

Consolidated Financial Statements

Zurich Financial Services Group

Half Year Report 2007

Consolidated income statements (unaudited)

in USD millions, for the six months ended June 30	Notes	2007	2006
Revenues			
Gross written premiums and policy fees		25,072	24,605
Less premiums ceded to reinsurers ¹		(10,384)	(3,114)
Net written premiums and policy fees		14,688	21,492
Net change in reserves for unearned premiums		(1,670)	(1,588)
Net earned premiums and policy fees		13,017	19,904
Farmers management fees		1,093	1,054
Net investment income	5	6,051	5,156
Net capital gains on investments and impairments	5	5,000	2,315
Net gain on divestments of businesses	4	2	–
Other income		909	722
Total revenues		26,073	29,151
Benefits, losses and expenses			
Insurance benefits and losses, gross of reinsurance	6	17,058	16,806
Less ceded insurance benefits and losses ¹	6	(9,131)	(1,859)
Insurance benefits and losses, net of reinsurance	6	7,927	14,947
Policyholder dividends and participation in profits	6	6,963	3,735
Underwriting and policy acquisition costs, net of reinsurance	6	3,541	3,328
Administrative and other operating expense		2,917	3,125
Amortization and impairments of intangible assets		115	122
Interest expense on debt	12	345	294
Interest credited to policyholders and other interest		472	450
Total benefits, losses and expenses		22,279	26,001
Net income before income taxes		3,794	3,150
Income tax expense	11	(1,083)	(1,092)
of which: - attributable to policyholders	11	(130)	(121)
- attributable to shareholders	11	(952)	(971)
Net income after taxes		2,711	2,058
Net income attributable to minority interests		(27)	(47)
Net income attributable to shareholders		2,684	2,011
in USD			
Basic earnings per share	15	18.53	13.77
Diluted earnings per share	15	18.37	13.69
in CHF			
Basic earnings per share	15	22.74	17.47
Diluted earnings per share	15	22.55	17.37

¹ Information pertaining to the transfer of the UK annuity business is contained in Note 3 of the financial statements. As a direct result of this transaction, premiums ceded to reinsurers include an amount of USD 7,268 million and ceded insurance benefits and losses include an amount of USD 6,982 million.

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

Consolidated statements of recognized income and expenses (unaudited)

in USD millions, for the six months ended June 30

	2007	2006
Net income attributable to shareholders	2,684	2,011
Net unrealized gains/(losses) on investments	(1,072)	(1,781)
Available for sale investments:	(1,003)	(1,781)
Change in net unrealized gains/(losses) (excluding currency translation adjustments)	(937)	(1,816)
Foreign currency translation adjustments	12	67
Net realized gains/(losses) and impairment charges reclassified to the income statement	(78)	(32)
Change in fair value of cash flow hedges	(69)	–
Cumulative translation adjustments	386	381
Net other recognized income and expense	739	611
Actuarial gains/(losses) on pension plans	719	611
Revaluation reserve from step acquisition	20	–
Total recognized income and expenses	2,737	1,222

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

Consolidated balance sheets (unaudited)

Assets	in USD millions, as of	Notes	06/30/07	12/31/06
Investments				
	Cash and cash equivalents		23,551	23,122
	Equity securities		114,273	109,005
	Debt securities		125,839	135,357
	Real estate held for investment		15,860	15,281
	Mortgage loans		11,393	10,806
	Policyholders' collateral and other loans		12,636	12,636
	Investments in associates		153	153
	Other investments		3,286	3,644
	Total investments ¹	5	306,990	310,003
	Reinsurers' share of reserves for insurance contracts ¹		27,175	20,063
	Deposits made under assumed reinsurance contracts		1,471	2,022
	Deferred policy acquisition costs	10	14,138	13,197
	Deferred origination costs	10	938	815
	Accrued investment income ¹		2,709	2,654
	Receivables		12,910	11,436
	Other assets		3,419	3,914
	Mortgage loans given as collateral		2,243	2,426
	Deferred tax assets	11	2,053	2,727
	Property and equipment		1,925	1,905
	Goodwill	13	890	660
	Other intangible assets	13	2,658	2,425
	Total assets		379,519	374,246

¹ Information pertaining to the transfer of the UK annuity business is contained in Note 3 of the financial statements. As a direct result of this transaction, investments and associated other assets decreased by USD 7,410 million and Reinsurers' share of reserves for insurance contracts increased by USD 7,119 million.

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	06/30/07	12/31/06
Liabilities			
Reserve for premium refunds		677	655
Liabilities for investment contracts	8	53,465	50,705
Deposits received under ceded reinsurance contracts		1,811	2,375
Deferred front-end fees		5,662	5,395
Reserves for insurance contracts	7	246,795	240,648
Obligation to repurchase securities		5,820	6,144
Accrued liabilities		2,821	2,676
Other liabilities		19,678	22,757
Collateralized loans		2,243	2,426
Deferred tax liabilities	11	4,701	4,757
Debt related to capital markets and banking activities	12	1,403	1,889
Senior and subordinated debt	12	8,037	7,713
Total liabilities		353,113	348,142
Equity			
Share capital		10	10
Additional paid-in capital		10,328	10,448
Net unrealized gains/(losses) on investments		(253)	819
Cumulative translation adjustment		1,208	823
Other recognized income and expenses		(546)	(1,286)
Retained earnings		14,657	14,102
Common shareholders' equity		25,405	24,916
Preferred securities		671	671
Shareholders' equity		26,077	25,587
Minority interests		329	517
Total equity		26,406	26,105
Total liabilities and shareholders' equity		379,519	374,246

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

Consolidated statements of cash flows (unaudited)

in USD millions, for the six months ended June 30	2007	2006
Cash flows from operating activities		
Net income attributable to shareholders	2,684	2,011
Adjustments for:		
Net gain on divestments of businesses	(2)	–
Share of equity in income from investments in associates	(12)	(35)
Depreciation, amortization and impairments of fixed and intangible assets	211	217
Other non-cash items	129	767
Underwriting activities:	(2,700)	2,951
<i>Reserves for insurance contracts, gross</i>	3,321	2,256
<i>Reinsurers' share of reserves for insurance contracts</i>	(6,582)	202
<i>Liabilities for investment contracts</i>	1,204	930
<i>Deferred policy acquisition costs</i>	(521)	(609)
<i>Deferred origination costs</i>	(99)	(43)
<i>Deposits made under assumed reinsurance contracts</i>	551	442
<i>Deposits received under ceded reinsurance contracts</i>	(574)	(227)
Investments:	5,552	(6,480)
<i>Net capital gains on investments and impairments</i>	(5,000)	(2,315)
<i>Net change in trading securities</i>	23	(283)
<i>Sales and maturities</i>		
<i>Debt securities</i>	44,482	31,145
<i>Equity securities</i>	30,758	24,565
<i>Other (primarily other investments)</i>	13,336	11,676
<i>Purchases</i>		
<i>Debt securities</i>	(36,633)	(34,464)
<i>Equity securities</i>	(28,151)	(24,037)
<i>Other (primarily other investments)</i>	(13,263)	(12,767)
Movement in receivables and payables	(490)	123
Net changes in other operational assets and liabilities	(1,440)	(1,374)
Deferred income tax, net	857	489
Net cash provided by/(used in) operating activities	4,789	(1,331)

