

Consolidated financial statements (unaudited) 2011

Zurich Financial Services Group
Half Year Report 2011

Consolidated financial statements (unaudited)

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Consolidated income statements (unaudited)

in USD millions	Notes	Restated		Restated	
		2011	2010	2011	2010
		for the three	for the three	for the six	for the six
		months ended	months ended	months ended	months ended
		June 30	June 30	June 30	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			

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

Consolidated financial statements *continued*

Consolidated balance sheets (unaudited)

Assets	in USD millions, as of	Notes	Restated		
			06/30/11	12/31/10	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
<i>Reserves for insurance contracts, gross</i>	2,430	3,759
<i>Reinsurers' share of reserves for insurance contracts</i>	(937)	(727)
<i>Liabilities for investment contracts</i>	253	738
<i>Deferred policy acquisition costs</i>	(665)	(325)
<i>Deferred origination costs</i>	13	(2)
<i>Deposits made under assumed reinsurance contracts</i>	388	382
<i>Deposits received under ceded reinsurance contracts</i>	193	(108)
Investments:	601	(2,708)
<i>Net capital (gains)/losses on total investments and impairments</i>	(432)	(16)
<i>Net change in trading securities and derivatives</i>	(211)	(97)
<i>Net change in money market investments</i>	535	(27)
<i>Sales and maturities</i>		
<i>Debt securities</i>	50,570	106,794
<i>Equity securities</i>	28,562	27,890
<i>Other</i>	51,108	21,950
<i>Purchases</i>		
<i>Debt securities</i>	(52,235)	(111,164)
<i>Equity securities</i>	(26,657)	(26,451)
<i>Other</i>	(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

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

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	
<i>Net income</i>	–	–	–	
<i>Net unrealized gains/(losses) on available-for-sale investments</i>	–	–	1,545	
<i>Cash flow hedges</i>	–	–	–	
<i>Cumulative foreign currency translation adjustment</i>	–	–	–	
<i>Revaluation reserve</i>	–	–	–	
<i>Net actuarial gains/(losses) on pension plans</i>	–	–	–	
Net changes in capitalization 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)	
<i>Net income</i>	–	–	–	
<i>Net unrealized gains/(losses) on available-for-sale investments</i>	–	–	(276)	
<i>Cash flow hedges</i>	–	–	–	
<i>Cumulative foreign currency translation adjustment</i>	–	–	–	
<i>Revaluation reserve</i>	–	–	–	
<i>Net actuarial gains/(losses) on pension plans</i>	–	–	–	
Net changes in capitalization 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).

	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
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 Civica. 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

Table 3.1a

Investment result
for total
investments

in USD millions, for the six months ended June 30

	Net investment income		Net capital gains/ (losses) on investments and impairments		Investment result	
	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.

Table 3.1b

Investment
result for
Group
investments

in USD millions, for the six months ended June 30

	Net investment income		Net capital gains/ (losses) on investments and impairments		Investment result	
	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.

Table 3.1c

Investment result for unit-linked contracts	in USD millions, for the six months ended June 30					
	Net investment income		Net capital gains/(losses) on investments		Investment result	
	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

Table 3.2

Net capital gains, losses and impairments on equity and debt securities on total investments	in USD millions, for the six months ended June 30					
	Equity securities		Debt securities		Total	
	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
<i>of which:</i>						
<i>Trading securities</i>	23	18	–	9	23	27
<i>Securities designated at fair value through profit or loss</i>	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		Total investments	
	as of		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
<i>of which:</i>				
<i>Trading securities</i>	472	0.1	473	0.2
<i>Securities designated at fair value through profit or loss</i>	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
<i>of which:</i>				
<i>Trading securities</i>	45	0.0	43	0.0
<i>Securities designated at fair value through profit or loss</i>	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
<i>of which:</i>				
<i>Trading securities</i>	472	0.2	473	0.2
<i>Securities designated at fair value through profit or loss</i>	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
<i>of which:</i>				
<i>Trading securities</i>	45	0.0	43	0.0
<i>Securities designated at fair value through profit or loss</i>	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.

