Consolidated financial statements (unaudited) 2012

Zurich Insurance Group
Half Year Report 2012

Consolidated financial statements (unaudited)

Contents

Consolidated income statements (unaudited)

in USD millions	Notes	2012 for the three months ended June 30	Restated 2011 for the three months ended June 30	2012 for the six months ended June 30	Restated 2011 for the six months ended June 30
Revenues					
Gross written premiums		12,376	11,879	26,821	25,389
Policy fees		789	710	1,422	1,291
Gross written premiums and policy fees		13,166	12,589	28,243	26,680
Less premiums ceded to reinsurers		(1,629)	(2,360)	(3,340)	(3,944)
Net written premiums and policy fees		11,536	10,229	24,903	22,737
Net change in reserves for unearned premiums		(337)	81	(2,126)	(1,593)
Net earned premiums and policy fees		11,199	10,310	22,778	21,144
Farmers management fees and other related revenues		710	693	1,420	1,375
Net investment result on Group investments	3	2,336	2,517	4,096	4,216
Net investment income on Group investments		1,729	1,875	3,440	3,655
Net capital gains/(losses) and impairments on Group investments		606	643	656	561
Net investment result on unit-linked investments	3	(1,703)	501	3,992	804
Net gain/(loss) on divestments of businesses		–	10	1	10
Other income		434	368	794	713
Total revenues		12,976	14,399	33,081	28,262
Benefits, losses and expenses					
Insurance benefits and losses, gross of reinsurance	6	8,733	9,588	17,527	18,804
Less ceded insurance benefits and losses	6	(560)	(2,131)	(1,356)	(2,828)
Insurance benefits and losses, net of reinsurance	6	8,172	7,457	16,170	15,976
Policyholder dividends and participation in profits, net of reinsurance	6	(1,237)	845	4,591	1,374
Underwriting and policy acquisition costs, net of reinsurance		2,431	2,063	4,820	4,002
Administrative and other operating expense		2,130	2,025	4,071	3,819
Interest expense on debt	11	143	152	293	287
Interest credited to policyholders and other interest		116	122	227	244
Total benefits, losses and expenses		11,755	12,663	30,172	25,702
Net income before income taxes		1,221	1,736	2,909	2,560
Income tax expense	10	(155)	(381)	(677)	(557)
attributable to policyholders	10	154	5	(22)	29
attributable to shareholders	10	(309)	(386)	(655)	(586)
Net income after taxes		**1,066**	1,355	**2,232**	2,003
attributable to non-controlling interests		(9)	25	14	32
attributable to shareholders		1,075	1,331	2,218	1,971
in USD					
Basic earnings per share	12	7.33	9.11	15.15	13.51
Diluted earnings per share	12	7.30	9.04	15.07	13.40
in CHF					
Basic earnings per share	12	6.86	8.23	14.06	12.21
Diluted earnings per share	12	6.83	8.17	13.99	12.11

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	Cash flow hedges
2011			
Comprehensive income for the period, as restated	1,971	(276)	(5)
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		146	144
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(522)	(156)
Deferred income tax (before foreign currency translation effects)		18	3
Foreign currency translation effects		82	3
2012			
Comprehensive income for the period	2,218	1,027	19
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		1,652	(26)
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(372)	39
Deferred income tax (before foreign currency translation effects)		(239)	10
Foreign currency translation effects		(13)	(3)

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

	Cumulative foreign currency translation adjustment	Total other comprehensive income recycled through profit or loss	Revaluation reserve	Net actuarial gains/(losses) on pension plans	Total other comprehensive income not recycled through profit or loss	Total other comprehensive income attributable to shareholders	Total comprehensive income attributable to shareholders	Comprehensive income attributable to non-controlling interests	Total comprehensive income
	(386)	(667)	34	68	102	(566)	1,405	129	1,534
	(384)	(93)	43	197	240	147			
	(1)	(679)	–	–	–	(679)			
	–	21	(9)	(60)	(70)	(48)			
	–	85	–	(69)	(69)	16			
	(814)	232	–	118	118	350	2,568	14	2,582
	(813)	812	–	150	150	962			
	(1)	(335)	–	–	–	(335)			
	–	(229)	–	(33)	(33)	(262)			
	–	(16)	–	2	2	(14)			

Consolidated financial statements *continued*

in USD millions, for the three months ended June 30	Net income attributable to shareholders	Net unrealized gains/(losses) on available-for-sale investments	Cash flow hedges
2011			
Comprehensive income for the period	1,331	(14)	52
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		480	112
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(509)	(67)
Deferred income tax (before foreign currency translation effects)		(64)	(17)
Foreign currency translation effects		79	24
2012			
Comprehensive income for the period	1,075	(39)	21
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		211	(61)
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(183)	91
Deferred income tax (before foreign currency translation effects)		15	3
Foreign currency translation effects		(83)	(12)

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

	Cumulative foreign currency translation adjustment	Total other comprehensive income recycled through profit or loss	Revaluation reserve	Net actuarial gains/(losses) on pension plans	Total other comprehensive income not recycled through profit or loss	Total other comprehensive income attributable to shareholders	Total comprehensive income attributable to shareholders	Comprehensive income attributable to non-controlling interests	Total comprehensive income
	(167)	(130)	34	6	40	(90)	1,241	54	1,295
	(164)	428	43	58	101	530			
	(2)	(578)	–	–	–	(578)			
	–	(81)	(10)	(11)	(21)	(102)			
	–	102	–	(41)	(41)	61			
	(385)	(404)	–	(116)	(116)	(520)	555	(157)	397
	(384)	(235)	–	(241)	(241)	(476)			
	(1)	(93)	–	–	–	(93)			
	–	18	–	67	67	86			
	–	(95)	–	57	57	(38)			

Consolidated financial statements *continued*

Consolidated balance sheets (unaudited)

Assets

in USD millions, as of	Notes	06/30/12	12/31/11	Restated 01/01/11
Investments				
Total Group investments		198,799	194,385	195,898
Cash and cash equivalents		8,451	8,768	8,182
Equity securities		12,343	11,226	13,729
Debt securities		147,091	142,861	140,254
Real estate held for investment		8,157	8,468	8,274
Mortgage loans		10,503	11,058	11,851
Other loans		12,090	11,842	13,419
Investments in associates and joint ventures		163	161	188
Investments for unit-linked contracts		117,183	104,603	107,947
Total investments	3	315,983	298,988	303,845
Reinsurers' share of reserves for insurance contracts	4	19,431	19,361	18,816
Deposits made under assumed reinsurance contracts		2,530	2,711	2,837
Deferred policy acquisition costs	7	17,739	16,864	16,281
Deferred origination costs	7	785	824	866
Accrued investment income		2,213	2,589	2,749
Receivables and other assets[1]		20,084	32,766	17,671
Mortgage loans given as collateral		160	223	743
Deferred tax assets		1,823	2,076	2,067
Assets held for sale[2]		–	54	–
Property and equipment		1,526	1,579	1,689
Goodwill	8	2,046	2,060	2,104
Other intangible assets	8	7,753	5,774	5,954
Total assets		**392,071**	**385,869**	**375,623**

[1] As of December 31, 2011 includes total assets related to the Santander acquired insurance businesses (see note 2).
[2] Relates to the sale of a company in Bolivia (see note 2).

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	06/30/12	12/31/11	Restated 01/01/11
Liabilities				
Reserve for premium refunds		582	554	518
Liabilities for investment contracts	5	51,905	50,661	50,667
Deposits received under ceded reinsurance contracts		1,531	1,543	1,362
Deferred front-end fees		5,780	5,720	5,626
Reserves for insurance contracts	4	255,469	240,811	242,719
Obligations to repurchase securities		1,556	1,794	3,330
Accrued liabilities		3,007	3,110	3,011
Other liabilities[1]		20,089	31,317	18,396
Collateralized loans		160	223	743
Deferred tax liabilities		4,677	4,049	4,554
Liabilities held for sale[2]		–	55	–
Senior debt	11	6,729	6,541	6,453
Subordinated debt	11	5,700	5,476	5,004
Total liabilities		**357,186**	**351,852**	**342,382**
Equity				
Share capital		11	10	10
Additional paid-in capital		8,108	9,907	11,630
Net unrealized gains/(losses) on available-for-sale investments		3,827	2,800	2,468
Cash flow hedges		251	232	56
Cumulative foreign currency translation adjustment		(3,446)	(2,632)	(1,120)
Revaluation reserve		180	180	126
Retained earnings		23,490	21,139	18,259
Common shareholders' equity		32,421	31,636	31,429
Preferred securities		–	–	475
Shareholders' equity		32,421	31,636	31,905
Non-controlling interests		2,464	2,380	1,336
Total equity		**34,884**	**34,017**	**33,241**
Total liabilities and equity		**392,071**	**385,869**	**375,623**

[1] As of December 31, 2011 includes total liabilities related to the Santander acquired insurance businesses (see note 2).
[2] Relates to the sale of a company in Bolivia (see note 2).

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	**2012**	Restated 2011
Cash flows from operating activities		
Net income attributable to shareholders	2,218	1,971
Adjustments for:		
Net (gain)/loss on divestments of businesses	(1)	(10)
(Income)/expense from equity method accounted investments	(6)	(6)
Depreciation, amortization and impairments of fixed and intangible assets	506	443
Other non-cash items	(365)	742
Underwriting activities:	5,402	1,670
Reserves for insurance contracts, gross	*4,213*	2,427
Reinsurers' share of reserves for insurance contracts	*105*	(939)
Liabilities for investment contracts	*1,500*	253
Deferred policy acquisition costs	*(598)*	(665)
Deferred origination costs	*45*	13
Deposits made under assumed reinsurance contracts	*154*	388
Deposits received under ceded reinsurance contracts	*(18)*	193
Investments:	(5,554)	601
Net capital (gains)/losses on total investments and impairments	*(3,720)*	(432)
Net change in trading securities and derivatives	*(259)*	(211)
Net change in money market investments	*(198)*	535
Sales and maturities		
Debt securities	*53,119*	50,570
Equity securities	*31,280*	28,562
Other	*22,191*	51,108
Purchases		
Debt securities	*(54,438)*	(52,235)
Equity securities	*(31,136)*	(26,657)
Other	*(22,394)*	(50,639)
Proceeds from sale and repurchase agreements	(257)	(1,077)
Movements in receivables and payables	99	(189)
Net changes in other operational assets and liabilities	(218)	(869)
Deferred income tax, net	64	(86)
Net cash provided by/(used in) operating activities	1,889	3,190

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

in USD millions, for the six months ended June 30	2012	Restated 2011
Cash flows from investing activities		
Sales of property and equipment	32	29
Purchases of property and equipment	(92)	(130)
Disposal of equity method accounted investments, net	1	1
Acquisitions of companies, net of cash acquired[1]	13	–
Divestments of companies, net of cash balances	(9)	11
Dividends from equity method accounted investments	–	1
Net cash provided by/(used in) investing activities	(55)	(88)
Cash flows from financing activities		
Dividends paid	(2,717)	(2,745)
Issuance of share capital	78	73
Net movement in treasury shares and preferred securities	21	20
Redemption of preferred securities and transactions with non-controlling interests	–	(476)
Issuance of debt	1,873	549
Repayments of debt outstanding	(1,298)	–
Net cash provided by/(used in) financing activities	(2,043)	(2,578)
Foreign currency translation effects on cash and cash equivalents	(65)	834
Change in cash and cash equivalents	(275)	1,358
Cash and cash equivalents as of January 1	10,048	9,726
Cash and cash equivalents as of June 30	**9,773**	**11,084**
of which:		
– cash and cash equivalents – Group investments	8,451	9,708
– cash and cash equivalents – unit linked	1,322	1,375
Other supplementary cash flow disclosures		
Other interest income received	3,729	4,012
Dividend income received	938	967
Other interest expense paid	(483)	(436)
Income tax (paid)	(700)	(705)

[1] The 2012 movement relates to the Santander acquired insurance businesses, partially offset by the increase in the shareholding in Zurich Insurance South Africa Limited and the acquisition of Malaysian Assurance Alliance Berhad (MAA), now known as Zurich Insurance Malaysia Berhad (see note 2).