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	2007	2006
Cash flows from investing activities		
Sales of property and equipment	102	50
Purchase of property and equipment	(129)	(137)
Investments in associates, net	7	7
Acquisitions of companies, net of cash acquired	27	–
Divestments of companies, net of cash balances	18	–
Other acquisitions and divestments related cashflow ¹	(260)	–
Dividends from associates	2	4
Net cash provided by/(used in) investing activities	(233)	(76)
Cash flows from financing activities		
Proceeds from sale and repurchase agreements	(471)	(110)
Dividends paid	(1,315)	(34)
Share buyback	(1,018)	–
Redemption of preferred securities and repayments to minority interests	–	(794)
Issuance of debt	1,651	87
Payments on debt outstanding	(1,414)	(111)
Net change of debt for capital markets and banking activities	(545)	192
Net cash (used in) financing activities	(3,113)	(770)
Foreign currency translation effects on cash and cash equivalents	301	973
Change in cash and cash equivalents excluding change in cash received as collateral for securities lending	1,744	(1,204)
Cash and cash equivalents as of January 1 excluding cash received as collateral for securities lending	19,302	18,911
Cash and cash equivalents as of June 30 excluding cash received as collateral for securities lending	21,046	17,707
Change in cash received as collateral for securities lending	(1,314)	(514)
Cash and cash equivalents as of January 1, including cash received as collateral for securities lending	23,122	23,482
Cash and cash equivalents as of June 30, including cash received as collateral for securities lending	23,552	21,764
Other supplementary cash flow disclosures		
in USD millions		
Other interest income received	4,541	3,779
Dividend income received	1,384	1,120
Other interest expense paid	(756)	(662)
Income tax paid	(1,046)	(853)

¹ This line item consists of acquisitions that have not yet been fully consolidated in the current period. The line contains the cash outflow associated with the acquisition of NASTA.

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As of June 30, 2007 and 2006, cash and cash equivalents restricted as to use were USD 900 million and USD 335 million, respectively. Cash and cash equivalents held for the benefit of policyholders in connection with unit-linked products amounted to USD 6,701 million and USD 5,141 million as of June 30, 2007 and 2006, respectively. Cash received as collateral for securities lending was USD 2,506 million and USD 4,057 million as of June 30, 2007 and 2006, respectively.

Cash and cash equivalents	in USD millions, as of June 30	
	2007	2006
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	5,865	4,604
Cash equivalents	15,181	13,103
Cash held as collateral for securities lending	2,506	4,057
Total	23,552	21,764

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

Consolidated statements of equity (unaudited)

in USD millions

	Share capital	Treasury shares	
Balance as of December 31, 2005, as previously reported	186	–	
Total adjustments due to implementation of IAS 19 SoRIE option	–	–	
Balance as of December 31, 2005, as restated	186	–	
Issuance of share capital	1	–	
Distributions to shareholders:			
Nominal value reduction of share capital ¹	(177)	–	
Dividends	–	–	
Redemption of preferred securities	–	–	
Share-based payment transactions	–	–	
Treasury share transactions	–	–	
Total recognized income and expense, net of tax	–	–	
Net changes in capitalization and minority interests	–	–	
Balance as of June 30, 2006	10	–	
Balance as of December 31, 2006, as previously reported	10	–	
Total adjustments due to implementation of IAS 19 SoRIE option	–	–	
Balance as of December 31, 2006, as restated	10	–	
Issuance of share capital ²	–	–	
Distributions to shareholders:			
Nominal value reduction of share capital	–	–	
Dividends	–	–	
Redemption of preferred securities	–	–	
Share-based payment transactions	–	–	
Treasury share transactions	–	–	
Share buyback program ³	–	–	
Total recognized income and expense, net of tax	–	–	
Net changes in capitalization and minority interests	–	–	
Balance as of June 30, 2007	10	–	

¹ As approved by the Annual General Meeting on April 20, 2006, the share capital was reduced by a nominal value reduction of CHF 2.40 per share from CHF 2.50 to CHF 0.10 in respect of each registered share. The payment to shareholders relates to this nominal value reduction. The nominal value reduction of share capital in USD is adjusted for cumulative translation adjustments.

² The number of common shares in issue as of June 30, 2007 was 145,472,560 (December 31, 2006: 144,749,399, December 31, 2005: 144,006,955, June 30, 2006: 144,562,201).

³ On February 15, 2007, the Board of Zurich Financial Services authorized a share buyback of up to CHF 1.25 billion (approximately USD 1 billion) over the course of 2007. A proposal to cancel all repurchased shares will be submitted to shareholders at the Annual General Meeting in 2008. As of June 30, 2007, 3,432,500 fully paid shares, with nominal value CHF 0.10, have been bought back at an average price of CHF 364.00 per share. The total cost of USD 1,025 million was deducted from shareholders' equity. As of June 30, 2007 the number of treasury shares deducted from equity was 3,602,718, which comprises shares repurchased under the buy back program and shares held to cover employee share and option plans.

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

Additional paid-in capital	Net unrealized gains/(losses) on investments	Cumulative translation adjustment	Net other recognized income and expense	Retained earnings	Common shareholders' equity	Preferred securities	Total shareholders' equity	Minority interests	Total equity
10,316	1,138	(111)	–	9,801	21,330	1,096	22,426	814	23,240
–	–	–	(1,658)	248	(1,410)	–	(1,410)	(8)	(1,418)
10,316	1,138	(111)	(1,658)	10,049	19,920	1,096	21,016	806	21,822
76	–	–	–	–	77	–	77	–	77
–	–	–	–	–	(177)	–	(177)	–	(177)
–	–	–	–	(524)	(524)	(26)	(550)	(8)	(558)
–	–	–	–	–	–	(425)	(425)	(355)	(780)
(25)	–	–	–	–	(25)	–	(25)	–	(25)
1	–	–	–	–	1	–	1	–	1
–	(1,781)	381	611	1,985	1,196	26	1,222	87	1,309
–	–	–	–	–	–	–	–	(31)	(31)
10,367	(643)	270	(1,048)	11,510	20,468	671	21,139	499	21,637
10,448	819	823	–	13,760	25,860	671	26,531	525	27,056
–	–	–	(1,286)	342	(944)	–	(944)	(8)	(952)
10,448	819	823	(1,286)	14,102	24,917	671	25,588	517	26,105
134	–	–	–	–	134	–	134	–	134
–	–	–	–	–	–	–	–	–	–
–	–	–	–	(1,292)	(1,292)	(21)	(1,313)	(8)	(1,321)
–	–	–	–	–	–	–	–	–	–
(54)	–	–	–	–	(54)	–	(54)	–	(54)
8	–	–	–	–	8	–	8	–	8
(208)	–	–	–	(817)	(1,025)	–	(1,025)	–	(1,025)
–	(1,072)	386	739	2,662	2,716	21	2,737	35	2,772
–	–	–	–	–	–	–	–	(215)	(215)
10,328	(253)	1,208	(546)	14,657	25,405	671	26,077	329	26,406

1. Basis of presentation

The half year consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting". The accounting policies used to prepare the consolidated financial statements comply with International Financial Reporting Standards (IFRS), and are consistent with those set out in the notes to the Annual Report 2006 of Zurich Financial Services Group (the Group) except as set out in note 3 below.

The unaudited half year consolidated financial statements should be read in conjunction with the Group's Annual Report 2006. The Group's independent auditors have reviewed the unaudited half year consolidated financial statements. Their report is set out on page 69.

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

The consolidated financial statements have been prepared in USD millions. Unless otherwise stated, figures are rounded to the nearest million. Rounded totals and the sum of rounded amounts may not be equal; percentage calculations are based on underlying amounts and may be different to percentages calculated using the disclosed rounded amounts. This approach has also been used for comparative figures.

Segment information

The Group is managed on a matrix basis, reflecting both line of business and geography. Accordingly, segment information is presented in two formats. The primary format is based on the operating businesses of the Group and how they are strategically managed to offer different products and services to specific customer groups. The Group's primary segments are defined as follows:

- General Insurance
- Global Life
- Farmers Management Services
- Other Businesses, and
- Corporate Functions

In order to be consistent with the Group's management structure, the following transfers between primary segments have been made for 2007 financial reporting:

- Universal Underwriters Life Insurance Company from General Insurance to Other Businesses
- ZSFH LLC from Other Businesses to Corporate Functions

The 2006 results have been restated to reflect these changes.