Table 3.3c

Details of investments held for unit-linked contracts

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.

Table 3.4

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

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)
Total¹	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

Table 4.1

Reserves for insurance contracts	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 contracts¹	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.

Table 4.2

Development of reserves for losses and loss adjustment expenses	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.

Table 4.3

Development of future life policyholders' benefits	in USD millions		Gross		Ceded		Net	
	2011	2010	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).

Table 4.4

Policyholders' contract deposits and other funds gross	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

Table 4.5

Development of policyholders' contract deposits and other funds

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

Table 4.6

Development of reserves for unit-linked contracts

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)

Table 5.1

Liabilities for investment contracts	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.

Table 5.2

Development of liabilities for investment contracts	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

Table 6.1

Insurance benefits and losses	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

Table 6.2

Policyholder dividends and participation in profits	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

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7. Deferred policy acquisition costs and deferred origination costs

Table 7.1

Development of deferred policy acquisition costs	in USD millions		General Insurance		Global Life		Other segments ¹		Total	
	2011	2010	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.

Table 7.2

Development of deferred origination costs	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

Table 8.1

Intangible assets –
current period

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.

Table 8.2

Intangible assets
by segment –
current period

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*

Table 8.3

Intangible assets – prior period	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.

Table 8.4

Intangible assets by segment – prior period	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

Table 9.1			
in USD millions, for the six months ended June 30			
		2011	2010
Income tax expense – current/deferred split	Current	641	685
	Deferred	(86)	(180)
	Total income tax expense/(benefit)	555	505

Table 9.2			
in USD millions, for the six months ended June 30			
		2011	2010
Income tax expense – policyholder/shareholder attribution	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.

Table 9.3					
in USD millions, for the six months ended June 30					
	Rate	2011	Rate	2010	
Expected and actual income tax expense		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:					
<i>Tax rate differential in foreign jurisdictions</i>		95		181	
<i>Tax exempt and lower taxed income</i>		(53)		(30)	
<i>Non-deductible expenses</i>		68		30	
<i>Tax losses previously unrecognized or no longer recognized</i>		27		41	
<i>Prior year adjustments and other</i>		(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.

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10. Debt

Table 10.1

in USD millions, as of		06/30/11	12/31/10	
Debt	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.

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Table 10.2

Description and features of significant subordinated debt	Table 10.2		
	Coupon conditions	Call/ redemption date	Redemption conditions
Description			
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.

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.

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.

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11. Earnings per share

Table 11
for the six months ended June 30

Earnings per share	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

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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.

Table 13				
in USD millions				
Related party transactions included in the Consolidated financial statements	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)		

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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*

Table 14.1

in USD millions, for the six months ended June 30

Business operating
profit by business
segment

	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
<i>of which: inter-segment revenues</i>	<i>(246)</i>	<i>(184)</i>	<i>(160)</i>	<i>(116)</i>
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*

Table 14.2

in USD millions, for the six months ended June 30

Reconciliation of
BOP to net income
after income taxes

	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*

Table 14.3

Assets and liabilities by business segment	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*

Table 14.4

in USD millions, for the six months ended June 30

General Insurance –
Customer segment
overview

	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*

Table 14.5

in USD millions, for the six months ended June 30

General Insurance – Revenues by region	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*

Table 14.7

in USD millions, for the six months ended June 30

Global Life – Overview

	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*

Table 14.8				
in USD millions, for the six months ended June 30				
		2011	Total 2010	
Farmers – Overview	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*

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*

Table 14.10

in USD millions, for the six months ended June 30

Non-Core Businesses – Overview	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.

Consolidated financial statements *continued*

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 3 to 59) 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

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 of Zurich Financial Services Ltd or the Zurich Financial Services Group (the "Group"). Forward-looking statements include statements regarding the Group's targeted profit improvement, return on equity targets, expense reductions, pricing conditions, dividend policy and underwriting claims improvements, as well as statements regarding the Group's 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 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 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. Please also note that interim results are not necessarily indicative of the full year results.

Persons requiring advice should consult an independent adviser.

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

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