Cash and cash equivalents

in USD millions, as of June 30	2012	Restated 2011
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	5,613	6,598
Cash equivalents	4,161	4,486
Total	**9,773**	**11,084**

As of June 30, 2012 and 2011, cash and cash equivalents held to meet local regulatory requirements were USD 1,546 million and USD 981 million, respectively.

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

Consolidated financial statements *continued*

Consolidated statements of changes in equity (unaudited)

in USD millions	Share capital	Additional paid-in capital	Net unrealized gains/(losses) on available-for-sale investments
Balance as of December 31, 2010	10	11,630	2,468
Issuance of share capital[1]	–	205	–
Dividends to shareholders[2]	–	(1,912)	–
Redemption of preferred shares[4]	–	(15)	–
Share-based payment transactions	–	(70)	–
Treasury share transactions[5]	–	(20)	–
Total comprehensive income for the period, net of tax	–	–	(276)
Net income	–	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–	*(276)*
Cash flow hedges	–	–	–
Cumulative foreign currency translation adjustment	–	–	–
Revaluation reserve	–	–	–
Net actuarial gains/(losses) on pension plans	–	–	–
Net changes in capitalization of non-controlling interests	–	–	–
Balance as of June 30, 2011, as restated	10	9,818	2,192
Balance as of December 31, 2011	10	9,907	2,800
Issuance of share capital[1]	–	199	–
Dividends to shareholders[3]	–	(1,923)	–
Share-based payment transactions	–	(75)	–
Treasury share transactions[5]	–	1	–
Change of ownership with no loss of control	–	–	–
Total comprehensive income for the period, net of tax	–	–	1,027
Net income	–	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–	*1,027*
Cash flow hedges	–	–	–
Cumulative foreign currency translation adjustment	–	–	–
Net actuarial gains/(losses) on pension plans	–	–	–
Net changes in capitalization of non-controlling interests	–	–	–
Balance as of June 30, 2012	**11**	**8,108**	**3,827**

1 The number of common shares issued as of June 30, 2012 was 148,202,200 (June 30, 2011: 147,357,598; December 31, 2011: 147,385,822; December 31, 2010: 146,586,896).
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 As approved by the Annual General Meeting on March 29, 2012, the dividend of CHF 17 per share was paid out of the capital contribution reserve. The difference of USD 840 million between the dividend at transaction day exchange rates amounting to USD 2,763 million and the dividend at historical exchange rates amounting to USD 1,923 million is reflected in the cumulative foreign currency translation adjustment.
4 Zurich RegCaPS Funding Trusts II, V and VI redeemed USD 575 million of Trust Capital Securities II, V and VI on March 30, 2011 (Series II), on April 4, 2011 (Series V) and on April 25, 2011 (Series VI) respectively.
5 The number of treasury shares deducted from equity as of June 30, 2012 amounted to 1,361,465 (June 30, 2011: 1,386,547; December 31, 2011: 1,373,392; December 31, 2010: 1,399,080).

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

	Cash flow hedges	Cumulative foreign currency translation adjustment	Revaluation reserve	Retained earnings	Common shareholders' equity	Preferred securities	Shareholders' equity	Non-controlling interests	Total equity
	56	(1,120)	126	18,259	31,429	475	31,905	1,336	33,241
	–	–	–	–	205	–	205	–	205
	–	–	–	–	(1,912)	(4)	(1,916)	(9)	(1,925)
	–	–	–	–	(15)	(462)	(476)	–	(476)
	–	–	–	–	(70)	–	(70)	–	(70)
	–	–	–	54	34	(14)	20	–	20
	(5)	(386)	34	2,035	1,401	4	1,405	129	1,534
	–	*–*	*–*	*1,967*	*1,967*	*4*	*1,971*		
	–	*–*	*–*	*–*	*(276)*	*–*	*(276)*		
	(5)	*–*	*–*	*–*	*(5)*	*–*	*(5)*		
	–	*(386)*	*–*	*–*	*(386)*	*–*	*(386)*		
	–	*–*	*34*	*–*	*34*	*–*	*34*		
	–	*–*	*–*	*68*	*68*	*–*	*68*		
	–	–	–	–	–	–	–	52	52
	51	(1,506)	160	20,348	31,073	–	31,073	1,508	32,581
	232	(2,632)	180	21,139	31,636	–	31,636	2,380	34,017
	–	–	–	–	199	–	199	–	199
	–	–	–	–	(1,923)	–	(1,923)	(30)	(1,953)
	–	–	–	–	(75)	–	(75)	–	(75)
	–	–	–	20	21	–	21	–	21
	–	–	–	(5)	(5)	–	(5)	–	(5)
	19	(814)	–	2,336	2,568	–	2,568	14	2,582
	–	*–*	*–*	*2,218*	*2,218*	*–*	*2,218*		
	–	*–*	*–*	*–*	*1,027*	*–*	*1,027*		
	19	*–*	*–*	*–*	*19*	*–*	*19*		
	–	*(814)*	*–*	*–*	*(814)*	*–*	*(814)*		
	–	*–*	*–*	*118*	*118*	*–*	*118*		
	–	–	–	–	–	–	–	99	99
	251	**(3,446)**	**180**	**23,490**	**32,421**	**–**	**32,421**	**2,464**	**34,884**

Consolidated financial statements *continued*

1. Basis of presentation

General information

Zurich Insurance Group Ltd (formerly known as Zurich Financial Services Ltd), a Swiss corporation, is the holding company of the Group and is listed on the SIX Swiss Exchange. Zurich Insurance Group 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. On April 4, 2012, Zurich Financial Services Ltd was renamed to Zurich Insurance Group Ltd in line with the streamlining of its business to concentrate on insurance. Also, the Swiss regulator FINMA has re-designated the Group from an insurance conglomerate to an insurance group. Throughout this document, Zurich Insurance Group Ltd is used consistently even if reference is made to facts that occurred prior to the renaming of the Company.

The unaudited Consolidated financial statements for the six months ended June 30, 2012 of Zurich Insurance Group 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 2011 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 transfers 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 for the six months ended June 30, 2012 should be read in conjunction with the Group's Annual Report 2011.

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.

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

Table 1.1 summarizes the principal exchange rates used for translation purposes. Net gains/(losses) on foreign currency transactions included in the consolidated income statements were USD 7 million and USD 52 million for the six months ended June 30, 2012 and 2011, respectively. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD 150 million and USD 33 million for the six months ended June 30, 2012 and 2011, respectively.

Table 1.1

Principal exchange rates

USD per foreign currency unit	Balance sheets		Income statements and cash flows	
	06/30/2012	12/31/2011	**06/30/2012**	06/30/2011
Euro	1.2672	1.2969	1.2975	1.4042
Swiss franc	1.0539	1.0666	1.0770	1.1069
British pound	1.5687	1.5533	1.5769	1.6166

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, 2012, with no material impact on the Group's financial position or performance:

Table 1.2

Standard/Interpretation

		Effective date
Amended Standards		
IFRS 7	Disclosures – Transfer of Financial Assets	1 July 2011
IAS 12	Deferred Tax – Recovery of Underlying Assets	1 January 2012

The Group has not early-adopted the following standards:

Table 1.3

Standard/Interpretation

		Effective date
New Standards		
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013
IFRS 9	Financial Instruments	1 January 2015
Amended Standards		
IAS 1	Presentations of Components of Other Comprehensive Income (OCI)	1 July 2012
IAS 19	Employee Benefits	1 January 2013
IAS 27	Separate Financial Statements	1 January 2013
IAS 28	Investments in Associates and Joint Ventures	1 January 2013
IAS 32	Offsetting Financial Assets and Financial Liabilities	1 January 2014

Restatements

In the Group's General Insurance business in Germany, prior year results were misstated for a period of time due to some errors in adjustments between local GAAP and IFRS. This resulted in incorrect reserves for losses, unearned premium reserves and deferred acquisition costs for some specific products. The errors identified by management have been restated and resulted in an increase in net income after taxes of USD 6 million and in business operating profit of USD 8 million for the six months ended June 30, 2011. The impact on various line items for the six months ended June 30, 2011 in the consolidated income statement is set out in table 1.4. Consolidated income statements, consolidated balance sheets, consolidated statements of cash flows, consolidated statements of changes in equity and notes 4, 6, 7, 10, 12 and 15 have been restated accordingly.

The Group erroneously classified certain life insurance products. The classification was corrected in 2012 as the impact on the Group's consolidated income statement was not material. The reclassifications in the balance sheet between liabilities for investment contracts and reserves for unit-linked contracts, and between deferred policy acquisition costs and deferred origination costs are set out in notes 4, 5 and 7.

Consolidated financial statements *continued*

Restatement of the consolidated income statement

Table 1.4

in USD millions, for the six months ended June 30, 2011	As reported	Restatement	As restated
Revenues			
Gross written premiums	25,389	–	25,389
Policy fees	1,291	–	1,291
Gross written premiums and policy fees	26,680	–	26,680
Less premiums ceded to reinsurers	(3,944)	–	(3,944)
Net written premiums and policy fees	22,737	–	22,737
Net change in reserves for unearned premiums	(1,597)	4	(1,593)
Net earned premiums and policy fees	21,139	4	21,144
Farmers management fees and other related revenues	1,375	–	1,375
Net investment result on Group investments	4,216	–	4,216
Net investment income on Group investments	3,655	–	3,655
Net capital gains/(losses) and impairments on Group investments	561	–	561
Net investment result on unit-linked investments	804	–	804
Net gain/(loss) on divestments of businesses	10	–	10
Other income	713	–	713
Total revenues	28,258	4	28,262
Benefits, losses and expenses			
Insurance benefits and losses, gross of reinsurance	18,804	–	18,804
Less ceded insurance benefits and losses	(2,828)	–	(2,828)
Insurance benefits and losses, net of reinsurance	15,976	–	15,976
Policyholder dividends and participation in profits, net of reinsurance	1,374	–	1,374
Underwriting and policy acquisition costs, net of reinsurance	4,006	(4)	4,002
Administrative and other operating expense	3,819	–	3,819
Interest expense on debt	287	–	287
Interest credited to policyholders and other interest	244	–	244
Total benefits, losses and expenses	25,706	(4)	25,702
Net income before income taxes	2,552	8	2,560
Income tax expense	(555)	(3)	(557)
attributable to policyholders	29	–	29
attributable to shareholders	(583)	(3)	(586)
Net income after taxes	**1,997**	**6**	**2,003**
attributable to non-controlling interests	32	–	32
attributable to shareholders	1,965	6	1,971
in USD			
Basic earnings per share	13.47	0.04	13.51
Diluted earnings per share	13.36	0.04	13.40
in CHF			
Basic earnings per share	12.17	0.04	12.21
Diluted earnings per share	12.07	0.03	12.11

2. Acquisitions and divestments

Transactions in 2012

Acquisitions

On May 25, 2012 the Group increased its shareholding in Zurich Insurance Company South Africa Limited to 84.05 percent by purchasing a 25.1 percent shareholding from Royal Bafokeng Finance (Pty) Limited (RBF) for a purchase price of approximately USD 75 million. With the purchase of the 25.1 percent shareholding the Group's ownership percentage for the Consolidated financial statements is in line with the legal ownership percentage. The put option right granted to RBF in 2010 to sell back its entire shareholding to the Group ceased to exist.

Divestments

On February 3, 2012 the Group sold all of its shares in Escape Premium Collection Proprietary Limited operating in the premium financing and collection business in South Africa for a total consideration, net of immaterial transaction costs, of USD 4 million. An immaterial pre-tax gain on divestment of businesses was realized.

Transactions in 2011

Acquisitions

On October 5, 2011 the Group completed the acquisition of a 51.0 percent participation in a holding company, which owned the life insurance, pension and general insurance operations of Banco Santander S.A. (Santander) in Brazil and Argentina. Between November 2, 2011 and November 4, 2011 the holding company completed the acquisition of a 100 percent participation in the life insurance, pension and general insurance operations of Santander in Chile, Mexico and Uruguay with the Group ultimate ownership of 51.0 percent. The Group obtained control over the acquired entities through its majority of voting rights in the holding company's board of directors and as shareholder, which allows the Group to direct the relevant activities of the insurance operations. As part of the transaction, the Group entered into long-term strategic distribution arrangements with Santander in Latin America. This transaction is in line with the Group's emerging market strategy in both Global Life and General Insurance, and significantly expands the Group's presence in Latin America.