In 2006 Zurich Global Corporate (UK) Limited, Zurich Professional (UK) Limited, ZSL Financing (UK) Limited, Zurich Corporate Solutions (UK) Limited and certain lines of business of Eagle Star Insurance Company Limited were put into run-off as of April 1, 2006 and therefore were transferred from General Insurance to Other Businesses.

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

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

The only change concerning these secondary segments in 2007 was the transfer of Universal Underwriters Life Insurance Company from North America to Central Region.

The accounting policies for the segments are the same as those for the Group described in the summary of significant accounting policies in the Annual Report 2006, except as set out in note 3 below. 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 realized capital gains/(losses), which are eliminated.

2. Foreign currency translation and transactions

The table below summarizes the principal exchange rates that have been used for translation purposes. Net losses on foreign currency transactions included in the consolidated operating statements were USD (15) million and USD (24) million for the six months ended June 30, 2007 and 2006, respectively. Foreign currency exchange forward and swap gains included in the amounts above were USD 14 million and USD 99 million for the six months ended June 30, 2007 and 2006, respectively.

Table 2.1

USD per foreign currency unit

Principal exchange rates

	Balance sheets as of		Income statements and cash flows for the period ended	
	06/30/07	12/31/06	06/30/07	06/30/06
Euro	1.3542	1.3199	1.3291	1.2304
Swiss franc	0.8186	0.8203	0.8146	0.7882
British pound sterling	2.0088	1.9589	1.9701	1.7906

3. Basis of current and future presentation and comparability

Effect of new and revised accounting standards in 2007

For 2007 reporting, we have adopted the Statement of Recognized Income and Expense (SoRIE) option under IAS 19 Employee Benefits to recognize actuarial gains and losses arising from defined benefit pension and other defined benefit post-retirement plans as a liability with a corresponding adjustment to shareholders' equity after allowing for deferred taxes. As a result, we have reversed the charge recorded in the 2006 income statement for the unrecognized actuarial gains and losses. In previous years, the net cumulative unrecognized actuarial gains and losses exceeding ten percent of the higher of the defined benefit obligation and the fair value of plan assets were not recognized on the balance sheet, but rather through the income statement over the expected average remaining working lives of the employees participating in the plan (corridor approach). Therefore, 2006 figures have been restated to reflect this change as follows:

Table 3.1

in USD millions

	As reported	Amount of restatement	As restated
as of December 31, 2006			
Total equity	27,056	(952)	26,104
Other liabilities	21,368	1,389	22,757
for the six months ended June 30, 2006			
Net income attributable to shareholders	1,957	54	2,011

Transfer of UK annuity business

During the period, the Group's life operations in the United Kingdom entered into a reinsurance agreement to transfer the risk associated with a significant position of an annuities portfolio in the UK as of January 1, 2007. This is intended to be a first step in a transaction in which, subject to local regulatory and court approvals, the policies will be commuted to the reinsurer, who will then assume all rights and obligations under the policies.

As a result of the transaction, premiums ceded to reinsurers and ceded insurance benefits and losses increased by USD 7.3 billion and USD 7.0 billion, respectively. The transaction resulted in a net loss after tax of USD 59 million. In the consolidated balance sheets, total investments and associated other assets decreased by USD 7.4 billion and reinsurers' share of reserves for insurance contracts increased by USD 7.1 billion.

4. Changes in the scope of consolidation

During the six months ended June 30, 2007, the Group completed the acquisition and divestment of several businesses.

Changes in 2007

Acquisitions

On January 2, 2007, the Group purchased all of the remaining shares in the insurance intermediary Endsleigh Limited in the United Kingdom ("Endsleigh"). Since 2002 the Group had owned 45% of Endsleigh. An asset revaluation surplus arose from the revaluation of tangible and intangible assets of Endsleigh acquired by the Group in 2002 to the fair values of the initial accounting in 2007.

On March 5, 2007, the Group purchased 100% of the Spanish surety writer ACC Seguros y Reaseguros de Daños, S.A. ("ACC").

Goodwill arising from the initial accounting of these acquisitions amounted to USD 99 million, representing the expected growth opportunities and synergies within the Group. Identifiable intangible assets net of deferred tax amounted to USD 79 million, of which a major part related to contractual relationships.

Table 4.1

in USD millions, for the six months ended June 30

Business combinations

	Endsleigh	ACC	Total
Book value of net assets prior to acquisition	(3)	13	10
Fair value of net tangible assets acquired	(49)	16	(33)
Asset revaluation surplus	(20)	–	(20)
Separately identifiable intangible assets net of deferred tax	63	16	79
Goodwill	90	9	99
Total acquisition costs	84	41	125
Cash consideration	63	31	94
Equity instruments transferred	18	–	18
Transaction costs	3	1	4
Present value of deferred payments	–	9	9
Total acquisition costs	84	41	125
Cash and cash equivalents acquired	98	27	125

The Group purchased 66% of the insurance company OOO “NASTA” in Russia (“Nasta”) with an agreed path to 100% ownership by 2010. The transaction closed on April 4, 2007 and has been recorded as an unconsolidated investment under Other assets. The total consideration for the acquisition of 100% interest in Nasta will be composed of an initial cash payment (USD 260 million) and deferred payments. This total consideration is subject to purchase price provisions that depend on the occurrence of certain events. The Group is currently in the process of preparing the initial accounting.

Divestments

On February 1, 2007 the Group divested all of its shares in Truckwriters, Inc. in the United States, a specialist insurer for the trucking industry. In Australia, the Group sold Finium Trustee Limited and the Zurich Master Super Fund on May 31 and June 30, 2007 respectively, both being part of Australia’s superannuation business.

In the six months ended June 30, 2007, the Group recorded a gain on divestments before tax of USD 3 million. Total cash and net assets divested were USD 5 million and USD 20 million, respectively. The total consideration received net of transaction costs of USD 3 million amounted to USD 23 million.

Changes in 2006

In the six months ended June 30, 2006, the Group did not complete any significant acquisitions or divestments.

Significant events after the balance sheet date

On July 3, 2007, Farmers Group, Inc. (“FGI”) completed the acquisition of 100% of Bristol West Holdings, Inc. with total acquisition costs of USD 723 million (including transaction costs of USD 9 million). As part of the transaction, FGI sold the underlying insurance business, consisting of non-standard auto insurance, to the Farmers Exchanges (which FGI manages but does not own) for USD 370 million. The Group is currently in the process of preparing the initial accounting and expects the majority of the difference between the consideration paid and the consideration received from Farmers Exchanges to be capitalized as goodwill. This transaction did not have an impact on the scope of the Group consolidation for the reporting period ended June 30, 2007.

5. Investments

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

Table 5.1

in USD millions, for the six months ended June 30

Investment result

	Net investment income		Net capital gains/ (losses) on investments and impairments ¹		Investment result	
	2007	2006	2007	2006	2007	2006
Cash and cash equivalents	428	313	11	3	439	316
Equity securities	1,691	1,275	5,450	2,319	7,141	3,594
Debt securities	3,057	2,727	(698)	(622)	2,359	2,106
Real estate held for investment	464	408	314	630	778	1,037
Mortgage loans	261	233	–	3	260	235
Policyholders' collateral and other loans	278	296	(6)	(4)	272	292
Investments in associates	12	35	(2)	2	11	36
Other investments	208	200	(68)	(16)	140	184
<i>Short-term investments</i>	56	61	–	–	56	61
<i>Investments held by investment companies</i>	1	4	98	90	100	94
<i>Other</i> ²	151	135	(166)	(106)	(16)	29
Investment result, gross	6,400	5,485	5,000	2,315	11,400	7,800
Investment expenses ³	(349)	(329)	–	–	(349)	(329)
Investment result, net	6,051	5,156	5,000	2,315	11,051	7,471

¹ Impairments on total investments amounted to USD 6 million and USD 2 million for the six months ended June 30, 2007 and 2006, respectively.

