



ZURICH
FINANCIAL SERVICES

Zurich Financial Services Group

Half Year Report 2004

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James J. Schiro, Chief Executive Officer

“Our Group has a clear strategic direction. We will continue to build on our worldwide market position and strong global brand. In the last two years, we have strengthened reserves, reduced debt and improved our capital position. And having aligned the Group’s structure with its high-quality portfolio we will now continue on the path towards sustained profitability and the creation of shareholder value.”

“The momentum for our future progress comes from our strategy, which is designed to leverage our global capacity and from our renewed performance culture, which strives for excellence in all activities.”

“We are not prepared to defend market share by chasing prices down below a technically sound level. On the contrary, we consistently aim for profitable growth, and this is in the best interest of our customers and shareholders.”

“Enhancing productivity is more than an exercise in cost reduction. Last year’s profitability drive was based on a mix of operational improvements and a sound approach to pricing. This will continue based on our track record for disciplined execution. The transformation program continues; it is designed to lead to sustainable improvements to the bottom line.”

James J. Schiro, August 19, 2004

Zurich Financial Services is an insurance-based financial services provider with a global network that focuses its activities on its key markets in North America and Europe. Founded in 1872, Zurich is headquartered in Zurich, Switzerland. Zurich has offices in more than 50 countries and employs about 62,000 people.

Financial Highlights

The following table presents the summarized consolidated results of the Zurich Financial Services Group (the Group) for the six months ended June 30, 2004 and 2003 and the financial positions as of June 30, 2004 and December 31, 2003. The 2003 amounts have been restated following the adoption of new accounting standards in 2003 and 2004. Certain prior year balances have also been reclassified to conform to the 2004 presentation.

Consolidated operating statements

in USD millions, for the six months ended June 30	2004	2003	Change
Gross written premiums and policy fees	26,412	25,971	2%
Net investment result	5,533	5,455	1%
Business operating profit	1,948	1,326	47%
Net income	1,448	752	93%

Consolidated balance sheets

in USD millions, as of	06/30/04	12/31/03	Change
Total investments	226,229	225,747	–
Insurance reserves, gross	224,795	223,418	1%
Senior and subordinated debt	4,726	4,775	(1%)
Total shareholders' equity	19,047	18,934	1%

General Insurance key performance indicators

for the six months ended June 30	2004	2003	Change
Business operating profit (in USD millions)	1,302	953	37%
Combined ratio	96.7%	98.8%	2.1 pts

Life Insurance key performance indicators

for the six months ended June 30	2004	2003	Change
Business operating profit (in USD millions)	453	463	(2%)
New business profit margin (in % of APE)	9.7%	8.2%	1.5 pts
Embedded value operating return, after tax	5.2%	5.8%	(0.6 pts)

Return on common stockholders' equity

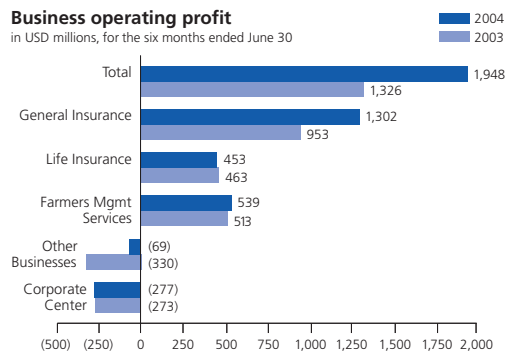
for the periods ended	06/30/04	12/31/03	Change
Return on equity, annualized	16.8%	12.1%	4.7 pts
Business operating profit (after tax) return on equity, annualized	15.1%	9.8%	5.3 pts

Per share data

for the six months ended June 30	2004	2003	Change
Diluted earnings per share (in CHF)	12.67	7.12	78%

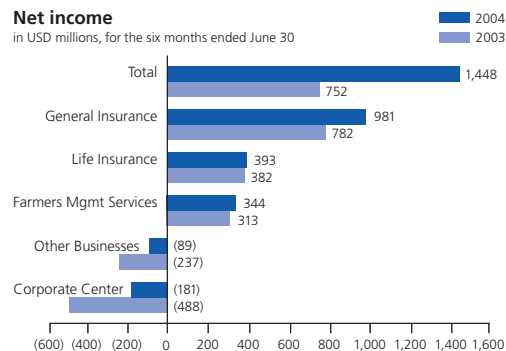
Business operating profit

in USD millions, for the six months ended June 30



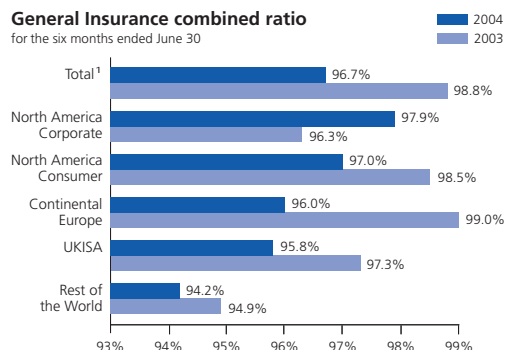
Net income

in USD millions, for the six months ended June 30



General Insurance combined ratio

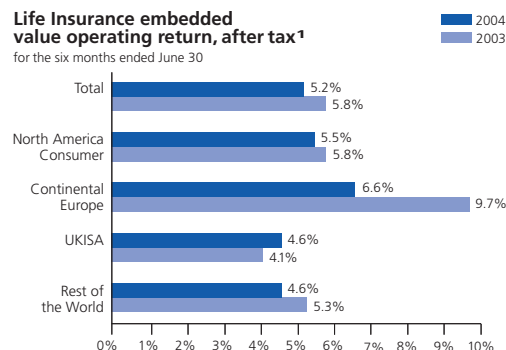
for the six months ended June 30



¹ Including Centrally Managed Businesses.

Life Insurance embedded value operating return, after tax¹

for the six months ended June 30



¹ Before foreign currency effects.



Left: Lodewijk C. van Wachem (Chairman of the Board)
Right: James J. Schiro (Chief Executive Officer)

Dear shareholders

Zurich continues its recovery, building on the platform created last year. A sharp focus on core businesses, financial discipline and sound underwriting contributed to a near doubling of net income in the first six months of 2004 compared with the same period in 2003, and Zurich exceeded its return on equity target. The Group also continued to further strengthen its balance sheet, which gives us the confidence and resilience to face the challenges naturally inherent in our business.

The underwriting result in our *General Insurance* segment more than tripled compared with the first half of 2003. The strong performance built on operational discipline, supported by an environment characterized by the absence of large catastrophe losses and favorable claim frequencies. Rates remained firm in most lines of business, and Zurich continues to write profitable business in attractive markets. While we recognize a high degree of discipline in the insurance market, the Group's management continues to monitor all price and loss developments. We will carefully target markets and risks and, at times, forego premium volume in order to ensure the quality of underwriting. Zurich's commitment to operational and financial discipline is unwavering. We are not prepared to chase prices down below a technically sound level. On the contrary, we will consistently aim for underwriting profitability over growth.

We continue to tackle the challenges in our *Life Insurance* segment, while mindful that improvements will take a long time to work themselves through. Progress has been enabled by the Group's focus on more profitable businesses as well as on products and services that are better aligned with current investment yields. The segment also made further progress on its commitment to cost-efficient delivery. These developments resulted in lower expenses and an improved new business profit margin. While we welcome the progress achieved so far, more needs to be done.

Farmers Management Services continued to generate stable returns. The premium volume of the Farmers P&C Group Companies, which Zurich manages but does not own, grew by 2% to USD 6.9 billion and provided the basis for management fees and other related revenue accruing to Zurich to grow at a slightly higher rate. In the first six months of 2004 the Farmers P&C Group Companies added USD 231 million to reach its capital position (surplus) of USD 3.9 billion, making further progress towards the goal of strengthening its surplus by USD 400 million in the current year.

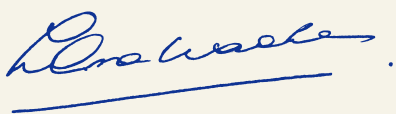
The Group's investment result benefited from the general improvement of equity markets relative to the first six months of 2003. The total investment return was affected by the increase in

global interest rates observed in the second quarter which led to a reduction in net unrealized gains and losses booked against shareholders' equity. We continue to manage the investment portfolio to reduce economic risk. In the first half of 2004 the share of equity securities, for which the Group bears investment risk, was further reduced and the duration in the bond portfolio was lowered.

Management continues to implement the structural and organizational implications of the strategic direction announced in April 2004. The actions are geared towards leveraging Zurich's strength around the world and providing the support for operational excellence in the many facets of its insurance businesses. We have continued to strengthen the technical functions at the Corporate Center and have begun to develop standard frameworks and methods that can be applied throughout the whole Group.

While we are encouraged by the progress achieved in the first half of the year, we are also mindful of the risks and uncertainties inherent in our business. In addition, changed regulatory approaches and increased litigation pressures primarily in the United States require close monitoring of the insurance industry's loss reserves. Zurich's management is assessing external developments and reserves on a rolling quarterly basis. We are committed to strengthening the Group's balance sheet as necessitated by developments. The consistent delivery of solid underwriting results over the recent recovery period gives us the confidence that the Group can continue to operate from a position of financial strength.

Going forward we will endeavor to improve on our ability to generate and sustain profitable growth. Our approach is based on sound pricing and underwriting principles in support of solid technical results. Our employees play the decisive role in carrying our strategy to success and we thank them for their hard work. We would also like to extend our gratitude to our customers and to our shareholders for the loyalty rendered to our company.



Lodewijk C. van Wachem
Chairman of the Board



James J. Schiro
Chief Executive Officer

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Group Financial Review

Group highlights

Zurich Financial Services Group (the Group) earned net income of USD 1,448 million in the first half of 2004 compared with net income of USD 752 million in the same period in 2003. Business operating profit increased by 47% over the first half of 2003 to USD 1,948 million for the same period in 2004.

Diluted earnings per share rose 78% to CHF 12.67, compared with CHF 7.12 in the first half of 2003. For the first half year 2004, the return on equity based on net income was 16.8% (annualized), an increase of 4.7 percentage points over the full year return 2003. Our after-tax business operating profit return on equity was 15.1% (annualized), an increase of 5.3 percentage points over the 2003 full-year return.

The results for the first half year of 2004 show a solid underlying trend of improving profitability arising from our sound underwriting and claims management, supported by firm prices in key markets as well as the positive impact of our measures to further strengthen performance in the Life Insurance segment.

