millions	Gross		Ceded		Net	
	2011	2010	**2011**	2010	**2011**	2010
As of January 1	79,315	79,271	(2,423)	(2,199)	76,891	77,072
Premiums	4,599	4,183	(253)	(305)	4,346	3,878
Claims	(4,812)	(4,928)	213	178	(4,599)	(4,750)
Fee income and other expenses	(990)	(593)	9	76	(981)	(517)
Interest and bonuses credited to policyholders	1,365	1,295	(50)	(37)	1,315	1,258
Change in assumptions	(1)	208	(4)	(19)	(5)	189
Acquisitions/transfers[1]	184	(29)	–	–	184	(29)
(Decreases)/increases recorded in other comprehensive income	(24)	19	–	–	(24)	19
Foreign currency translation effects	6,263	(8,503)	(83)	135	6,179	(8,368)
As of June 30	**85,899**	**70,922**	**(2,593)**	**(2,170)**	**83,306**	**68,752**

[1] The 2011 movement mainly includes reclassifications of USD 212 million transferred from other liabilities to future life policyholders' benefits less USD (27) million transferred to liabilities for investment contracts (see note 1).

Policyholders' contract deposits and other funds gross

Table 4.4

in USD millions, as of	**06/30/11**	12/31/10
Annuities	1,381	1,293
Universal life and other contracts	11,792	11,164
Policyholder dividends	4,985	4,973
Total	**18,158**	**17,430**

Development of policyholders' contract deposits and other funds

Table 4.5

in USD millions	Gross		Ceded		Net	
	2011	2010	**2011**	2010	**2011**	2010
As of January 1	17,430	18,857	(2,246)	(2,457)	15,184	16,400
Premiums	714	1,236	(28)	(28)	686	1,208
Claims	(698)	(1,035)	103	125	(595)	(909)
Fee income and other expenses	(173)	(143)	7	–	(166)	(143)
Interest and bonuses credited to policyholders	439	550	(40)	(43)	399	507
Changes in assumptions	(1)	–	–	–	(1)	–
(Decrease)/increase recorded in other comprehensive income	(383)	774	–	–	(383)	774
Foreign currency translation effects	829	(1,264)	(2)	20	828	(1,244)
As of June 30	**18,158**	**18,975**	**(2,206)**	**(2,382)**	**15,952**	**16,593**

Development of reserves for unit-linked contracts

Table 4.6

in USD millions	Gross		Ceded		Net	
	2011	2010	**2011**	2010	**2011**	2010
As of January 1	61,786	58,204	–	–	61,786	58,204
Premiums	4,748	4,501	–	–	4,748	4,501
Claims	(4,612)	(2,939)	–	–	(4,612)	(2,939)
Fee income and other expenses	(834)	(728)	–	–	(834)	(728)
Interest and bonuses credited/(charged) to policyholders	820	420	–	–	820	420
Acquisitions/transfers[1]	120	29	–	–	120	29
Foreign currency translation effects	2,452	(4,513)	–	–	2,452	(4,513)
As of June 30	**64,479**	**54,974**	**–**	**–**	**64,479**	**54,974**

[1] The 2011 movement relates to the reclassification of liabilities for investment contracts to reserves for unit-linked contracts (see note 1).

Consolidated financial statements *continued*

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

Liabilities for investment contracts

Table 5.1

in USD millions, as of	06/30/11	12/31/10
Liabilities related to unit-linked investment contracts	46,914	44,941
Liabilities related to investment contracts (amortized cost)	810	592
Liabilities related to investment contracts with DPF	5,803	5,134
Total	**53,526**	**50,667**

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.

Development of liabilities for investment contracts

Table 5.2

in USD millions	2011	2010
As of January 1	50,667	46,124
Premiums	3,078	3,361
Claims	(2,869)	(2,588)
Fee income and other expenses	(305)	(317)
Interest and bonuses charged/(credited) to policyholders	349	319
Acquisitions/transfers[1]	150	(3)
Increase/(decrease) recorded in other comprehensive income	(4)	(32)
Foreign currency translation effects	2,460	(4,354)
As of June 30	**53,526**	**42,510**

[1] The 2011 movement mainly includes USD 246 million transferred from other liabilities to liabilities for investment contracts and USD 27 million transferred from future life policyholders' benefits to liabilities for investment contracts less USD (120) million transferred from liabilities for investment contracts to reserves for unit-linked contracts (see note 1).

6. Gross and ceded insurance revenues and expenses

Insurance benefits and losses

Table 6.1

in USD millions, for the six months ended June 30	Gross		Ceded		Net	
	2011	2010	**2011**	2010	**2011**	2010
Losses and loss adjustment expenses	13,385	14,033	(2,516)	(1,950)	10,869	12,083
Life insurance death and other benefits	5,252	5,627	(224)	(220)	5,028	5,407
Change in future life policyholders' benefits	167	45	(88)	(94)	78	(50)
Total insurance benefits and losses	**18,804**	**19,705**	**(2,828)**	**(2,264)**	**15,976**	**17,441**

Policyholder dividends and participation in profits

Table 6.2

in USD millions, for the six months ended June 30	Gross		Ceded		Net	
	2011	2010	**2011**	2010	**2011**	2010
Change in policyholders' contract deposits and other funds	443	309	(1)	(1)	443	307
Change in reserves for unit-linked products	627	174	–	–	627	174
Change in liabilities for investment contracts – unit-linked	234	257	–	–	234	257
Change in liabilities for investment contracts – other	108	100	–	–	108	100
Change in unit-linked liabilities related to UK capital gains tax	(37)	8	–	–	(37)	8
Total policyholder dividends and participation in profits	**1,374**	**847**	**(1)**	**(1)**	**1,374**	**845**

Consolidated financial statements *continued*

7. Deferred policy acquisition costs and deferred origination costs

Development of deferred policy acquisition costs

Table 7.1

in USD millions	General Insurance		Global Life		Other segments[1]		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
As of January 1	3,472	3,374	12,686	12,276	169	531	16,326	16,181
Acquisition costs deferred	1,576	1,541	979	833	301	512	2,856	2,886
Amortization	(1,403)	(1,426)	(524)	(451)	(263)	(690)	(2,189)	(2,567)
Amortization charged/ (credited) to other comprehensive income	–	–	33	(151)	–	–	33	(151)
Foreign currency translation effects	129	(165)	656	(1,151)	–	–	784	(1,316)
As of June 30	**3,774**	**3,324**	**13,829**	**11,355**	**207**	**353**	**17,810**	**15,032**

[1] Net of eliminations from inter-segment transactions

Development of deferred origination costs

Table 7.2

in USD millions	**2011**	2010
As of January 1	866	856
Origination costs deferred	59	56
Amortization	(72)	(54)
Foreign currency translation effects	38	(75)
As of June 30	**891**	**784**

8. Goodwill and other intangible assets

Intangible assets – current period

Table 8.1

in USD millions	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other intangible assets	Total
Gross carrying value as of January 1, 2011	2,241	2,528	2,607	1,025	3,967	195	12,563
Less: accumulated amortization/impairments	(136)	(1,622)	(326)	–	(2,344)	(76)	(4,505)
Net carrying value as of January 1, 2011	2,104	906	2,281	1,025	1,623	119	8,059
Additions and transfers	9	–	15	–	194	–	217
Amortization	–	(55)	(64)	–	(200)	(7)	(326)
Amortization charged to other comprehensive income	–	25	–	–	–	–	25
Impairments	–	–	–	–	(20)	–	(20)
Foreign currency translation effects	71	53	183	–	81	4	392
Net carrying value as of June 30, 2011	**2,184**	**929**	**2,415**	**1,025**	**1,676**	**116**	**8,346**
Plus: accumulated amortization/impairments	140	1,709	417	–	2,459	85	4,809
Gross carrying value as of June 30, 2011	**2,324**	**2,638**	**2,832**	**1,025**	**4,135**	**202**	**13,155**

As of June 30, 2011, the intangible assets related to non-controlling interests were USD 149 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1,120 million for distribution agreements and USD 6 million for software.

Additions to goodwill include USD 2 million related to the acquisition of PT Zurich Topas Life (formerly PT Mayapada Life) and USD 6 million related to earn-out payments to Deutsche Bank Group for the acquisition of Zurich Life and Pensions S.p.A., Italy (formerly DWS Vita S.p.A.).

Additions to distribution agreements relate to a new distribution agreement between the Group's Turkish operations A.Ş. and Fortis bank.

Intangible assets by segment – current period

Table 8.2

in USD millions, as of June 30, 2011	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other intangible assets	Total
General Insurance	912	–	576	–	607	110	2,204
Global Life	449	929	1,839	–	358	6	3,582
Farmers	819	–	–	1,025	410	–	2,255
Other Operating Businesses	5	–	–	–	299	–	303
Non-Core Businesses	–	–	–	–	2	–	2
Net carrying value as of June 30, 2011	**2,184**	**929**	**2,415**	**1,025**	**1,676**	**116**	**8,346**

Consolidated financial statements *continued*

Intangible assets – prior period

Table 8.3

in USD millions	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other intangible assets	Total
Gross carrying value as of January 1, 2010	2,331	2,749	3,426	1,025	3,430	224	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	1,025	1,569	139	9,342
Additions and transfers	–	–	–	–	254	–	254
Divestments and transfers	–	–	–	–	(8)	–	(8)
Amortization	–	(54)	(72)	–	(179)	(9)	(314)
Amortization charged to other comprehensive income	–	(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**	**1,025**	**1,550**	**115**	**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**	**1,025**	**3,482**	**203**	**12,366**

As of June 30, 2010, the intangible assets related to non-controlling interests were USD 182 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1,246 million for distribution agreements and USD 5 million for software.

Intangible assets by segment – prior period

Table 8.4

in USD millions, as of December 31, 2010	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other intangible assets	Total
General Insurance	869	–	538	–	576	94	2,077
Global Life	411	906	1,742	–	348	25	3,433
Farmers	819	–	–	1,025	428	–	2,273
Other Operating Businesses	5	–	–	–	268	–	273
Non-Core Businesses	–	–	–	–	2	–	2
Net carrying value as of December 31, 2010	**2,104**	**906**	**2,281**	**1,025**	**1,623**	**119**	**8,059**

9. Income taxes

Income tax expense – current/deferred split

Table 9.1

in USD millions, for the six months ended June 30	**2011**	2010
Current	641	685
Deferred	(86)	(180)
Total income tax expense/(benefit)	**555**	**505**

Income tax expense – policyholder/ shareholder attribution

Table 9.2

in USD millions, for the six months ended June 30	**2011**	2010
Total income tax expense/(benefit) attributable to policyholders	(29)	(3)
Total income tax expense/(benefit) attributable to shareholders	583	508
Total income tax expense/(benefit)	**555**	**505**

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.

Expected and actual income tax expense

Table 9.3

in USD millions, for the six months ended June 30	**Rate**	**2011**	Rate	2010
Net income before income taxes		2,552		2,183
Less: income tax (expense)/benefit attributable to policyholders		29		3
Net income before income taxes attributable to shareholders		2,580		2,186
Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%	568	22.0%	481
Increase/(reduction) in taxes resulting from:				
Tax rate differential in foreign jurisdictions		*95*		181
Tax exempt and lower taxed income		*(53)*		(30)
Non-deductible expenses		*68*		30
Tax losses previously unrecognized or no longer recognized		*27*		41
Prior year adjustments and other		*(122)*		(195)
Actual income tax expense attributable to shareholders	22.6%	583	23.2%	508
Plus: income tax expense/(benefit) attributable to policyholders		(29)		(3)
Actual income tax expense/(benefit)	**21.7%**	**555**	**23.1%**	**505**

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.

Consolidated financial statements *continued*

10. Debt

Debt

Table 10.1

in USD millions, as of		06/30/11	12/31/10
Senior debt			
Zurich Capital Markets	Various debt instruments payable within 1 year	400	400
Zurich Finance (USA), Inc.	3.50% CHF 300 million bond, due November 2011[1, 6]	357	322
	4.50% EUR 1 billion bond, due September 2014[2, 6]	1,462	1,353
	4.875% EUR 800 million bond, due April 2012[6]	1,161	1,069
	6.50% EUR 600 million bond, due October 2015[3, 6]	869	801
Zurich Finance (Luxembourg) S.A.	3.25% USD 750 million bond, due September 2013[5, 6]	768	765
Zurich Insurance Company Ltd	3.875% CHF 1 billion bond, due July 2011	1,189	1,071
	3.75% CHF 500 million bond, due September 2013[6]	591	531
Other	Various debt instruments payable in more than 1 year	141	141
Senior debt		6,938	6,453
Subordinated debt			
Zurich Insurance Company Ltd	12.0% EUR 143 million capital notes, undated[6]	206	190
	7.5% EUR 425 million bond, due July 2039[6]	612	564
	4.25% CHF 700 million bond, undated[6]	819	736
	4.625% CHF 500 million bond, undated[6]	584	–
Zurich Finance (UK) plc	6.625% GBP 450 million bond, undated notes[4, 6]	714	692
Zurich Finance (USA), Inc.	5.75% EUR 500 million bond, due October 2023[6]	717	661
	4.5% EUR 500 million bond, due June 2025[5, 6]	744	696
ZFS Finance (USA) Trust II	Series II 6.45% USD 700 million ECAPS, due December 2065	674	673
ZFS Finance (USA) Trust IV	Series IV 5.875% USD 500 million Trust Preferred Securities, due May 2062	250	250
ZFS Finance (USA) Trust V	Series V 6.5% USD 1 billion Trust Preferred Securities, due May 2067	497	497
Other	Various debt instruments payable in more than 1 year	45	44
Subordinated debt		5,862	5,004
Total senior and subordinated debt		**12,800**	**11,457**

[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 percent of the total) and fair value hedge (20 percent of the total).
[3] The bond is part of a qualifying cash flow hedge (100 percent).
[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] These bonds are part of qualifying fair value hedges (100 percent).
[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, 2011, and December 31, 2010.