² Including net capital losses on derivative financial instruments of USD (170) million and USD (100) million for the six months ended June 30, 2007 and 2006, respectively. Thereof net capital losses on derivatives attributable to cash flow hedging of USD (12) million for the six months ended June 30, 2007.

³ Including rental operating expenses for real estate held for investment of USD 87 million and 72 million for the six months ended June 30, 2007 and 2006, respectively.

Details of the investment balances as of June 30, 2007 and December 31, 2006 are given in the tables below by measurement category.

Breakdown of total investments	Table 5.2 as of		Total investments			
			06/30/07		12/31/06	
			USD millions	% of total	USD millions	% of total
Cash and cash equivalents			23,551	7.7%	23,122	7.5%
Equity securities (including trading equity portfolios in capital markets and banking activities):						
Fair value through profit or loss			99,855	32.5%	95,049	30.7%
<i>of which: trading</i>			2,924	1.0%	2,778	0.9%
<i>of which: trading equity portfolios in capital markets and banking activities</i>			2,018	0.7%	2,260	0.7%
Available-for-sale			14,418	4.7%	13,956	4.5%
Total equity securities			114,273	37.2%	109,005	35.2%
Debt securities:						
Fair value through profit or loss			17,422	5.7%	17,572	5.7%
<i>of which: trading</i>			532	0.2%	547	0.2%
Available-for-sale			102,930	33.5%	112,128	36.2%
Held-to-maturity			5,487	1.8%	5,657	1.8%
Total debt securities			125,839	41.0%	135,357	43.7%
Real estate held for investment			15,860	5.2%	15,281	4.9%
Mortgage loans			11,393	3.7%	10,806	3.5%
Policyholders' collateral and other loans			12,636	4.1%	12,636	4.1%
Investments in associates			153	0.0%	153	0.0%
Other investments:						
Short-term investments			1,617	0.5%	1,703	0.5%
Investments held by investment companies			1,591	0.5%	1,862	0.6%
Other			78	0.0%	79	0.0%
Total other investments			3,286	1.1%	3,644	1.2%
Total investments			306,990	100.0%	310,003	100.0%

As of June 30, 2007 and December 31, 2006 investments included USD 9,847 million and USD 11,512 million, respectively, of loaned securities. Cash and cash equivalents contained USD 2,506 million and USD 3,820 million of cash received as collateral for loaned securities as of June 30, 2007 and December 31, 2006, respectively. Non-cash collateral received for loaned securities was USD 7,193 million and USD 7,654 million as of June 30, 2007 and December 31, 2006, respectively.

Realized capital gains/(losses) and impairments on available-for-sale debt and equity securities	Table 5.3 in USD millions, for the six months ended June 30		Equity securities		Debt securities		Total	
			2007	2006	2007	2006	2007	2006
	Gross realized capital gains		695	520	389	177	1,083	697
Gross realized capital losses		(48)	(20)	(561)	(192)	(610)	(212)	
Impairments		(7)	1	6	1	(1)	1	
Total		639	500	(166)	(14)	473	486	

Table 5.4

in USD millions, as of

Unrealized net gains/(losses) on investments included in shareholders' equity

	Total	
	06/30/07	12/31/06
Equity securities: available-for-sale	2,007	2,034
Debt securities: available-for-sale	(2,570)	120
Other	150	137
Less: amount of net unrealized (gains)/losses on investments attributable to:		
Life policyholder dividends and other policyholder liabilities	121	(1,038)
Life deferred acquisition costs	78	(96)
Deferred income taxes	(28)	(312)
Minority interests	(11)	(26)
Total	(253)	819

6. Gross and ceded insurance revenues and expenses

Table 6.1

in USD millions, for the six months ended June 30

Insurance benefits and losses

	Gross		Ceded		Net	
	2007	2006	2007	2006	2007	2006
Losses and loss adjustment expenses	12,365	12,068	(1,373)	(1,629)	10,992	10,439
Life insurance death and other benefits	6,758	5,805	(527)	(141)	6,231	5,664
Decrease in future life policyholders' benefits	(2,065)	(1,067)	(7,231)	(89)	(9,296)	(1,156)
Total insurance benefits and losses	17,058	16,806	(9,131)	(1,859)	7,927	14,947

The impact on ceded insurance benefits and losses from the reinsurance of the annuity book in the United Kingdom (as described in note 3) amounted to USD 7.0 billion.

Table 6.2

in USD millions, for the six months ended June 30

Policyholder dividends and participation in profits

	Gross		Ceded		Net	
	2007	2006	2007	2006	2007	2006
Change in policyholders' contract deposits and other funds	649	552	–	–	649	552
Change in reserves for unit-linked products	3,620	1,576	–	–	3,620	1,576
Change in liabilities for investment contracts – unit-linked	2,691	1,559	–	–	2,691	1,559
Change in liabilities for investment contracts – other	2	48	–	–	2	48
Total policyholder dividends and participation in profits	6,963	3,735	–	–	6,963	3,735

Table 6.3

in USD millions, for the six months ended June 30

Underwriting and policy acquisition costs

	Gross		Ceded		Net	
	2007	2006	2007	2006	2007	2006
Underwriting and policy acquisition costs	4,016	3,695	(475)	(367)	3,541	3,328

Table 6.4

in USD millions, for the six months ended June 30

Net change in reserves for unearned premiums	Gross		Ceded		Net	
	2007	2006	2007	2006	2007	2006
Net change in reserves for unearned premiums	(1,897)	(1,966)	227	378	(1,670)	(1,588)

7. Reserves for insurance contracts

Table 7.1

in USD millions, as of

Reserves for insurance contracts	06/30/07	12/31/06
Gross		
Reserves for losses and loss adjustment expenses	66,412	64,535
Reserves for unearned premiums	16,741	14,668
Future life policyholders' benefits	75,203	76,503
Policyholders' contract deposits and other funds	18,477	18,934
Reserves for unit-linked contracts	69,963	66,008
Total reserves for insurance contracts, gross	246,795	240,648
Ceded		
Reserves for losses and loss adjustment expenses	(13,369)	(13,722)
Reserves for unearned premiums	(2,086)	(1,837)
Future life policyholders' benefits ¹	(8,819)	(1,485)
Policyholders' contract deposits and other funds	(3,100)	(3,258)
Total ceded reserves for insurance contracts (reinsurers' share of reserves for insurance contracts, gross) ²	(27,374)	(20,302)
Net		
Reserves for losses and loss adjustment expenses	53,043	50,814
Reserves for unearned premiums	14,655	12,830
Future life policyholders' benefits	66,384	75,018
Policyholders' contract deposits and other funds	15,377	15,676
Reserves for unit-linked contracts	69,963	66,008
Total reserves for insurance contracts, net	219,421	220,346

¹ Information pertaining to the transfer of the UK annuity business is contained in Note 3 of the financial statements. As a direct result of this transaction, ceded future life policyholders' benefits include an amount of USD 7,119 million.

² Gross of allowance for uncollectible amounts of USD 198 million and USD 239 million as of June 30, 2007 and December 31, 2006, respectively.