Results for the first half of 2004 are compared with the results of the first half of 2003, restated for the implementation of new accounting standards in 2003 and 2004, details of which are set out in the final section and in the Investment Performance section of this Group Financial Review.

Interim results are not necessarily indicative of the full-year results.

Performance highlights

in USD millions, for the six months ended June 30

	2004	2003 ¹	Change
Gross written premiums and policy fees	26,412	25,971	2%
Net investment income	4,442	4,277	4%
Net capital gains on investments and impairments	1,091	1,178	(7%)
Business operating profit	1,948	1,326	47%
Net income	1,448	752	93%
General Insurance combined ratio	96.7%	98.8%	2.1 pts
Life new business profit margin (in % of APE)	9.7%	8.2%	1.5 pts
Return on equity, annualized ²	16.8%	12.1%	4.7 pts
Business operating profit (after tax) return on equity, annualized ²	15.1%	9.8%	5.3 pts
Diluted earnings per share (in CHF)	12.67	7.12	78%

¹ Restated as discussed in note 3 of the Consolidated Financial Statements.

² 2003 return is for the year ended December 31, 2003; 2004 return is annualized based on the six months ended June 30, 2004.

Performance overview

Gross written premiums and policy fees of USD 26.4 billion in the first half of 2004 increased by 2%. In the General Insurance segment growth was 1% in local currency. In the Life Insurance segment premiums remained flat after eliminating the effects of the redesign of the group pension business model in Switzerland, the sale of certain life operations and movements in foreign exchange.

Business operating profit increased by USD 622 million, or 47%, over the first half of 2003 to USD 1.9 billion in 2004. Further details on the results of our business segments are provided in our Segmental Financial Analysis.

- The effect of rate increases in previous periods earned as revenue in the current period together with the strong underwriting performance have contributed to the improvement in our **General Insurance** result. The net underwriting result in 2004 more than tripled to USD 487 million from USD 158 million in the first half of 2003. This progress is reflected in the 2.1 percentage point improvement in our combined ratio to 96.7% in 2004 compared with 98.8% in the first half of 2003.
- Our **Life Insurance** segment continued to focus on writing profitable new business as demonstrated by the 1.5 percentage point increase in the new business profit margin to 9.7%. Business operating profit decreased by USD 10 million to USD 453 million mainly as a result of the divestment of underperforming operations in 2003.
- **Farmers Management Services** has continued to provide consistent profit to the Group with a 5% increase in business operating profit from USD 513 million in the first half of 2003 to USD 539 million in 2004 due to higher management fee income driven by increased premiums at the Farmers P&C Group Companies.
- **Other Businesses** improved its business operating profit from a loss of USD 330 million in the first half of 2003 to a loss of USD 69 million in 2004 due to the improved results in our Centre operations and Zurich Capital Markets.
- **Net investment income** of USD 4.4 billion consists of income from Group investments of USD 3.6 billion and from investments for unit-linked products of USD 835 million which was allocated to policyholders.
- The after-tax business **operating profit return** on equity improved by 5.3 percentage points to 15.1% (annualized) in the first half of 2004 compared with the return of 9.8% for the full year of 2003.

Net income improved by USD 696 million, or 93%, to USD 1,448 million in the first half of 2004 compared to a net income of USD 752 million in the same period in 2003. In addition to the factors mentioned above, net income was impacted by the following:

- **Net capital gains on investments and impairments** decreased by USD 87 million to a gain of USD 1.1 billion in the first half of 2004. A decline of USD 737 million relating to investments for unit-linked products was partially offset by an improvement of USD 650 million on Group investments.
- The underlying **investment return** on our Group investments in the first half of 2004 was 1.7%. The investment result is analyzed in the Investment Performance section.

Our **return on equity** based on net income has improved by 4.7 percentage points to 16.8% (annualized) for the first half of 2004 compared with the 2003 full-year return.

Diluted earnings per share reflecting the increase in net income improved by 78% to CHF 12.67 in the first half of 2004 compared with CHF 7.12 for the same period in 2003.

Balance sheet highlights

in USD millions, as of	06/30/2004	12/31/2003 ¹	Change
Group investments	173,850	175,967	(1%)
Investments for unit-linked products	52,379	49,780	5%
Total investments	226,229	225,747	–
Insurance reserves, gross (excluding reserves for unit-linked products)	171,120	172,230	(1%)
Reserves for unit-linked products	53,675	51,188	5%
Insurance reserves, gross	224,795	223,418	1%
Total financial debt and shareholders' equity	23,773	23,709	–

¹ Restated as discussed in note 3 of the Consolidated Financial Statements.

- **Group investments** decreased by USD 2.1 billion, which resulted from the divestment of certain operations in 2004, the redesign of the group pension business model in Switzerland, unfavorable foreign exchange movements and the restructuring of Zurich Capital Markets, partially offset by positive operating cash flow.
- **Gross insurance reserves** in the General Insurance segment increased by USD 3.9 billion following growth in net written premiums and reserve strengthening partially offset by the sale of operations in 2004. Gross insurance reserves excluding reserves for unit-linked products in the Life Insurance segment decreased by USD 4.0 billion reflecting the redesign of the group pension business model in Switzerland as well as divestments of businesses in the first half of 2004.
- **Shareholders' equity** increased by USD 113 million from USD 18.9 billion as of December 31, 2003 to USD 19.0 billion as of June 30, 2004. The increase from our net income, after tax, of USD 1,448 million in the first half year of 2004 was mostly offset by the arising impact of higher interest rates during the second quarter of 2004 resulting in a reduced value of net unrealized gains and losses on investments, the nominal value reduction of common stock and the introduction of the legislation for the mandatory participation in profits for policyholders in Switzerland ("legal quote" legislation).

Measuring performance

We manage our business units on their underlying operations using the measure of business operating profit. Business operating profit eliminates the impact of financial market volatility and other non-operational variables enabling us to assess the fundamental insurance performance.

Business operating profit reflects adjustments for taxes, net capital gains and losses on investments and impairments (except for the capital markets and banking activities included in our Other Businesses segment), policyholders' share of investment results for the life business, non-operational foreign exchange gains and losses, and significant items arising from special circumstances including gains and losses on divestments of businesses. Non-operational foreign currency gains and losses arise from intercompany foreign currency hedging and the corporate financing of subsidiaries. They are not a reflection of local operating activities and are, therefore, not included in the calculation of business operating profit. Business operating profit is not a substitute for net income as determined in accordance with International Financial Reporting Standards (IFRS).

Reconciliation of net income to business operating profit

in USD millions, for the six months ended June 30	2004	2003
Net income	1,448	752
<i>Adjusted for:</i>		
Net capital (gains) on investments and impairments, excluding capital markets and banking activities	(1,010)	(1,060)
Policyholder allocation of net capital gains on investments and impairments	776	1,010
Tax expense, adjusting for life policyholder tax	730	648
Net loss/(gain) on divestments of businesses	14	(1)
Other	(10)	(23)
Business operating profit	1,948	1,326

Business operating profit and net income by segment¹

in USD millions, for the six months ended June 30	Business operating profit		Net income/(loss)	
	2004	2003	2004	2003
General Insurance	1,302	953	981	782
Life Insurance	453	463	393	382
Farmers Management Services	539	513	344	313
Other Businesses	(69)	(330)	(89)	(237)
Corporate Center	(277)	(273)	(181)	(488)
Total	1,948	1,326	1,448	752

¹ Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

In addition to business operating profit, we use embedded value to measure and manage our Life Insurance operations on a stand-alone basis. Embedded value is discussed in more detail in the Life Insurance section of the Segmental Financial Analysis.

Key performance indicators

Return on equity

Our stated goal in the medium term is to achieve a blended return on equity of 12% on an after-tax business operating profit basis. A higher return on equity in one segment can compensate for lower returns in others, allowing the Group to meet the stated 12% overall target rate. Returns on equity generated by the General Insurance, Life Insurance and Farmers Management Services segments must also compensate for certain headquarters expenses, debt expenses and any operating losses from other operations.

For the first half year 2004, our **return on equity**, based on an after-tax business operating profit, was 15.1% (annualized), an increase of 5.3 percentage points over the 2003 full-year return. The return on equity, based on net income, was 16.8% (annualized), an increase of 4.7 percentage points over the full year of 2003.

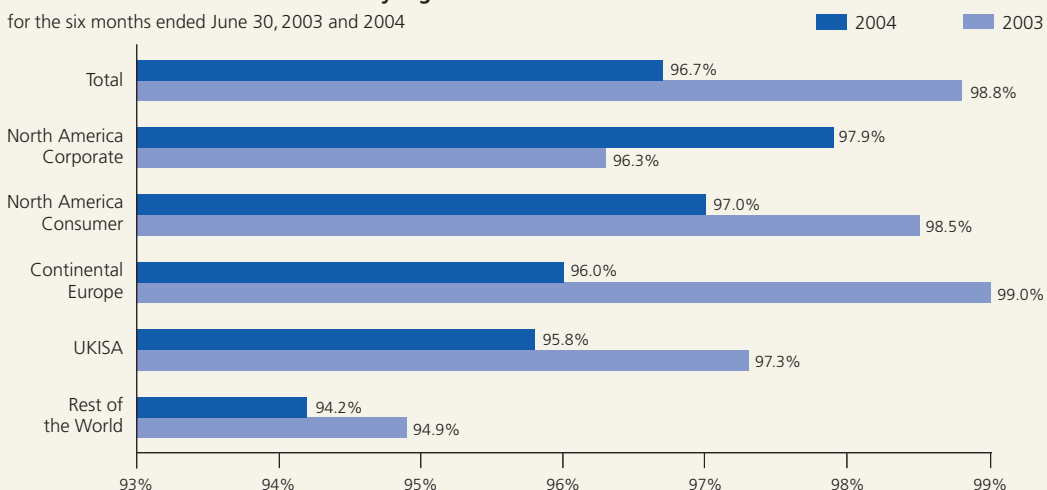
General Insurance

We consider the combined ratio and business operating profit to be the key performance indicators for our General Insurance operations.

The **combined ratio** in our General Insurance segment continued to benefit from better claims and expense management, the absence of large catastrophes and sound pricing conditions in our key markets. The combined ratio improved by 2.1 percentage points to 96.7% over the first half of 2003. Net underwriting result more than tripled to USD 487 million for 2004 from USD 158 million in the first half of 2003.