The initial consideration paid by the Group amounted to approximately USD 1.2 billion, subject to a final purchase price adjustment. The Group and Santander also entered into long term loan agreements with one of the acquired companies, whereby total funds of USD 511 million were provided in line with the shareholdings of the Group and Santander. In addition to the initial consideration, both an earn-out component based on the future profitability under the distribution agreements and a protection mechanism for the Group's initial consideration, which is based on a similar future profitability criterion, were agreed. Under the earn-out arrangement, payments are scheduled to be made after every five year period starting January 1, 2011 until December 31, 2035 by the Group, subject to the achievement of the profitability criterion. The earn-out payments which are denominated in local currency, are scheduled to increase over the 25 year period up to a cumulative maximum total amount of USD 1.6 billion, based on acquisition foreign exchange rates. On a present value basis the cumulative maximum earn-out payments amount to USD 334 million. The fair value of the earn-out liability was not reflected in the Consolidated financial statements as of December 31, 2011. The fair value of the earn-out liability as of acquisition date was estimated to amount to USD 99 million and was derived by a probability weighting of different profitability scenarios and by applying a local currency based discount rate.

Total assets of the acquired Latin American insurance operations of Banco Santander S.A. (Santander acquired insurance businesses) were estimated to amount to USD 15.6 billion and total liabilities to USD 13.2 billion. Such amounts were recognized in one line within receivables and other assets and other liabilities in the Consolidated financial statements as of December 31, 2011. In the financial year 2012, total assets, including identifiable intangible assets net of deferred tax liabilities of the insurance operations as of the acquisition date, have been revised to USD 16.0 billion and total liabilities have been revised to USD 13.0 billion (excluding amounts reported in Other Operating Businesses). These amounts are allocated to individual balance sheet line items. The assets and liabilities of the acquired holding companies were already included in the respective balance sheet line items as of December 31, 2011. The Group continues to review these assets and liabilities, in particular the underlying assumptions used to determine intangible assets and technical reserves and are therefore considered provisional. The identifiable intangible assets, net of deferred tax, comprise the distribution agreements in Brazil, Argentina, Mexico and Chile amounting to USD 1.4 billion and the present value of future profits (PVFP) of acquired insurance contracts for the Life businesses in Brazil, Mexico and Chile of USD 239 million. Based on these numbers, the residual goodwill is nil. The distribution agreement and PVFP were determined on the basis of country specific in-force data, transaction projections and assumptions. The non-controlling interests are valued proportionately to the purchase price paid by the Group.

Consolidated financial statements *continued*

The table below shows the main balance sheet line items as of the acquisition date, representing the fair value of the companies acquired.

Business combinations

Table 2.1

in USD millions, per acquisition date	Global Life	General Insurance	Other Operating Businesses	Total
Total Group investments	2,629	380	3	3,011
Cash and cash equivalents	127	6	3	136
Equity securities	1,116	139	–	1,255
Debt securities	1,305	209	–	1,514
Real estate held for investment	4	–	–	4
Other loans	77	26	–	103
Investments for unit-linked contracts	9,947	–	–	9,947
Total investments	**12,575**	**380**	**3**	**12,958**
Reinsurers' share of reserves for insurance contracts	2	228	–	230
Deferred policy acquisition costs	481	53	–	535
Receivables and other assets	275	290	–	565
Deferred tax assets	139	–	–	139
Tangible assets acquired	13,473	951	3	14,427
Identifiable intangible assets, net of deferred tax	1,355	245	–	1,600
Intangible assets acquired	1,355	245	–	1,600
Reserves for insurance contracts	(11,886)	(388)	–	(12,274)
Deferred tax liabilities	–	(7)	–	(7)
Senior and subordinated debt	–	–	(511)	(511)
Other liabilities	(447)	(297)	–	(744)
Liabilities acquired	(12,333)	(692)	(511)	(13,536)
Net assets acquired	2,495	504	(508)	2,491
Non-controlling interests				(1,221)
Total acquisition costs				1,271
Cash consideration				1,156
Fair value of contingent consideration				99
Preliminary purchase price adjustment				16

Acquisition related costs of USD 24 million were included in other administrative expenses for the year ended December 31, 2011, and were excluded from business operating profit.

The financial result for the period from the acquisition dates to March 31, 2012 is included in the Group's consolidated income statement for the six months ended June 30, 2012. The main income statement information for the Santander acquired insurance companies is shown in table 2.2.

Income statement information

Table 2.2

in USD millions	Global Life	General Insurance	Core business total	Other Operating Businesses	Total
Information since acquisition					
Life insurance deposits	1,151	–	1,151	–	1,151
Gross written premiums and policy fees	884	258	1,142	–	1,142
Total BOP revenues	1,294	159	1,453	(9)	1,444
Business operating profit before non-controlling interests	79	36	114	(25)	89
Business operating profit after non-controlling interests	40	18	58	(13)	46
Net income after taxes before non-controlling interests					65
Net income after taxes after non-controlling interests					33
Pro forma 2011 information[1]					
Gross written premium for 12 months	2,326	677	3,003	n/a	3,003
Net income after taxes for 12 months					372

[1] Based on local GAAP information, as full year IFRS information is not available. The information is deemed to be a reasonable approximation but excludes the amortization of identifiable intangible assets and PVFP.

On September 30, 2011, the Group completed the acquisition of 100 percent of Malaysian Assurance Alliance Berhad (MAA), now known as Zurich Insurance Malaysia Berhad, a composite insurer based in Malaysia, together with 100 percent of four related services companies. The acquisition of MAA is aligned with the Group's emerging-market strategy of expanding the Group's presence in the Asia-Pacific region. The total preliminary purchase price of USD 135 million included an initial consideration of USD 108 million and an anticipated purchase price adjustment amounting to USD 27 million. As of June 30, 2012, out of the initial consideration of USD 108 million, USD 63 million was paid in cash, USD 39 million was placed into escrow and USD 6 million was retained by the Group. The Group is still in the process of finalizing the purchase price adjustment. The amount in escrow and the retention are to be held for a period of two years. The fair value of net tangible assets acquired amounted to USD 113 million and identifiable intangible assets, net of deferred tax, amounted to USD 19 million which mainly consisted of the PVFP from insurance contracts. Residual goodwill amounted to USD 3 million. In addition, the Group has injected approximately USD 135 million of capital into MAA since the completion of the acquisition to meet regulatory capital requirements.

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 zero. The remaining 25.0 percent shareholding continues to be held by members of the founder management team who have options to sell their shareholdings to the Group at a price contingent upon the achievement of future profit targets by 2Plan Group Limited. Based on the final purchase accounting the tangible net assets acquired amounted to negative USD 5 million and identifiable intangible assets, net of deferred tax, amounted to USD 2 million consisting of software and capitalized recruitment director fees. Goodwill amounted to USD 3 million (initially USD 4 million) and reflects the future value from the Group's improved independent financial advisor proposition and technology offering in the UK.

Divestments

On January 12, 2012, the Group sold all of its shares in La Boliviana Ciacruz de Seguros y Reaseguros S.A. and Zurich Boliviana de Seguros Personales S.A. based in Bolivia, general and life insurance companies. As of December 31, 2011 the operations were classified as held for sale and the resulting loss on divestment of businesses amounted to USD 13 million.

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. On July 1, 2011, the Group entered into business outsourcing agreements for which a pre-tax gain of USD 9 million was realized. Total cash and net assets divested in 2011 were USD 8 million and USD 8 million, respectively. The total consideration received in 2011, net of immaterial transaction costs, amounted to USD 28 million.

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	
	2012	2011	**2012**	2011	**2012**	2011
Cash and cash equivalents	33	29	24	(12)	58	16
Equity securities	912	1,002	3,251	430	4,163	1,432
Debt securities	2,752	2,841	721	145	3,473	2,986
Real estate held for investment	413	424	(288)	34	126	458
Mortgage loans	221	248	(39)	(53)	181	195
Other loans	397	432	3	37	400	469
Investments in associates and joint ventures	6	6	1	(50)	7	(44)
Derivative financial instruments[1]	–	–	47	(99)	47	(99)
Investment result, gross	4,734	4,981	3,720	432	8,454	5,413
Investment expenses	(366)	(393)	–	–	(366)	(393)
Investment result, net	**4,368**	**4,588**	**3,720**	**432**	**8,088**	**5,020**

[1] Net capital losses on derivatives attributable to cash flow hedge ineffectiveness amounted to USD 36 million and USD 13 million for the six months ended June 30, 2012 and 2011, respectively.

Rental operating expenses for real estate held for investment included in investment expenses for total investments amounted to USD 94 million and USD 99 million for the six months ended June 30, 2012 and 2011, 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	
	2012	2011	**2012**	2011	**2012**	2011
Cash and cash equivalents	23	26	–	–	23	27
Equity securities	174	212	162	563	336	775
Debt securities	2,611	2,696	511	94	3,121	2,789
Real estate held for investment	254	258	(80)	49	174	307
Mortgage loans	221	248	(39)	(53)	181	195
Other loans	270	326	3	37	273	362
Investments in associates and joint ventures	6	6	1	(50)	7	(44)
Derivative financial instruments[1]	–	–	98	(78)	98	(78)
Investment result, gross for Group investments	3,558	3,772	656	561	4,215	4,333
Investment expenses for Group investments	(119)	(117)	–	–	(119)	(117)
Investment result, net for Group investments	**3,440**	**3,655**	**656**	**561**	**4,096**	**4,216**

[1] Net capital losses on derivatives attributable to cash flow hedge ineffectiveness amounted to USD 36 million and USD 13 million for the six months ended June 30, 2012 and 2011, respectively.

Impairment charges on Group investments included in net capital gains/losses amounted to USD 97 million and USD 152 million, including impairment charges on mortgage loans and other loans of USD 37 million and USD 53 million, for the six months ended June 30, 2012 and 2011, respectively.

Table 3.1c

Investment result for unit-linked contracts

in USD millions, for the six months ended June 30	Net investment income		Net capital gains/(losses) on investments		Investment result	
	2012	2011	**2012**	2011	**2012**	2011
Cash and cash equivalents	10	2	24	(13)	34	(10)
Equity securities	738	790	3,088	(133)	3,827	657
Debt securities	141	145	211	51	352	196
Real estate held for investment	159	166	(208)	(14)	(49)	151
Other loans	127	106	–	–	127	106
Derivative financial instruments	–	–	(52)	(21)	(52)	(21)
Investment result, gross for unit-linked contracts	1,176	1,209	3,064	(130)	4,240	1,079
Investment expenses for unit-linked contracts	(247)	(276)	–	–	(247)	(276)
Investment result, net unit-linked contracts	**929**	**933**	**3,064**	**(130)**	**3,992**	**804**

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	
	2012	2011	**2012**	2011	**2012**	2011
Securities at fair value through profit or loss:	3,197	(34)	352	95	3,549	61
Net capital gains/(losses) on Group investments	109	99	141	44	250	143
of which:						
Trading securities	*–*	23	*3*	–	*2*	23
Securities designated at fair value through profit or loss	*109*	76	*139*	44	*248*	120
Net capital gains/(losses) for unit-linked contracts	3,088	(133)	211	51	3,299	(82)
Available-for-sale securities:	53	464	369	50	423	514
Realized capital gains on Group investments	199	613	672	549	871	1,162
Realized capital losses on Group investments	(95)	(63)	(293)	(486)	(388)	(549)
Impairments on Group investments	(51)	(85)	(10)	(14)	(61)	(99)
Total net capital gains/(losses) and impairments	**3,251**	**430**	**721**	**145**	**3,972**	**575**