Development of reserves for losses and loss adjustment expenses

Table 7.2

in USD millions

	Gross		Ceded		Net	
	2007	2006	2007	2006	2007	2006
As of January 1	64,535	60,425	(13,722)	(14,231)	50,814	46,194
Losses and loss adjustment expenses incurred:						
Current year	12,607	11,747	(1,150)	(1,128)	11,457	10,619
Prior years	(242)	321	(223)	(501)	(465)	(180)
Total	12,365	12,068	(1,373)	(1,629)	10,992	10,439
Losses and loss adjustment expenses paid:						
Current year	(3,063)	(2,588)	113	96	(2,950)	(2,492)
Prior years	(8,427)	(8,810)	1,895	2,085	(6,532)	(6,725)
Total	(11,490)	(11,397)	2,008	2,181	(9,482)	(9,216)
Acquisitions / (divestments) of companies and businesses	7	–	(4)	–	3	–
Foreign currency translation effects	993	1,941	(278)	(319)	715	1,622
As of June 30	66,412	63,037	(13,369)	(13,999)	53,043	49,038

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

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

Roll forward of future life policyholders' benefits

Table 7.3

in USD millions

	Gross		Ceded		Net	
	2007	2006	2007	2006	2007	2006
As of January 1	76,503	71,292	(1,485)	(1,305)	75,018	69,987
Premiums and claims	(4,163)	(2,543)	(6,731)	(73)	(10,894)	(2,615)
Interest and bonuses credited to policyholders	1,504	1,419	(52)	(28)	1,452	1,391
Change in assumptions	478	(2)	(543)	13	(65)	11
Divestments/transfers	(3)	(35)	1	–	(2)	(35)
(Decrease)/increase recorded in shareholders' equity	(505)	(533)	10	14	(496)	(519)
Foreign currency translation effects	1,391	5,168	(20)	(57)	1,371	5,111
As of June 30	75,203	74,767	(8,819)	(1,435)	66,384	73,332

The impact on ceded future life policyholders' benefits reserves from the reinsurance of the annuity book in the United Kingdom (as described in note 3) amounted to USD 7.1 billion.

Table 7.4

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

in USD millions, as of	06/30/07	12/31/06
Annuities	2,194	2,136
Universal life and other investment contracts	10,495	10,594
Policyholder dividends	5,788	6,204
Total	18,477	18,934

Table 7.5

Roll forward of policyholders' contract deposits and other funds

in USD millions	Gross		Ceded		Net	
	2007	2006	2007	2006	2007	2006
As of January 1	18,934	18,985	(3,258)	(3,504)	15,676	15,481
Premiums and claims	(661)	(681)	220	193	(441)	(488)
Interest and bonuses credited to policyholders	678	515	(64)	(68)	614	448
Change in assumptions	(3)	(2)	–	–	(3)	(2)
(Decrease)/increase recorded in shareholders' equity	(720)	(1,101)	6	6	(714)	(1,095)
Foreign currency translation effects	250	589	(5)	(6)	245	582
As of June 30	18,477	18,305	(3,100)	(3,380)	15,377	14,925

Table 7.6

Roll forward of reserves for unit-linked contracts

in USD millions	Gross		Ceded		Net	
	2007	2006	2007	2006	2007	2006
As of January 1	66,008	55,691	–	–	66,008	55,691
Premiums and claims	(743)	(596)	–	–	(743)	(596)
Interest and bonuses credited to policyholders	3,541	1,438	–	–	3,541	1,438
Change in assumptions	(10)	–	–	–	(10)	–
Foreign currency translation effects	1,166	2,319	–	–	1,166	2,319
As of June 30	69,963	58,851	–	–	69,963	58,851

Guarantees arising from minimum death benefits ("GMDB"), retirement income benefits ("GRIB") and annuitization options ("GAO")

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

The Group's exposure after reinsurance recoveries under these policies at the balance sheet date as of June 30, 2007 would be USD 323 million (USD 370 million as of December 31, 2006). The Group believes that ultimately the realization of such liability is not likely.

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

in USD millions, as of		06/30/07	12/31/06
Liabilities related to investment contracts	Liabilities related to unit-linked investment contracts	47,362	44,269
	Liabilities related to investment contracts (amortized cost)	118	121
	Liabilities related to investment contracts with DPF	5,985	6,315
	Total	53,465	50,705

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

The movements in the liabilities arising from investment contracts with and without DPF are summarized below.

in USD millions		2007	2006
Roll forward of investment contract liabilities	As of January 1	50,705	40,999
	Premiums and claims	(1,367)	(416)
	Interest and bonuses credited to policyholders	2,596	1,471
	Divestments/transfers	–	(3)
	Increase/(decrease) recorded in shareholders' equity	(22)	(50)
	Foreign currency translation effects	1,552	2,811
	As of June 30	53,465	44,812

9. Equity component of discretionary participation features

Certain investment and insurance contracts sold by the Group contain benefit features for which the amount and timing of declaration and payment are at the discretion of the Group. The table below shows the change in the amount of undeclared funds surplus recorded in shareholders' equity after minimum mandated allocations to policyholder liabilities.

in USD millions		2007	2006
Equity component relating to contracts with DPF	As of January 1	1,414	1,399
	Net unrealized (losses)/gains on investments	(163)	(277)
	Current period profit	144	(19)
	Foreign currency translation effects	3	105
	As of June 30	1,398	1,208

10. Deferred policy acquisition and origination costs

Table 10.1

Deferred policy acquisition costs

in USD millions	General Insurance		Global Life		Other segments ¹		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
As of January 1	2,959	2,596	10,113	8,441	124	143	13,197	11,179
Acquisition costs deferred and transfers	1,463	1,331	646	670	22	29	2,132	2,030
Amortization ²	(1,259)	(1,071)	(150)	(135)	(37)	(37)	(1,446)	(1,244)
Foreign currency translation effects	32	81	223	553	–	–	255	635
As of June 30	3,196	2,937	10,833	9,529	110	134	14,138	12,600

¹ Net of eliminations from intersegment transactions.

² Amortization recorded directly to common shareholders' equity for Global Life was USD 157 million and USD 171 million for the six months ended June 30, 2007 and 2006, respectively.

Table 10.2

Deferred origination costs

in USD millions	2007	2006
As of January 1	815	690
Origination costs deferred	156	102
Amortization	(55)	(58)
Foreign currency translation effects	22	50
As of June 30	938	783

11. Income taxes

Table 11.1

Income tax expense – current/deferred split

in USD millions, for the six months ended June 30	2007	2006
Current	544	905
Deferred	539	187
Total income tax expense	1,083	1,092

As a result of the reinsurance of the annuity book in the United Kingdom (as described in note 3), Income tax expense decreased by USD 117 million for the period.

Table 11.2

Income tax expense – policyholder/shareholder attribution

in USD millions, for the six months ended June 30	2007	2006
Total income tax expense attributable to policyholders	130	121
Total income tax expense attributable to shareholders	953	971
Total income tax expense	1,083	1,092

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 revenues as gross written premiums and policy fees.

Table 11.3

in USD millions, for the six months ended June 30

Expected and actual income tax expense

	Rate	2007	Rate	2006
Net income before income taxes		3,794		3,150
Less: income tax expense attributable to policyholders		(130)		(121)
Net income before income taxes attributable to shareholders		3,664		3,029
Expected income tax expense attributable to shareholders	31.1%	1,140	30.3%	918
Increase/(reduction) in taxes resulting from:				
<i>Tax exempt and lower taxed income</i>		(277)		(288)
<i>Non-deductible expenses</i>		40		77
<i>Effect of tax losses</i>		1		141
<i>Prior year adjustments and other</i>		49		123
Actual income tax expense attributable to shareholders	26.0%	953	32.1%	971
Plus income tax expense attributable to policyholders		130		121
Actual income tax expense	28.5%	1,083	34.7%	1,092

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

The expected weighted average statutory income tax rate for the Group is 31.1% and 30.3% for the six months ended June 30, 2007 and 2006, respectively. These rates were derived by obtaining a weighted average of the applicable statutory income tax rate in relation to the net income before income tax attributable to shareholders generated in the taxable territories in which the Group operates.

The 2007 numbers include a credit resulting from the reduction of the corporate income tax rate in the UK of USD 32 million. This is included in "prior year adjustments and other".