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 18 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.

i) Senior debt

Senior debt increased to USD 6,938 million as of June 30, 2011, from USD 6,453 million as of December 31, 2010, primarily due to the depreciation of the U.S. dollar against the Swiss franc, the euro and British pound.

ii) Subordinated debt

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

Subordinated debt increased to USD 5,862 million as of June 30, 2011, from USD 5,004 million as of December 31, 2010, mainly as a result of a new CHF 500 million issue under the EMTN Programme in March 2011 to refinance the Zurich RegCaPS Trust Capital Securities Series II, V and VI classified in Shareholders' equity and the translation effects of the depreciation of the U.S. dollar against the currencies in which the bonds were issued.

Consolidated financial statements *continued*

Description and features of significant subordinated debt

Table 10.2

Description	Coupon conditions	Call/ redemption date	Redemption conditions
12.00% EUR 143 million 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 million 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.
4.25% CHF 700 million bond, undated notes	4.25% payable annually up to May 26, 2016 and then reset quarterly to 3-month CHF-Libor plus 3.046%.	Quarterly on or after May 26, 2016	Redeemable in whole or in part at par plus any accrued interest.
4.625% CHF 500 million bond, undated notes	4.625% payable annually up to May 16, 2018 and then reset to the prevailing 7 year CHF mid swap rate plus 2.691%.	Annually on or after May 16, 2018	Redeemable in whole or in part at par plus any accrued interest.
6.625% GBP 450 million bond, undated notes	6.625% payable annually up to October 2, 2022 and then reset every 5 years to the reset rate of interest plus 2.85%.[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 million 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 million 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 II 6.45% Fixed/Adjustable Rate USD 700 million 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 IV 5.875% USD 500 million 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 billion 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.
[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% for Series II.

Maturity schedule of outstanding debt

Table 10.3

in USD millions, as of	06/30/11		12/31/10	
	Carrying value	**Undiscounted cash flow**	Carrying value	Undiscounted cash flow
< 1 year	3,107	3,750	1,793	2,355
1 to 2 years	11	527	1,080	1,603
2 to 3 years	1,359	1,877	1,297	1,749
3 to 4 years	1,598	2,053	1,388	1,797
4 to 5 years	887	1,269	919	1,273
5 to 10 years	–	1,461	–	1,278
> 10 years	5,839	8,005	4,981	6,805
Total	**12,800**	**18,941**	**11,457**	**16,861**

Debt maturities 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, 2011, and December 31, 2010, respectively. All debt is assumed to mature within 20 years of the balance sheet date at the latest without refinancing. Floating interest rates are assumed to remain constant as of June 30, 2011, and December 31, 2010, respectively. The aggregated undiscounted cash flows are translated into U.S. dollars at end-of-period rates.

Interest expense on debt

Table 10.4

in USD millions, for the six months ended June 30	**2011**	2010
Senior debt	130	134
Subordinated debt	157	149
Total	**287**	**283**

Interest expense on debt

Interest expense on debt increased to USD 287 million from USD 283 million. The higher interest expense was mainly due to foreign exchange fluctuations offset by the positive impact of early redemptions in December 2010 and new issuances at lower rates.

Credit facilities

The Group has access to a syndicated revolving credit facility of USD 3 billion that terminates in September 2012. Zurich Insurance Company Ltd and Farmers Group, Inc. are guarantors of the facility and can draw up to USD 2.75 billion and USD 250 million, respectively. No borrowings were outstanding under this facility as of June 30, 2011, or December 31, 2010.

In addition, Zurich Insurance Company Ltd has access to revolving credit facilities totaling USD 441 million. USD 75 million will expire in June 2013. The maturity dates of three revolving credit facilities have been extended. One, totaling USD 150 million, from June 2013 to June 2014 and two, totaling USD 216 million, from July 2013 to July 2014. No borrowings have been drawn under these facilities as of June 30, 2011, or December 31, 2010.

Consolidated financial statements *continued*

11. Earnings per share

Earnings per share

Table 11

for the six months ended June 30	Net income attributable to common shareholders (in USD millions)[1]	Weighted average number of shares	Per share (USD)	Per share (CHF)[2]
2011				
Basic earnings per share	**1,961**	**145,592,692**	**13.47**	**12.17**
Effect of potentially dilutive shares related to share-based compensation plans		1,181,530	(0.11)	(0.10)
Diluted earnings per share	**1,961**	**146,774,222**	**13.36**	**12.07**
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**

[1] Excludes the net income attributable to preferred shareholders of USD 4 million and USD 6 million for the six months ended June 30, 2011, and 2010, respectively.
[2] 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, 2011 and 2010, respectively.

12. Legal proceedings and regulatory investigations

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

In Switzerland, ten suits have been brought since 2000 in various Swiss courts by the Swiss Guaranty Fund for Occupational Retirement Schemes (the Guaranty Fund) and the Vera Pension and Vera Investment Funds against Zurich Life Insurance Company Ltd (Zurich Life) and Geneva Life Insurance Company Ltd (Geneva Life), wholly owned direct and indirect subsidiaries of Zurich Insurance Company Ltd (ZIC). Zurich Life and Geneva Life provided insurance to certain pension funds and granted loans on policy reserves. The proceeds were invested, together with additional bank loans, in various real estate projects by the investment funds. Successful throughout the 1970s and 1980s, the funds were facing increasing financial difficulties during the downturn of the real estate activity in the early 1990s, until they collapsed in 1996. Both Geneva Life and Zurich Life set off the loans against the policy reserves. The Guaranty Fund and the liquidators of the pension and investment funds alleged, inter alia, that the loans were illegal and the corporate defendants were de facto members of the management of the funds. They also alleged that the life insurance companies and other parties involved were jointly responsible for consolidated damages. Whereas one suit regarding an accounting issue remains pending, the remaining suits have either been withdrawn or dismissed. The Commercial Court in Zurich has now given its decision in this last pending procedure ordering Zurich Life to pay the amount of CHF 777,992 plus interest to the Vera Pension Fund. Zurich Life has appealed this decision before the Swiss Federal Supreme Court. The Group maintains that this suit is without merit and intends to continue to defend itself vigorously.

An action entitled Fuller-Austin Asbestos Settlement Trust, et al. v. Zurich American Insurance Company (ZAIC), et al., was filed in May 2004 in the Superior Court for San Francisco County, California. Three other similar actions were filed in 2004 and 2005 and have been coordinated with the Fuller-Austin action (collectively, the Fuller-Austin Case). In addition to ZAIC and four of its insurance company subsidiaries, ZIC and Orange Stone Reinsurance Dublin (Orange Stone) are named as defendants. The plaintiffs, who are historical policyholders of the Home Insurance Company (Home), plead claims for fraudulent transfer, alter ego liability and unfair business practices relating to the recapitalization of Home, which occurred in 1995 following regulatory review and approval. The plaintiffs allege that pursuant to the recapitalization and subsequent transactions, various Zurich entities took assets of Home without giving adequate consideration in return, and contend that this forced Home into liquidation. The plaintiffs further allege that the defendants should be held responsible for Home's alleged obligations under their Home policies. The trial judge designated the plaintiffs' claims for constructive fraudulent transfer for adjudication before all other claims; he subsequently ordered an initial bench trial on certain threshold elements of those fraudulent transfer claims and on certain of defendants' affirmative defenses. The trial commenced on November 1, 2010 and trial testimony has now concluded. Further evidentiary proceedings, post-trial briefing and closing arguments on this phase of the case are expected to take place during 2011 and into early 2012.

A similar action entitled API, Inc. Asbestos Settlement Trust (API), et al. v. ZAIC, et al., was filed in March 2009 in the District Court for the Second Judicial District, County of Ramsey, Minnesota (API Case). ZAIC and two of its insurance company subsidiaries were named as defendants. The defendants removed the case to the U.S. District Court for the District of Minnesota, where it is now pending. The plaintiffs subsequently amended their complaint to add ZIC, Orange Stone and two additional ZAIC subsidiaries as defendants. As in the Fuller-Austin Case, the plaintiffs allege that API is an insured under policies issued by Home, primarily in the 1970s. The complaint seeks to hold the defendants liable for Home's policy obligations under various theories of vicarious liability tied to the recapitalization of Home, and it also alleges that the defendants are liable for damages under theories of fraudulent transfer and tortious interference with contract. The court ruled on the defendants' motions to dismiss the amended complaint, and dismissed the plaintiffs' fraudulent transfer, tortious interference with contract and consumer fraud claims against all the defendants. The motions were denied as to the remaining claims, as the court found that the plaintiffs' vicarious liability theories could not be disposed of on a motion to dismiss. Pretrial discovery has substantially concluded. Summary judgment motions were filed on July 1, 2011, with additional briefing and argument to follow. If the case is not decided on summary judgment, a trial will follow. The Group maintains that the Fuller-Austin and API Cases are without merit and intends to continue to defend itself vigorously.

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 Ltd 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 had purchased

Consolidated financial statements *continued*

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 had 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 had 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, and the ruling became final in June 2009. The Dutch settlement papers were filed with the Dutch court on July 9, 2010. On November 12, 2010, the Amsterdam Court of Appeal provisionally ruled that it has jurisdiction to consider the petition for approval of the settlement. The Amsterdam Court of Appeal directed the parties to notify the class about the proposed settlement and will hold a hearing on October 3 and 4, 2011 to consider whether to declare the proposed settlement binding on the class.

Zurich Financial Services Ltd is a defendant in a putative class action pending in California state court captioned Benjamin Fogel v. Farmers Group, Inc (Fogel Case). 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 (Farmers), 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 the plaintiff appealed. In 2008, a California appellate court reversed the trial court's ruling and reinstated the litigation. On September 9, 2009, the plaintiff filed a motion seeking to certify a nationwide class of all policyholders of the Farmers Exchanges since August 1, 1999. On October 7, 2010, the Group announced that it had agreed in principle to a proposed nationwide settlement of the Fogel Case. Under the terms of the settlement, a sum of USD 455 million will be made available to approximately 12.5 million policyholders who may qualify for a distribution under the settlement, with any residual amount going to the Farmers Exchanges. The Group will also pay attorneys' fees to class action counsel of up to USD 90 million, as well as the costs of administering the settlement. On December 12, 2010, the parties executed the settlement agreement, and they filed a motion on January 12, 2011, seeking preliminary approval of the settlement. On February 3, 2011, the court granted a motion to intervene by a class member who objects to parts of the settlement. The hearing on the motion for preliminary approval was held on March 2, 2011, and the motion for preliminary approval was granted. All terms of the settlement are subject to the court's final approval. The court has scheduled the final approval hearing for September 7, 2011.

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

13. Related party transactions

In the normal course of business, the Group enters into various transactions with related companies, including various reinsurance and cost-sharing arrangements. These transactions are not considered material to the Group, either individually or in aggregate. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions.

The table below sets out related party transactions with equity method accounted investments, as well as other related parties, such as the Group's distribution partners of the jointly owned companies in Spain, reflected in the consolidated income statements and consolidated balance sheets.

Related party transactions included in the Consolidated financial statements

Table 13

in USD millions		
Consolidated income statement for the periods ended	**06/30/11**	06/30/10
Net earned premiums and policy fees	14	4
Net investment income	(85)	(45)
Other income/(expense)	(2)	(25)
Losses and loss adjustment expenses	(3)	(3)
Administrative and other operating expenses	2	1
Consolidated balance sheet as of	**06/30/11**	12/31/10
Cash and cash equivalents	249	475
Other loans	445	537
Total unit-linked investments	3,392	3,196
Receivables	18	1
Policyholders' collateral and other loans	7	9
Reserves for losses and loss adjustment expenses	(11)	(11)

Consolidated financial statements *continued*

14. 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 is the segment through which the Group provides a variety of motor, home and commercial products and services for individuals, as well as small and large businesses.

Global Life pursues a strategy of providing market-leading Unit-Linked, Protection and Corporate propositions 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 financial performance the Group considers General Insurance, Global Life and Farmers to be its core business segments.

Other Operating Businesses predominantly consist of the Group´s Headquarter and Holding and Financing activities. In addition, certain alternative investment positions not allocated to business 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 includes the Group's banking activities.

As of January 1, 2011, the Group implemented changes in the way it manages two of the three core segments on a secondary level.

The General Insurance segment is managed based on market-facing businesses, including:

- Global Corporate
- North America Commercial
- Europe
- Latin America
- Asia-Pacific
- Middle East and Africa

The Global Life segment is managed on a regional-based structure within a global framework, including:

- North America
- Latin America
- Europe
- Asia-Pacific and Middle East

The 2010 segmental results have been restated to reflect these changes, with no impact on the Group's financial position or performance.

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, non-operational foreign exchange movements, and significant items arising from special circumstances, including restructuring charges, charges for litigation outside the ordinary course of business and gains and losses on divestments of businesses.