General Insurance – combined ratio by region

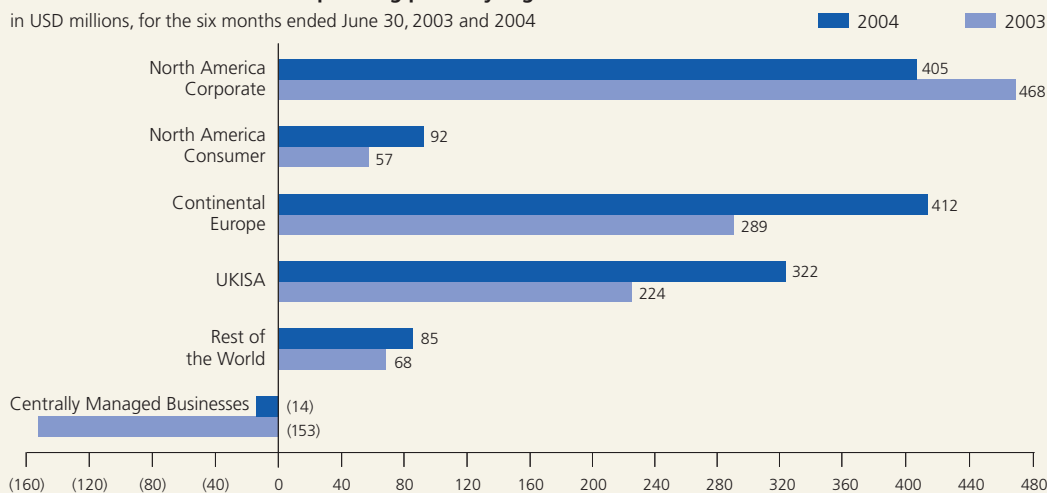
for the six months ended June 30, 2003 and 2004



Business operating profit in our General Insurance segment has also benefited from the same conditions affecting the combined ratio and increased by USD 349 million to USD 1.3 billion in 2004. All regions improved business operating profit compared with the prior year, except for North America Corporate where we recorded strengthening of prior year reserves of USD 582 million.

General Insurance – business operating profit by region

in USD millions, for the six months ended June 30, 2003 and 2004



Life Insurance

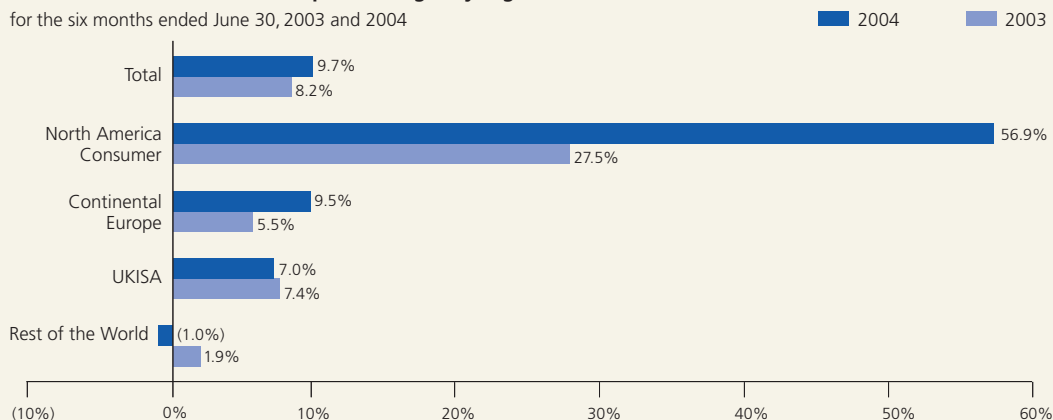
We consider new business profit margin, embedded value after-tax operating return, and business operating profit to be the key performance indicators for our Life Insurance operations.

New business profit margin increased by 1.5 percentage points to 9.7% compared with half year 2003. This development also represents an increase of a 0.7 percentage point over the full year 2003 margin of 9.0%.

The 1.5 percentage point increase was a result of the USD 104 million contribution of new business to after-tax embedded value operating profit, a growth of 16% over the comparable period in 2003.

Life Insurance – new business profit margin by region

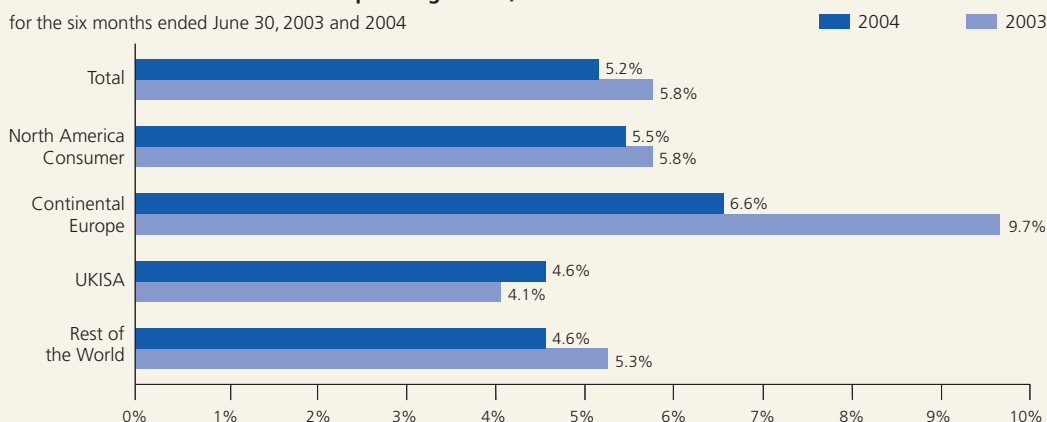
for the six months ended June 30, 2003 and 2004



Embedded value operating return, after tax and before foreign currency effects, was 5.2% for the first half of 2004, which was a 0.6 percentage point below last year. The embedded value operating profit, after tax, was USD 553 million for the six months ended June 30, 2004 compared with USD 583 million in 2003.

Life Insurance – embedded value operating return, after tax¹

for the six months ended June 30, 2003 and 2004

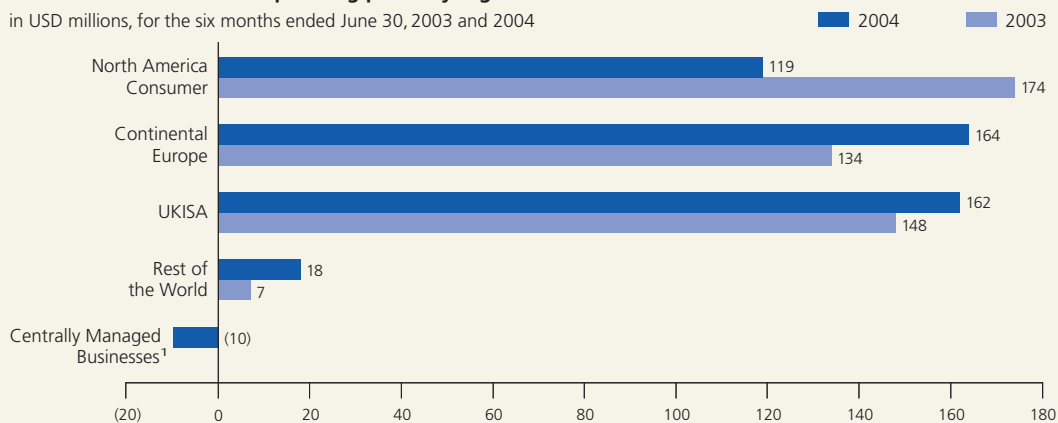


¹ Before foreign currency translation effects.

Business operating profit for our Life Insurance segment decreased by 2% to USD 453 million in the first half of 2004 with improvements in Continental Europe, UKISA, Rest of the World offset by a reduction in North America Consumer related to the divestment of life businesses in the second half of 2003.

Life Insurance – business operating profit by region

in USD millions, for the six months ended June 30, 2003 and 2004



¹ This region reported for the first time in the fourth quarter of 2003.

Divestments

In the first half of 2004, we continued to divest and reposition non-core activities to provide capital to core businesses. The following significant divestments were completed:

- On June 30, we completed the sale of 100% of the share capital of Zurich Insurance (Singapore) Pte. Ltd. to QBE Insurance (International) Limited.
- On June 14, we completed the sale of our 100% interest in Zürich Krankenversicherung AG (Deutschland) and of the Group's investment in GLOBALE Krankenversicherungs-AG to DKV Deutsche Krankenversicherung AG.
- On May 31, the sale of the insurance portfolio of our subsidiary Zurich Life Philippines, Inc. to The Manufacturers Life Insurance Company (Phils.), Inc. was completed.
- On March 10, a consortium of management and investors in Australia bought our share of the salary packaging administration and novated fleet management subsidiary, McMillan Shakespeare Australia Pty Limited in Australia.
- On February 12, we completed the sale of all of our life insurance operations, our workers compensation portfolio and our general insurance operations in the consumer and small commercial segment in Belgium to P&V Assurances.
- In 2003, the Group signed a framework agreement with BNP Paribas for the transfer of certain derivative transactions and credit facilities and related assets of Zurich Capital Markets to BNP Paribas. A portion of these transfers was completed as of December 31, 2003, and the remaining portion is ongoing and expected to be completed in 2004.

The aggregate net loss on divestments before tax was USD 14 million for the first half year of 2004, whereas a net gain of USD 1 million was recorded for the first six months in 2003. The total cash consideration received was USD 1.7 billion and USD 146 million for the six months ended June 30, 2004 and 2003, respectively.

Foreign currency impact

Movements in foreign currency have a significant impact on our financial results. The tables below show the key financial highlights for the half year ended June 30, 2004 translated at the same average foreign currency exchange rates used for the six months ended June 30, 2003 to eliminate the foreign currency impact when compared to the prior period. Details of the principal exchange rates are set out in note 2 of the Consolidated Financial Statements.