Table 11.4

in USD millions, as of

Current tax receivables and payables

	06/30/07	12/31/06
Current tax receivables	847	509
Current tax payables	(1,697)	(1,846)
Net current tax payables	(850)	(1,337)

Table 11.5

in USD millions, as of

Deferred tax assets and liabilities

	06/30/07	12/31/06
Deferred tax assets	2,053	2,727
Deferred tax liabilities	(4,701)	(4,757)
Net deferred tax liabilities	(2,648)	(2,030)

Table 11.6

in USD millions, as of

Deferred taxes – policyholders/ shareholders attribution

	06/30/07	12/31/06
Net deferred tax liabilities attributable to policyholders	(937)	(976)
Net deferred tax liabilities attributable to shareholders	(1,711)	(1,054)
Net deferred tax liabilities	(2,648)	(2,030)

Table 11.7

in USD millions, as of

**Deferred tax
assets/(liabilities)
breakdown
by category**

	06/30/07	12/31/06
Net deferred tax liabilities before valuation allowance	(1,999)	(1,320)
Valuation allowance on deferred tax assets	(649)	(710)
Net deferred tax liabilities	(2,648)	(2,030)

Deferred tax credited directly to shareholders' equity amounted to USD 165 million and USD 166 million as of June 30, 2007 and December 31, 2006, respectively.

As of June 30, 2007 and December 31, 2006, the Group had income tax loss carryforwards of USD 3,588 million and USD 4,790 million, respectively, available (subject to various statutory restrictions) for use against future taxable income. After taking cumulative valuation allowances and current year utilizations into account, tax loss carryforwards for which deferred tax assets have been recognized amounted to USD 1,579 million and USD 2,200 million as of June 30, 2007 and December 31, 2006, respectively. The majority of the tax loss carryforwards expire in a period between five and fifteen years.

12. Debt

All of the below borrowings are stated at amortized cost, unless noted otherwise.

Table 12.1		06/30/07	12/31/06
in USD millions, as of			
Debt			
a) Debt related to capital markets and banking activities			
Zurich Capital Markets	Notes and loans payable within 1 year	750	1,050
	Notes and loans payable in more than 1 year	46	45
Zurich Financial Services			
EUB Holdings Limited	Notes and loans payable within 1 year	552	738
	Notes and loans payable in more than 1 year	1	1
Centre Solutions (Bermuda) Ltd.	Note payable in more than 1 year	1	56
	Notes and loans payable in more than 1 year	54	–
Debt related to capital markets and banking activities		1,403	1,889
b) Senior debt			
Zurich Finance (USA), Inc.	3.50% CHF 300 bond, due July 2008 ¹	245	246
	4.50% EUR 1,000 bond, due September 2014 ²	1,331	1,309
Kemper Corporation	Various debt instruments, due in 2009	26	26
Zurich Insurance Company	3.875% CHF 1,000 bond, due July 2011	820	822
	Various borrowings and notes payable within 1 year	16	63
Other	Various short- and medium-term debt instruments payable within 1 year	85	297
	Various short- and medium-term debt instruments payable in more than 1 year	147	143
Senior debt		2,670	2,906
c) Subordinated debt			
Zurich Capital Trust I	8.376% USD 1,000 Capital Securities	–	990
Zurich Finance (UK) p.l.c	6.625% GBP 450 bond, undated notes ³	890	867
Zurich Finance (USA), Inc.	5.75% EUR 500 bond, due October 2023	667	651
	4.5% EUR 500 bond, due June 2025 ⁴	610	621
ZFS Finance (USA) Trust I	Series I 6.15% USD 600 ECAPS, due December 2065	594	593
ZFS Finance (USA) Trust II	Series II 6.45% USD 700 ECAPS, due December 2065	690	690
ZFS Finance (USA) Trust III	Series III Floating Rate USD 400 ECAPS, due December 2065	396	396
ZFS Finance (USA) Trust IV	Series IV 5.875% USD 500 Trust Preferred Securities, due May 2062	497	–
ZFS Finance (USA) Trust V	Series V 6.5% USD 1,000 Trust Preferred Securities, due May 2067	994	–
Other	Notes and loans payable in more than 1 year	29	–
Subordinated debt		5,367	4,808
Total senior and subordinated debt		8,037	7,713
Total debt		9,440	9,602

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

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

³ The 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) Trust 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.

⁴ The bond is part of a qualifying fair value hedge relationship.

a) Debt related to capital markets and banking activities

Debt related to capital markets and banking activities was reduced from USD 1,889 million as of December 31, 2006 to USD 1,403 million as of June 30, 2007, which is attributable to the maturity of a number of loans.

b) Senior debt

The Group's Euro Medium Term Note Programme (EMTN Programme) allows for the issuance of senior and subordinated notes up to a maximum of USD 6 billion. Issuing entities under the EMTN Programme are Zurich Finance (USA), Inc. and Zurich Finance (UK) p.l.c.

No new senior debt issuances took place in Q2 2007.

c) Subordinated debt

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

On June 1, 2007 the Group called USD 1 billion of 8.376% Capital Securities at a redemption price of 104.188%, thus recognizing a loss of USD 41.88 million.

On May 9, 2007, ZFS Finance (USA) Trust IV and ZFS Finance (USA) Trust V issued USD 500 million of Series IV and USD 1 billion of Series V Fixed / Floating Rate Trust Preferred Securities. Series IV is a 5.875% USD 500 million tranche maturing in 2062, callable from 2012, and Series V is a 6.5% USD 1 billion tranche maturing in 2067, callable from 2017. These trust preferred securities were sold to a number of qualified institutional buyers and qualified purchasers under the exemption of Rule 144A of the United States Securities Act (1933). Each Trust benefits from a subordinated support agreement of Zurich Financial Services and Zurich Group Holding.

The following is a summary of key contractual terms and conditions of the outstanding subordinated debt securities:

Table 12.2

in USD millions

Description and features of significant subordinated notes

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

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

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

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

Table 12.3		06/30/07	12/31/06
Maturity schedule of outstanding debt	in USD millions, as of		
	2007 within next six / twelve months	1,387	2,148
	2008	288	274
	2009	74	74
	2010	11	11
	2011	820	822
	After 2011	6,860	6,273
	Total	9,440	9,602

Table 12.4		2007	2006
Interest expense on debt	in USD millions, for the six months ended June 30		
	Debt related to capital markets and banking activities	49	67
	Senior debt	68	67
	Subordinated debt	227	160
	Total	345	294

Credit facilities

The Group has access to a syndicated revolving credit facility of USD 3 billion that terminates in 2011. Zurich Group Holding, together with Zurich Insurance Company and Farmers Group, Inc. are guarantors of the facility and can draw up to USD 1.25 billion, USD 1.5 billion and USD 250 million, respectively. No borrowings were outstanding under this facility as of June 30, 2007.

Dunbar Bank has access to various committed credit facilities totaling GBP 425 million. At June 30, 2007, GBP 10 million was drawn under this facility.

Zurich Bank has access to various committed credit facilities totaling GBP 210 million. No borrowings were outstanding under this facility as of June 30, 2007.

13. Goodwill and other intangible assets

Table 13.1
in USD millions

Intangible assets

	Goodwill	
	2007	2006
Gross carrying value as of January 1	672	605
Less: accumulated amortization/impairments	(12)	–
Net carrying value as of January 1	660	605
Additions and transfers	227 ¹	–
Divestments and transfers	(12)	–
Amortization	–	–
Impairments	–	(6)
Foreign currency translation effects	15	45
Net carrying value as of June 30	890	644
Plus: accumulated amortization/impairments	12	–
Gross carrying value as of June 30	902	644

¹ Our interest in Deutscher Herold Aktiengesellschaft in Germany has increased to 95% from 76.83% as a result of the recognition of buy out options and an acquisition of shares by the Group from the minority shareholders. This resulted in an increase in the goodwill recognized by the Group of USD 127 million. The remaining additions relate to the acquisition of Endsleigh, UK and ACC, Spain.

² This intangible asset relates to insurance contracts only.

³ Other intangibles include internally generated capitalised software development costs as well as intangible assets at fair value on acquisitions.