Consolidated financial statements *continued*

Business operating profit by business segment

Table 14.1

in USD millions, for the six months ended June 30	General Insurance		Global Life	
	2011	2010	**2011**	2010
Revenues				
Direct written premiums[1]	17,795	16,857	4,885	4,649
Assumed written premiums	1,080	1,080	48	49
Gross Written Premiums	18,876	17,938	4,933	4,698
Policy fees	–	3	1,159	1,089
Gross written premiums and policy fees	18,876	17,940	6,092	5,787
Less premiums ceded to reinsurers	(2,987)	(2,769)	(339)	(399)
Net written premiums and policy fees	15,889	15,171	5,753	5,388
Net change in reserves for unearned premiums	(1,571)	(1,393)	(31)	(10)
Net earned premiums and policy fees	14,318	13,778	5,722	5,379
Farmers management fees and other related revenues	–	–	–	–
Net investment result on Group investments	1,447	1,444	2,153	2,176
Net investment income on Group investments	1,426	1,439	2,082	1,952
Net capital gains/(losses) and impairments on Group investments	21	5	70	224
Net investment result on unit-linked investments	–	–	647	358
Other income	408	313	483	375
Total BOP revenues	16,172	15,534	9,005	8,288
of which: inter-segment revenues	*(246)*	*(184)*	*(160)*	*(116)*
Benefits, losses and expenses				
Insurance benefits and losses, net[1]	10,429	9,785	4,853	4,663
Losses and loss adjustment expenses, net	10,418	9,775	35	31
Life insurance death and other benefits, net	11	9	4,717	5,024
(Decrease)/increase in future life policyholders' benefits, net[1]	(1)	1	101	(392)
Policyholder dividends and participation in profits, net	5	1	1,157	910
Income tax expense/(benefit) attributable to policyholders	–	–	(29)	(3)
Underwriting and policy acquisition costs, net	2,700	2,711	848	763
Administrative and other operating expense (excl. depreciation/amortization)	1,784	1,471	1,036	839
Interest credited to policyholders and other interest	12	23	201	211
Restructuring provisions and other items not included in BOP	(121)	(86)	–	(40)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	14,809	13,904	8,067	7,343
Business operating profit (before interest, depreciation and amortization)	**1,363**	**1,630**	**937**	**945**
Depreciation and impairments of property and equipment	46	39	15	16
Amortization and impairments of intangible assets	105	89	152	152
Interest expense on debt	103	113	28	35
Business operating profit before non-controlling interests	1,110	1,390	742	743
Non-controlling interests	3	13	14	23
Business operating profit	**1,106**	**1,377**	**728**	**720**
Supplementary information				
Additions and capital improvements to property, equipment and intangible assets[2]	157	299	53	96

[1] The Global Life segment includes approximately USD 486 million and USD 617 million of gross written premiums and future life policyholders' benefits for certain universal life-type contracts in the Group's Spanish operations for the six months ended June 30, 2011 and 2010, respectively (see note 3 of the Group's Annual Report 2010).
[2] As of June 30, 2011 and December 31, 2010, respectively.

Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
–	–	–	–	59	70	–	–	22,739	21,576
1,481	2,491	67	65	81	39	(107)	(120)	2,650	3,605
1,481	2,491	67	65	139	110	(107)	(120)	25,389	25,182
–	–	–	–	132	113	–	–	1,291	1,205
1,481	2,491	67	65	271	223	(107)	(120)	26,680	26,387
–	–	(26)	(24)	(698)	(11)	107	120	(3,944)	(3,084)
1,481	2,491	41	41	(427)	211	–	–	22,737	23,303
2	691	1	1	2	1	–	3	(1,597)	(707)
1,483	3,182	42	42	(425)	212	–	3	21,139	22,595
1,375	1,399	–	–	–	–	–	–	1,375	1,399
70	83	270	260	192	360	(417)	(437)	3,714	3,886
70	83	270	260	224	263	(417)	(437)	3,655	3,561
–	–	–	–	(32)	96	–	–	59	326
–	–	–	–	156	6	–	–	804	364
35	47	427	369	49	58	(688)	(521)	713	641
2,963	4,712	739	671	(28)	636	(1,105)	(955)	27,745	28,886
(35)	*(36)*	*(633)*	*(585)*	*(31)*	*(34)*	*1,105*	*955*	–	–
1,045	2,143	37	37	(388)	813	–	–	15,976	17,441
1,045	2,143	2	–	(633)	133	2	–	10,869	12,083
–	–	26	37	275	338	(1)	–	5,028	5,407
–	–	10	–	(30)	342	(1)	–	78	(50)
–	–	–	–	212	(68)	–	3	1,374	845
–	–	–	–	–	–	–	–	(29)	(3)
454	990	–	–	5	4	(2)	(2)	4,006	4,467
657	659	485	507	92	94	(678)	(512)	3,377	3,058
–	1	3	1	31	34	(3)	(1)	244	268
(4)	(16)	42	(82)	–	(5)	–	–	(82)	(229)
2,152	3,777	568	463	(48)	872	(683)	(512)	24,866	25,847
810	**935**	**171**	**208**	**19**	**(236)**	**(422)**	**(443)**	**2,880**	**3,039**
27	37	6	13	3	2	–	–	96	107
55	53	34	26	1	7	–	–	346	327
–	–	528	530	50	49	(422)	(443)	287	283
729	845	(397)	(361)	(34)	(294)	–	–	2,150	2,322
–	–	–	–	–	–	–	–	18	36
729	**845**	**(397)**	**(361)**	**(34)**	**(295)**	**–**	**–**	**2,132**	**2,286**
92	236	46	91	(1)	24	–	–	347	747

Consolidated financial statements *continued*

Reconciliation of BOP to net income after income taxes

Table 14.2

in USD millions, for the six months ended June 30	General Insurance		Global Life	
	2011	2010	**2011**	2010
Business operating profit	**1,106**	**1,377**	**728**	**720**
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	418	19	38	11
Net gain/(loss) on divestments of businesses	–	–	10	–
Restructuring provisions	(71)	(27)	(9)	(17)
Other adjustments	(50)	(59)	9	(23)
Add back:				
Business operating profit attributable to non-controlling interests	3	13	14	23
Net income before shareholders' taxes	**1,407**	**1,322**	**790**	**714**
Income tax expense/(benefit) attributable to policyholders	–	–	(29)	(3)
Net income before income taxes	**1,407**	**1,322**	**762**	**711**
Income tax expense (attributable to policyholders and shareholders)				
Net income after taxes				

	Farmers		Other Operating Businesses		Non-Core Businesses		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	729	**845**	**(397)**	**(361)**	**(34)**	**(295)**	**2,132**	**2,286**
	(4)	(1)	34	82	16	(18)	502	92
	–	–	–	–	–	1	10	1
	(3)	(6)	–	–	–	(1)	(83)	(52)
	(1)	(9)	42	(82)	–	(4)	1	(177)
	–	–	–	–	–	–	18	36
	721	**828**	**(321)**	**(360)**	**(17)**	**(317)**	**2,580**	**2,186**
	–	–	–	–	–	–	(29)	(3)
	721	**828**	**(321)**	**(360)**	**(17)**	**(317)**	**2,552**	**2,183**
							(555)	(505)
							1,997	**1,679**

Consolidated financial statements *continued*

Assets and liabilities by business segment

Table 14.3

in USD millions, as of	General Insurance		Global Life	
	06/30/11	12/31/10	**06/30/11**	12/31/10
Assets				
Total Group Investments	87,664	85,967	108,025	100,976
Cash and cash equivalents	8,180	9,024	3,800	2,564
Equity securities	5,645	5,561	4,719	5,201
Debt securities	65,568	64,136	70,046	64,471
Real estate held for investment	3,203	2,940	5,610	4,893
Mortgage loans	1,640	1,495	8,950	8,538
Other loans	3,420	2,806	14,801	15,212
Investments in associates and joint ventures	9	6	98	97
Investments for unit-linked contracts	–	–	100,638	96,139
Total investments	87,664	85,967	208,663	197,116
Reinsurers' share of reserves for insurance contracts	14,191	13,314	2,162	1,997
Deposits made under assumed reinsurance contracts	98	120	15	11
Deferred policy acquisition costs	3,774	3,472	13,829	12,686
Deferred origination costs	–	–	891	866
Goodwill	912	869	449	411
Other intangible assets	1,293	1,208	3,133	3,022
Other assets	16,571	14,743	7,233	7,367
Total assets (after cons. of investments in subsidiaries)	**124,502**	**119,693**	**236,375**	**223,476**
Liabilities				
Liabilities for investment contracts	–	–	53,526	50,912
Reserves for insurance contracts, gross	85,265	80,170	148,281	138,536
Reserves for losses and loss adjustment expenses, gross	66,278	63,826	54	58
Reserves for unearned premiums, gross	17,577	15,050	255	201
Future life policyholders' benefits, gross	100	103	81,294	74,901
Policyholders' contract deposits and other funds, gross	1,310	1,192	14,058	13,397
Reserves for unit-linked contracts, gross	–	–	52,620	49,978
Senior debt	5,449	5,152	478	457
Subordinated debt	1,705	1,700	259	793
Other liabilities	14,011	14,346	18,088	17,960
Total liabilities	**106,431**	**101,367**	**220,633**	**208,659**
Equity				
Common shareholders' equity				
Preferred securities				
Shareholders' equity				
Non-controlling interests				
Total equity				
Total liabilities and equity				

	Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
	06/30/11	12/31/10	**06/30/11**	12/31/10	**06/30/11**	12/31/10	**06/30/11**	12/31/10	**06/30/11**	12/31/10
	4,050	4,526	20,223	20,110	14,463	14,757	(29,049)	(30,438)	205,375	195,898
	665	808	8,053	7,158	2,957	3,148	(13,945)	(14,521)	9,708	8,182
	93	83	1,783	2,597	261	287	–	–	12,501	13,729
	1,298	1,296	4,405	4,070	7,383	7,261	(1,033)	(980)	147,667	140,254
	135	135	47	45	270	261	–	–	9,265	8,274
	–	–	–	–	1,722	1,819	–	–	12,312	11,851
	1,859	2,204	5,930	6,235	1,787	1,900	(14,071)	(14,937)	13,725	13,419
	–	–	5	5	83	80	–	–	196	188
	–	–	–	–	11,860	11,808	–	–	112,498	107,947
	4,050	4,526	20,223	20,110	26,322	26,565	(29,049)	(30,438)	317,872	303,845
	–	212	–	–	4,687	4,328	(744)	(1,041)	20,296	18,809
	1,837	2,201	–	–	538	530	(27)	(26)	2,462	2,837
	206	167	–	–	1	1	–	–	17,810	16,326
	–	–	–	–	–	–	–	–	891	866
	819	819	5	5	–	–	–	–	2,184	2,104
	1,436	1,453	299	269	2	2	–	–	6,162	5,954
	970	1,202	2,079	2,714	1,159	1,149	(1,907)	(2,255)	26,105	24,919
	9,318	**10,581**	**22,606**	**23,097**	**32,708**	**32,575**	**(31,727)**	**(33,759)**	**393,781**	**375,661**
	–	–	–	–	–	–	–	(246)	53,526	50,667
	2,392	2,711	66	57	22,071	22,194	(726)	(1,021)	257,350	242,646
	1,622	1,938	46	46	2,861	2,953	(671)	(752)	70,190	68,069
	771	773	4	5	24	25	(6)	(7)	18,625	16,046
	–	–	16	6	4,537	4,569	(49)	(265)	85,899	79,315
	–	–	–	–	2,790	2,839	–	2	18,158	17,430
	–	–	–	–	11,859	11,807	–	–	64,479	61,786
	–	–	22,888	24,064	2,460	2,462	(24,339)	(25,681)	6,938	6,453
	–	–	5,817	5,000	179	170	(2,099)	(2,659)	5,862	5,004
	1,492	2,024	3,047	2,366	5,368	5,026	(4,563)	(4,152)	37,443	37,570
	3,884	**4,735**	**31,819**	**31,487**	**30,078**	**29,852**	**(31,727)**	**(33,759)**	**361,119**	**342,340**
									31,153	31,509
									–	475
									31,153	31,984
									1,508	1,337
									32,662	33,321
									393,781	**375,661**

Consolidated financial statements *continued*

General Insurance – customer segment overview

Table 14.4

in USD millions, for the six months ended June 30	Global Corporate		North America Commercial	
	2011	2010	**2011**	2010
Gross written premiums and policy fees	4,714	4,245	4,852	4,995
Net earned premiums and policy fees	2,663	2,382	3,615	3,715
Insurance benefits and losses, net	2,327	1,690	2,500	2,426
Policyholder dividends and participation in profits, net	–	(1)	5	4
Total net technical expenses	523	480	1,084	1,143
Net underwriting result	(187)	213	26	142
Net investment income	298	278	509	554
Net capital gains/(losses) and impairments on investments	5	1	16	3
Net non-technical result (excl. items not included in BOP)	(56)	(30)	(125)	(140)
Business operating profit before non-controlling interests	60	462	427	558
Non-controlling interests	–	–	–	–
Business operating profit	60	462	426	558
Ratios, as % of net earned premiums and policy fees				
Loss ratio	87.4%	70.9%	69.2%	65.3%
Expense ratio	19.6%	20.1%	30.1%	30.9%
Combined ratio	107.0%	91.1%	99.3%	96.2%

	Europe		International Markets		GI Global Functions including Group Reinsurance		Eliminations		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	7,480	7,092	2,212	1,858	266	279	(648)	(530)	18,876	17,940
	6,392	6,273	1,614	1,382	33	26	–	–	14,318	13,778
	4,362	4,595	1,273	955	(34)	119	–	–	10,429	9,785
	–	(3)	–	–	–	–	–	–	5	1
	1,614	1,577	552	496	17	16	(1)	1	3,789	3,713
	416	104	(211)	(69)	50	(110)	1	(1)	95	279
	471	468	116	105	31	32	–	2	1,426	1,439
	–	1	–	–	–	–	–	–	21	5
	(171)	(167)	(45)	6	(33)	(2)	(2)	(1)	(432)	(333)
	716	406	(140)	43	47	(80)	–	–	1,110	1,390
	2	(4)	1	17	–	–	–	–	3	13
	714	410	(141)	26	47	(80)	–	–	1,106	1,377
	68.2%	73.3%	78.9%	69.1%	nm	nm	n/a	n/a	72.8%	71.0%
	25.3%	25.1%	34.2%	35.9%	nm	nm	n/a	n/a	26.5%	27.0%
	93.5%	98.3%	113.0%	105.0%	nm	nm	n/a	n/a	99.3%	98.0%

Consolidated financial statements *continued*

General Insurance – revenues by region

Table 14.5

in USD millions, for the six months ended June 30	Gross written premiums and policy fees from external customers		of which Global Corporate	
	2011	2010	**2011**	2010
Middle East	41	31	41	31
Africa				
South Africa	301	323		
Morocco	71	61		
Subtotal Africa	372	383	–	–
Latin America				
Argentina	130	112		
Brazil	275	204		
Chile	120	94		
Mexico	144	130		
Venezuela	84	85		
Rest of Latin America	15	12		
Subtotal Latin America	769	638	–	–
North America				
United States	5,849	5,832		
Rest of North America	496	465		
Subtotal North America	6,345	6,297	1,581	1,406
Asia-Pacific				
Australia	567	468		
Hong Kong	87	75		
Japan	359	305		
Taiwan	65	61		
Rest of Asia-Pacific	120	90		
Subtotal Asia-Pacific	1,198	998	293	230
Europe				
United Kingdom	2,130	2,135		
Germany	2,145	1,967		
Switzerland	2,310	1,991		
Italy	1,098	1,109		
Spain	973	959		
Rest of Europe	1,487	1,416		
Subtotal Europe	10,142	9,577	2,597	2,426
Total	**18,868**	**17,925**	**4,513**	**4,093**