General Insurance –

foreign currency impact on key financial highlights

Variance over the prior period, for the six months ended June 30, 2004	% change in local currency	FX impact	% change in USD
Gross written premiums and policy fees	1%	5%	6%
Net investment income	10%	7%	17%
Net capital gains on investments and impairments	(51%)	–	(51%)
Insurance benefits and losses	3%	5%	8%

Life Insurance –

foreign currency impact on key financial highlights

Variance over the prior period, for the six months ended June 30, 2004	% change in local currency	FX impact	% change in USD
Gross written premiums, policy fees and insurance deposits	(11%)	9%	(2%)
Insurance deposits	–	10%	10%
Gross written premiums and policy fees	(18%)	8%	(10%)
Net investment income	(8%)	9%	1%
Net capital gains on investments and impairments	(19%)	10%	(9%)
Insurance benefits and losses	(22%)	7%	(15%)

Premium volume and management fees

- Overall **gross written premiums and policy fees** rose 2% (–4% in local currency) over the first six months of 2003 reaching USD 26.4 billion. After taking into account the special factors explained below, premium growth on a comparable basis was 1%.
- Our **General Insurance** segment experienced growth in gross written premiums and policy fees of 6% (1% in local currency) to USD 20.6 billion in the first half of 2004. After adjusting for divestments of businesses and foreign exchange effects the growth was 2%. The modest growth was primarily due to rate increases in key markets. We have experienced some volume reductions in lines of business that are particularly price sensitive.
- Gross written premiums and policy fees in our **Life Insurance** segment decreased by 10% (–18% in local currency) to USD 5.7 billion in the first half of 2004 mainly resulting from the divestment of life operations in the second half of 2003, particularly Zurich Life US, Zurich Life UK and certain other European operations, and the redesign of the group pension business model in Switzerland, which has been partially transferred to an external foundation. Excluding these factors as well as foreign exchange movements, premiums remained flat.
- Overall **net earned premiums and policy fees** increased 4% (–2% in local currency) over the first six months of 2003 to USD 20.6 billion, driven by the effect of rate increases in previous periods now being earned as revenue partially offset by the decrease in life premiums. After taking into account the same factors as discussed above, net earned premiums in our General Insurance segment increased by 7%, whereas a decrease of 4% was recorded in our Life Insurance segment.
- In the first six months of 2004, our **Farmers Management Services** segment earned USD 980 million in management fees and other related revenue, an increase of 5% over the same period in the prior year. This increase arose from higher premiums at the Farmers P&C Group Companies, which Zurich manages but does not own, primarily in the Farmers specialty, commercial and fire lines of business.

Investment performance

Total investments as shown in the consolidated balance sheets include Group investments where the Group bears all or part of the investment risk and investments for unit-linked products where policyholders bear the entire investment risk. The investments for unit-linked products and the related investment income as well as net capital gains and losses on investments and impairments have been reclassified as part of the implementation of a new accounting standard in 2004 (SOP 03-01) as explained in the final section of this Group Financial Review and in note 3 of the Consolidated Financial Statements.

Breakdown of net investment result and investments for the six months ended June 30	Group investments		Investments for unit-linked products		Total investments	
	2004	2003	2004	2003	2004	2003
Net investment income	3,607	3,608	835	669	4,442	4,277
Net capital gains/(losses) on investments and impairments	252	(398)	839	1,576	1,091	1,178
Net investment result	3,859	3,210	1,674	2,245	5,533	5,455
as of	06/30/04	12/31/03	06/30/04	12/31/03	06/30/04	12/31/03
Investments	173,850	175,967	52,379	49,780	226,229	225,747

We manage our diversified Group investment portfolio in order to optimize benefits to both shareholders and policyholders while ensuring compliance with local regulatory and business requirements under the guidance of our Asset/Liability Management and Investment Committee. Investments for unit-linked products are managed in accordance with the investment objectives of each unit-linked fund.

Investment performance of Group investments

in USD millions, for the six months ended June 30	2004	2003	Change
Net investment income	3,607	3,608	–
Net capital gains/(losses) on investments and impairments	252	(398)	nm
Net investment result	3,859	3,210	20%
Change in unrealized (losses)/gains on investments included in shareholders' equity	(1,155)	2,299	nm
Average investments	174,908	170,677	2%
Total return (excluding investment expenses)	1.7%	3.3%	(1.6 pts)

Net investment income for Group investments remained level at USD 3.6 billion.

Net capital gains and losses on investments and impairments for Group investments improved from net capital losses of USD 398 million in the first half of 2003 to net capital gains of USD 252 million in 2004. This improvement was attributable to the general improvement in equity markets as compared with the first half of 2003. In the first halves of 2004 and 2003, we incurred impairments on investments, primarily equities, of USD 58 million and USD 978 million, respectively. A substantial portion of these net capital gains and losses on investments and impairments relate to our Life Insurance segment. After taking into account of the portion attributable to future policyholder benefit reserves, net capital gains on investments and impairments available to the Group were USD 315 million in the first half of 2004.

Total investment return for Group investments was 1.7% compared with 3.3% in the first half of 2003. This return includes investment income, net capital gains and losses on investments recorded in the operating statements and changes in unrealized gains and losses booked against shareholders' equity. Total investment result was USD 2.9 billion after excluding investment expenses of USD 207 million. Total investment return was considerably impacted by the increase in interest rates during the second quarter of 2004 resulting in the immediate lower valuation of debt securities, and consequently in a reduction in the amount of net unrealized gains and losses on investments recorded in shareholders' equity.

Reserves for losses and loss adjustment expenses

Development of reserves for losses and loss adjustment expenses

in USD millions	2004	2003	Change
As of January 1 (opening balance)			
Gross reserves for losses and loss adjustment expenses	51,068	45,306	13%
Reinsurance recoverable	(14,055)	(14,940)	(6%)
Net reserves for losses and loss adjustment expenses	37,013	30,366	22%
Net losses and loss adjustment expenses incurred			
Current period	10,219	9,835	4%
Prior years	656	413	59%
Total	10,875	10,248	6%
Total net losses and loss adjustment expenses paid	(8,451)	(8,000)	6%
Divestments of companies and businesses	(394)	(105)	275%
Foreign currency translation effects	(520)	898	(158%)
As of June 30 (closing balance)			
Net reserves for losses and loss adjustment expenses	38,523	33,407	15%
Reinsurance recoverable	13,934	14,980	(7%)
Gross reserves for losses and loss adjustment expenses	52,457	48,387	8%

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

Of the total of USD 38.5 billion **net reserves for losses and loss adjustment expenses**, USD 33.7 billion related to the General Insurance segment as of June 30, 2004.

In the first half of 2004 we recorded USD 656 million of net reserve movement for prior years, of which USD 582 million arose from reserve strengthening in North America Corporate.

Capitalization and indebtedness

in USD millions, as of	06/30/2004	12/31/2003	Change
Collateralized loans	4,202	4,701	(11%)
Debt related to capital markets and banking activities	4,221	5,961	(29%)
Obligation to repurchase securities	4,743	3,742	27%
Total operational debt	13,166	14,404	(9%)
Senior debt	2,322	2,360	(2%)
Subordinated debt	2,404	2,415	–
Total financial debt	4,726	4,775	(1%)
Total minority interests	766	969	(21%)
Total shareholders' equity	19,047	18,934	1%
Total financial debt and shareholders' equity	23,773	23,709	–

Indebtedness

As of June 30, 2004 **total operational debt** was USD 13.2 billion, a decrease of USD 1.2 billion since December 31, 2003. Between December 31, 2003 and June 30, 2004 debt relating to capital markets and banking activities decreased by USD 1.7 billion following the transfer of certain assets and liabilities from Zurich Capital Markets (ZCM) to BNP Paribas in accordance with an agreement signed in 2003 that is part of the winding-down of ZCMs activities. This decrease was offset by an increase of USD 1.0 billion in our obligation to repurchase securities to USD 4.7 billion resulting from increased short-term activities in the Repo market in the normal course of business as part of our investment and liquidity management. Collateralized loans relate primarily to our life business in Germany. The amount of collateralized loans decreased by USD 499 million during the first half year of 2004 due to maturing transactions. As of June 30, 2004 we had USD 4.2 billion of collateralized loans which were secured by mortgage loans of the same amount given as collateral to the counterparties compared with USD 4.7 billion as of December 31, 2003.

The decrease in **total financial debt** of USD 49 million, or 1%, was due to foreign exchange movements since December 31, 2003.

The reduction of **minority interests** by USD 203 million, or 21%, resulted primarily from the restructuring of ZCM.

On April 21, 2004, a new USD 3.0 billion syndicated revolving credit facility was signed to replace the USD 1.5 billion facility, which would have matured on May 28, 2004. The new syndicated credit facility consists of two equal tranches maturing in 2007 and 2009. Zurich Group Holding, together with Zurich Insurance Company and Farmers Group, Inc. are guarantors of the new facility, which allows for drawings of up to USD 1.25 billion, USD 1.5 billion and USD 250 million, respectively, for themselves and a number of defined subsidiary borrowers. No borrowings were outstanding as of June 30, 2004 under the new facility. Farmers Group, Inc. cancelled their existing USD 250 million credit facility, which would otherwise have expired in September 2004 after the above facility was in place.

Shareholders' equity

in USD millions, for the six months ended June 30, 2004

Balance as of December 31, 2003, as previously reported	19,384
Implementation of new accounting standard (SOP 03-01)	(450)
Balance as of December 31, 2003, restated	18,934
Change in net unrealized (losses)/gains on investments (excluding translation adjustments)	(758)
Transfer arising from the "legal quote" legislation in Switzerland	(226)
Translation adjustments	(82)
Nominal value reduction of common stock	(288)
Share-based payment transactions	(14)
Treasury stock transactions	49
Net income	1,448
Dividends on preferred securities	(16)
Balance as of June 30, 2004	19,047

Shareholders' equity increased by USD 113 million to USD 19.0 billion as of June 30, 2004 compared with USD 18.9 billion as of December 31, 2003. The December 2003 figure is after restating the previously reported amount of USD 19.4 billion by an after-tax amount of USD 450 million to reflect the impact of the implementation of a new accounting standard (SOP 03-01). In the first quarter of 2004, we reported an estimated adjustment of USD 600 million after tax, which we have since refined.

On April 16, 2004, the Annual General Meeting of Zurich Financial Services approved a nominal value reduction of the share capital resulting in a payout to shareholders of CHF 2.50 per registered share. The share capital was reduced by CHF 360,017,387.50 from CHF 1,296,062,595 to a new total of CHF 936,045,207.50. This reduction was incorporated in the Commercial Register of the Canton of Zurich as of June 30, 2004, and the payment of CHF 2.50 per registered share free of charge was made on July 1, 2004.

Solvency

Regulated entities of the Group are required to submit returns to their local regulators, usually on an annual basis but in some countries more frequently. These returns report the compliance of the reporting entity with the local solvency requirements and include information on eligible funds and admissible assets.

On a consolidated basis, Zurich Financial Services, with headquarters in Zurich, Switzerland, is subject to supervision by the Federal Office of Insurance (FOPI), which includes coordinated regulatory supervision of the Group for its remaining banking and other regulated financial services activities and supervision over consolidated solvency and capital adequacy at a Group level (based on the Decree on the Consolidated Supervision of the Zurich Financial Services Group of April 23, 2001).

In addition, based on the EU Directive 98/78/EC on the supplementary supervision of insurance companies within an insurance group, the Financial Services Authority (FSA) in the UK acts as lead coordinator for all our EU subsidiaries.