Consolidated financial statements *continued*

Table 3.3a

Details of total investments by category

as of	Total investments			
	06/30/12		12/31/11	
	USD millions	**% of total**	USD millions	% of total
Cash and cash equivalents	9,773	3.1	10,048	3.4
Equity securities:				
Fair value through profit or loss	96,667	30.6	83,116	27.8
of which:				
Trading securities	*433*	*0.1*	*438*	*0.1*
Securities designated at fair value through profit or loss	*96,234*	*30.5*	*82,678*	*27.7*
Available-for-sale	8,133	2.6	7,973	2.7
Total equity securities	104,800	33.2	91,088	30.5
Debt securities:				
Fair value through profit or loss	20,276	6.4	19,845	6.6
of which:				
Trading securities	*42*	*0.0*	*50*	*0.0*
Securities designated at fair value through profit or loss	*20,235*	*6.4*	*19,795*	*6.6*
Available-for-sale	133,634	42.3	129,306	43.2
Held-to-maturity	4,946	1.6	5,535	1.9
Total debt securities	158,857	50.3	154,686	51.7
Real estate held for investment	11,925	3.8	12,365	4.1
Mortgage loans	10,503	3.3	11,058	3.7
Other loans	19,961	6.3	19,582	6.5
Investments in associates and joint ventures	163	0.1	161	0.1
Total investments	**315,983**	**100.0**	**298,988**	**100.0**

Table 3.3b

Details of Group investments by category

as of	Group investments			
	06/30/12		12/31/11	
	USD millions	**% of total**	USD millions	% of total
Cash and cash equivalents	8,451	4.3	8,768	4.5
Equity securities:				
Fair value through profit or loss	4,210	2.1	3,253	1.7
of which:				
Trading securities	*433*	*0.2*	*438*	*0.2*
Securities designated at fair value through profit or loss	*3,777*	*1.9*	2,816	1.4
Available-for-sale	8,133	4.1	7,973	4.1
Total equity securities	12,343	6.2	11,226	5.8
Debt securities:				
Fair value through profit or loss	8,511	4.3	8,020	4.1
of which:				
Trading securities	*42*	*0.0*	*50*	*0.0*
Securities designated at fair value through profit or loss	*8,469*	*4.3*	*7,971*	*4.1*
Available-for-sale	133,634	67.2	129,306	66.5
Held-to-maturity	4,946	2.5	5,535	2.8
Total debt securities	147,091	74.0	142,861	73.5
Real estate held for investment	8,157	4.1	8,468	4.4
Mortgage loans	10,503	5.3	11,058	5.7
Other loans	12,090	6.1	11,842	6.1
Investments in associates and joint ventures	163	0.1	161	0.1
Total Group investments	**198,799**	**100.0**	**194,385**	**100.0**

Cash and investments with a carrying value of USD 6,739 million and USD 6,227 million were deposited with regulatory authorities as of June 30, 2012, and December 31, 2011, respectively.

Securities under security lending and repurchase agreements

As of June 30, 2012 and December 31, 2011, respectively, investments included USD 7,398 million and USD 6,298 million of loaned securities. These loaned securities were mainly debt securities. Liabilities for cash collateral received for securities lending comprised USD 391 million and USD 159 million as of June 30, 2012 and December 31, 2011, respectively. Non-cash collateral received for loaned securities comprised mainly equity and debt securities and amounted to USD 7,528 million and USD 6,474 million as of June 30, 2012 and December 31, 2011, respectively. The Group can sell or repledge the collateral only in the event of default by a counterparty.

As of June 30, 2012 and December 31, 2011, respectively, debt securities with a carrying value of USD 1,566 million and USD 1,807 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 1,556 million and USD 1,794 million as of June 30, 2012 and December 31, 2011, respectively.

The Group retains the rights to the risks and the benefits of loaned securities and securities under repurchase agreements. These risks and benefits include changes in market values and income earned.

Consolidated financial statements *continued*

Details of investments held for unit-linked contracts

Table 3.3c

as of	Investments for unit-linked contracts			
	06/30/12		12/31/11	
	USD millions	**% of total**	USD millions	% of total
Cash and cash equivalents	1,322	1.1	1,280	1.2
Equity securities	92,457	78.9	79,862	76.3
Debt securities	11,766	10.0	11,825	11.3
Real estate	3,768	3.2	3,898	3.7
Other loans	7,871	6.7	7,739	7.4
Total investments for unit-linked contracts	**117,183**	**100.0**	**104,603**	**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 201 million and USD 303 million as of June 30, 2012 and December 31, 2011, respectively.

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

Table 3.4

in USD millions, as of	Total	
	06/30/12	12/31/11
Equity securities: available-for-sale	1,470	1,072
Debt securities: available-for-sale	5,662	3,941
Other	301	295
Less: amount of net unrealized gains/(losses) on investments attributable to:		
Life policyholder dividends and other policyholder liabilities	(2,034)	(1,349)
Life deferred acquisition costs and present value of future profits	(244)	(97)
Deferred income taxes	(1,067)	(834)
Minority interests	(9)	3
Total[1]	**4,078**	**3,032**

[1] Net unrealized gains/losses include net gains arising on cash flow hedges of USD 251 million and USD 232 million as of June 30, 2012 and December 31, 2011, respectively.

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

Reserves for insurance contracts

Table 4.1

in USD millions, as of	Gross		Ceded		Net	
	06/30/12	12/31/11	**06/30/12**	12/31/11	**06/30/12**	12/31/11
Reserves for losses and loss adjustment expenses	67,027	67,525	(12,130)	(12,401)	54,897	55,124
Reserves for unearned premiums	19,907	16,567	(2,868)	(2,332)	17,039	14,235
Future life policyholders' benefits	79,485	79,314	(2,384)	(2,572)	77,101	76,742
Policyholders' contract deposits and other funds	18,749	18,251	(2,158)	(2,181)	16,590	16,070
Reserves for unit-linked contracts	70,301	59,154	–	–	70,301	59,154
Total reserves for insurance contracts[1]	**255,469**	**240,811**	**(19,541)**	**(19,486)**	**235,928**	**221,325**

[1] The total reserves for insurance contracts ceded are gross of allowances for uncollectible amounts of USD 110 million and USD 125 million as of June 30, 2012 and December 31, 2011, respectively.

Development of reserves for losses and loss adjustment expenses

Table 4.2

in USD millions	Gross		Ceded		Net	
	2012	2011	**2012**	2011	**2012**	2011
As of January 1	67,525	68,107	(12,401)	(12,093)	55,124	56,014
Losses and loss adjustment expenses incurred:						
Current year	13,065	13,966	(1,375)	(2,430)	11,690	11,536
Prior years	(446)	(581)	72	(86)	(374)	(667)
Total incurred	12,619	13,385	(1,303)	(2,515)	11,316	10,869
Losses and loss adjustment expenses paid:						
Current year	(3,814)	(3,964)	226	340	(3,588)	(3,625)
Prior years	(9,099)	(9,447)	1,362	1,575	(7,737)	(7,872)
Total paid	(12,914)	(13,411)	1,588	1,914	(11,326)	(11,497)
Acquisitions/(divestments) and transfers[1]	48	(2)	(21)	–	28	(1)
Foreign currency translation effects	(251)	2,152	6	(268)	(245)	1,884
As of June 30	**67,027**	**70,231**	**(12,130)**	**(12,962)**	**54,897**	**57,268**

[1] The 2012 net movement relates to the Santander acquired insurance businesses (see note 2).

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 2012. The decrease of USD 227 million in total net reserves is mostly driven by USD 374 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, in the UK and in North America spread over many lines of business.

Consolidated financial statements *continued*

Development of future life policyholders' benefits

Table 4.3

in USD millions	Gross		Ceded		Net	
	2012	2011	2012	2011	2012	2011
As of January 1	79,314	79,315	(2,572)	(2,423)	76,742	76,891
Premiums	4,160	4,599	(266)	(253)	3,894	4,346
Claims	(4,211)	(4,812)	207	213	(4,005)	(4,599)
Fee income and other expenses	(1,229)	(990)	153	9	(1,075)	(981)
Interest and bonuses credited to policyholders	1,533	1,365	(75)	(50)	1,458	1,315
Change in assumptions	(51)	(1)	166	(4)	115	(5)
Acquisitions/transfers[1]	1,038	184	(3)	–	1,035	184
(Decreases)/increases recorded in other comprehensive income	124	(24)	–	–	124	(24)
Foreign currency translation effects	(1,194)	6,263	6	(83)	(1,188)	6,179
As of June 30	**79,485**	**85,899**	**(2,384)**	**(2,593)**	**77,101**	**83,306**

[1] The 2012 net movement relates to the Santander acquired insurance businesses (see note 2). The 2011 movement mainly includes reclassifications of USD 212 million transferred from other liabilities to future life policyholders' benefits net of USD (27) million transferred to liabilities for investment contracts (see note 1 of the Consolidated financial statements 2011).

Policyholders' contract deposits and other funds gross

Table 4.4

in USD millions, as of	06/30/12	12/31/11
Annuities	1,273	1,320
Universal life and other contracts	11,847	11,577
Policyholder dividends	5,628	5,355
Total	**18,749**	**18,251**

Development of policyholders' contract deposits and other funds

Table 4.5

in USD millions	Gross		Ceded		Net	
	2012	2011	2012	2011	2012	2011
As of January 1	18,251	17,430	(2,181)	(2,246)	16,070	15,184
Premiums	605	714	(14)	(28)	591	686
Claims	(615)	(698)	98	103	(517)	(595)
Fee income and other expenses	(119)	(173)	(24)	7	(144)	(166)
Interest and bonuses credited to policyholders	110	439	(39)	(40)	72	399
Change in assumptions	–	(1)	–	–	–	(1)
Acquisitions/transfers[1]	122	–	–	–	122	–
(Decrease)/increase recorded in other comprehensive income	589	(383)	–	–	589	(383)
Foreign currency translation effects	(194)	829	1	(2)	(192)	828
As of June 30	**18,749**	**18,158**	**(2,158)**	**(2,206)**	**16,590**	**15,952**

[1] The 2012 net movement mainly relates to the Santander acquired insurance businesses (see note 2).

Development of reserves for unit-linked contracts

Table 4.6

in USD millions	Gross		Ceded		Net	
	2012	2011	2012	2011	2012	2011
As of January 1	59,154	61,786	–	–	59,154	61,786
Premiums	5,571	4,748	–	–	5,571	4,748
Claims	(5,469)	(4,612)	–	–	(5,469)	(4,612)
Fee income and other expenses	(841)	(834)	–	–	(841)	(834)
Interest and bonuses credited/(charged) to policyholders	2,620	820	–	–	2,620	820
Acquisitions/transfers[1]	10,091	120	–	–	10,091	120
Foreign currency translation effects	(825)	2,452	–	–	(825)	2,452
As of June 30	**70,301**	**64,479**	**–**	**–**	**70,301**	**64,479**

[1] The 2012 net movement relates to the Santander acquired insurance businesses (see note 2) and USD 260 million transferred from liabilities for investment contracts partly offset by USD (112) million transferred to liabilities for investment contracts (see note 1). The 2011 movement relates to the reclassification of liabilities for investment contracts to reserves for unit-linked contracts (see note 1 of the Consolidated financial statements 2011).

5. Liabilities for investment contracts

Liabilities for investment contracts

Table 5.1

in USD millions, as of	**06/30/12**	12/31/11
Liabilities related to unit-linked investment contracts	45,520	44,220
Liabilities related to investment contracts (amortized cost)	824	834
Liabilities related to investment contracts with DPF	5,562	5,607
Total	**51,905**	**50,661**

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

Development of liabilities for investment contracts

Table 5.2

in USD millions	**2012**	2011
As of January 1	50,661	50,667
Premiums	3,269	3,078
Claims	(3,211)	(2,869)
Fee income and other expenses	(302)	(305)
Interest and bonuses charged/(credited) to policyholders	1,744	349
Transfers[1]	(148)	150
Increase/(decrease) recorded in other comprehensive income	(1)	(4)
Foreign currency translation effects	(107)	2,460
As of June 30	**51,905**	**53,526**

[1] The 2012 movement mainly includes USD (260) million transferred to reserves for unit-linked contracts partly offset by USD 112 million transferred from reserves for unit-linked contracts (see note 1). The 2011 movement 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 offset by USD (120) million transferred from liabilities for investment contracts to reserves for unit-linked contracts (see note 1 of the Consolidated financial statements 2011).