General Insurance – assets by region

Table 14.6

in USD millions, as of	Property, equipment and intangible assets	
	06/30/11	12/31/10
Middle East	1	–
Africa		
South Africa	23	25
Morocco	39	35
Subtotal Africa	61	60
Latin America		
Argentina	5	4
Brazil	180	151
Chile	1	1
Mexico	11	11
Venezuela	9	8
Rest of Latin America	9	8
Subtotal Latin America	215	183
North America		
United States	246	232
Rest of North America	8	8
Subtotal North America	253	240
Asia-Pacific		
Australia	84	79
Hong Kong	6	7
Japan	33	34
Taiwan	19	19
Rest of Asia-Pacific	3	2
Subtotal Asia-Pacific	144	141
Europe		
United Kingdom	199	212
Germany	241	225
Switzerland	739	674
Italy	63	65
Spain	583	543
Rest of Europe	717	668
Subtotal Europe	2,541	2,386
Total	**3,216**	**3,012**

Consolidated financial statements *continued*

Global Life – overview

Table 14.7

in USD millions, for the six months ended June 30	North America		Latin America	
	2011	2010	**2011**	2010
Revenues				
Life insurance deposits	124	118	114	28
Gross written premiums[1]	251	235	308	360
Policy fees	142	143	13	14
Gross written premiums and policy fees	392	378	321	374
Net earned premiums and policy fees	285	271	312	328
Net investment income on Group investments	166	171	65	58
Net capital gains/(losses) and impairments on Group investments	–	2	–	–
Net investment result on Group investments	166	173	65	58
Net investment income on unit-linked investments	(13)	(12)	4	4
Net capital gains/(losses) and impairments on unit-linked investments	15	(25)	3	(7)
Net investment result on unit-linked investments	2	(37)	7	(3)
Other income	50	48	7	10
Total BOP revenues	504	455	391	393
Benefits, losses and expenses				
Insurance benefits and losses, net[1]	141	149	229	245
Policyholder dividends and participation in profits, net	13	(34)	13	(1)
Income tax expense/(benefit) attributable to policyholders	–	–	–	–
Underwriting and policy acquisition costs, net	68	63	56	43
Administrative and other operating expense (excl. depreciation/amortization)	67	63	65	50
Interest credited to policyholders and other interest	75	84	(3)	–
Restructuring provisions and other items not included in BOP	1	1	–	–
Total BOP benefits, losses and expenses	364	324	358	338
Business operating profit (before interest, depreciation and amortization)	**140**	**131**	**32**	**54**
Depreciation and impairments of property and equipment	–	–	1	1
Amortization and impairments of intangible assets	12	10	1	1
Interest expense on debt	1	1	–	–
Business operating profit before non-controlling interests	127	120	31	53
Non-controlling interests	–	–	1	4
Business operating profit	**127**	**120**	**30**	**49**
Supplementary information				
Gross written premiums and policy fees from external customers	392	378	321	374
Property, equipment and intangible assets[2]	184	193	82	77

[1] Europe includes approximately USD 486 million and USD 617 million of gross written premiums and future life policyholders' benefits for certain universal life-type contracts in the Group's Spanish operations for the six months ended June 30, 2011 and 2010, respectively (see note 1 of the Group's Annual Report 2010).
[2] As of June 30, 2011, and December 31, 2010, respectively.

Europe		Asia-Pacific and Middle East		Other		Eliminations		Total	
2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
5,762	6,274	1,057	644	117	260	–	–	7,174	7,324
4,103	3,845	229	235	64	54	(22)	(31)	4,933	4,698
935	835	67	96	2	1	–	–	1,159	1,089
5,038	4,680	296	331	66	56	(22)	(31)	6,092	5,787
4,817	4,457	246	279	62	44	–	–	5,722	5,379
1,809	1,692	37	26	6	6	–	–	2,082	1,952
61	234	9	(11)	–	–	–	–	70	224
1,870	1,925	46	15	6	6	–	–	2,153	2,176
995	866	53	39	14	19	–	–	1,053	916
(224)	(605)	(164)	87	(36)	(7)	–	–	(406)	(557)
771	261	(110)	125	(22)	12	–	–	647	358
199	142	98	80	131	96	(3)	(2)	483	375
7,657	6,785	279	499	177	158	(3)	(2)	9,005	8,288
4,387	4,168	60	70	35	31	–	–	4,853	4,663
1,245	803	(92)	133	(21)	10	–	–	1,157	910
(34)	(5)	5	2	–	–	–	–	(29)	(3)
602	520	76	95	48	41	–	–	848	763
651	510	152	141	104	77	(3)	(2)	1,036	839
116	112	14	15	–	–	–	–	201	211
–	(35)	–	(5)	–	–	–	–	–	(40)
6,967	6,073	214	450	166	159	(3)	(2)	8,067	7,343
689	**712**	**64**	**49**	**11**	**(1)**	**–**	**–**	**937**	**945**
12	12	2	2	–	–	–	–	15	16
136	137	1	2	2	2	–	–	152	152
26	34	–	–	–	–	–	–	28	35
515	529	61	45	8	(4)	–	–	742	743
13	19	–	–	–	–	–	–	14	23
502	**510**	**61**	**45**	**8**	**(4)**	**–**	**–**	**728**	**720**
5,012	4,655	295	310	42	33	–	–	6,062	5,750
3,656	3,569	13	11	63	62	–	–	3,999	3,912

Consolidated financial statements *continued*

Farmers – overview

Table 14.8

in USD millions, for the six months ended June 30	Total	
	2011	2010
Farmers Management Services		
Management fees and other related revenues	1,375	1,399
Management and other related expenses	724	718
Gross management result	651	681
Other net income (excl. items not included in BOP)	23	13
Business operating profit before non-controlling interest	674	694
Business operating profit	674	694
Farmers Re		
Gross written premiums and policy fees	1,481	2,491
Net earned premiums and policy fees	1,483	3,182
Insurance benefits and losses, net	(1,045)	(2,143)
Total net technical expenses	(455)	(990)
Net underwriting result	(16)	49
Net non-technical result (excl. items not relevant for BOP)	29	45
Net investment result income	42	57
Business operating profit before non-controlling interests	55	151
Business operating profit	55	151
Farmers business operating profit	**729**	**845**
Ratios, as % of net earned premiums and policy fees		
Farmers Re Combined ratio	101.1%	98.5%
Supplementary information		
Property, equipment and intangible assets[1]	2,471	2,468

[1] As of June 30, 2011 and December 31, 2010, respectively.

Consolidated financial statements *continued*

Other Operating Businesses – overview

Table 14.9

in USD millions, for the six months ended June 30	Alternative Investments	
	2011	2010
Gross written premiums and policy fees	–	–
Net earned premiums and policy fees	–	–
Net investment income	3	–
Other income	6	6
Total BOP revenues	9	6
Insurance benefits and losses, incl. PH dividends, net	–	–
Administrative and other operating expense (excl. depreciation/amortization)	6	11
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	(9)	(16)
Business operating profit	**(9)**	**(16)**

	Holding and Financing		Headquarters		Eliminations		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	64	62	3	3	–	–	67	65
	37	38	4	4	–	–	42	42
	249	247	21	15	(3)	(2)	270	260
	41	22	456	404	(76)	(64)	427	369
	327	307	481	424	(79)	(66)	739	671
	36	36	1	1	–	–	37	37
	10	38	543	521	(75)	(63)	485	507
	46	19	–	(100)	–	–	46	(81)
	–	–	40	39	–	–	40	39
	520	520	1	–	(4)	(2)	528	530
	(285)	(307)	(104)	(38)	–	–	(397)	(361)
	(285)	**(307)**	**(104)**	**(38)**	**–**	**–**	**(397)**	**(361)**

Consolidated financial statements *continued*

Non-Core Businesses – overview

Table 14.10

in USD millions, for the six months ended June 30	Total	
	2011	2010
Gross written premiums and policy fees	271	223
Net earned premiums and policy fees	(425)	212
Insurance benefits and losses, net	(388)	813
Policyholder dividends and participation in profits, net	212	(68)
Total net technical expenses	47	24
Net underwriting result	(296)	(556)
Net investment income	104	114
Net capital gains/(losses) and impairments on investments	244	251
Net non-technical result (excl. items not included in BOP)	(86)	(104)
Business operating profit before non-controlling interests	**(34)**	**(294)**
Business operating profit	**(34)**	**(295)**

15. Events after the balance sheet date

On July 4, 2011, the Group announced the successful placement of CHF 450 million of six-year senior notes which mature in 2017, and CHF 250 million of ten-year notes which mature in 2021 to investors in the Swiss retail and institutional market. The coupons have been set at 2.250 percent and 2.875 percent, respectively. Subsequently, on July 28, 2011, the Group announced the successful increase by CHF 50 million on the CHF 450 million of six-year senior notes. Both series of notes have been issued by Zurich Insurance Company Ltd under its Euro Medium Term Note Programme.

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 85) of Zurich Financial Services Ltd for the period ended June 30, 2011. 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

Richard Burger
Audit expert
Auditor in charge

Patrick Shouvlin
Global relationship partner

Zurich, August 10, 2011

Embedded value report

Contents

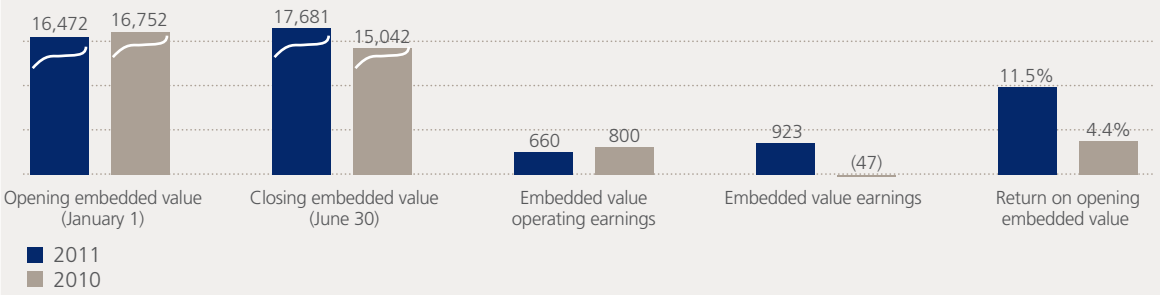
This report describes the development of the embedded value of the Zurich Financial Services Group (the Group) for the six months ended June 30, 2011.

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



Embedded value key results

in USD millions, for the six months ended June 30	2011[1,2]	2010	Change
Opening embedded value (January 1)	16,472	16,752[3]	(279)
Closing embedded value (June 30)	17,681	15,042[3]	2,638
Embedded value operating earnings	660	800[3]	(140)
of which new business value	*511*	*405*[2]	*107*
Embedded value earnings	923	(47)[3]	970
Return on opening embedded value	11.5%	4.4%[3]	7.1%

[1] A refinement in methodology for calculating new business value for corporate protection business was introduced in 2011 contributing USD 84 million to new business value, after tax, of which USD 82 million relates to international group protection business included in Other businesses, and 4.4 percent to new business margin, after tax in the first six months of 2011. The refinement results from the inclusion of the value expected to be generated over the entire life of the contract in corporate protection business rather than the value expected to be generated up to the next review date in those contracts.
[2] In 2011 new business figures have been determined including a liquidity premium in the discount rate and, for greater consistency with other European Insurers, a cost of capital applied to residual non-hedgeable risks of 4 percent. The 2010 comparatives have been restated to reflect these changes.
[3] Figures have been determined without a liquidity premium in the discount rate and a cost of capital applied to residual non-hedgeable risks of 2.5 percent

Global Life generated USD 660 million of embedded value operating earnings during the first six months of the year. This consisted of USD 511 million of new business value, USD 401 million of expected contributions from the in-force offset by USD 252 million in operating variances. Changes in economic conditions positively impacted value by USD 255 million. Non-operating variances provided a small positive contribution of USD 7 million. The depreciation of the U.S. dollar increased value by USD 844 million as a result of the effects of currency translation. In total the embedded value has increased by USD 1.2 billion after allowing for the impact of non-controlling interests and dividends of USD 559 million.

New business value was USD 511 million, an increase of USD 107 million or 26 percent compared with the same period of 2010. After adjusting for the effects of foreign currency translation and the refinement in methodology in relation to group protection business the new business value was largely flat compared with the same period of 2010. Corporate protection and savings business globally and Private Banking Client Solutions in the UK contributed to the increased new business value. However, this positive development was broadly offset by reduced margins in North America and the challenging domestic markets of Ireland and Spain. Overall, the new business margin was 26.9 percent including the effect of the refinement in methodology.

Embedded value operating earnings were USD 149 million excluding the impact of new business. Of this, USD 401 million was the expected emergence of value from in-force business, which was offset by operating variances of USD 252 million, arising from experience and other operating variances as well as assumptions changes.