Cash flows

Cash flow from operating activities consists of the cash flow arising from our insurance businesses after payments to reinsurers (net premiums, policy fees and deposits received less net claims after recoveries from reinsurers, benefit payments, policy surrenders and operating expenses), investment income received (dividends, interest and rents) less interest paid and tax payments.

Our Farmers Management Services segment receives management fees as well as investment income and pays operating expenses and taxes.

Surplus operating cash flows plus the proceeds from the sales and maturities of investments as well as divestments are reinvested through our investing activities. Our investment funds may be used to fund operating cash flow deficits.

Financing activities result from our corporate funding and borrowing arrangements, capital raising and repayment and payments to shareholders.

The Consolidated Financial Statements include a statement of cash flows. Net cash provided by operating activities was USD 4.1 billion for the period ended June 30, 2004 and USD 6.4 billion for the half year 2003.

Summary of cash flows

in USD millions, for the six months ended June 30

	2004	2003
Cash flows from operating activities		
Net income	1,448	752
<i>Adjustments for:</i>		
Net capital (gains) on investments and impairments	(1,091)	(1,178)
Net loss/(gain) on divestments of businesses	14	(1)
Equity in income of investments in associates	(85)	(6)
Depreciation and amortization	310	377
Other non-cash items	(14)	599
Changes in operational assets and liabilities	3,525	5,859
Net cash provided by operating activities	4,107	6,402
Net cash used in investing activities	(4,623)	(3,599)
Net cash (used in)/provided by financing activities	(880)	115
Effect of exchange rate changes on cash and cash equivalents	(156)	296
Change in cash and cash equivalents	(1,552)	3,214
Cash and cash equivalents as of January 1 (opening balance)	15,677	10,033
Cash and cash equivalents as of June 30	14,125	13,247

As of June 30, 2004 and 2003, cash and cash equivalents restricted as to use were USD 605 million and USD 1.0 billion, respectively. Cash and cash equivalents held for the benefit of policyholders in connection with the unit-linked products amounted to USD 2.8 billion and USD 1.9 billion, respectively.

Matters affecting the basis of current and future presentation and comparability

Implementation of new accounting standard SOP 03-01

The Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants (AICPA) issued Statement of Position 03-01 ("SOP 03-01"), Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts. SOP 03-01 has resulted in three significant changes in the treatment of certain life contracts, which have been adopted retrospectively, in accordance with IAS 8:

- Recognition of additional liabilities for guaranteed minimum death benefits, guaranteed retirement income benefits and benefits in respect of annuitization options on an accrual basis, primarily in our life business in the United States. The recognition of guarantee liabilities resulted in a write-down of deferred policy acquisition costs, caused by a reduction in future estimated gross profits supporting these reserves.
- Clarification of the distinction between universal life insurance and investment products, resulting in certain products in the life business in the United Kingdom now being treated as insurance. The classification as insurance consequently resulted in the retrospective accrual of additional insurance reserves.
- "Investments held on account and at risk of life insurance policyholders" and "Insurance reserves for life insurance where the investment risk is carried by policyholders" were reclassified from the respective amounts previously reported to total investments and insurance reserves in the amount of approximately USD 50 billion. This change also resulted in the inclusion in the Consolidated Operating Statements of additional investment result arising from the reclassified investments and a substantially corresponding charge in "Policyholder dividends and participation in profits". As a result, there is no material net impact on the Group's operating results.

Adjustments to the previously reported net income, as published in the Annual Report 2003

As set out in the Annual Report 2003, two new accounting standards were implemented relating to share-based payment transactions – International Financial Reporting Standard 2 (“IFRS 2” previously referred to as “ED 2”) – and the separation of certain embedded derivative-linked components of reinsurance contracts (“DIG B36”). Shareholders’ equity and net income for 2003, as published in the Annual Report 2003, were restated. For the first half year reporting 2004 we have made the following restatement for the implementation of SOP 03-01 to the figures for the first half of 2003, as published in the Annual Report 2003, to conform to 2004 policies.

Adjustments to net income for the six months ended June 30, 2003, as published in the Annual Report 2003

in USD millions

Net income, after implementation of new accounting standards in 2003, as published in the Annual Report 2003	779
Implementation of new accounting standard in 2004 (SOP 03-01)	(27)
Net income, restated	752

Business operating profit was also restated.

Adjustments to business operating profit for the six months ended June 30, 2003, as published in the Half Year Report 2003

in USD millions

Business operating profit, as published for the six months ended June 30, 2003	1,265
Implementation of new accounting standards in 2003 (IFRS 2, DIG B36)	62
Implementation of new accounting standard in 2004 (SOP 03-01)	(29)
Policyholder allocations	25
Effects of segment shifts	3
Business operating profit, restated	1,326

Legal quote

The “legal quote” legislation came into force on April 1, 2004 with retroactive effect from January 1, 2004. It relates to the regulated pension business in Switzerland and provides for mandatory participation in profits by policyholders. A minimum dividend rate of 90% of the calculated surplus must be allocated to policyholders as the surplus arises, where previously such allocations occurred when bonuses were declared. The Group accounted for this change by transferring net unrealized gains on investments included in shareholders’ equity amounting to USD 226 million to insurance reserves as “Policyholders’ contract deposits and other funds”. The current accounting treatment reflects management’s best estimates and assumptions. However, as this legislation is recent and lacking detailed guidance, and as there are certain matters requiring clarification by the Swiss regulator (FOPI), estimates and assumptions may change, and, as a consequence, the accounting treatment may be adjusted. Depending on the final guidance, the resulting impacts on the Group’s financial position could be material.

Implementation of new and existent accounting standards in 2005

During the next few years, there will be a number of further changes to our consolidated financial statements. The principal change will occur to 2005 reporting when new and amended standards already issued and likely to be issued by the International Accounting Standards Board will be implemented. The most significant impact on our Group is expected to be the International Financial Reporting Standard on “Insurance Contracts” (“IFRS 4”). The impact continues to be evaluated, but our net income, shareholders’ equity and presentation of the financial statements will all be affected. To the extent that IFRS 4 does not determine accounting for insurance contracts, we will continue, as disclosed in our Annual Report 2003, to refer to accounting principles generally accepted in the United States (US GAAP) for guidance on accounting for insurance.

Segment reporting

In 2004, figures for Group internal reinsurance transactions have been allocated to the specific regions, whereas in 2003 those results were partially recorded in the Centrally Managed Businesses region.

The Group will continue to report throughout 2004 using the segments identified in our Annual Report 2003. The impact of the changes to the Group’s management structure announced on April 2, 2004 will be referred to in the Annual Results Reporting for 2004 and reflected in our reporting for 2005.

Quarterly consolidated financial information

Summary of quarterly consolidated financial information

in USD millions, for the three months ended	06/30/04	06/30/03	03/31/04	03/31/03
Gross written premiums and policy fees	12,140	12,585	14,272	13,386
Net earned premiums and policy fees	10,118	10,223	10,529	9,578
Net investment income and net capital gains/(losses) on investments and impairments	2,524	6,182	3,009	(727)
Other revenues	907	932	833	885
Total revenues	13,549	17,337	14,371	9,736
Insurance benefits and losses	(7,973)	(8,764)	(8,302)	(7,857)
Other expenses	(4,414)	(7,369)	(4,990)	(1,572)
Total benefits, losses and expenses	(12,387)	(16,133)	(13,292)	(9,429)
Net income before income taxes and minority interests	1,162	1,204	1,079	307
Net income	718	634	730	118
Business operating profit	978	564	970	762

Segmental Financial Analysis

In this section we discuss the results of operations for each of our segments. It should be noted that certain amounts for 2003 have been restated following the implementation of new accounting standards in 2003 and 2004.

The analysis of the results for the first six months ended June 30, 2004 is made against the restated results of the prior year period, unless otherwise stated.

Interim results are not necessarily indicative of the full-year results.

Business operating profit and net income by business segment

Business operating profit and net income/(loss) by business segment in USD millions, for the six months ended June 30	Business operating profit			Net income/(loss)		
	2004	2003	Change	2004	2003	Change
General Insurance	1,302	953	37%	981	782	25%
Life Insurance	453	463	(2%)	393	382	3%
Farmers Management Services	539	513	5%	344	313	10%
Other Businesses	(69)	(330)	79%	(89)	(237)	62%
Corporate Center	(277)	(273)	(1%)	(181)	(488)	63%
Total	1,948	1,326	47%	1,448	752	93%

In the following tables we reconcile net income to business operating profit by business segment for the first half of 2004 and 2003.

Reconciliation of net income and business operating profit by business segment for 2004 in USD millions, for the six months ended June 30, 2004	General	Life	Farmers	Other	Corporate	Total
	Insurance	Insurance	Mgmt Services	Businesses	Center	
Net income/(loss)	981	393	344	(89)	(181)	1,448
<i>Adjusted for:</i>						
Net capital (gains)/losses on investments and impairments, excluding capital markets and banking activities	(92)	(850)	(1)	23	(90)	(1,010)
Policyholder allocation of net capital gains/(losses) on investments and impairments	–	805	–	(29)	–	776
Tax expense/(benefit), adjusting for life policyholder tax	367	141	206	24	(8)	730
Net loss/(gain) on divestments of businesses	46	(36)	–	2	2	14
Realized (gain) on sale of non-operating assets	–	–	(10)	–	–	(10)
Business operating profit/(loss)	1,302	453	539	(69)	(277)	1,948

Reconciliation of net income and business operating profit by business segment for 2003 in USD millions, for the six months ended June 30, 2003	General	Life	Farmers	Other	Corporate	Total
	Insurance	Insurance	Mgmt Services	Businesses	Center	
Net income/(loss)	782	382	313	(237)	(488)	752
<i>Adjusted for:</i>						
Net capital (gains)/losses on investments and impairments, excluding capital markets and banking activities	(187)	(932)	2	(156)	213	(1,060)
Policyholder allocation of net capital gains/(losses) on investments and impairments	–	908	–	102	–	1,010
Tax expense/(benefit), adjusting for life policyholder tax	332	105	198	11	2	648
Net loss/(gain) on divestments of businesses	26	–	–	(27)	–	(1)
Restructuring provision	–	–	–	(23)	–	(23)
Business operating profit/(loss)	953	463	513	(330)	(273)	1,326

General Insurance

In the first half of 2004, results in our General Insurance segment benefited from low claim frequencies, absence of large catastrophes, and the strong rate increases achieved in prior year periods. Our key performance indicators for this business segment have significantly improved compared with the same period in the prior year.