Consolidated financial statements *continued*

6. Gross and ceded insurance revenues and expenses

Insurance benefits and losses

Table 6.1

in USD millions, for the six months ended June 30	Gross		Ceded		Net	
	2012	2011	**2012**	2011	**2012**	2011
Losses and loss adjustment expenses	12,619	13,385	(1,303)	(2,515)	11,316	10,869
Life insurance death and other benefits	4,624	5,252	(237)	(224)	4,386	5,028
Change in future life policyholders' benefits	284	167	183	(88)	468	78
Total insurance benefits and losses	**17,527**	**18,804**	**(1,356)**	**(2,828)**	**16,170**	**15,976**

Policyholder dividends and participation in profits

Table 6.2

in USD millions, for the six months ended June 30	Gross		Ceded		Net	
	2012	2011	**2012**	2011	**2012**	2011
Change in policyholders' contract deposits and other funds	518	443	(19)	(1)	498	443
Change in reserves for unit-linked products	2,582	627	–	–	2,582	627
Change in liabilities for investment contracts – unit-linked	1,492	234	–	–	1,492	234
Change in liabilities for investment contracts – other	109	108	–	–	109	108
Change in unit-linked liabilities related to UK capital gains tax	(91)	(37)	–	–	(91)	(37)
Total policyholder dividends and participation in profits	**4,610**	**1,374**	**(19)**	**(1)**	**4,591**	**1,374**

7. Deferred policy acquisition costs and deferred origination costs

Development of deferred policy acquisition costs

Table 7.1

in USD millions	General Insurance		Global Life		Other segments[1]		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
As of January 1	3,500	3,426	13,011	12,686	353	169	16,864	16,281
Acquisition costs deferred	1,642	1,576	923	979	457	301	3,021	2,856
Amortization	(1,459)	(1,402)	(511)	(524)	(453)	(263)	(2,422)	(2,189)
Amortization charged/ (credited) to other comprehensive income	–	–	(97)	33	–	–	(97)	33
Acquisitions/transfers[2]	56	–	476	–	–	–	532	–
Foreign currency translation effects	(38)	129	(122)	656	–	–	(160)	784
As of June 30	**3,701**	**3,729**	**13,680**	**13,829**	**358**	**207**	**17,739**	**17,765**

[1] Net of eliminations from inter-segment transactions.
[2] The 2012 movement mainly relates to the Santander acquired insurance businesses (see note 2) partly offset by USD (6) million transferred to deferred origination costs (see note 1).

As of June 30, 2012 and December 31, 2011, deferred policy acquisition costs related to non-controlling interests were USD 991 million and USD 347 million, respectively.

Development of deferred origination costs

Table 7.2

in USD millions	**2012**	2011
As of January 1	824	866
Origination costs deferred	40	59
Amortization	(85)	(72)
Transfers[1]	6	–
Foreign currency translation effects	1	38
As of June 30	**785**	**891**

[1] The 2012 movement consists of USD 6 million transferred from deferred policy acquisition costs (see note 1).

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8. Goodwill and other intangible assets

Intangible assets – current period

Table 8.1

in USD millions	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other intangible assets	Total
Gross carrying value as of January 1, 2012	2,186	2,519	2,579	1,025	4,210	190	12,709
Less: accumulated amortization/impairments	(126)	(1,640)	(430)	–	(2,593)	(86)	(4,876)
Net carrying value as of January 1, 2012	2,060	879	2,149	1,025	1,616	104	7,834
Additions and transfers	–	327	2,050	–	203	–	2,579
Divestments and transfers	–	–	–	–	(2)	–	(2)
Amortization	–	(89)	(97)	–	(205)	(7)	(397)
Amortization charged/(credited) to other comprehensive income	–	(51)	–	–	–	–	(51)
Impairments	–	–	–	–	(7)	–	(7)
Foreign currency translation effects	(13)	(13)	(119)	–	(13)	–	(158)
Net carrying value as of June 30, 2012	**2,046**	**1,053**	**3,984**	**1,025**	**1,594**	**97**	**9,799**
Plus: accumulated amortization/impairments	125	1,778	515	–	2,762	91	5,271
Gross carrying value as of June 30, 2012	**2,171**	**2,831**	**4,499**	**1,025**	**4,356**	**188**	**15,070**

As of June 30, 2012, intangible assets relating to non-controlling interests were USD 251 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1,877 million for distribution agreements and USD 6 million for software.

Long term strategic distribution arrangements over a 25 year period with Banco Santander S.A. in Latin America have significantly expanded the Group's presence in this emerging market and have resulted in new distribution agreements totalling USD 2,032 million within both the Global Life and General Insurance operations in Mexico, Brazil, Chile and Argentina. This transaction has also resulted in additions to the PVFP amounting to USD 327 million in Mexico, Brazil and Chile.

New distribution agreements in Global Life operations in the Middle East and in General Insurance operations in Brazil, to gain access to the mass consumer market, provided an additional USD 18 million.

Intangible assets by segment – current period

Table 8.2

in USD millions, as of June 30, 2012	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other intangible assets	Total
General Insurance	821	–	846	–	562	78	2,308
Global Life	406	1,053	3,138	–	349	19	4,964
Farmers	819	–	–	1,025	391	–	2,236
Other Operating Businesses	–	–	–	–	291	–	291
Non-Core Businesses	–	–	–	–	1	–	1
Net carrying value as of June 30, 2012	**2,046**	**1,053**	**3,984**	**1,025**	**1,594**	**97**	**9,799**

Intangible assets – prior period

Table 8.3

in USD millions	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other intangible assets	Total
Gross carrying value as of January 1, 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, intangible assets relating 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 resulted in USD 2 million relating to the acquisition of PT Zurich Topas Life (formerly PT Mayapada Life) and USD 6 million relating to earn-out payments to Deutsche Bank Group for the acquisition of Zurich Life and Pensions S.p.A., Italy (formerly DWS Vita S.p.A.).

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

Intangible assets by segment – prior period

Table 8.4

in USD millions, as of December 31, 2011	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other intangible assets	Total
General Insurance	827	–	527	–	548	83	1,985
Global Life	413	879	1,622	–	372	21	3,308
Farmers	819	–	–	1,025	409	–	2,254
Other Operating Businesses	–	–	–	–	286	–	286
Non-Core Businesses	–	–	–	–	1	–	1
Net carrying value as of December 31, 2011	**2,060**	**879**	**2,149**	**1,025**	**1,616**	**104**	**7,834**

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9. Restructuring provisions

Restructuring provisions

Table 9

in USD millions	**2012**	2011
As of January 1	254	155
Provisions made during the period	21	79
Increase of provisions set up in prior years	18	4
Provisions used during the period	(74)	(41)
Provisions reversed during the period	(3)	–
Foreign currency translation effects	(2)	7
As of June 30	**214**	**204**

The main restructuring programs impacted several European countries within the General Insurance and Global Life operations with estimated costs of USD 21 million for restructuring announced in the current year and USD 18 million for increases of provisions for restructuring which have been initiated in prior years.

10. Income taxes

Income tax expense – current/deferred split

Table 10.1

in USD millions, for the six months ended June 30	2012	2011
Current	619	641
Deferred	58	(84)
Total income tax expense	**677**	**557**

Income tax expense – policyholder/shareholder attribution

Table 10.2

in USD millions, for the six months ended June 30	2012	2011
Total income tax expense/(benefit) attributable to policyholders	22	(29)
Total income tax expense attributable to shareholders	655	586
Total income tax expense	**677**	**557**

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

Expected and actual income tax expense

Table 10.3

in USD millions, for the six months ended June 30	Rate	2012	Rate	2011
Net income before income taxes		2,909		2,560
Less: income tax (expense)/benefit attributable to policyholders		(22)		29
Net income before income taxes attributable to shareholders		2,887		2,589
Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%	635	22.0%	569
Increase/(reduction) in taxes resulting from:				
Tax rate differential in foreign jurisdictions		*122*		96
Tax exempt and lower taxed income		*(31)*		(53)
Non-deductible expenses		*34*		68
Tax losses previously unrecognized or no longer recognized		*7*		27
Prior year adjustments and other		*(113)*		(122)
Actual income tax expense attributable to shareholders	22.7%	655	22.6%	586
Plus: income tax expense/(benefit) attributable to policyholders		22		(29)
Actual income tax expense	**23.3%**	**677**	**21.8%**	**557**

The table above 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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11. Senior and subordinated debt

Senior and subordinated debt

Table 11.1

in USD millions, as of		**06/30/12**	12/31/11
Senior debt			
Zurich Finance (USA), Inc.	4.50% EUR 1 billion notes, due September 2014[2,6,7]	1,282	1,312
	4.875% EUR 800 million notes, due April 2012[1,6]	–	1,037
	6.50% EUR 600 million notes, due October 2015[3,6,7]	758	776
	Euro Commercial Paper Notes	680	400
Zurich Finance (Luxembourg) S.A.	3.25% USD 750 million notes, due September 2013[5,6,7]	760	764
Zurich Insurance Company Ltd	3.75% CHF 500 million notes, due September 2013[6]	525	531
	2.25% CHF 500 million notes, due July 2017[6]	523	529
	2.875% CHF 250 million notes, due July 2021[6]	259	262
	2.375% CHF 525 million notes, due November 2018[6]	547	553
	1.50% CHF 400 million notes, due June 2019[5,6,7]	420	–
	3.375% EUR 500 million notes, due June 2022[5,6,7]	630	–
Zurich Santander Insurance America S.L.	7.5% EUR 182 million loan, due December 2035	231	236
Other	Various debt instruments payable in more than 1 year	113	141
Senior debt		6,729	6,541
Subordinated debt			
Zurich Insurance Company Ltd	12.0% EUR 143 million perpetual capital notes[6]	180	184
	7.5% EUR 425 million notes, due July 2039[6]	534	547
	4.25% CHF 700 million perpetual notes[6]	728	735
	4.625% CHF 500 million perpetual notes[6]	519	525
	8.25% USD 500 million perpetual capital notes[6]	494	–
Zurich Finance (UK) plc	6.625% GBP 450 million perpetual notes[4,6]	697	690
Zurich Finance (USA), Inc.	5.75% EUR 500 million notes, due October 2023[1,6]	626	641
	4.5% EUR 500 million notes, due June 2025[5,6,7]	676	688
ZFS Finance (USA) Trust II	Series II 6.45% USD 700 million Trust Preferred Securities (ECAPS), due December 2065	675	674
ZFS Finance (USA) Trust IV	Series IV 5.875% USD 500 million Trust Preferred Securities, due May 2062	–	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	72	44
Subordinated debt		5,700	5,476
Total senior and subordinated debt		**12,429**	**12,017**

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).
7 The Group applied the cash flow hedge methodology to hedge the foreign currency exposure and deferred the attributable basis spreads in shareholders' equity, whereas the fair value hedge methodology was used to hedge the interest rate exposure with changes in the fair value being recorded through the income statement.

None of the debt instruments listed above were in default as of June 30, 2012 or December 31, 2011.

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.

i) Senior debt

Senior debt amounted to USD 6,729 million and USD 6,541 million as of June 30, 2012 and December 31, 2011, respectively. The increase was primarily due to two notes issued in June 2012 by Zurich Insurance Company Ltd under its EMTN Programme: a 1.5% CHF 400 million senior note was placed into the Swiss domestic market; and a 3.375% EUR 500 million senior note was placed into the Euromarket. In April, 2012 a 4.875% EUR 800 million senior note issued in 2009 by Zurich Finance (USA) matured. In addition, Euro Commercial Paper Notes increased by a net USD 280 million.

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 amounted to USD 5,700 million and USD 5,476 million as of June 30, 2012 and December 31, 2011, respectively. The increase is mainly the result of 8.25% USD 500 million perpetual capital notes issued in January 2012 by Zurich Insurance Company Ltd under its EMTN Programme into the Asian market, partially offset by the early redemption in June 2012 of the remaining USD 250 million of 5.875% USD 500 million Series IV Fixed/Floating Trust Preferred Securities issued by ZFS Finance (USA) Trust IV in May 2007. Zurich exercised its option to redeem these securities early, after the first call date.