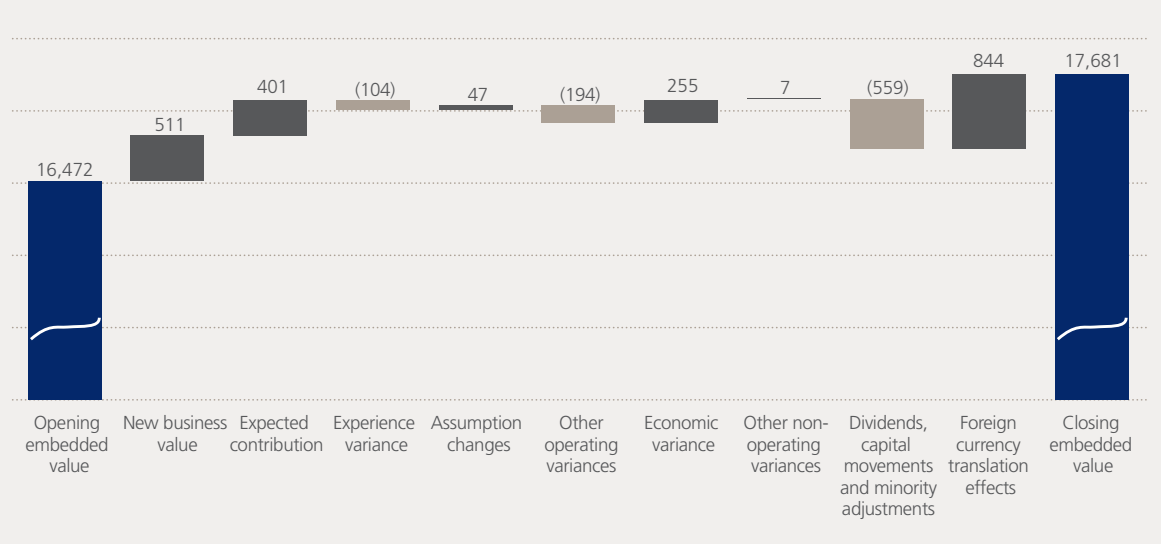
Embedded value earnings were USD 923 million generating an annualized return on embedded value of 11.5 percent which is significantly higher than in the same period of 2010, mainly due to improved market conditions and stable new sales.

Embedded value report *continued*

1. Analysis of embedded value earnings

All 2010 figures in this section have been restated to include a liquidity premium in the discount rate and a cost of capital applied to residual non-hedgeable risks of 4 percent for greater consistency with the 2011 figures, unless otherwise stated.

Embedded value development 2011
in USD millions, for the six months ended June 30



Analysis of embedded value earnings

in USD millions, for the six months ended June 30, 2011	Required capital	Free surplus	Share-holders' net assets	Value of business in force	Total
Opening embedded value	**4,466**	**2,126**	**6,592**	**9,880**	**16,472**
Dividends & capital movements start of period	(140)	(369)	**(509)**	**(26)**	**(535)**
New business value Global Life	**(29)**[1]	**(372)**	**(401)**	**912**	**511**
New business net of non-controlling interests	*(43)*[1]	*(355)*	*(399)*	*886*	*488*
Expected contribution at reference rate	16	35	**51**	**51**	**102**
Expected contribution in excess of reference rate	14	(12)	**2**	**297**	**298**
Transfer to free surplus	176 [1]	390	**566**	**(566)**	**–**
Experience variance	6	(7)	**(2)**	**(102)**	**(104)**
Assumption changes	(97)	12	**(85)**	**132**	**47**
Other operating variances	80	(155)	**(75)**	**(120)**	**(194)**
Operating earnings	**166**	**(110)**	**56**	**604**	**660**
Economic variances	98	11	**108**	**147**	**255**
Other non-operating variances	(14)	(7)	**(21)**	**28**	**7**
Embedded value earnings	**249**	**(106)**	**143**	**780**	**923**
Non-controlling interests	(15)	17	**2**	**(26)**	**(24)**
Foreign currency translation effects	269	92	**361**	**483**	**844**
Closing embedded value	**4,830**	**1,760**	**6,590**	**11,090**	**17,681**

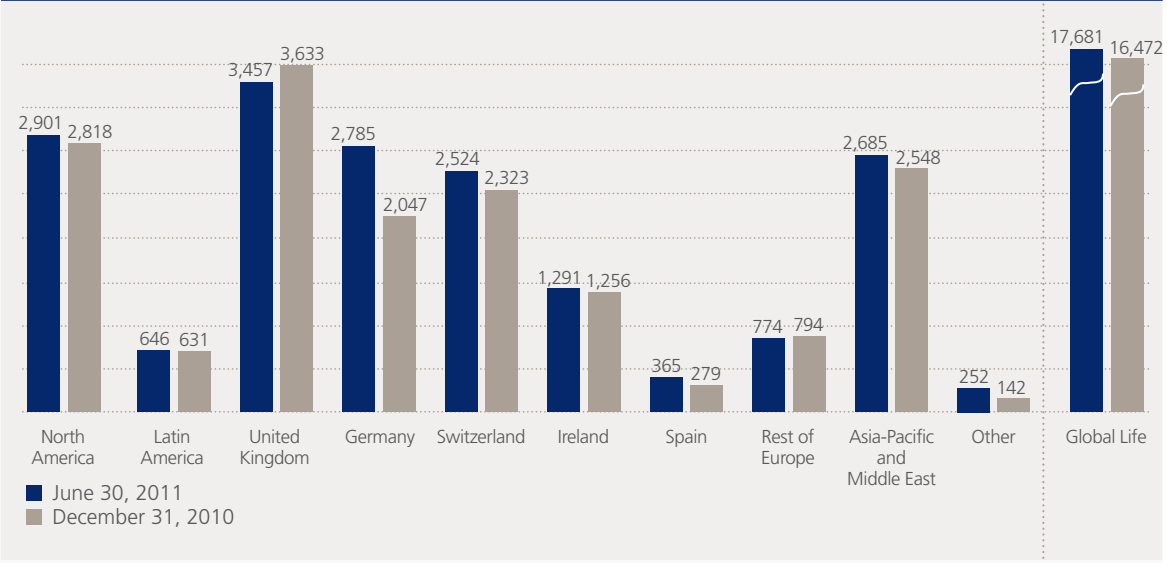
[1] As noted in section 10 c) the UK's required capital and free surplus allow for a Pillar 2 basis.

Analysis of embedded value earnings

in USD millions, for the six months ended June 30, 2010	Required capital	Free surplus	Share-holders' net assets	Value of business in force	Total
Opening embedded value	**3,705**	**2,849**	**6,554**	**10,198**	**16,752**
Dividends & capital movements	52	(353)	**(301)**	**(97)**	**(398)**
New business value Global Life	**(31)**	**(389)**	**(420)**	**811**	**392**
New business net of non-controlling interests	*(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 variances	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)**
Non-controlling interests	(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**

- Values in the above table have not been restated and have been calculated without liquidity premium in the discount rate and using a cost of capital charge of 2.5 percent applied to CRNHR

Embedded value by geographical region
in USD millions



The Group has applied the CFO Forum Market Consistent Embedded Value ('MCEV') Principles© for its embedded value calculations as of June 30, 2011.

Embedded value report *continued*

Embedded value by geographical region

in USD millions, as of June 30, 2011	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
North America	474	224	353.6%	**698**	2,640	(76)	(172)	(189)	**2,203**	**2,901**
Latin America	170	258	100.0%	**428**	267	(24)	(2)	(24)	**218**	**646**
Europe	3,502	913	110.4%	**4,415**	8,397	(520)	(604)	(492)	**6,781**	**11,196**
of which:										
United Kingdom	*928*	*153*	*133.3%*	*1,081*	*2,632*	*(78)*	*(68)*	*(111)*	*2,376*	*3,457*
Germany	*761*	*804*	*100.7%*	*1,564*	*1,834*	*(326)*	*(103)*	*(184)*	*1,221*	*2,785*
Switzerland	*647*	*9*	*100.0%*	*656*	*2,271*	*(45)*	*(251)*	*(106)*	*1,868*	*2,524*
Ireland	*379*	*86*	*100.0%*	*465*	*900*	*(20)*	*(8)*	*(46)*	*826*	*1,291*
Spain	*367*	*(183)*	*125.0%*	*185*	*243*	*(24)*	*(19)*	*(20)*	*181*	*365*
Rest of Europe	*420*	*45*	*104.8%*	*465*	*516*	*(27)*	*(155)*	*(25)*	*310*	*774*
Asia-Pacific and Middle East	651	277	121.7%	**928**	1,929	(76)	(19)	(77)	**1,757**	**2,685**
Other	32	88	101.6%	**120**	146	(6)	–	(8)	**132**	**252**
Global Life	**4,830**	**1,760**	**119.5%**	**6,590**	**13,378**	**(702)**	**(797)**	**(789)**	**11,090**	**17,681**

[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).

Embedded value by geographical region

in USD millions, as of December 31, 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
North America	471	189	353.9%	**660**	2,619	(81)	(171)	(209)	**2,158**	**2,818**
Latin America	157	270	100.7%	**428**	268	(23)	(22)	(20)	**203**	**631**
Europe	3,206	1,294	115.3%	**4,500**	7,817	(382)	(1,127)	(474)	**5,833**	**10,334**
of which:										
United Kingdom	*973*	*470*	*133.0%*	*1,443*	*2,626*	*(44)*	*(279)*	*(113)*	*2,190*	*3,633*
Germany	*660*	*690*	*100.7%*	*1,350*	*1,562*	*(242)*	*(451)*	*(171)*	*697*	*2,047*
Switzerland	*526*	*20*	*100.0%*	*546*	*2,122*	*(37)*	*(221)*	*(86)*	*1,778*	*2,323*
Ireland	*332*	*154*	*149.0%*	*486*	*835*	*(15)*	*(9)*	*(40)*	*770*	*1,256*
Spain	*354*	*(183)*	*125.0%*	*171*	*203*	*(22)*	*(30)*	*(42)*	*109*	*279*
Rest of Europe	*361*	*144*	*100.0%*	*505*	*469*	*(21)*	*(136)*	*(22)*	*290*	*794*
Asia-Pacific and Middle East	602	296	121.5%	**899**	1,815	(69)	(19)	(78)	**1,649**	**2,548**
Other	29	77	101.7%	**105**	50	(5)	–	(8)	**36**	**142**
Global Life	**4,466**	**2,126**	**124.3%**	**6,592**	**12,568**	**(560)**	**(1,339)**	**(790)**	**9,880**	**16,472**

[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).

Movement in embedded value, after tax

in USD millions, for the six months ended June 30, 2011	Opening embedded value	EV operating earnings	Economic and non-operating variance	EV earnings	Dividends, capital movements and non-controlling interests	Foreign currency translation effects	Closing embedded value
North America	**2,818**	**80**	40	**120**	(36)	–	**2,901**
Latin America	**631**	**38**	(11)	**28**	(14)	2	**646**
Europe	**10,334**	**334**	275	**609**	(498)	751	**11,196**
of which:							
United Kingdom	*3,633*	*(20)*	*78*	*58*	*(346)*	*112*	*3,457*
Germany	*2,047*	*249*	*268*	*516*	*29*	*192*	*2,785*
Switzerland	*2,323*	*18*	*88*	*106*	*(158)*	*253*	*2,524*
Ireland	*1,256*	*(20)*	*(50)*	*(70)*	*–*	*104*	*1,291*
Spain	*279*	*77*	*17*	*94*	*(33)*	*26*	*365*
Rest of Europe	*794*	*30*	*(126)*	*(95)*	*11*	*64*	*774*
Asia-Pacific and Middle East	**2,548**	**110**	(37)	**74**	(7)	70	**2,685**
Other	**142**	**97**	(5)	**92**	(3)	21	**252**
Global Life	**16,472**	**660**	263	**923**	(559)	844	**17,681**

EV operating earnings

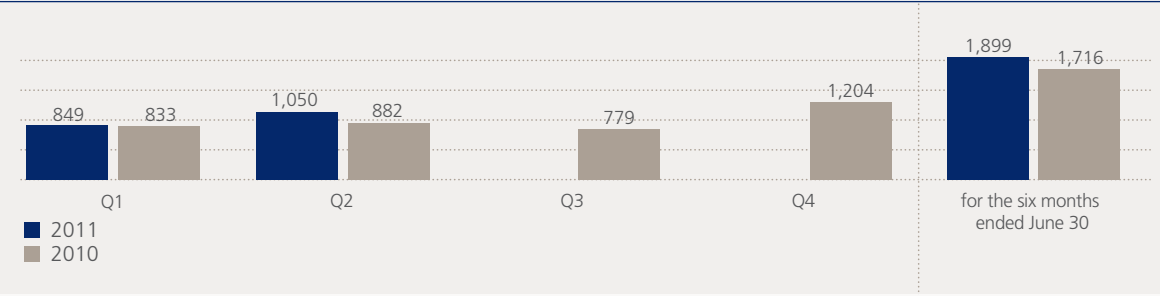
in USD millions, for the six months ended June 30, 2011	Expected contribution	New business value	Operating experience variances	Operating assumption changes	Other experience variances	EV operating earnings
North America	37	22	(7)	4	24	**80**
Latin America	20	33	(27)	29	(17)	**38**
Europe	286	269	(30)	(21)	(170)	**334**
of which:						
United Kingdom	*58*	*73*	*(6)*	*(36)*	*(109)*	*(20)*
Germany	*96*	*82*	*(1)*	*42*	*30*	*249*
Switzerland	*64*	*13*	*(4)*	*–*	*(54)*	*18*
Ireland	*13*	*33*	*(19)*	*1*	*(47)*	*(20)*
Spain	*22*	*50*	*1*	*(16)*	*21*	*77*
Rest of Europe	*33*	*18*	*–*	*(11)*	*(10)*	*30*
Asia-Pacific and Middle East	57	73	(25)	32	(27)	**110**
Other	–	114	(15)	3	(5)	**97**
Global Life	**401**	**511**	**(104)**	**47**	**(194)**	**660**

Embedded value report *continued*

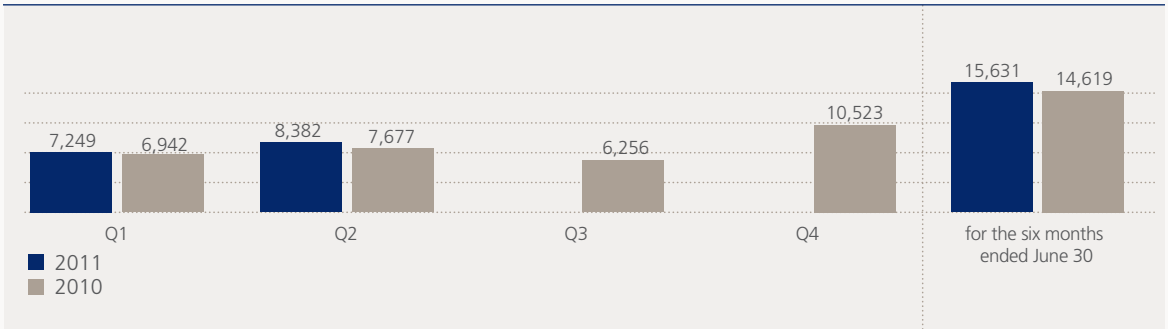
2. New business

All 2010 figures in this section have been restated to include a liquidity premium in the discount rate and a cost of capital applied to residual non-hedgeable risks of 4 percent for greater consistency with the 2011 figures.