General Insurance – highlights

in USD millions, for the six months ended June 30	2004	2003	Change
Gross written premiums and policy fees	20,557	19,308	6%
Net earned premiums and policy fees	14,637	13,117	12%
Total benefits, losses and expenses	14,683	13,369	10%
Net underwriting result	487	158	208%
Business operating profit	1,302	953	37%
Net income	981	782	25%
Loss ratio	72.1%	74.2%	2.1 pts
Expense ratio ¹	24.6%	24.6%	–
Combined ratio	96.7%	98.8%	2.1 pts

¹ Including policyholder dividends and participation in profits.

Business operating profit and net income/(loss) by region

in USD millions, for the six months ended June 30	Business operating profit			Net income/(loss)		
	2004	2003	Change	2004	2003	Change
North America Corporate	405	468	(13%)	377	492	(23%)
North America Consumer	92	57	61%	81	46	76%
Continental Europe	412	289	43%	239	179	34%
UKISA	322	224	44%	187	126	48%
Rest of the World	85	68	25%	65	56	16%
Centrally Managed Businesses ¹	(14)	(153)	nm	32	(117)	nm
Total	1,302	953	37%	981	782	25%

¹ Centrally Managed Businesses includes our internal reinsurance and other businesses managed by our headquarters in Zurich.

Business operating profit increased by USD 349 million, or 37%, from USD 953 million for the first half of 2003 to USD 1.3 billion for the same period in 2004 driven by strong underwriting performance as described below.

Net income improved by USD 199 million, or 25%, from 782 million for the first half of 2003 to USD 981 million for the first six months of 2004. As net income includes the effects of net capital gains on investments and impairments, and net loss on divestments of businesses, which have both deteriorated in 2004 compared to the first half of 2003, the increase in net income was lower than the growth in business operating profit.

Breakdown of premiums by region

in USD millions, for the six months ended June 30	Gross written premiums and policy fees			Net earned premiums		
	2004	2003	Change	2004	2003	Change
North America Corporate	8,042	7,838	3%	5,095	4,285	19%
North America Consumer	1,677	1,583	6%	1,526	1,601	(5%)
Continental Europe	6,500	6,044	8%	4,451	4,057	10%
UKISA	3,465	3,279	6%	2,751	2,345	17%
Rest of the World	1,164	1,012	15%	719	560	28%
Centrally Managed Businesses ¹	239	517	(54%)	95	269	(65%)
Eliminations	(530)	(965)	nm	–	–	nm
Total	20,557	19,308	6%	14,637	13,117	12%

¹ Centrally Managed Businesses includes our internal reinsurance and other businesses managed by our headquarters in Zurich.

Gross written premiums and policy fees in our General Insurance segment increased by USD 1.3 billion, or 6% (1% in local currency), from USD 19.3 billion for the first half of 2003 to USD 20.6 billion for 2004. Taking into account the effects of divestments and foreign exchange movements, premiums increased by approximately 2% in the first half of 2004. Rate increases have moderated in key regions. Volumes have decreased in certain competitive lines of business, as we have not accepted business that does not meet our technical price.

Net earned premiums and policy fees increased by USD 1.5 billion, or 12% (6% in local currency), from USD 13.1 billion for the first half of 2003 to USD 14.6 billion for the same period in 2004. This reflects the effect of rate increases in previous periods now earned as revenue and reduced cessions to reinsurers.

Net underwriting result and combined ratio by region

in USD millions, for the six months ended June 30

	Net underwriting result			Combined ratio		
	2004	2003	Change	2004	2003	Change
North America Corporate	108	162	(33%)	97.9%	96.3%	(1.6 pts)
North America Consumer	47	25	88%	97.0%	98.5%	1.5 pts
Continental Europe	179	41	337%	96.0%	99.0%	3.0 pts
UKISA	115	63	83%	95.8%	97.3%	1.5 pts
Rest of the World	41	29	41%	94.2%	94.9%	0.7 pts
Centrally Managed Businesses	(7)	(162)	nm	107.3%	160.6%	53.3 pts
Eliminations	4	–	nm	–	–	nm
Total	487	158	208%	96.7%	98.8%	2.1 pts

The **net underwriting result** more than tripled from USD 158 million to USD 487 million, an increase of USD 329 million over the first half of 2003. The **combined ratio** improved by 2.1 percentage points to 96.7% reflecting the disciplined underwriting.

Loss ratio by region

for the six months ended June 30

	2004	2003	Change
North America Corporate	77.7%	74.9%	(2.8 pts)
North America Consumer	58.7%	64.8%	6.1 pts
Continental Europe	72.3%	74.6%	2.3 pts
UKISA	73.0%	75.5%	2.5 pts
Rest of the World	57.7%	57.3%	(0.4 pts)
Centrally Managed Businesses	61.0%	137.4%	76.4 pts
Total	72.1%	74.2%	2.1 pts

Insurance benefits and losses increased by USD 822 million, or 8% (3% in local currency), from USD 9.7 billion in the first half of 2003 to USD 10.6 billion for the comparable period of 2004. Losses and loss adjustment expenses rose at a lower rate than net earned premiums. The Group has continued to benefit from the positive effects of our profit improvement initiatives as well as from the favorable environment characterized by the absence of large catastrophe losses. These lower claims were partially offset by net reserve movements for prior years of USD 656 million. The **loss ratio** improved 2.1 percentage points to 72.1% for the first half of 2004.

Expense ratio by region¹

for the six months ended June 30

	2004	2003	Change
North America Corporate	20.2%	21.4%	1.2 pts
North America Consumer	38.3%	33.7%	(4.6 pts)
Continental Europe	23.7%	24.4%	0.7 pts
UKISA	22.8%	21.8%	(1.0 pts)
Rest of the World	36.5%	37.6%	1.1 pts
Centrally Managed Businesses	46.3%	23.2%	(23.1 pts)
Total	24.6%	24.6%	–

¹ Including policyholder dividends and participation in profits.

Total net technical expenses increased by USD 371 million, or 12%, from USD 3.2 billion for the first half of 2003 to USD 3.6 billion for the same period in 2004. This increase was in line with the growth rate of net earned premiums. The **expense ratio** remained level at 24.6% in the first half of 2004.

General Insurance North America Corporate**North America Corporate – highlights**

in USD millions, for the six months ended June 30

	2004	2003	Change
Gross written premiums and policy fees	8,042	7,838	3%
Net earned premiums and policy fees	5,095	4,285	19%
Total benefits, losses and expenses	5,080	4,221	20%
Net underwriting result	108	162	(33%)
Business operating profit	405	468	(13%)
Net income	377	492	(23%)
Loss ratio	77.7%	74.9%	(2.8 pts)
Expense ratio ¹	20.2%	21.4%	1.2 pts
Combined ratio	97.9%	96.3%	(1.6 pts)

¹ Including policyholder dividends and participation in profits.

Business operating profit decreased by USD 63 million, or 13%, to USD 405 million for the first half of 2004 after strengthening of USD 582 million of prior year reserves. This negative impact was mostly offset by favorable current year claims experience, the ongoing disciplined management of expenses and commissions and improved investment income resulting from strong positive cash flows.

Net income decreased by USD 115 million, or 23%, to USD 377 million in the first six months of 2004. In addition to factors that impacted business operating profit, net income was influenced by lower net capital gains on investments.

The growth of **gross written premiums and policy fees** of USD 204 million, or 3%, to USD 8.0 billion in the first half of 2004 was due to a combination of rate changes and volume growth. Growth continues to be seen in the most profitable lines of business: corporate customer (8.2%), construction (6.1%) and small businesses (7.9%). However, the region is experiencing changes in competitive market conditions, which vary by line of business and customer segment. Average rates have increased, however, at a slower pace than in prior periods.

The growth in **net earned premiums** of 19% to USD 5.1 billion in the first half of 2004 reflected earnings from net written premium growth in prior periods now earned as revenue.

The **net underwriting result** declined by USD 54 million, or 33%, to USD 108 million for the first half of 2004. The **combined ratio** increased by 1.6 percentage points to 97.9% as a result of the reserve strengthening, partially offset by favorable current year experience. Overall, the **loss ratio** increased from 74.9% in the first half of 2003 to 77.7% in 2004. The **expense ratio** improved by 1.2 percentage points to 20.2% for the first half of 2004 compared to 21.4% in 2003 reflecting relatively lower administration expenses due to expense management initiatives.

General Insurance North America Consumer

North America Consumer – highlights

in USD millions, for the six months ended June 30

	2004	2003	Change
Gross written premiums and policy fees	1,677	1,583	6%
Net earned premiums and policy fees	1,526	1,601	(5%)
Total benefits, losses and expenses	1,480	1,577	(6%)
Net underwriting result	47	25	88%
Business operating profit	92	57	61%
Net income	81	46	76%
Loss ratio	58.7%	64.8%	6.1 pts
Expense ratio ¹	38.3%	33.7%	(4.6 pts)
Combined ratio	97.0%	98.5%	1.5 pts

¹ Including policyholder dividends and participation in profits.

The amounts reported in our North America Consumer region reflect gross written premiums and related financial results from quota share reinsurance treaties with the Farmers P&C Group Companies, which we manage but do not own. The decline in net earned premiums and total benefits, losses and expenses relate to changes in the terms of the treaties as compared with the prior year. The net underwriting result increased due to an improved loss trend in the first half of 2004 resulting from a lack of harsh weather conditions in the first six months of 2004.

General Insurance Continental Europe

Financial information on our Continental Europe region is provided for our four key markets of Germany, Switzerland, Italy and Spain as well as for Continental Europe Corporate, which writes business for large corporate customers in Europe and is managed centrally.

Continental Europe – highlights

in USD millions, for the six months ended June 30

	2004	2003	Change
Gross written premiums and policy fees	6,500	6,044	8%
Net earned premiums and policy fees	4,451	4,057	10%
Total benefits, losses and expenses	4,499	4,196	7%
Net underwriting result	179	41	337%
Business operating profit	412	289	43%
Net income	239	179	34%
Loss ratio	72.3%	74.6%	2.3 pts
Expense ratio ¹	23.7%	24.4%	0.7 pts
Combined ratio	96.0%	99.0%	3.0 pts

¹ Including policyholder dividends and participation in profits.

Business operating profit improved by USD 123 million to USD 412 million for the first half of 2004 due to the strong improvement in the net underwriting result as described below.

Net income increased by USD 60 million from USD 179 million in 2003 to USD 239 million for the first half of 2004 driven by the same factors as business operating profit.