Table 13.2

in USD millions, as of

Intangible assets by segments

	Goodwill	
	06/30/07	12/31/06
General Insurance	268	168
Global Life	617	488
Farmers Management Services	–	–
Other Businesses	–	–
Corporate Functions	5	5
Net carrying value	890	660

¹ This intangible asset relates to insurance contracts only.

² Other intangibles include internally generated capitalised software development costs as well as intangible assets at fair value on acquisitions.

	Present value of profits of acquired insurance contracts ²		Other intangible assets ³		Attorney-in-fact relationships		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
	2,329	2,117	2,041	1,770	1,024	1,024	6,066	5,516
	(1,554)	(1,377)	(1,415)	(1,279)	–	–	(2,981)	(2,656)
	775	740	626	491	1,024	1,024	3,085	2,860
	–	–	305	98	–	–	532	98
	–	–	–	–	–	–	(12)	–
	(5)	–	(89)	(87)	–	–	(94)	(87)
	–	–	–	–	–	–	–	(6)
	15	41	6	11	–	–	36	97
	785	781	848	513	1,024	1,024	3,548	2,962
	1,590	1,458	1,497	1,414	–	–	3,099	2,872
	2,375	2,239	2,345	1,927	1,024	1,024	6,647	5,834

	Present value of profits of acquired insurance contracts ¹		Other intangible assets ²		Attorney-in-fact relationships		Total	
	06/30/07	12/31/06	06/30/07	12/31/06	06/30/07	12/31/06	06/30/07	12/31/06
	–	–	404	250	–	–	672	418
	785	775	287	231	–	–	1,689	1,493
	–	–	130	121	1,024	1,024	1,154	1,147
	–	–	8	8	–	–	8	8
	–	–	19	14	–	–	24	19
	785	775	848	624	1,024	1,024	3,548	3,084

14. Litigation and regulatory investigations

The Group and its subsidiaries are continuously involved in legal proceedings, claims and litigation arising, for the most part, in the ordinary course of their business operations.

In 2006, the Group entered into previously announced settlements with various US state attorneys general and state insurance regulators in connection with investigations in the United States concerning certain business practices involving insurance brokers and insurance companies. In July 2006, the Group also entered into a settlement agreement to resolve consolidated class-action litigation concerning those matters. Final judgment has been entered approving the settlement, but appeals are pending. A number of individual claims not covered by the class-action settlement remain pending against the Group. In addition, the Group and its subsidiaries are involved in regulatory investigations in the United States, including by the Securities and Exchange Commission (SEC), regarding certain reinsurance transactions engaged in by the Group and its subsidiaries. The SEC Staff is currently formulating its recommendation for action to the SEC commissioners. The Group continues to cooperate with all remaining regulatory investigations. Other Group subsidiaries were also involved in industry-wide legal proceedings regarding financing hedge funds engaged in mutual-fund market-timing activities. In this connection, Zurich Capital Markets, in wind-down since 2003, entered into a settlement with the SEC on May 7, 2007.

Furthermore, Zurich Financial Services is a defendant in putative class-action securities lawsuits relating to its divestiture of its interest in Converium Holding AG. On December 28, 2006, the Court granted Zurich Financial Services' motion to dismiss all claims filed against it in that litigation. Plaintiffs moved for reconsideration on January 12, 2007, and on April 9, 2007, the Court granted the motion in part and denied it in part. The Court reinstated control-person liability claims under the Securities Exchange Act of 1934 brought on behalf of persons who bought Converium stock after the initial public offering, but it declined to reconsider its dismissal of claims under the Securities Act of 1933. The court also denied plaintiffs' motion for leave to amend the complaint. The control-person liability claim currently is pending against Zurich Financial Services, and the outcome of the case – whether through settlement or through further litigation – is presently unresolved.

The outcome of unresolved current legal proceedings, claims, litigation and investigations could have a material effect on operating results and/or cash flows when resolved in a future period. Amounts recognized as provisions related to these legal proceedings, claims, litigation and investigations are based on management's best estimate of the required settlement expenditure at the balance sheet date.

15. Earnings per Share

Table 15

Earnings per share

	Net income attributable to common shareholders (in USD millions)	Number of shares	Per share (USD)	Per share (CHF) ¹
2007				
Basic earnings per share	2,662	143,700,966	18.53	22.74
Effect of potentially dilutive shares related to share-based compensation plans		1,250,046	(0.16)	(0.19)
Diluted earnings per share	2,662	144,951,012	18.37	22.55
2006				
Basic earnings per share	1,985	144,164,934	13.77	17.47
Effect of potentially dilutive shares related to share-based compensation plans		845,215	(0.08)	(0.10)
Diluted earnings per share	1,985	145,010,150	13.69	17.37

¹ The translation from USD into CHF has been done for information purposes only at the Group's average exchange rates for the six months ended June 30, 2007 and 2006, respectively.



16. Segment information

Table 16.1

in USD millions, for the six months ended June 30

Income statements by business segment

	General Insurance		Global Life		
	2007	2006	2007	2006	
Revenues					
Direct written premiums and policy fees	18,351	17,644	4,841	5,096	
Assumed written premiums	675	810	52	37	
Gross written premiums and policy fees	19,026	18,454	4,893	5,134	
Less premiums ceded to reinsurers ¹	(2,865)	(2,944)	(7,557)	(281)	
Net written premiums and policy fees	16,161	15,510	(2,664)	4,853	
Net change in reserves for unearned premiums	(1,677)	(1,610)	(7)	(7)	
Net earned premiums and policy fees	14,484	13,900	(2,671)	4,846	
Farmers management fees	–	–	–	–	
Net investment income	1,773	1,539	3,797	3,272	
Net capital gains on investments and impairments	73	217	4,367	2,154	
Net gain on divestments of businesses	1	–	2	–	
Other income	326	181	516	460	
Total revenues	16,657	15,836	6,011	10,733	
Intersegment transactions	(530)	(555)	(205)	(179)	
Benefits, losses and expenses					
Losses and loss adjustment expenses, net of reinsurance	10,443	9,837	44	42	
Life insurance death and other benefits, net of reinsurance	22	2	6,017	5,463	
(Decrease)/increase in future life policyholders' benefits, net of reinsurance	–	–	(9,182)	(948)	
Insurance benefits and losses, net of reinsurance ¹	10,465	9,839	(3,121)	4,557	
Policyholder dividends and participation in profits, net of reinsurance	4	3	6,415	3,692	
Underwriting and policy acquisition costs, net of reinsurance	2,559	2,418	702	630	
Administrative and other operating expenses	1,409	1,561	817	749	
Amortization and impairments of intangible assets	35	40	51	57	
Interest expense on debt	149	148	10	8	
Interest credited to policyholders and other interest	130	98	277	292	
Total benefits, losses and expenses	14,752	14,106	5,150	9,985	
Net income/(loss) before income taxes	1,905	1,730	861	748	
Income tax expense attributable to policyholders					
Income tax expense attributable to shareholders					
Net income attributable to minority interests					
Net income attributable to shareholders					
Supplementary segment information					
Purchases of property/equipment and intangible assets	353	60	224	65	
Significant non-cash expenses:					
Depreciation and impairments of property and equipment	36	37	21	21	
Amortization and impairments of intangible assets	35	40	51	57	

¹ Information pertaining to the transfer of the UK annuity business is contained in Note 3 of the financial statements. As a direct result of this transaction, for the Global Life segment, premiums ceded to reinsurers include an amount of USD 7,268 million and ceded insurance benefits and losses include an amount of USD 6,982 million.