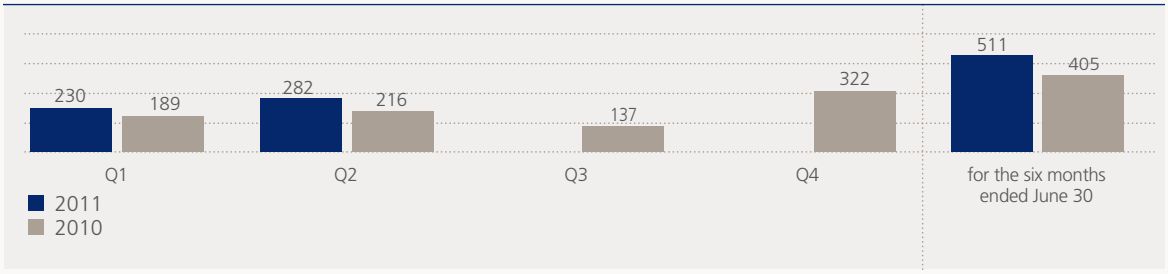
Annual premium equivalent (APE)
in USD millions



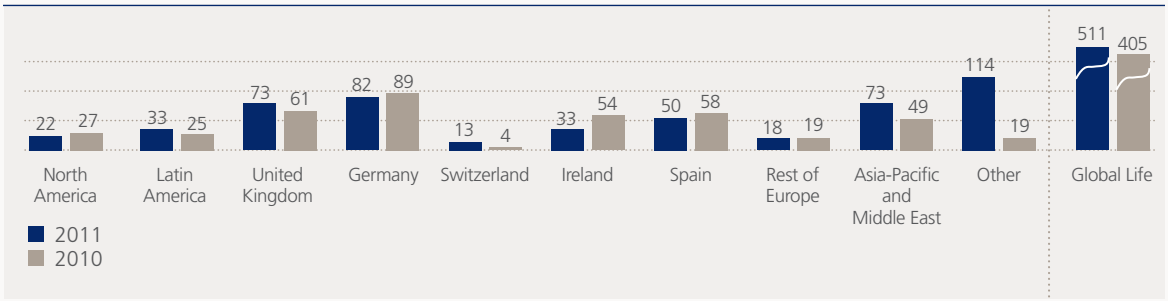
Present value of new business premiums (PVNBP)
in USD millions



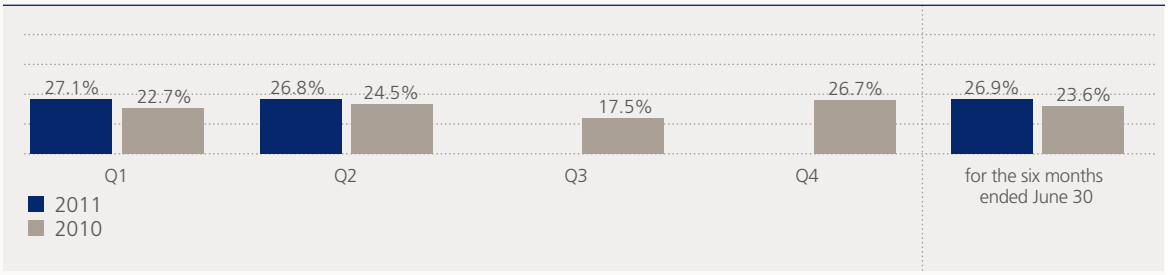
New business value
in USD millions



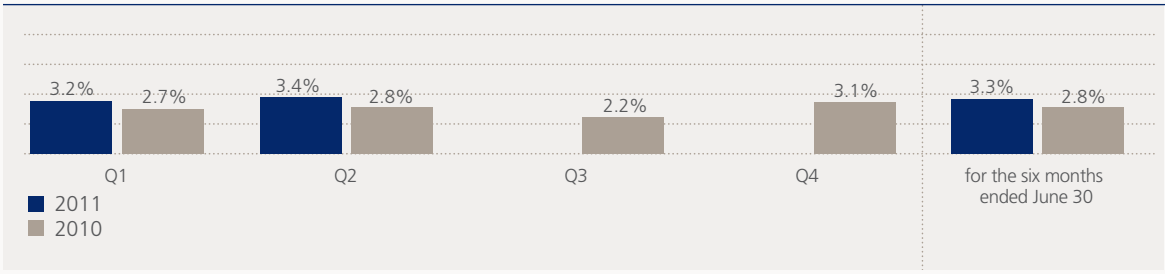
New business value by geographical region
in USD millions



New business margin (%APE)
in percent



New business margin (%PVNBP)
in percent



New business by quarter

in USD millions	2011					2010				
	Q1	Q2	Q3	Q4	Q2 YTD	Q1	Q2	Q3	Q4	Q2 YTD
Annual premium equivalent (APE)[1]	**849**	**1,050**			**1,899**	**833**	**882**	**779**	**1,204**	**1,716**
Annual premiums	499	645			1,144	419	460	442	651	880
Single premiums	3,496	4,051			7,547	4,139	4,221	3,371	5,529	8,361
Present value of new business premiums (PVNBP)[2]	7,249	8,382			15,631	6,942	7,677	6,256	10,523	14,619
Average annual premium multiplier	7.5	6.7			7.1	6.7	7.5	6.5	7.7	7.1
New business value	**230**	**282**			**511**	**189**	**216**	**137**	**322**	**405**
New business margin (% of APE)	**27.1%**	**26.8%**			**26.9%**	**22.7%**	**24.5%**	**17.5%**	**26.7%**	**23.6%**
New business margin (% of PVNBP)	**3.2%**	**3.4%**			**3.3%**	**2.7%**	**2.8%**	**2.2%**	**3.1%**	**2.8%**

[1] APE is new annual premiums plus 10% of new single premiums.
[2] PVNBP is new single premiums plus the present value of new annual premiums.

Embedded value report *continued*

New business by geographical region

in USD millions, for the six months ended June 30	APE		PVNBP		New business value		New business margin			
							% of APE		% of PVNBP	
	2011	2010	**2011**	2010	**2011**[2]	2010[1]	**2011**[2]	2010[1]	**2011**[2]	2010[1]
North America	50	45	442	424	22	27	44.1%	59.5%	5.0%	6.4%
Latin America	138	99	599	516	33	25	23.6%	25.8%	5.4%	4.9%
Europe	1,322	1,300	12,285	12,175	269	284	20.4%	21.9%	2.2%	2.3%
of which:										
United Kingdom	*536*	*445*	*4,969*	*4,020*	*73*	*61*	*13.7%*	*13.6%*	*1.5%*	*1.5%*
Germany	*274*	*270*	*2,718*	*2,832*	*82*	*89*	*30.1%*	*33.0%*	*3.0%*	*3.1%*
Switzerland	*75*	*42*	*810*	*367*	*13*	*4*	*17.4%*	*10.0%*	*1.6%*	*1.1%*
Ireland	*181*	*206*	*1,481*	*1,720*	*33*	*54*	*18.3%*	*26.0%*	*2.2%*	*3.1%*
Spain	*156*	*245*	*1,488*	*2,326*	*50*	*58*	*31.7%*	*23.5%*	*3.3%*	*2.5%*
Rest of Europe	*100*	*92*	*819*	*910*	*18*	*19*	*17.9%*	*21.0%*	*2.2%*	*2.1%*
Asia-Pacific and Middle East	307	215	1,711	1,182	73	49	23.8%	22.9%	4.3%	4.2%
Other	83	57	594	323	114	19	138.7%	32.8%	19.3%	5.8%
Global Life	**1,899**	**1,716**	**15,631**	**14,619**	**511**	**405**	**26.9%**	**23.6%**	**3.3%**	**2.8%**

[1] 2010 new business values have been restated for the inclusion of a liquidity premium in the discount rates applied and changed CRNHR assumptions.
[2] The term over which group protection business is valued now includes the term over which the business is expected to be retained, see section 11 for further details.

New business value in **North America** declined despite increasing volumes as a result of the change in persistency assumptions which lowered new business value on protection business. The effect of this was lessened by a decrease in the beginning of period interest rate environment, increasing new business value compared with the same period of 2010.

Latin America recorded an increase in new business value with strongly increased sales of profitable individual protection and savings business, partially offset by non-renewal of a large government managed scheme in Chile.

Overall, in **Europe** sales were slightly down on local currency basis compared with the previous period due to some of the challenging European markets. There were large offsetting effects with strong improvements to new business value in the UK and Switzerland.

The **UK** contributed a strong increase in sales and achieved an increase of 14 percent in APE without compromising margins, the main drivers being the Private Banking Client Solutions and corporate protection and savings business. Overall the new business value increased by 15 percent on a local currency basis compared with the same period of 2010.

In **Germany**, sales decreased on local currency basis mainly due to non-renewal of a single premium contract in the first three months of 2011 and a re-pricing of unprofitable unit-linked contracts. New business value decreased by 10 percent on local currency basis.

In **Switzerland,** both APE and new business value increased by over of 50 percent compared with the same period of 2010 before assumption and model changes on a local currency basis. In the corporate protection and savings business the strong increase in APE was not fully translated into new business value as margins were reduced due to changes in business mix, while in Individual business both volume and business mix contributed to a strong increase in new business value.

In **Ireland**, the domestic business suffered from the challenging domestic market and the Group's unwillingness to compete with uneconomic pricing of domestic savings products. Furthermore cross border sales reduced in margin and value. New business value reduced by 43 percent on a local currency basis.

Sales in **Spain** remain at a low level. Despite the lower sales of savings products, new business value decreased by only USD 8 million compared with the same period of 2010, mainly as a result of higher sales of profitable protection business.

For **Asia-Pacific and Middle East**, sales improved significantly due to strong development of corporate protection and savings business while margins increased slightly. This improvement was further amplified by increased sales in Australia and increased margins in Japan, despite a difficult period since the March earthquakes. These positive results were partially offset by reduced margins and a reduction of sales in Hong Kong. In total Asia-Pacific and Middle East delivered a strong increase in new business value of 36 percent on a local currency basis compared with the same period of 2010.

In the **Other** region, the international corporate protection business performed well, with an increased volume of 90 percent as measured by APE. Before the methodology refinements, new business value increased by 44 percent on a local currency basis compared with the same period of 2010.

Embedded value report *continued*

3. Expected contribution and transfer to shareholder net assets

a) Expected contribution at reference rate
The expected contribution at reference rate is the projected change in the embedded value over the year using risk-free investment returns applicable at the start of the year. Expected contribution in relation to risk-free rates were lower in 2011 compared with the same period of 2010 due to the lower interest rate environment applying at the start of the period.

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. The expected return in excess of risk-free on sovereign debt in some European countries has increased compared with the same period of 2010. In North America the expected return decreased.

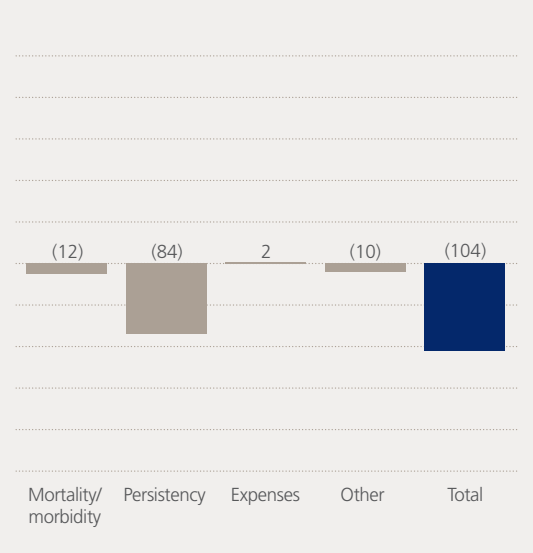
c) Transfer to free surplus
The expected transfer to shareholders' net assets shows the profits expected to emerge during the period in respect of business that was in force at the start of the year. The net effect is zero, as the reduction in value of business in force is offset by the increase in shareholders' net assets.

4. Operating, economic and other non-operating variances

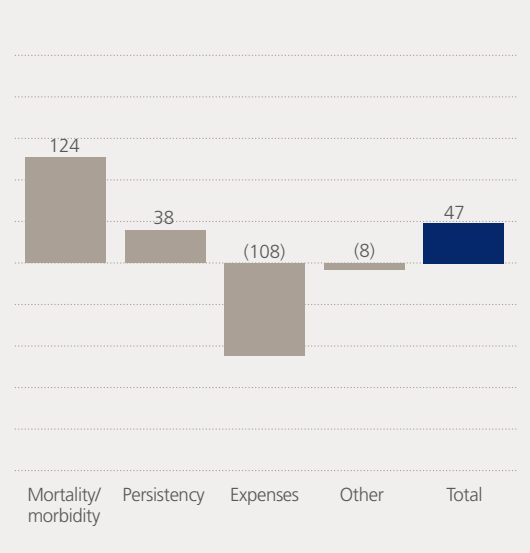
Operating variances

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.

Embedded value
Split of operating experience variance
in USD millions, for the six months ended June 30, 2011



Embedded value
Split of operating assumption changes
in USD millions, for the six months ended June 30, 2011



Mortality experience decreased the embedded value by USD 12 million, negative experience in Europe and Latin America was offset by positive impacts in other regions, particularly in North America, and in corporate risk and savings business globally. Following a mortality investigation into the corporate protection and savings business in Asia-Pacific and Middle East the mortality tables were updated resulting in a positive embedded value impact of USD 122 million. This is the main part of the USD 124 million increase in embedded value attributed to mortality / morbidity assumption changes.