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Description and features of significant subordinated debt

Table 11.2

Description	Coupon conditions	Call/ redemption date	Redemption conditions
12.00% EUR 143 million, perpetual capital 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 notes, 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, perpetual 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, perpetual 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.
8.25% USD 500 million, perpetual capital notes	8.25% per annum payable quarterly until January 18, 2018. Resets to the 6-Year mid swap rate plus 6.84% until January 18, 2024. Resets thereafter every 6 years to the 6-Year mid swap rate plus 7.84%.	Quarterly on or after January 18, 2018	Redeemable in whole or in part at par plus any accrued interest.
6.625% GBP 450 million, perpetual 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 notes, 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 notes, 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% USD 700 million Fixed/Adjustable Trust Preferred Securities (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 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.

Table 11.3

Maturity schedule of outstanding debt

	06/30/12 Carrying value	06/30/12 Undiscounted cash flow	12/31/11 Carrying value	12/31/11 Undiscounted cash flow
< 1 year	680	1,269	1,437	2,032
1 to 2 years	1,285	1,866	1,305	1,823
2 to 3 years	1,417	1,943	1,324	1,811
3 to 4 years	758	1,208	917	1,319
4 to 5 years	–	377	–	376
5 to 10 years	2,401	4,096	1,345	2,838
> 10 years	5,888	8,152	5,689	7,625
Total	**12,429**	**18,911**	**12,017**	**17,825**

Debt maturities reflect original contractual dates without taking early redemption options into account. For call/ redemption dates, see table 11.2. The total notional amount of debt due in each period is not materially different from the total carrying amount disclosed in table 11.3. Undiscounted cash flows include interest and principal cash flows on debt outstanding as of June 30, 2012 and December 31, 2011. All debt is assumed to mature within 20 years of the balance sheet date without refinancing. Floating interest rates are assumed to remain constant as of June 30, 2012 and December 31, 2011. The aggregated cash flows are translated into U.S. dollars at end-of-period rates.

Table 11.4

Interest expense on debt

in USD millions, for the six months ended June 30	2012	2011
Senior debt	117	130
Subordinated debt	176	157
Total	**293**	**287**

Interest expense on debt

Interest expense on debt amounted to USD 293 million and USD 287 million as of June 30, 2012 and 2011, respectively. The higher interest expense was mainly due to the issuance of new subordinated notes in March 2011 and January 2012. By contrast interest expense on senior debt decreased as a result of the positive impact of refinancing the 3.875% CHF 1 billion notes in July 2011 and the 3.5% CHF 300 million notes in November 2011 at lower rates as well as the maturity of the 4.875% EUR 800 million notes in April 2012. This reduction is partially offset by the interest expense related to the 7.5% EUR 182 million senior loan to support the Group's business in Latin America.

Credit facilities

On October 31, 2011 the Group refinanced its revolving credit facility of USD 3 billion, which would have expired in September 2012, by a new syndicated revolving credit facility of EUR 2.5 billion maturing in 2018 at the latest. Zurich Insurance Company Ltd and Farmers Group, Inc. are guarantors of the facility and can draw up to EUR 2.3 billion and EUR 200 million, respectively. No borrowings were outstanding under this facility as of June 30, 2012 or December 31, 2011.

In addition, the Group has access to four other revolving credit facilities totaling USD 441 million expiring in 2014. No borrowings were outstanding under these four facilities as of June 30, 2012 or December 31, 2011.

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12. Earnings per share

Earnings per share

Table 12

for the six months ended June 30	Net income attributable to common shareholders (in USD millions)[1]	Weighted average number of shares	Per share (USD)	Per share (CHF)[2]
2012				
Basic earnings per share	**2,218**	**146,402,512**	**15.15**	**14.06**
Effect of potentially dilutive shares related to share-based compensation plans		755,569	(0.08)	(0.07)
Diluted earnings per share	**2,218**	**147,158,081**	**15.07**	**13.99**
2011				
Basic earnings per share	**1,967**	**145,592,692**	**13.51**	**12.21**
Effect of potentially dilutive shares related to share-based compensation plans		1,181,530	(0.11)	(0.10)
Diluted earnings per share	**1,967**	**146,774,222**	**13.40**	**12.11**

[1] Excludes the net income attributable to preferred shareholders of USD 4 million for the six months ended June 30, 2011.
[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, 2012 and 2011, respectively.

13. 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.

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, Zurich Insurance Company Ltd 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, inter alia, fraudulent transfer, tortious interference, unfair business practices, alter ego and agency liability 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 concluded. Closing arguments were heard on February 22 and 23, 2012, and a decision is pending. The Group maintains that the Fuller-Austin Case is without merit and intends to continue to defend itself vigorously.

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 Zurich Insurance Company Ltd, 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. In 2010, the court dismissed the plaintiffs' fraudulent transfer, tortious interference with contract and consumer fraud claims. Following the conclusion of pre-trial discovery, the defendants filed a motion for summary judgment seeking dismissal of all remaining claims against them; plaintiffs also filed a motion for partial summary judgment on their claim of respondeat superior. On March 30, 2012, the court issued a decision granting the defendants' motion for summary judgment as to all remaining claims, and denying the plaintiffs' motion. On June 27, 2012, final judgment in the District Court was entered in favor of defendants. Plaintiffs noticed an appeal to the U.S. Court of Appeals for the Eighth Circuit. On August 8, 2012, the defendants entered into a settlement with plaintiffs whereby defendants would make a payment to the plaintiffs of USD 200,000 plus defendants' forbearance of approximately USD 30,000 of costs plaintiffs owed as a result of the judgment. As no court approval is required, this settlement ends the API Case.

Zurich Insurance Group Ltd (formerly Zurich Financial Services Ltd) is 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 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. On January 17, 2012, the Amsterdam Court of Appeal approved the non-U.S. settlement and the time to appeal has now expired. The deadline to opt out of the non-U.S. settlement was July 31, 2012, and a number of opt-out requests have been received. To date, none of the opt-outs has filed suit against Zurich Insurance Group Ltd.

Zurich Insurance Group Ltd (formerly 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.

Consolidated financial statements *continued*

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 proposed settlement, a sum of USD 455 million was 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, all terms of which are subject to the court's final approval. On January 12, 2011, the parties filed a motion seeking preliminary approval of the proposed settlement. On February 3, 2011, the court granted a motion to intervene by a class member who objects to certain aspects of the proposed settlement. The hearing on the motion for preliminary approval was held on March 2, 2011, and the court granted the motion. Notices were mailed and published to class members, and a number of objections and opt-out requests were submitted. On October 31, 2011, the court granted a motion by the State of Montana to intervene so it could object to certain aspects of the proposed settlement. On December 21, 2011, the court granted final approval of the settlement, and it reduced the total award of attorneys' fees, expenses, and incentive awards to approximately USD 74 million (instead of USD 90 million). A 60-day appeal period commenced following entry of the court's judgment on December 21, 2011. Five notices of appeal have been filed, including one by intervenor State of Montana. A briefing schedule has not yet been set.

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.

14. 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, reflected in the consolidated income statements and consolidated balance sheets.

Table 14

Related party transactions included in the Consolidated financial statements

in USD millions		
for the six months ended June 30	**2012**	2011
Net earned premiums and policy fees	7	14
Net investment result on Group investments	6	6
Insurance benefits and losses, net of reinsurance	(8)	(3)
Underwriting and policy acquisition costs, net of reinsurance	–	(1)
Administrative and other operating expense	(1)	(1)
as of	**06/30/12**	12/31/11
Other loans	19	21
Deposits made under assumed reinsurance contracts	4	5
Receivables and other assets	4	7
Reserves for insurance contracts	(13)	(11)
Other liabilities	(2)	(3)

Consolidated financial statements *continued*

15. 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 and small commercial lines of 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 include the Group's banking activities.

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

Consolidated financial statements *continued*

Business operating profit by business segment

Table 15.1

in USD millions, for the six months ended June 30	General Insurance		Global Life	
	2012	2011	**2012**	2011
Revenues				
Direct written premiums[1]	18,042	17,795	5,338	4,885
Assumed written premiums	1,112	1,080	45	48
Gross Written Premiums	19,153	18,876	5,383	4,933
Policy fees	–	–	1,296	1,159
Gross written premiums and policy fees	19,153	18,876	6,679	6,092
Less premiums ceded to reinsurers	(3,045)	(2,987)	(359)	(339)
Net written premiums and policy fees	16,108	15,889	6,320	5,753
Net change in reserves for unearned premiums	(1,890)	(1,567)	(222)	(31)
Net earned premiums and policy fees	14,218	14,322	6,099	5,722
Farmers management fees and other related revenues	–	–	–	–
Net investment result on Group investments	1,346	1,447	2,205	2,153
Net investment income on Group investments	1,323	1,426	2,009	2,082
Net capital gains/(losses) and impairments on Group investments	23	21	195	70
Net investment result on unit-linked investments	–	–	3,615	647
Other income	493	408	502	483
Total BOP revenues	16,057	16,177	12,420	9,005
of which: inter-segment revenues	*(251)*	*(246)*	*(178)*	*(160)*
Benefits, losses and expenses				
Insurance benefits and losses, net[1]	9,602	10,429	4,605	4,853
Losses and loss adjustment expenses, net	9,605	10,418	22	35
Life insurance death and other benefits, net	(3)	11	4,128	4,717
(Decrease)/increase in future life policyholders' benefits, net[1]	–	(1)	455	101
Policyholder dividends and participation in profits, net	2	5	4,149	1,157
Income tax expense/(benefit) attributable to policyholders	–	–	22	(29)
Underwriting and policy acquisition costs, net	2,770	2,696	1,361	848
Administrative and other operating expense (excl. depreciation/amortization)	1,814	1,784	1,168	1,036
Interest credited to policyholders and other interest	6	12	192	201
Restructuring provisions and other items not included in BOP	(10)	(121)	(31)	–
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	14,184	14,805	11,466	8,067
Business operating profit (before interest, depreciation and amortization)	**1,874**	**1,371**	**954**	**937**
Depreciation and impairments of property and equipment	50	46	16	15
Amortization and impairments of intangible assets	94	105	231	152
Interest expense on debt	80	103	9	28
Business operating profit before non-controlling interests	1,651	1,118	698	742
Non-controlling interests	21	3	47	14
Business operating profit	**1,630**	**1,115**	**651**	**728**
Supplementary information				
Additions and capital improvements to property, equipment and intangible assets[2]	483	402	2,080	296

[1] The Global Life segment includes approximately USD 342 million and USD 491 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, 2012 and 2011, respectively (see note 3 of the Consolidated financial statements 2011).
[2] As of June 30, 2012 and December 31, 2011, respectively.

Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
–	–	–	–	53	59	–	–	23,433	22,739
2,211	1,481	67	67	58	81	(103)	(107)	3,389	2,650
2,211	1,481	67	67	111	139	(103)	(107)	26,821	25,389
–	–	–	–	126	132	–	–	1,422	1,291
2,211	1,481	67	67	236	271	(103)	(107)	28,243	26,680
–	–	(27)	(26)	(12)	(698)	103	107	(3,340)	(3,944)
2,211	1,481	40	41	225	(427)	–	–	24,903	22,737
(15)	2	–	1	1	2	–	–	(2,126)	(1,593)
2,195	1,483	40	42	226	(425)	–	–	22,778	21,144
1,420	1,375	–	–	–	–	–	–	1,420	1,375
65	70	219	270	270	192	(359)	(417)	3,745	3,714
65	70	219	270	183	224	(359)	(417)	3,440	3,655
–	–	–	–	87	(32)	–	–	306	59
–	–	–	–	378	156	–	–	3,992	804
40	35	441	427	51	49	(732)	(688)	794	713
3,720	2,963	700	739	924	(28)	(1,092)	(1,105)	32,729	27,750
(35)	*(35)*	*(598)*	*(633)*	*(30)*	*(31)*	*1,092*	*1,105*	–	–
1,688	1,045	35	37	241	(388)	–	–	16,170	15,976
1,688	1,045	–	2	2	(633)	(2)	2	11,316	10,869
–	–	27	26	235	275	–	(1)	4,386	5,028
–	–	7	10	4	(30)	2	(1)	468	78
–	–	–	–	441	212	–	–	4,591	1,374
–	–	–	–	–	–	–	–	22	(29)
687	454	–	–	4	5	(2)	(2)	4,820	4,002
657	657	560	485	85	92	(720)	(678)	3,564	3,377
–	–	4	3	27	31	(2)	(3)	227	244
11	(4)	4	42	–	–	–	–	(26)	(82)
3,042	2,152	603	568	798	(48)	(724)	(683)	29,368	24,862
678	**810**	**97**	**171**	**126**	**19**	**(368)**	**(422)**	**3,361**	**2,888**
28	27	9	6	1	3	–	–	103	96
48	55	30	34	–	1	–	–	403	346
1	–	540	528	31	50	(368)	(422)	293	287
601	729	(482)	(397)	94	(34)	–	–	2,561	2,158
–	–	(13)	–	–	–	–	–	55	18
601	**729**	**(469)**	**(397)**	**93**	**(34)**	**–**	**–**	**2,506**	**2,141**
71	171	38	124	–	–	–	–	2,672	994

Consolidated financial statements *continued*

Reconciliation of BOP to net income after income taxes

Table 15.2

in USD millions, for the six months ended June 30	General Insurance		Global Life	
	2012	2011	**2012**	2011
Business operating profit	**1,630**	**1,115**	**651**	**728**
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	181	418	151	38
Net gain/(loss) on divestments of businesses	1	–	–	10
Restructuring provisions	(20)	(71)	(16)	(9)
Net income/(expense) on intercompany loans[1]	(15)	(24)	(1)	(9)
Other adjustments	25	(25)	(13)	18
Add back:				
Business operating profit attributable to non-controlling interests	21	3	47	14
Net income before shareholders' taxes	**1,822**	**1,415**	**818**	**790**
Income tax expense/(benefit) attributable to policyholders	–	–	22	(29)
Net income before income taxes	**1,822**	**1,415**	**840**	**762**
Income tax expense (attributable to policyholders and shareholders)				
Net income after taxes				

[1] The impact at Group level relates to foreign currency translation differences.

	Farmers		Other Operating Businesses		Non-Core Businesses		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	601	**729**	**(469)**	**(397)**	**93**	**(34)**	**2,506**	**2,141**
	18	(4)	(17)	34	17	16	351	502
	–	–	–	–	–	–	1	10
	–	(3)	–	–	–	–	(36)	(83)
	–	–	16	38	–	–	–	5
	11	(1)	(12)	4	–	–	10	(4)
	–	–	(13)	–	–	–	55	18
	630	**721**	**(494)**	**(321)**	**111**	**(17)**	**2,887**	**2,589**
	–	–	–	–	–	–	22	(29)
	630	**721**	**(494)**	**(321)**	**111**	**(17)**	**2,909**	**2,560**
							(677)	(557)
							2,232	**2,003**

Consolidated financial statements *continued*

Assets and liabilities by business segment

Table 15.3

in USD millions, as of	General Insurance		Global Life	
	06/30/12	12/31/11	**06/30/12**	12/31/11
Assets				
Total Group Investments	86,129	84,142	105,451	101,735
Cash and cash equivalents	8,991	8,261	3,448	3,247
Equity securities	5,251	5,275	4,983	4,107
Debt securities	64,149	62,894	71,087	68,055
Real estate held for investment	2,793	2,911	4,936	5,126
Mortgage loans	1,440	1,472	7,815	8,177
Other loans	3,500	3,325	13,118	12,959
Investments in associates and joint ventures	6	6	64	65
Investments for unit-linked contracts	–	–	105,393	93,096
Total investments	86,129	84,142	210,844	194,831
Reinsurers' share of reserves for insurance contracts	13,824	13,440	1,891	2,068
Deposits made under assumed reinsurance contracts	51	71	–	19
Deferred policy acquisition costs	3,701	3,500	13,680	13,011
Deferred origination costs	–	–	785	824
Goodwill	821	827	406	413
Other intangible assets	1,487	1,158	4,558	2,895
Other assets[1]	15,903	14,632	7,481	22,311
Total assets (after cons. of investments in subsidiaries)	**121,917**	**117,770**	**239,645**	**236,372**
Liabilities				
Liabilities for investment contracts	–	–	51,905	50,661
Reserves for insurance contracts, gross	82,392	80,462	149,050	136,248
Reserves for losses and loss adjustment expenses, gross	63,649	64,074	34	39
Reserves for unearned premiums, gross	17,393	15,026	1,161	205
Future life policyholders' benefits, gross	114	92	74,277	74,162
Policyholders' contract deposits and other funds, gross	1,237	1,269	15,066	14,195
Reserves for unit-linked contracts, gross	–	–	58,511	47,647
Senior debt	5,569	5,354	431	948
Subordinated debt	611	1,038	333	333
Other liabilities[2]	13,100	12,913	19,041	30,368
Total liabilities	**101,672**	**99,767**	**220,760**	**218,558**
Equity				
Shareholders' equity				
Non-controlling interests				
Total equity				
Total liabilities and equity				

[1] As of December 31, 2011, the General Insurance and Global Life segments include assets held for sale amounting to USD 38 million and USD 17 million, respectively. The Global Life segment also includes total assets related to the Santander acquired insurance businesses amounting to USD 15.6 billion (see note 2).
[2] As of December 31, 2011, the General Insurance and Global Life segments include liabilities held for sale amounting to USD 41 million and USD 14 million, respectively. The Global Life segment also includes total liabilities related to the Santander acquired insurance businesses amounting to USD 13.2 billion (see note 2).

Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
06/30/12	12/31/11	**06/30/12**	12/31/11	**06/30/12**	12/31/11	**06/30/12**	12/31/11	**06/30/12**	12/31/11
4,317	4,267	17,614	19,332	12,261	13,119	(26,973)	(28,211)	198,799	194,385
514	580	7,864	8,596	2,265	2,637	(14,630)	(14,552)	8,451	8,768
97	93	1,610	1,533	401	219	–	–	12,343	11,226
1,319	1,295	4,708	4,563	6,775	7,016	(948)	(962)	147,091	142,861
132	132	41	42	255	258	–	–	8,157	8,468
–	–	–	–	1,248	1,409	–	–	10,503	11,058
2,255	2,168	3,384	4,593	1,229	1,495	(11,395)	(12,697)	12,090	11,842
–	–	6	6	87	84	–	–	163	161
–	–	–	–	11,790	11,508	–	–	117,183	104,603
4,317	4,267	17,614	19,332	24,051	24,626	(26,973)	(28,211)	315,983	298,988
–	–	–	–	4,183	4,509	(468)	(656)	19,431	19,361
2,295	2,141	–	–	183	508	–	(28)	2,530	2,711
356	352	–	–	1	1	–	–	17,739	16,864
–	–	–	–	–	–	–	–	785	824
819	819	–	–	–	–	–	–	2,046	2,060
1,417	1,434	291	286	1	1	–	–	7,753	5,774
962	1,009	2,340	1,906	1,265	1,261	(2,146)	(1,832)	25,805	39,288
10,167	**10,023**	**20,245**	**21,525**	**29,684**	**30,906**	**(29,586)**	**(30,727)**	**392,071**	**385,869**
–	–	–	–	–	–	–	–	51,905	50,661
2,951	2,728	45	39	21,499	21,972	(468)	(637)	255,469	240,811
1,618	1,410	27	28	2,117	2,559	(418)	(586)	67,027	67,525
1,333	1,318	4	4	22	22	(5)	(9)	19,907	16,567
–	–	13	6	5,126	5,097	(45)	(42)	79,485	79,314
–	–	–	–	2,445	2,787	–	–	18,749	18,251
–	–	–	–	11,789	11,507	–	–	70,301	59,154
114	125	22,797	22,590	2,392	2,134	(24,575)	(24,611)	6,729	6,541
–	–	5,628	5,432	23	23	(894)	(1,350)	5,700	5,476
1,679	1,635	3,475	3,149	3,737	4,428	(3,649)	(4,129)	37,383	48,364
4,745	**4,488**	**31,945**	**31,209**	**27,651**	**28,557**	**(29,586)**	**(30,727)**	**357,186**	**351,852**
								32,421	31,636
								2,464	2,380
								34,884	34,017
								392,071	**385,869**

Consolidated financial statements *continued*

General Insurance – Customer segment overview

Table 15.4

in USD millions, for the six months ended June 30	Global Corporate		North America Commercial	
	2012	2011	**2012**	2011
Gross written premiums and policy fees	4,720	4,714	5,069	4,852
Net earned premiums and policy fees	2,702	2,663	3,590	3,615
Insurance benefits and losses, net	1,905	2,327	2,379	2,500
Policyholder dividends and participation in profits, net	–	–	2	5
Total net technical expenses	541	523	1,041	1,084
Net underwriting result	257	(187)	169	26
Net investment income	303	298	445	509
Net capital gains/(losses) and impairments on investments	5	5	15	16
Net non-technical result (excl. items not included in BOP)	(68)	(56)	(112)	(125)
Business operating profit before non-controlling interests	497	60	517	427
Non-controlling interests	–	–	–	–
Business operating profit	498	60	517	426
Ratios, as % of net earned premiums and policy fees				
Loss ratio	70.5%	87.4%	66.3%	69.2%
Expense ratio	20.0%	19.6%	29.0%	30.1%
Combined ratio	90.5%	107.0%	95.3%	99.3%

Europe		International Markets		GI Global Functions including Group Reinsurance		Eliminations		Total	
2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
6,924	7,480	2,653	2,212	174	266	(387)	(648)	19,153	18,876
5,918	6,396	2,003	1,614	4	33	–	–	14,218	14,322
4,076	4,362	1,244	1,273	(3)	(34)	–	–	9,602	10,429
–	–	–	–	–	–	–	–	2	5
1,561	1,611	745	552	3	17	(4)	(1)	3,888	3,785
280	424	14	(211)	4	50	4	1	727	104
409	471	135	116	32	31	(1)	–	1,323	1,426
–	–	3	–	–	–	–	–	23	21
(173)	(171)	(69)	(45)	3	(33)	(2)	(2)	(423)	(432)
516	724	83	(140)	38	47	–	–	1,651	1,118
1	2	21	1	–	–	–	–	21	3
515	722	62	(141)	38	47	–	–	1,630	1,115
68.9%	68.2%	62.1%	78.9%	nm	nm	n/a	n/a	67.5%	72.8%
26.4%	25.2%	37.2%	34.2%	nm	nm	n/a	n/a	27.4%	26.5%
95.3%	93.4%	99.3%	113.0%	nm	nm	n/a	n/a	94.9%	99.3%

Consolidated financial statements *continued*

Table 15.5

General Insurance – Revenues by region

in USD millions, for the six months ended June 30	Gross written premiums and policy fees from external customers		of which Global Corporate	
	2012	2011	**2012**	2011
Middle East	119	41	77	41
Africa				
South Africa	237	301		
Morocco	72	71		
Subtotal Africa	310	372	11	–
Latin America				
Argentina	181	130		
Brazil	425	275		
Chile	181	120		
Mexico	248	144		
Venezuela	91	84		
Rest of Latin America	16	15		
Subtotal Latin America	1,141	769	–	–
North America				
United States	6,190	5,849		
Rest of North America	487	496		
Subtotal North America	6,678	6,345	1,688	1,581
Asia-Pacific				
Australia	621	567		
Hong Kong	104	87		
Japan	402	359		
Taiwan	67	65		
Rest of Asia-Pacific	204	120		
Subtotal Asia-Pacific	1,398	1,198	310	293
Europe				
United Kingdom	1,976	2,130		
Germany	2,018	2,145		
Switzerland	2,229	2,310		
Italy	942	1,098		
Spain	834	973		
Rest of Europe	1,504	1,487		
Subtotal Europe	9,504	10,142	2,519	2,597
Total	**19,150**	**18,868**	**4,604**	**4,513**