Breakdown of premiums by key market in USD millions, for the six months ended June 30	Gross written premiums and policy fees			Net earned premiums		
	2004	2003	Change	2004	2003	Change
Total Continental Europe	6,500	6,044	8%	4,451	4,057	10%
Germany ¹	1,896	1,684	13%	1,074	955	12%
Switzerland ¹	1,158	1,079	7%	806	780	3%
Italy ¹	766	665	15%	631	502	26%
Spain ¹	822	676	22%	414	413	–
Continental Europe Corporate (CEC) ¹	2,064	1,542	34%	873	751	16%

¹ Before elimination of intraregion transactions.

Premiums increased in all our key markets, partially offset by decreases in the rest of Continental Europe as a consequence of divestments in 2003 and the transfer of the remaining businesses in those countries to CEC. Premiums in CEC increased accordingly.

Gross written premiums and policy fees grew by USD 456 million, or 8% (–1% in local currency), to USD 6.5 billion impacted by the appreciation of the euro (11%) and Swiss franc (7%) against the US dollar and the divestments in 2003.

The growth in **net earned premiums** of 10% to USD 4.5 billion was generally consistent with the growth in gross written premiums and policy fees in this region. The largest growth rate was observed in Italy (26%), followed by CEC (16%) and Germany (12%). The key markets benefited from the effect of rate increases in previous periods now earned as revenue.

Net underwriting result and combined ratio by key market for the six months ended June 30	Net underwriting result ¹			Combined ratio		
	2004	2003	Change	2004	2003	Change
Total Continental Europe	179	41	337%	96.0%	99.0%	3.0 pts
Germany	69	49	41%	93.6%	94.8%	1.2 pts
Switzerland	22	(27)	nm	97.4%	103.5%	6.1 pts
Italy	39	17	129%	93.9%	96.7%	2.8 pts
Spain	23	8	188%	94.5%	98.1%	3.6 pts
Continental Europe Corporate	62	(3)	nm	93.0%	100.4%	7.4 pts

¹ In USD millions.

Continental Europe's **net underwriting result** improved by USD 138 million to USD 179 million for the first half in 2004. Each of our key markets contributed to the improvement in the technical insurance result. Overall, the **combined ratio** improved by 3.0 percentage points to 96.0%. Insurance benefits and losses increased in the first half of 2004 over the prior year period by USD 194 million, or 6% (–3% in local currency), to USD 3.2 billion. As the insurance benefits and losses in this region increased at a lower rate than net earned premiums, our **loss ratio** improved by 2.3 percentage points to 72.3% for the first half of 2004 from 74.6% in the prior year. Total net technical expenses increased by 6% to USD 1.1 billion also at a lower rate than net earned premiums, reflecting the impact of the cost savings and profit improvement initiatives implemented in 2003 across the region. Consequently, the **expense ratio** improved by a 0.7 percentage point to 23.7%.

General Insurance UKISA

UKISA – highlights

in USD millions, for the six months ended June 30	2004	2003	Change
Gross written premiums and policy fees	3,465	3,279	6%
Net earned premiums and policy fees	2,751	2,345	17%
Total benefits, losses and expenses	2,784	2,374	17%
Net underwriting result	115	63	83%
Business operating profit	322	224	44%
Net income	187	126	48%
Loss ratio	73.0%	75.5%	2.5 pts
Expense ratio ¹	22.8%	21.8%	(1.0 pts)
Combined ratio	95.8%	97.3%	1.5 pts

¹ Including policyholder dividends and participation in profits.

Business operating profit improved by USD 98 million to USD 322 million for the first half year in 2004 largely due to the better insurance underwriting result and an increase in net investment income.

UKISA recorded an increase of USD 61 million in **net income** to USD 187 million in the first six months of 2004 driven by the same factors as for business operating profit.

Our UKISA region experienced a USD 186 million, or 6% (–6% in local currency), increase in **gross written premiums and policy fees** to USD 3.5 billion for the first half of 2004. This region benefited from the appreciation of the British pound (13%) in the United Kingdom, the euro (11%) in Ireland and the rand (20%) in South Africa against the US dollar. Certain significant fully reinsured insurance and reinsurance contracts were included in 2003 but not in 2004. The improvement after adjusting for these factors was driven by positive developments in the UK commercial and personal lines of business, partially offset by a decrease in the large corporate lines of business.

The growth in **net earned premiums** of 17% or USD 406 million (4% in local currency) was primarily attributable to the rate and volume increases experienced in prior years flowing through to earned premiums.

The **net underwriting result** increased by USD 52 million to USD 115 million for the first six months of 2004, with the **combined ratio** improving by 1.5 percentage points to 95.8%. Insurance benefits and losses in our UKISA region increased by 13% (1% in local currency), or USD 239 million, at a lower growth rate than earned premiums, to USD 2.0 billion for the first half of 2004. This development related to favorable loss experience in the first half of 2004 due to favorable weather conditions and the absence of large losses resulting in an improvement in the **loss ratio** to 73.0% for the first half of 2004. The **expense ratio** increased by 1.0 percentage point due to unfavorable foreign exchange movements and an increase in the cost of a Financial Services Compensation Scheme (FSCS) levy.

General Insurance Rest of the World

Rest of the World – highlights

in USD millions, for the six months ended June 30

	2004	2003	Change
Gross written premiums and policy fees	1,164	1,012	15%
Net earned premiums and policy fees	719	560	28%
Total benefits, losses and expenses	686	547	25%
Net underwriting result	41	29	41%
Business operating profit	85	68	25%
Net income	65	56	16%
Loss ratio	57.7%	57.3%	(0.4 pts)
Expense ratio ¹	36.5%	37.6%	1.1 pts
Combined ratio	94.2%	94.9%	0.7 pts

¹ Including policyholder dividends and participation in profits.

Business operating profit increased by USD 17 million to USD 85 million for the first half of 2004 driven by the positive insurance technical result and an improvement in net investment income.

Net income increased by 16% to USD 65 million for the first six months of 2004.

Gross written premiums and policy fees increased 15% to USD 1.2 billion in the first half of 2004. The largest increases in gross written premiums and policy fees in this region were experienced in Australia and Venezuela.

The growth in **net earned premiums** was USD 159 million, or 28% higher in the first half of 2004, compared with USD 560 million in the first half of 2003. The largest increase was in Australia where the higher volume of premiums in 2003 continued to be earned as revenue.

The **net underwriting result** increased to USD 41 million for the first half of 2004 as compared with USD 29 million in 2003. The **combined ratio** improved by a 0.7 percentage point to 94.2% for the first six months in 2004. The **loss ratio** increased by a 0.4 percentage point to 57.7% for the first half of 2004. The improvement in the **expense ratio** of 1.1 percentage points to 36.5% in 2004 was mainly attributable to Australia.

General Insurance Centrally Managed Businesses

The use of reinsurance, both internally and externally, is a key component of the Group's risk mitigation and capital management strategies. Our Centrally Managed Businesses region includes internal reinsurance programs and certain businesses in run-off.

Centrally Managed Businesses – highlights

in USD millions, for the six months ended June 30

	2004	2003	Change
Gross written premiums and policy fees	239	517	(54%)
Net earned premiums and policy fees	95	269	(65%)
Total benefits, losses and expenses	181	457	(60%)
Net underwriting result	(7)	(162)	(96%)
Business operating profit/(loss)	(14)	(153)	(91%)
Net income/(loss)	32	(117)	nm
Loss ratio	61.0%	137.4%	76.4 pts
Expense ratio ¹	46.3%	23.2%	(23.1 pts)
Combined ratio	107.3%	160.6%	53.3 pts

¹ Including policyholder dividends and participation in profits.

Business operating profit improved by USD 139 million from a loss of USD 153 million in 2003 to a loss of USD 14 million in the first half of 2004.

The region recorded a **net income** of USD 32 million for the first half of 2004 as compared with a loss of USD 117 million for the same period in 2003. The main driver for this positive development was a favorable development in insurance benefits and losses due to the absence of large catastrophe losses in the first half of 2004.

The USD 278 million or 54% decrease in **gross written premiums and policy fees** to USD 239 million in our Centrally Managed Businesses region was primarily a consequence of the gradual allocation, starting in 2003, of our intragroup reinsurance transactions to the regions that wrote the underlying premiums as well as further optimization of our reinsurance purchasing. In addition, the premium volume of businesses in run-off was lower than in 2003.

Life Insurance

In 2003, the Group optimized its business portfolio by divesting businesses with underperforming profitability. The divestment of businesses were mainly completed in the second half of 2003.

The adoption of the new accounting standard SOP 03-01 in 2004 which impacted the Life Insurance business resulted in a restatement of 2003 comparative figures. The main impacts of this restatement were on North America Consumer and UKISA. The implementation of new accounting standards is discussed in note 3 of the Consolidated Financial Statements.

In addition, Switzerland's group pension business model has been partially transferred to an external foundation. This process commenced at the beginning of 2004 and was the main reason for the reduction in Switzerland's gross written premiums compared to 2003.

Life Insurance – highlights

in USD millions, for the six months ended June 30

	2004	2003	Change
Gross written premiums, policy fees and insurance deposits	10,063	10,310	(2%)
Gross written premiums and policy fees	5,676	6,336	(10%)
Net investment income	3,042	3,002	1%
Net capital gains on investments and impairments	850	932	(9%)
Total benefits, losses and expenses	9,057	9,772	(7%)
Business operating profit	453	463	(2%)
Net income	393	382	3%

Business operating profit and net income by region

in USD millions, for the six months ended June 30

	Business operating profit			Net income/(loss)		
	2004	2003	Change	2004	2003	Change
North America Consumer	119	174	(32%)	72	127	(43%)
Continental Europe	164	134	22%	160	132	21%
UKISA	162	148	9%	153	117	31%
Rest of the World	18	7	157%	24	6	300%
Centrally Managed Businesses ¹	(10)	–	nm	(16)	–	nm
Total	453	463	(2%)	393	382	3%

¹ Centrally Managed Businesses primarily represents remaining operations of businesses divested in 2003.

The Life Insurance segment experienced a decrease in its **business operating profit** of USD 10 million, or 2%, to USD 453 million compared with USD 463 million for the first half of 2003. Continental Europe recorded the largest increase in business operating profit offset by lower profits in North America Consumer following the divestment of Zurich Life US.

Net income increased by USD 11 million, or 3%, from USD 382 million in 2003 to USD 393 million for the first six months of 2004.