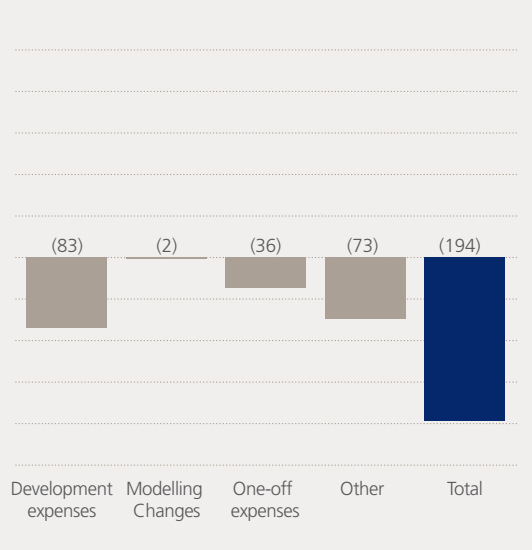
Persistency experience decreased the embedded value by USD 84 million mainly due to higher than expected rates of termination. In Ireland, difficult market conditions in combination with the Irish government announcement of a pension fund levy resulted in an increase in lapses which reduced value by USD 22 million. Corporate protection and savings business written in the Asia-Pacific and Middle East and the Other regions reduced value by USD 33 million. This impact resulted from one-off lapses of corporate schemes and elevated lapse rates in general. In Chile, higher than expected lapse rates and the loss of a large corporate scheme reduced embedded value by USD 17 million. In total, updated persistency assumptions increased embedded value by USD 38 million. The main positive contribution was from Germany where updated persistency assumptions increased value by USD 118 million. This was partially offset in the corporate savings business of Asia-Pacific and Middle East where updated persistency assumptions reduced embedded value by USD 48 million.

Expense overruns were immaterial over the period with some minor offsetting effects between North America and Europe. Revised maintenance expense assumptions reduced embedded value by USD 108 million. This was mainly driven by a review of cost allocation in the corporate protection and savings business of Asia-Pacific and Middle East. UK contributed with increased future expenses, partially the result of exchange rate movements increasing internal recharges.

Embedded value report *continued*

Other operating experience variances and assumption changes decreased the embedded value by USD 17 million, with smaller offsetting impacts between regions.

Embedded value
Split of other operating variances
in USD millions, for the six months ended June 30, 2011



Other operating variances reduced the embedded value by USD 194 million. Refinements to models were made in a number of countries resulting in a small decrease of USD 2 million in embedded value. In Germany, model refinements related to management rules increased embedded value by USD 90 million. In Switzerland, an expense review reduced embedded value by USD 75 million. Development expenses, particularly in the UK and Ireland, incurred to fund the Global Life growth strategy reduced value by USD 83 million.

One-off expenses reduced value by USD 36 million and included development for regulatory purposes in the UK and other one-off expenses. Other operating variances reduced embedded value by USD 73 million, mainly in the UK.

In the UK, USD 210 million of time value of financial options and guarantees was reclassified into certainty equivalent value for the guaranteed annuity option legacy business. In Germany, capital reducing initiatives recognizing options to reduce costs to shareholders in adverse economic scenarios were implemented in the model, reducing the time value of options and guarantees significantly. These changes can mainly not be observed in the above table as they do not impact total embedded value but rather the constituent parts.

Economic variances

Economic variances are the difference between the actual experience during the period and that implied by the economic assumptions at the start of the period and also include the impact of changes in assumptions in respect of future economic experience at the end of the period. Economic variances increased embedded value by USD 255 million in the six months to June 30, 2011.

During the first six months of 2011, interest rates generally increased in Europe. This increase has positively affected the value of spread business and traditional participating business in Europe. The higher interest rate level on this business also had the effect of widening spreads which reduced the time value of options and guarantees. This impact was partially offset by the increase in sovereign credit spreads in Ireland, Italy, Spain and Portugal reducing the embedded value since the methodology assumes that spread reflects default premium. Unit-linked funds generated a lower than expected return, particularly in Ireland, reducing the embedded value of that business. Protection business, on the other hand, benefited from the reduction in interest rates. Hence business in North America was positively affected by reduced interest rates. In total the economic variance increased embedded value by USD 255 million during first six months of 2011.

Other non-operating variances

Other non-operating variances included the impact of legal, tax and regulatory changes in the year as well as other significant one-off items.

Total other non-operating variances had a small positive contribution of USD 7 million. The main positive effect was that in the UK changes to corporate tax rates were announced increasing embedded value.

Embedded value report *continued*

5. Adjustments

a) Non-controlling interests
The adjustment to embedded value to remove non-controlling interests from new business value is included here, and largely arose from the interests of non-controlling shareholders in the Spanish and German operations.

b) 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.

Dividend and capital movements that occurred in the first six months of the year are shown as "start of period" movements.

Total capital movements for the first six months of 2011 amounted to USD 535 million.

In **North America**, a dividend of USD 36 million was paid.

In **Latin America**, dividends of USD 14 million was paid.

In **Europe**, the UK paid a dividend of USD 346 million, Switzerland paid a dividend of USD 158 million and the Group injected USD 28 million into Portugal. In combination with other smaller capital movements this resulted in a net dividend paid of USD 475 million from Europe.

In the **Asia-Pacific and Middle East** and the **Other** regions, a number of capital movements resulted in a net dividend of USD 10 million.

Changes in value for Global Life arising from dividend and capital movements are offset by equal and opposite value changes in the non-covered businesses of the Group and therefore have no impact on Group MCEV as shown in Section 9.

c) Foreign currency translation effects
Foreign currency translation effects represent the impact of adjusting values to end-of-period exchange rates. The weakening of the U.S. dollar against most other currencies in the first six months of 2011, and in particular the euro, British pound and Swiss franc, increased the U.S. dollar embedded value by USD 844 million.

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
	2011
IFRS shareholders' net assets[1]	**15.7**
Less non-controlling interests[2]	(1.1)
IFRS shareholders' equity net of joint ventures and non-controlling interests	**14.6**
Plus pension scheme liabilities[3]	0.2
Less intangible assets[4]	(7.1)
Deferred acquisition costs and deferred origination costs	*(14.7)*
Deferred front end fees	*5.9*
Present value of profits of acquired insurance contracts	*(0.8)*
Policyholder share of actuarial intangibles net of tax	*1.9*
Tax on shareholder share of actuarial intangibles	*2.3*
Goodwill	*(0.4)*
Other intangibles	*(1.3)*
Valuation differences[5]	(1.1)
Embedded value shareholders' net assets[6]	**6.6**
Value of business in force[7]	11.1
Embedded value	**17.7**

[1] Global Life balance sheet value.
[2] Includes Spanish and other non-controlling interests.
[3] Since pension scheme 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] Unrealised gains/losses on investments, statutory vs IFRS reserving requirements.
[6] EV shareholders' net assets net of non-controlling interests.
[7] EV value of business in force.

Embedded value report *continued*

7. Sensitivities

Sensitivities

in USD millions, as of June 30, 2011	Change in embedded value	Change in new business value
Actual embedded value	**17,681**	**511**
Operating sensitivities		
10% increase in initial expenses	n/a	(5%)
10% decrease in maintenance expenses	3%	6%
10% increase in voluntary discontinuance rates	(4%)	(11%)
10% decrease in voluntary discontinuance rates	4%	13%
5% improvement in mortality and morbidity for assurances	2%	8%
5% improvement in mortality for annuities	(1%)	(1%)
Required capital set equal to minimum solvency capital	–	–
Economic sensitivities		
100 basis points increase in risk free yield curve	(3%)	8%
100 basis points decrease in risk free yield curve	1%	(11%)
10% fall in equity market values	(2%)	(1%)
10% fall in property market values	(2%)	–
25% increase in implied volatilities for risk free yields	–	–
25% decrease in implied volatilities for risk free yields	–	–
25% increase in implied volatilities for equities and properties	(1%)	(1%)
25% decrease in implied volatilities for equities and properties	1%	1%

- Base for sensitivities is without liquidity premium and using a cost of capital charge of 4% applied to CRNHR
- Changes in embedded value and new business value are calculated on the basis of no liquidity premium and end of period assumptions, reducing embedded value by USD 560 million and new business value by USD 64 million.

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

8. Non-core life business

The Group has written life business in Zurich American Life Insurance Company and in its Centre operations, which are not managed by Global Life and are included in non-core businesses. The main products that have been written by these businesses outside Global Life were:

- 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.

Estimated embedded value of life businesses in Non-Core Businesses

in USD billions, as of December 31, 2010 and June 30, 2011	**2011**	2010
Shareholders' net assets	0.5	1.0
Value of business in force	0.1	(0.1)
Embedded value	**0.7**	**0.9**

Embedded value report *continued*

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 businesses which are valued at the unadjusted IFRS net asset value. Non-covered businesses include the non-core life businesses managed outside Global Life and tall other Group businesses including general insurance and Farmers.

Group MCEV

in USD billions, as of June 30, 2011	Covered Business MCEV	Non covered business	Total Group MCEV
Opening Group MCEV	**16.5**	**18.2**	**34.6**
Opening adjustments	0.0	0.0	0.0
Adjusted Opening MCEV	16.5	18.2	34.6
Operating MCEV earnings[1]	0.7	1.3	2.0
Non-operating MCEV earnings	0.3	0.0	0.3
Total MCEV Earnings	0.9	1.3	2.2
Other movements in IFRS net equity[2]	0.0	(0.1)	(0.1)
Closing adjustments[3]	0.3	(3.0)	(2.7)
Closing Group MCEV	**17.7**	**16.4**	**34.0**

[1] For non-covered business this is set equal to the change in Net Income After Tax (NIAT) over the period.
[2] For non-covered business this is set equal to the change in Other Comprehensive Income (OCI) excluding the currency translation adjustment over the period.
[3] Closing adjustments refer to dividend and capital movements, non-controlling interests and foreign currency translation effects.

10. Embedded value methodology

The Group has applied the Market Consistent Embedded Value (MCEV) Principles issued by the CFO Forum in October 2009, for its Embedded Value (EV) Report for the companies and businesses in its Global Life segment (the covered business). This report primarily relates to Global Life, but information relating to the life business included in 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 Consolidated IFRS financial statements. Embedded value excludes any value from future new business.

Recent refinements to methodology include:

- As of 2011 the Group has applied a liquidity premium to the key major operating currencies in its embedded value assumptions and, for greater consistency with other European Insurers, the cost of capital applied to residual non-hedgeable risks is set to 4 percent. Embedded values and new business values for 2010 disclosed in this report have been restated to include these changes, unless otherwise stated. The impact on opening embedded value for 2011 was an increase of USD 331 million and the impact on 2010 new business value was an increase of USD 45 million for the full year.
- A refinement in methodology for calculating new business value for corporate protection business was introduced in 2011 contributing USD 84 million to new business value, after tax, of which USD 82 million relates to international group protection business included in Other businesses, and 4.4 percent to new business margin, after tax in the first six months of 2011. The refinement results from the inclusion of the value expected to be generated over the entire life of the contract in corporate protection business rather than the value expected to be generated up to the next review date in those contracts. See section 11 b) for further details.

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' net asset value, as calculated in accordance with the Group's IFRS accounting policies. The contribution from these companies to the embedded value is approximately 1 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.

Embedded value report *continued*

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 companies, 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.

In the UK, a dual capital regime exists with the second pillar currently more stringent than the first pillar which is a solvency one basis. Under the second pillar basis the value of in-force is counted as an admissable asset with a subsequent risk charge. Under this basis, when the Group writes new business with an in-force value greater than the risk charge, the level of required capital decreases. Similarly, when in-force value emerges into shareholders net assets, a portion of this release needs to be allocated to required capital to offset the now reduced value of the in-force asset. This required capital impact is a feature of an economic capital mechanism which differs markedly from the current solvency one basis.

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 (CE) 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 cost (FC) reflects 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 (TVFOG) 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 asset/liability management risks, reinsurance credit risk), and non-financial risks (mortality, persistency, expenses and operational risk). The certainty equivalent value allows for best estimate shareholder cashflows. The CRNHR 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 CRNHR allows for diversification across risk types and across geographical segments. This approach complies with all areas of the MCEV Principles except Guidance 9.7, 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 343 million to embedded value.

A 4 percent cost of capital charge has been applied to the diversified present value of non-hedgeable risk based capital.

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 at the point of sale. Explicit allowance is made for frictional costs, time value of financial options and guarantees, and CRNHR. 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 year. Once calculated, the new business value will not change in local currency terms.

Embedded value report *continued*

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, 2011 values, by scaling to match the expected balance sheet figures. The new business model points were set up at May 31, 2011, 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 debt security cash flow is valued using a debt security 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 at the valuation date 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 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 at the valuation date.

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 are allocated 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 reassurance arrangement exists between two life companies within Global Life, the value of the reassurance is shown in the embedded value of the ceding company.

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 "Non-controlling interests".

l) Debt

Where a loan exists between a company in Global Life and a Group company outside 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 financial statements, with a liability recognized for Employee Benefit deficits under IAS 19. 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 at the valuation date would have been lower by USD 184 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 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 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 translated 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. This approach has also been applied to the analysis of movement. Valuations as at a specified date are translated at end-of-period exchange rates.

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

Embedded value report *continued*

r) Sensitivities

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

Operating sensitivities

A 10 percent increase in initial expenses was considered for new business values only.

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

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

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 per annum would increase to 25 percent per annum.

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

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 start of period one year swap rate. The expected return on corporate bonds is equal to the start 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 at the valuation date. 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.

Embedded value report *continued*

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 engaged Barrie & Hibbert who estimated a liquidity premium proxy to be equal to 50 percent times the (Credit spread over swaps less 40 basis points) where Credit spreads over swaps is equal to Credit spread on a representative corporate bond index less the swap rate for each particular currency.

The Group applies liquidity premium in the operating currencies of U.S. dollar, Euro, British pound or Swiss franc in its embedded value.

The liquidity premium is applied to the following lines of business:

- 100 percent for annuities;
- 75 percent for contracts with participating features, universal life contracts and fixed interest annuities in the U.S;
- 0 percent for all other lines of business.