General Insurance – Non-current assets by region

Table 15.6

in USD millions, as of	Property/equipment and intangible assets	
	06/30/12	12/31/11
Middle East	37	35
Africa		
South Africa	16	19
Morocco	30	31
Subtotal Africa	46	50
Latin America		
Argentina	16	7
Brazil	206	170
Chile	46	1
Mexico	269	10
Venezuela	14	13
Rest of Latin America	5	5
Subtotal Latin America	557	207
North America		
United States	236	247
Rest of North America	31	6
Subtotal North America	267	254
Asia-Pacific		
Australia	78	79
Hong Kong	11	6
Japan	31	33
Taiwan	19	18
Rest of Asia-Pacific	4	4
Subtotal Asia-Pacific	142	140
Europe		
United Kingdom	205	199
Germany	210	210
Switzerland	573	589
Italy	41	49
Spain	480	501
Rest of Europe	610	609
Subtotal Europe	2,120	2,158
Total	**3,170**	**2,844**

Consolidated financial statements *continued*

Global Life – Overview

Table 15.7

in USD millions, for the six months ended June 30	North America		Latin America	
	2012	2011	2012	2011
Revenues				
Life insurance deposits	137	124	1,356	114
Gross written premiums[1]	260	251	1,225	308
Policy fees	146	142	36	13
Gross written premiums and policy fees	406	392	1,261	321
Net earned premiums and policy fees	300	285	1,035	312
Net investment income on Group investments	159	166	112	65
Net capital gains/(losses) and impairments on Group investments	–	–	29	–
Net investment result on Group investments	159	166	141	65
Net investment income on unit-linked investments	(17)	(13)	5	4
Net capital gains/(losses) and impairments on unit-linked investments	28	15	545	3
Net investment result on unit-linked investments	12	2	550	7
Other income	47	50	40	7
Total BOP revenues	518	504	1,766	391
Benefits, losses and expenses				
Insurance benefits and losses, net[1]	164	141	444	229
Policyholder dividends and participation in profits, net	23	13	553	13
Income tax expense/(benefit) attributable to policyholders	–	–	–	–
Underwriting and policy acquisition costs, net	61	68	435	56
Administrative and other operating expense (excl. depreciation/amortization)	72	67	174	65
Interest credited to policyholders and other interest	71	75	10	(3)
Restructuring provisions and other items not included in BOP	–	1	(24)	–
Total BOP benefits, losses and expenses	391	364	1,594	358
Business operating profit (before interest, depreciation and amortization)	**127**	**140**	**172**	**32**
Depreciation and impairments of property and equipment	–	–	1	1
Amortization and impairments of intangible assets	11	12	86	1
Interest expense on debt	2	1	(6)	–
Business operating profit before non-controlling interests	113	127	92	31
Non-controlling interests	–	–	37	1
Business operating profit	**113**	**127**	**54**	**30**

[1] Europe includes approximately USD 342 million and USD 491 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, 2012 and 2011, respectively (see note 3 of the Consolidated financial statements 2011).

Europe 2012	Europe 2011	Asia-Pacific and Middle East 2012	Asia-Pacific and Middle East 2011	Other 2012	Other 2011	Eliminations 2012	Eliminations 2011	Total 2012	Total 2011
5,375	5,762	902	1,057	270	117	–	–	8,039	7,174
3,499	4,103	351	229	75	64	(27)	(22)	5,383	4,933
1,024	935	87	67	3	2	–	–	1,296	1,159
4,523	5,038	439	296	78	66	(27)	(22)	6,679	6,092
4,315	4,817	377	246	72	62	–	–	6,099	5,722
1,652	1,809	81	37	5	6	(1)	–	2,009	2,082
143	61	24	9	–	–	–	–	195	70
1,795	1,870	105	46	5	6	(1)	–	2,205	2,153
991	995	38	53	21	14	–	–	1,039	1,053
1,891	(224)	87	(164)	24	(36)	–	–	2,576	(406)
2,882	771	125	(110)	46	(22)	–	–	3,615	647
165	199	92	98	160	131	(3)	(3)	502	483
9,157	7,657	700	279	282	177	(4)	(3)	12,420	9,005
3,824	4,387	128	60	44	35	–	–	4,605	4,853
3,312	1,245	209	(92)	51	(21)	–	–	4,149	1,157
14	(34)	8	5	–	–	–	–	22	(29)
684	602	113	76	67	48	–	–	1,361	848
662	651	150	152	113	104	(4)	(3)	1,168	1,036
98	116	13	14	–	–	–	–	192	201
(16)	–	9	–	–	–	–	–	(31)	–
8,578	6,967	632	214	275	166	(4)	(3)	11,466	8,067
579	**689**	**68**	**64**	**8**	**11**	**–**	**–**	**954**	**937**
11	12	3	2	–	–	–	–	16	15
129	136	2	1	4	2	–	–	231	152
12	26	–	–	1	–	–	–	9	28
427	515	63	61	3	8	–	–	698	742
10	13	(1)	–	–	–	–	–	47	14
417	**502**	**64**	**61**	**3**	**8**	**–**	**–**	**651**	**728**

Consolidated financial statements *continued*

Global Life – Revenues by region

Table 15.8

in USD millions, for the six months ended June 30	Gross written premiums and policy fees from external customers		Life insurance deposits	
	2012	2011	**2012**	**2011**
North America				
United States	406	392	137	124
Subtotal North America	406	392	137	124
Latin America				
Chile	296	177	5	6
Argentina	56	19	20	21
Bolivia	–	6	–	6
Mexico	120	29	81	–
Venezuela	30	26	–	–
Brazil	757	64	1,250	81
Uruguay	1	–	–	–
Subtotal Latin America	1,261	321	1,356	114
Europe				
United Kingdom	871	796	2,918	2,706
Germany	1,405	1,572	1,032	1,050
Switzerland	1,130	1,220	63	38
Ireland[2]	256	321	1,024	1,018
Spain	508	748	121	569
Italy	230	191	178	358
Portugal	17	16	15	24
Austria	79	148	24	–
Subtotal Europe	4,496	5,012	5,375	5,762
Asia-Pacific and Middle East				
Hong Kong	43	43	64	76
Australia	157	151	37	27
Japan	50	49	12	12
Malaysia	120	–	–	–
Zurich International Life[1]	68	51	788	941
Subtotal Asia-Pacific and Middle East	439	295	902	1,057
Other				
Luxembourg[2]	3	2	270	117
International Group Risk Solutions[3]	43	39	–	–
Subtotal Other	46	42	270	117
Total	**6,647**	**6,062**	**8,039**	**7,174**

[1] Mainly includes business written through licenses into Asia-Pacific and Middle East.
[2] Includes business written under freedom of services and freedom of establishment in Europe.
[3] Includes business written through licenses into all regions.

Global Life – Non-current assets by region

Table 15.9

in USD millions, as of	Property/equipment and intangible assets	
	06/30/12	12/31/11
North America		
United States	164	174
Subtotal North America	164	174
Latin America		
Chile	478	21
Argentina	108	9
Mexico	317	1
Brazil	1,032	43
Subtotal Latin America	1,935	74
Europe		
United Kingdom	416	415
Germany	761	816
Switzerland	60	60
Ireland	3	3
Spain	1,729	1,833
Italy	192	244
Austria	5	6
Subtotal Europe	3,166	3,378
Asia-Pacific and Middle East		
Hong Kong	7	7
Indonesia	3	3
Japan	2	3
Singapore	1	–
Malaysia	108	109
Zurich International Life	13	5
Subtotal Asia-Pacific and Middle East	134	127
Other		
Luxembourg[1]	4	4
Subtotal Other	4	4
Total	**5,403**	**3,757**

[1] Includes assets relating to business written under freedom of services and freedom of establishment in Europe.

Consolidated financial statements *continued*

Farmers – Overview

Table 15.10

in USD millions, for the six months ended June 30		Total
	2012	2011
Farmers Management Services		
Management fees and other related revenues	1,420	1,375
Management and other related expenses	731	724
Gross management result	688	651
Other net income (excl. items not included in BOP)	23	23
Business operating profit before non-controlling interest	711	674
Business operating profit	711	674
Farmers Re		
Gross written premiums and policy fees	2,211	1,481
Net earned premiums and policy fees	2,195	1,483
Insurance benefits and losses, net	(1,688)	(1,045)
Total net technical expenses	(687)	(455)
Net underwriting result	(179)	(16)
Net non-technical result (excl. items not relevant for BOP)	31	29
Net investment result income	38	42
Business operating profit before non-controlling interests	(110)	55
Business operating profit	(110)	55
Farmers business operating profit	**601**	**729**
Ratios, as % of net earned premiums and policy fees		
Farmers Re Combined ratio	108.2%	101.1%
Supplementary information		
Property, equipment and intangible assets[1]	2,441	2,454

[1] As of June 30, 2012 and December 31, 2011, respectively.

Consolidated financial statements *continued*

Other Operating Businesses – Overview

Table 15.11

in USD millions, for the six months ended June 30	Holding & Financing[1]	
	2012	2011
Gross written premiums and policy fees	63	64
Net earned premiums and policy fees	36	37
Net investment income	199	252
Other income	34	47
Total BOP revenues	269	337
Insurance benefits and losses, incl. PH dividends, net	35	36
Administrative and other operating expense (excl. depreciation/amortization)	71	17
Other expenses (excl. items not included in BOP)	8	46
Depreciation, amortization and impairments of property, equipment and intangible assets	5	–
Interest expense on debt	542	531
Business operating profit before non-controlling interests	(391)	(293)
Non-controlling interests	(13)	–
Business operating profit	**(379)**	**(293)**

[1] Includes the previously separately disclosed sub-segment Alternative Investments.

	Headquarters		Eliminations		Total	
	2012	2011	2012	2011	2012	2011
	4	3	–	–	67	67
	4	4	–	–	40	42
	23	21	(3)	(3)	219	270
	479	456	(72)	(76)	441	427
	505	481	(75)	(79)	700	739
	–	1	–	–	35	37
	561	543	(72)	(75)	560	485
	–	–	–	–	8	46
	34	40	–	–	39	40
	1	1	(3)	(4)	540	528
	(90)	(104)	–	–	(482)	(397)
	–	–	–	–	(13)	–
	(90)	**(104)**	**–**	**–**	**(469)**	**(397)**

Consolidated financial statements *continued*

Non-Core Businesses – Overview

Table 15.12

in USD millions, for the six months ended June 30	Total	
	2012	2011
Gross written premiums and policy fees	236	271
Net earned premiums and policy fees	226	(425)
Insurance benefits and losses, net	241	(388)
Policyholder dividends and participation in profits, net	441	212
Total net technical expenses	38	47
Net underwriting result	(494)	(296)
Net investment income	72	104
Net capital gains/(losses) and impairments on investments	575	244
Net non-technical result (excl. items not included in BOP)	(60)	(86)
Business operating profit before non-controlling interests	**94**	**(34)**
Business operating profit	**93**	**(34)**

Review report of the auditors

Review report of the auditors

To the Board of Directors of Zurich Insurance Group Ltd

Introduction
We have reviewed the accompanying unaudited Consolidated financial statements (consolidated income statement (unaudited), consolidated statement of comprehensive income (unaudited), consolidated balance sheet (unaudited), consolidated statement of cash flows (unaudited), consolidated statement of changes in equity (unaudited) and related notes on pages 3 to 62) of Zurich Insurance Group Ltd for the period ended June 30, 2012. The Board of Directors is responsible for the preparation and presentation of these unaudited Consolidated financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these unaudited 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 unaudited 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

Stephen O'Hearn
Global relationship partner

Zurich, August 15, 2012

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 Insurance Group Ltd or the Zurich Insurance Group (the Group). Forward-looking statements include statements regarding the Group's targeted profit, return on equity targets, expenses, pricing conditions, dividend policy and underwriting and claims results, 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 Insurance Group 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 a global economic 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 Insurance Group Ltd and its Group and on whether the targets will be achieved. Zurich Insurance Group 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.

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

Persons requiring advice should consult an independent advisor.

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