Farmers Management Services		Other Businesses		Corporate Functions		Eliminations		Total	
2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
-	-	209	181	-	-	12	3	23,414	22,924
-	-	1,001	937	81	102	(150)	(205)	1,659	1,681
-	-	1,210	1,117	81	102	(138)	(202)	25,072	24,605
-	-	(25)	7	(76)	(98)	138	202	(10,384)	(3,114)
-	-	1,185	1,125	6	4	-	-	14,688	21,492
-	-	11	27	3	2	-	-	(1,670)	(1,588)
-	-	1,195	1,152	9	6	-	-	13,017	19,904
1,093	1,054	-	-	-	-	-	-	1,093	1,054
91	69	634	509	354	305	(597)	(537)	6,051	5,156
(26)	7	425	(152)	161	89	-	-	5,000	2,315
-	-	-	-	(1)	-	-	-	2	-
44	7	103	105	424	389	(504)	(419)	909	722
1,202	1,135	2,357	1,614	947	789	(1,101)	(956)	26,073	29,151
(22)	(12)	(75)	(176)	(269)	(34)	1,101	956	-	-
-	-	512	564	(3)	7	(4)	(11)	10,992	10,439
-	-	178	182	9	8	6	9	6,231	5,664
-	-	(44)	(140)	(68)	(69)	(2)	1	(9,296)	(1,156)
-	-	646	606	(62)	(55)	-	-	7,927	14,947
-	-	544	40	-	-	-	-	6,963	3,735
-	-	291	292	(11)	(11)	-	-	3,541	3,328
528	482	139	171	510	568	(487)	(406)	2,917	3,125
24	21	-	-	4	5	-	-	115	122
5	-	108	108	676	557	(602)	(529)	345	294
-	-	72	81	4	-	(11)	(21)	472	450
557	503	1,800	1,298	1,121	1,065	(1,101)	(956)	22,279	26,001
646	633	557	315	(174)	(276)	-	-	3,794	3,150
								(130)	(121)
								(952)	(971)
								(27)	47
								2,684	2,011
74	62	-	20	40	16	-	-	692	223
25	24	1	2	14	11	-	-	98	95
24	21	-	-	4	5	-	-	115	122

16. Segment information (continued)

Table 16.2

in USD millions, as of

**Assets and liabilities
by business segment**

	General Insurance		Global Life		
	06/30/07	12/31/06	06/30/07	12/31/06	
Total investments ¹	80,725	78,695	197,059	200,452	
of which: Group investments	80,725	78,695	92,025	101,755	
Reinsurers' share of reserves for insurance contracts ¹	13,537	13,657	9,075	1,785	
Deposits made under assumed reinsurance contracts	69	73	–	–	
Deferred policy acquisition costs	3,196	2,959	10,833	10,113	
Deferred origination costs	–	–	938	815	
Goodwill	268	168	617	488	
Other related Intangible assets ²	–	–	785	775	
Other assets ¹	15,338	14,203	7,864	8,260	
Total assets after consolidation of investments in subsidiaries	113,133	109,754	227,170	222,688	
Liabilities for investment contracts	–	–	53,715	50,953	
Reserves for losses and loss adjustment expenses, gross	61,414	59,241	142	131	
Reserves for unearned premiums, gross	16,162	14,093	153	142	
Future life policyholders' benefits, gross	91	89	72,589	73,832	
Policyholders' contract deposits and other funds, gross	935	930	13,830	14,117	
Reserves for unit-linked contracts, gross	–	–	54,159	50,376	
Reserves for insurance contracts, gross	78,601	74,353	140,872	138,597	
Debt related to capital markets and banking activities	–	–	–	–	
Senior debt	4,633	4,684	530	448	
Subordinated debt	2,260	2,349	50	–	
Other liabilities	16,382	18,351	20,122	21,133	
Total liabilities	101,876	99,737	215,289	211,131	

Supplementary segment information

Reserves for losses and loss adjustment expenses, net	49,936	47,386	114	103	
Reserves for unearned premiums, net	14,095	12,268	148	137	
Future life policyholders' benefits, net	91	89	63,661	72,197	
Policyholders' contract deposits and other funds, net	918	914	13,716	13,999	
Reserves for unit-linked contracts, net	–	–	54,159	50,376	
Reserves for insurance contracts, net	65,041	60,657	131,798	136,812	

¹ Information pertaining to the transfer of the UK annuity business is contained in Note 3 of the financial statements. As a direct result of this transaction, for the Global Life segment, Total investments and associated other assets decreased by USD 7,410 million and Reinsurers' share of reserves for insurance contracts increased by USD 7,119 million.

² Other related intangible assets consists of the present value of profits of acquired insurance contracts and attorney-in-fact relationships.

Farmers Management Services		Other Businesses		Corporate Functions		Eliminations		Total	
06/30/07	12/31/06	06/30/07	12/31/06	06/30/07	12/31/06	06/30/07	12/31/06	06/30/07	12/31/06
3,451	3,522	34,513	34,059	17,046	18,269	(25,804)	(24,993)	306,990	310,003
3,451	3,522	18,710	18,428	17,046	18,269	(25,804)	(24,993)	186,152	195,676
206	205	6,868	7,192	77	99	(2,587)	(2,875)	27,175	20,063
-	-	1,437	1,985	2	2	(37)	(38)	1,471	2,022
-	-	109	124	-	-	1	1	14,138	13,197
-	-	-	-	-	-	-	-	938	815
-	-	-	-	5	5	-	-	890	660
1,024	1,024	-	-	-	-	-	-	1,810	1,799
1,433	1,356	1,553	2,056	2,681	2,664	(2,761)	(2,852)	26,107	25,686
6,116	6,108	44,479	45,415	19,810	21,039	(31,188)	(30,757)	379,519	374,246
-	-	-	-	-	-	(250)	(248)	53,465	50,705
-	-	6,635	7,127	88	110	(1,867)	(2,073)	66,412	64,535
-	-	470	500	35	41	(78)	(107)	16,741	14,668
-	-	2,767	2,823	381	437	(625)	(678)	75,203	76,503
-	-	3,712	3,887	-	-	-	-	18,477	18,934
-	-	15,804	15,631	-	-	-	-	69,963	66,008
-	-	29,387	29,969	504	587	(2,569)	(2,858)	246,795	240,648
-	-	3,125	3,578	-	-	(1,722)	(1,689)	1,403	1,889
-	-	657	614	18,125	17,594	(21,274)	(20,435)	2,670	2,906
180	180	100	98	5,486	4,953	(2,710)	(2,772)	5,367	4,808
2,180	2,221	5,465	6,225	1,928	2,011	(2,663)	(2,755)	43,414	47,186
2,360	2,401	38,734	40,484	26,043	25,145	(31,188)	(30,757)	353,113	348,142
-	-	2,953	3,288	41	44	(2)	(6)	53,043	50,814
-	-	408	418	4	8	-	-	14,655	12,830
(206)	(205)	2,454	2,493	381	437	2	6	66,384	75,018
-	-	725	746	-	-	18	17	15,377	15,676
-	-	15,804	15,631	-	-	-	-	69,963	66,008
(206)	(205)	22,344	22,576	427	488	18	17	219,421	220,346

16. Segment information (continued)

Gross written premiums and policy fees, total revenues and total assets by geographical segment	Table 16.3 in USD millions		Gross written premiums and policy fees for the six months ended June 30		Total revenues for the six months ended June 30		Total assets as of	
			2007	2006	2007	2006	06/30/07	12/31/06
	North America	9,030	9,245	9,023	8,890	69,701	68,849	
Europe	14,387	14,016	13,704	17,813	266,764	259,921		
International Businesses	1,924	1,781	1,927	1,717	13,961	13,567		
Central Region	650	726	2,216	1,377	54,272	56,541		
Eliminations	(919)	(1,164)	(796)	(647)	(25,178)	(24,632)		
Total	25,072	24,605	26,073	29,151	379,519	374,246		



Review report of the Group auditors

To the Board of Directors of Zurich Financial Services, Zurich

We have reviewed the half year consolidated financial information (consolidated income statement, consolidated statement of recognized income and expenses, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of equity and notes on pages 31 to 66) of Zurich Financial Services for the period ended June 30, 2007.

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

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

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

PricewaterhouseCoopers AG

R Marshall M Humphreys

Zurich, August 15, 2007