The liquidity premium is not applied to the Time Value of Options and Guarantees, this would represent an area of non-compliance with the MCEV principles. All sensitivities in the report relate to the base yield curve with no liquidity premium.

"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 period 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 are based on the one 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 start 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.

The term over which group protection business policies are valued has been changed from the term up to the date of the first renewal option under the contract to a term equal to the period over which the policy is expected to be retained, i.e. the expected life time value of the policy. The life time value is only included for those businesses where reliable data exists so that renewal rates can be reasonably assessed and / or where renewals are not based on regular re-negotiations. Over year 2011 and 2012, and for smaller blocks of business beyond 2012, the life time value is included in new business when the policies renew such that this period will show an elevated level of new business value for this time period. After the in-force book has fully renewed the new business value will only be based on new policies and extraordinary premium increases or contract expansions.

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 perfomed in one county 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, by region

in USD millions, for the six months ended June 30	North America	
	2011	2010[1]
Embedded value information:		
Opening embedded value	**2,818**	2,655
Dividends and capital movements	(36)	(34)
New business value Global Life	22	28
Expected contribution	37	88
Experience variance	(7)	(24)
Assumption changes	4	(9)
Other operating variances	24	71
Operating earnings	**80**	153
Economic variance	42	208
Other non-operating variances	(2)	(5)
Embedded value earnings	**120**	356
Non-controlling interests	–	–
Foreign currency translation effects	–	–
Closing embedded value	**2,901**	2,978
New business information:		
Annual premiums	42	41
Single premiums	78	42
Annual premium equivalent (APE)	50	45
Present value of new business premiums (PVNBP)	442	424
New business value	**22**	28
New business margin (% of APE)	44.1%	61.7%
New business margin (% of PVNBP)	5.0%	6.6%
Returns		
Expected return	2.7%	6.7%
Operating return	5.0%	10.3%
Embedded value return	6.4%	18.0%

[1] 2010 values are calculated without liquidity premium and using a cost of capital charge of 2.5% applied to CRNHR.

Latin America		Europe		Asia-Pacific and Middle East		Other		Global Life	
2011	2010[1]	**2011**	2010[1]	**2011**	2010[1]	**2011**	2010[1]	**2011**	2010[1]
631	499	**10,334**	11,195	**2,548**	2,283	**142**	120	**16,472**	16,752
(14)	52	(475)	(425)	(7)	6	(3)	2	(535)	(398)
33	26	269	265	73	52	114	20	511	392
20	15	286	228	57	39	–	–	401	370
(27)	14	(30)	(2)	(25)	1	(15)	(5)	(104)	(17)
29	–	(21)	57	32	6	3	4	47	58
(17)	18	(170)	(59)	(27)	(18)	(5)	(15)	(194)	(3)
38	74	**334**	489	**110**	80	**97**	4	**660**	800
(13)	(15)	238	(1,079)	(8)	(7)	(3)	2	255	(890)
3	1	37	(7)	(29)	53	(2)	1	7	44
28	60	**609**	(597)	**74**	127	**92**	7	**923**	(47)
–	–	(23)	(26)	–	–	–	–	(24)	(26)
2	(44)	751	(1,069)	70	(118)	21	(7)	844	(1,238)
646	567	**11,196**	9,078	**2,685**	2,297	**252**	122	**17,681**	15,042
112	69	671	545	249	194	71	31	1,144	880
261	298	6,511	7,547	579	213	117	260	7,547	8,361
138	99	1,322	1,300	307	215	83	57	1,899	1,716
599	516	12,285	12,175	1,711	1,182	594	323	15,631	14,619
33	26	**269**	265	**73**	52	**114**	20	**511**	392
23.6%	26.9%	20.4%	20.4%	23.8%	24.2%	138.7%	35.6%	26.9%	22.8%
5.4%	5.1%	2.2%	2.2%	4.3%	4.4%	19.3%	6.3%	3.3%	2.7%
6.6%	5.5%	5.8%	4.2%	4.5%	3.4%	0.5%	0.3%	5.0%	4.5%
14.8%	20.9%	9.0%	9.1%	9.5%	7.5%	153.0%	20.0%	9.9%	9.5%
13.1%	18.4%	11.8%	(1.0%)	8.0%	9.5%	149.4%	22.8%	11.5%	4.4%

Appendix *continued*

Embedded value results Europe

in USD millions, for the six months ended June 30	United Kingdom		Germany	
	2011	2010[1]	**2011**	2010[1]
Embedded value information:				
Opening embedded value	**3,633**	3,685	**2,047**	2,401
Dividends and capital movements	(346)	(371)	31	(1)
New business value Global Life	73	62	82	73
Expected contribution	58	59	96	66
Experience variance	(6)	1	(1)	–
Assumption changes	(36)	36	42	(27)
Other operating variances	(109)	(46)	30	(19)
Operating earnings	**(20)**	113	**249**	93
Economic variance	42	(47)	268	(608)
Other non-operating variances	36	17	–	–
Embedded value earnings	**58**	83	**516**	(515)
Non-controlling interests	–	–	(2)	–
Foreign currency translation effects	112	(271)	192	(303)
Closing embedded value	**3,457**	3,127	**2,785**	1,581
New business information:				
Annual premiums	225	161	239	203
Single premiums	3,114	2,846	345	664
Annual premium equivalent (APE)	536	445	274	270
Present value of new business premiums (PVNBP)	4,969	4,020	2,718	2,832
New business value	**73**	62	**82**	73
New business margin (% of APE)	13.7%	14.0%	30.1%	27.0%
New business margin (% of PVNBP)	1.5%	1.6%	3.0%	2.6%
Returns				
Expected return	3.5%	3.6%	9.2%	5.5%
Operating return	3.4%	7.1%	20.5%	9.7%
Embedded value return	5.8%	6.2%	33.4%	(15.7%)

[1] 2010 values are calculated without liquidity premium and using a cost of capital charge of 2.5 percent applied to CRNHR.

Europe									
Switzerland		Ireland		Spain		Rest of Europe		Europe total	
2011	2010[1]	**2011**	2010[1]	**2011**	2010[1]	**2011**	2010[1]	**2011**	2010[1]
2,323	2,010	**1,256**	1,286	**279**	816	**794**	997	**10,334**	11,195
(158)	(12)	–	–	(12)	(28)	11	(13)	(475)	(425)
						–	–		
13	5	33	50	50	58	18	17	269	265
64	47	13	12	22	20	33	24	286	228
(4)	(5)	(19)	8	1	(5)	–	(3)	(30)	(2)
–	32	1	18	(16)	(2)	(11)	–	(21)	57
(54)	35	(47)	(32)	21	(3)	(10)	7	(170)	(59)
18	114	**(20)**	56	**77**	68	**30**	46	**334**	489
110	(35)	(50)	3	(7)	(203)	(125)	(188)	238	(1,079)
(22)	(26)	–	3	24	6	(1)	(7)	37	(7)
106	53	**(70)**	61	**94**	(130)	**(95)**	(150)	**609**	(597)
–	–	–	–	(21)	(26)	–	–	(23)	(26)
253	(76)	104	(188)	26	(102)	64	(130)	751	(1,069)
2,524	1,976	**1,291**	1,160	**365**	530	**774**	705	**11,196**	9,078
44	26	68	71	43	37	52	47	671	545
312	153	1,121	1,350	1,136	2,081	483	453	6,511	7,547
75	42	181	206	156	245	100	92	1,322	1,300
810	367	1,481	1,720	1,488	2,326	819	910	12,285	12,175
13	5	**33**	50	**50**	58	**18**	17	**269**	265
17.4%	11.7%	18.3%	24.2%	31.7%	23.6%	17.9%	18.7%	20.4%	20.4%
1.6%	1.3%	2.2%	2.9%	3.3%	2.5%	2.2%	1.9%	2.2%	2.2%
5.9%	4.7%	2.1%	1.9%	16.4%	5.1%	8.2%	4.9%	5.8%	4.2%
4.4%	8.3%	2.1%	9.1%	55.5%	18.5%	10.1%	8.8%	9.0%	9.1%
8.5%	5.2%	(1.9%)	9.6%	61.8%	(6.5%)	(5.5%)	(11.0%)	11.8%	(1.0%)

Statement by Directors

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

To the Board of Directors of Zurich Financial Services Ltd

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, 2011 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 107 to 112, 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 107 to 112) 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

Richard Burger Patrick Shouvlin

Zurich, August 10, 2011

Shareholder information

Contents

Zurich Financial Services Ltd registered share data

Key indicators

	06/30/2011	06/30/2010
Number of shares issued	146,586,896	145,636,664
Number of dividend-bearing shares[1]	146,586,896	145,636,664
Market capitalization (in CHF millions at end of period)	31,164	34,880
Authorized capital, number of shares	10,000,000	10,000,000
Contingent capital, number of shares	14,708,363	15,000,000

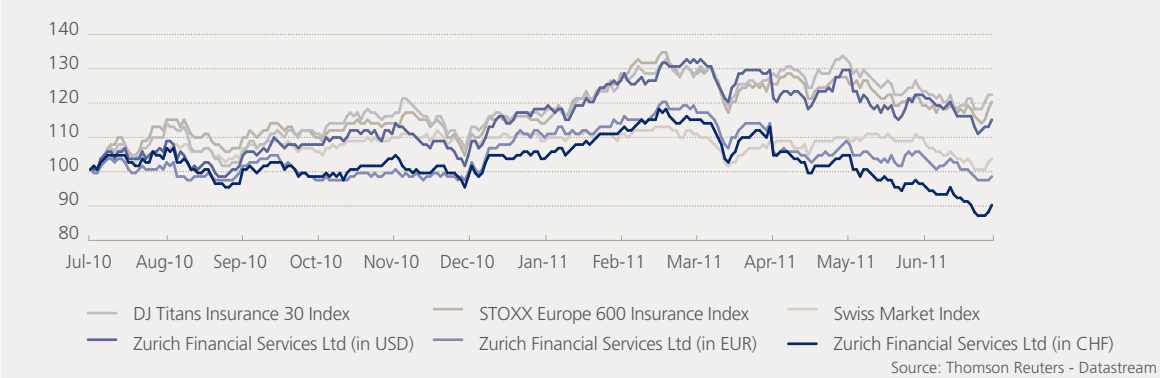
[1] Treasury shares are not entitled to dividends.

Per share data

in CHF	06/30/2011	06/30/2010
Gross dividend	17.00[1]	16.00[2]
Basic earnings per share	12.17	12.24
Diluted earnings per share	12.07	12.14
Nominal value per share	0.10	0.10
Price at end of period	212.60	239.50
Price period high	274.50	271.20
Price period low	204.90	224.90

[1] Gross dividend per registered share; payment date was as from April 7, 2011.
[2] Gross dividend per registered share; payment date was as from April 8, 2010.

Zurich share performance (indexed) over one year, ending June 30, 2011
in %



Source: Thomson Reuters - Datastream

Shareholder information *continued*

Financial calendar

Results Reporting for the Nine Months to September 30, 2011
November 10, 2011

Investors' Day
December 1, 2011

Annual Results Reporting 2011
February 16, 2012

Annual General Meeting 2012
March 29, 2012

Results Reporting for the Three Months to March 31, 2012
May 10, 2012

Half Year Results Reporting 2012
August 16, 2012

Results Reporting for the Nine Months to September 30, 2012
November 15, 2012

Contact information

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

Registered Office
Zurich Financial Services Ltd
Mythenquai 2
8002 Zurich, Switzerland

Media Relations
Zurich Financial Services Ltd, Switzerland
Telephone: +41 (0)44 625 21 00
E-mail: media@zurich.com

Investor Relations
Zurich Financial Services Ltd, Switzerland
Telephone: +41 (0)44 625 22 99
E-mail: investor.relations@zurich.com

Share Register Services
Zurich Financial Services Ltd, Switzerland
Telephone: +41 (0)44 625 22 55
E-mail: shareholder.services@zurich.com

Corporate Responsibility
Zurich Financial Services Ltd, Switzerland
Telephone: +41 (0)44 625 24 04
E-mail: corporate.responsibility@zurich.com

Securities Custody Service
Zurich Financial Services Ltd
Custody Accounts
c/o SIX SAG Ltd
P.O. Box, 4601 Olten, Switzerland
Telephone: +41 (0)58 399 61 45
Fax: +41 (0)58 499 61 91
Website: www.six-sag.com

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.

Disclaimer & Cautionary Statement

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

It should be noted that past performance is not a guide to future performance.

Persons requiring advice should consult an independent advisor.

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

THIS COMMUNICATION DOES NOT CONTAIN AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES; SECURITIES MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES ABSENT REGISTRATION OR EXEMPTION FROM REGISTRATION, AND ANY PUBLIC OFFERING OF SECURITIES TO BE MADE IN THE UNITED STATES WILL BE MADE BY MEANS OF A PROSPECTUS THAT MAY BE OBTAINED FROM THE ISSUER AND THAT WILL CONTAIN DETAILED INFORMATION ABOUT THE COMPANY AND MANAGEMENT, AS WELL AS FINANCIAL STATEMENTS.

The Half Year Report is published in English.

Design by Addison, www.addison.co.uk

Production by Multimedia Solutions AG, Zurich, Switzerland

Printed on Amadeus 75 Matt paper.
This paper is made from Elemental Chlorine Free (ECF) pulp, of which 75% is recycled fiber (50% post-consumer waste and 25% pre-consumer or mill waste), and 25% virgin wood fiber from well-managed forests independently certified according to the rules of the Forest Stewardship Council (FSC®), and has been awarded the NAPM recycled mark by the National Association of Paper Merchants. It is manufactured at a mill that is certified with the ISO 14001 environmental standard.

Printed mid August 2011 by Pureprint Group Limited – UK ISO 14001, FSC certified and CarbonNeutral® – using their *pure*print® and *alco*free® environmental print technology; vegetable inks were used throughout.

Zurich Financial Services Group

Mythenquai 2
8002 Zurich, Switzerland
Phone +41 (0)44 625 25 25
www.zurich.com

47623-1108

ZURICH®

Because change happenz™