Breakdown of premiums by region in USD millions, for the six months ended June 30	Gross written premiums and policy fees (GWP)		Insurance deposits		Total GWP and insurance deposits	
	2004	2003	2004	2003	2004	2003
North America Consumer	274	619	283	907	557	1,526
Continental Europe	3,879	4,385	627	728	4,506	5,113
UKISA	1,046	948	2,775	2,030	3,821	2,978
Rest of the World	318	391	356	310	674	701
Centrally Managed Businesses ¹	166	–	346	–	512	–
Eliminations	(7)	(7)	–	(1)	(7)	(8)
Total	5,676	6,336	4,387	3,974	10,063	10,310

¹ Centrally Managed Businesses primarily represents remaining operations of businesses divested in 2003.

Gross written premiums and policy fees decreased by USD 660 million, or 10% (–18% in local currency), from USD 6.3 billion for the first half of 2003 to USD 5.7 billion in 2004. This decrease was due to the sale of certain life operations in the second half of 2003, particularly Zurich Life US and Zurich Life UK, as well as the redesign of Switzerland's group pension business model that has been partially transferred to an external foundation. Excluding these factors and foreign currency movements, premiums remained flat.

Insurance deposits increased by USD 413 million or 10% (unchanged in local currency) from USD 4.0 billion in the first six months of 2003 to USD 4.4 billion. The decrease in North America Consumer was due to the divestment and the transfer of the remaining operations into our Centrally Managed Businesses region. The growth of UKISA in insurance deposits was driven by favorable exchange movements and an increase in single premium investment products.

Total **benefits, losses and expenses** decreased by USD 715 million, or 7% (–16% in local currency), from USD 9.8 billion in the first six months of 2003 to USD 9.1 billion in the first half of 2004. This decrease was driven by the reduction in insurance benefits and losses in Switzerland related to the redesign of the group pension business model and the divestment of certain businesses. This improvement was partially offset by increased policyholder dividends and participation in profits.

Life – embedded value results

in USD millions, for the six months ended June 30	2004	2003	Change
Gross new business annual premiums equivalent (APE)	1,071	1,092	(2%)
New business profit, after tax	104	90	16%
New business profit margin (in % of APE)	9.7%	8.2%	1.5 pts
Embedded value total operating profit, after tax ¹	553	583	(5%)
Embedded value operating return, after tax ¹	5.2%	5.8%	(0.6 pts)
Embedded value profit, after tax ¹	418	556	(25%)
Embedded value return, after tax ¹	3.9%	5.5%	(1.6 pts)
Expected return	4.1%	4.0%	0.1 pts

¹ Before foreign currency translation effects.

Key embedded value results are discussed in this Segmental Financial Analysis. For further details please refer to the embedded value section which follows the Consolidated Financial Statements.

Gross new business premiums, measured on an annual equivalent (APE) basis (new annual premiums plus 10% of single premiums) decreased by USD 21 million to USD 1.1 billion. In local currency the decrease was 14% compared with the first half of 2003. This reduction was largely a result of certain life company divestments during the second half of 2003, without which the reduction in APE was 5% in local currency. This 5% reduction can be attributed to the effect of lower volumes in our Rest of the World region combined with the redesign of the group pension business model in Switzerland, which has largely been offset by strong new business growth in our UKISA region.

New business contributed USD 104 million to after-tax **embedded value operating profit**, an increase of USD 14 million compared with the same period in 2003, due to higher sales in our UKISA region, and improvements in product profitability in our German businesses. This development corresponded to an increase in **new business profit margin** to 9.7% for the half year 2004 from 8.2% for the half year 2003. This also represented an increase of a 0.7 percentage point over the full-year 2003 margin of 9.0%.

Embedded value operating profit, after tax, was USD 553 million corresponding to a 5.2% operating return on embedded value for the first half of 2004, which was 1.1 percentage points above the expected return of 4.1% for the period as a result of the positive contribution from the value of the new business written.

A negative economic variance of USD 135 million was experienced for the first half year 2004. This result was due to increased shareholder expected returns in line with increased investment returns, combined with lower than expected future returns in Continental Europe as a result of changes in asset mix to better match assets and liabilities. This resulted in a total **embedded value profit**, after tax, of USD 418 million, which corresponds to a total embedded value return of 3.9% (marginally below the expected return for the period).

Life Insurance North America Consumer

North America Consumer – highlights

in USD millions, for the six months ended June 30	2004	2003	Change
Gross written premiums, policy fees and insurance deposits	557	1,526	(63%)
Gross written premiums and policy fees	274	619	(56%)
Net investment income	182	349	(48%)
Net capital (losses)/gains on investments and impairments	(8)	2	nm
Total benefits, losses and expenses	275	570	(52%)
Business operating profit	119	174	(32%)
Net income	72	127	(43%)

The divestment of Zurich Life US in the third quarter of 2003 affected the underlying performance of this region, which explains substantially all of the above variances. In addition, Kemper Investor Life Insurance Company is now included in Centrally Managed Businesses.

North America Consumer – embedded value results

in USD millions, for the six months ended June 30	2004	2003	Change
Gross new business annual premiums equivalent (APE)	55	130	(58%)
New business profit, after tax	31	36	(14%)
Embedded value total operating profit, after tax ¹	120	184	(35%)
Embedded value operating return, after tax ¹	5.5%	5.8%	(0.3 pts)

¹ Before foreign currency translation effects.

In North America Consumer, sales dropped by 58% primarily due to the divestment of Zurich Life US, which contributed USD 71 million to the **APE** of the first half of 2003. After adjusting for the divestment, the production for the period decreased by 7% to USD 55 million compared with the prior year due to lower sales volume of annuity business.

The **new business profit**, after tax, added USD 31 million, a decrease of USD 5 million over the prior period, primarily due to an increase in the shareholder expected return reflecting increased interest rates in the region. However, this result still represents a strong contribution to the embedded value by new business.

Embedded value operating profit, after tax, for the half year 2004 was USD 120 million resulting from the strong contribution from new business profit, corresponding to an operating return on embedded value for the period of 5.5%. This operating profit was down 35% on the prior year period primarily due to the divestment of Zurich Life US, which contributed USD 57 million to the 2003 result.

Life Insurance Continental Europe

Financial information for our Continental Europe region is provided for our key markets of Germany, Switzerland, Italy and Spain.

Continental Europe – highlights

in USD millions, for the six months ended June 30	2004	2003	Change
Gross written premiums, policy fees and insurance deposits	4,506	5,113	(12%)
Gross written premiums and policy fees	3,879	4,385	(12%)
Net investment income	1,412	1,429	(1%)
Net capital gains/(losses) on investments and impairments	65	(706)	nm
Total benefits, losses and expenses	5,298	5,142	3%
Business operating profit	164	134	22%
Net income	160	132	21%

Business operating profit increased by USD 30 million, or 22%, from USD 134 million in 2003 to USD 164 million for the first half of 2004 driven by improvements in Switzerland and Germany.

Net income increased by USD 28 million, or 21%, from a profit of USD 132 million in the first half of 2003 to USD 160 million in the first half of 2004 driven by the improvement in net capital gains on investments and impairments which in 2003 were subject to substantial asset impairment charges.

Breakdown of gross written premiums and policy fees by key market

in USD millions, for the six months ended June 30

	2004	2003	Change
Total Continental Europe	3,879	4,385	(12%)
Germany	1,772	1,659	7%
Switzerland	1,658	2,193	(24%)
Italy	199	176	13%
Spain	116	107	8%

Continental Europe experienced a decrease in **gross written premiums and policy fees** of USD 506 million, or 12% (-19% in local currency), from USD 4.4 billion in the first half of 2003 to USD 3.9 billion in the comparable period of 2004. This change was mainly caused by the redesign of the group pension business model in Switzerland and the divestment of certain businesses in 2003, partially offset by favorable foreign currency movements.

In **Germany**, gross written premiums and policy fees decreased by 4% in local currency. **Switzerland** experienced a decrease in gross written premiums and policy fees of USD 535 million, or 29% in local currency, for the first half of 2004 largely due to the redesign of the group pension business model. In **Italy**, gross written premiums and policy fees increased by 2% in local currency. **Spain** recorded a decrease in gross written premiums and policy fees in local currency by 3% mainly due to lower sales of individual saving products distributed through the agency channel.

Total benefits, losses and expenses increased by USD 156 million, or 3%, from USD 5.1 billion in the first six months of 2003 to USD 5.3 billion in the same period of 2004, which is in line with the increase in premiums in our key markets except for Switzerland where the decrease was primarily caused by the redesign of the group pension business model. **Policyholder dividends and participation in profits** increased by USD 613 million from a benefit of USD 434 million in the first half of 2003 to an expense of USD 179 million in 2004. This development was primarily attributable to Germany where the improvement in net capital gains on investments and impairments reported in the first half of 2004 was substantially shared with policyholders. **Underwriting and policy acquisition costs** increased by USD 183 million to USD 457 million for the first half of 2004 compared with USD 274 million in 2003. In Switzerland and Germany a higher amount of deferred policy acquisition costs (DAC) was amortized reflecting changed assumptions, such as new mortality tables implemented in Germany for its annuity business as required by the local regulator.

Continental Europe – embedded value results

in USD millions, for the six months ended June 30

	2004	2003	Change
Gross new business annual premiums equivalent (APE)	400	397	1%
New business profit, after tax	38	22	73%
Embedded value total operating profit, after tax ¹	139	187	(26%)
Embedded value operating return, after tax ¹	6.6%	9.7%	(3.1 pts)

¹ Before foreign currency translation effects.

Gross new business premiums (APE) for the first half of 2004 were USD 400 million, a decrease of 15% in local currency, due to the redesign of the Swiss group pension business model and the impact of divestments of various businesses during 2003. However, the effect of the weakening US dollar in 2003 resulted in an overall increase of 1%.

Continental Europe's **new business profit**, after tax, increased by USD 16 million to USD 38 million for the first half of 2004. This result reflects expense optimizations allowing Germany to increase the shareholders' share of profits going forward, combined with sales of higher margin products in Spain.

Embedded value operating profit, after tax, for the half year 2004 reduced by USD 48 million to USD 139 million, corresponding to an operating return on embedded value of 6.6%. The reduction in profit was a result of the higher contribution to value from actions taken in the first half of 2003 to improve the business. However, the result still remained strong benefiting from continued management initiatives across the region to improve performance, combined with the positive contribution from new business profit.

Life Insurance UKISA**UKISA – highlights**

in USD millions, for the six months ended June 30

	2004	2003	Change
Gross written premiums, policy fees and insurance deposits	3,821	2,978	28%
Gross written premiums and policy fees	1,046	948	10%
Net investment income	1,364	1,166	17%
Net capital gains on investments and impairments	780	1,622	(52%)
Total benefits, losses and expenses	3,017	3,609	(16%)
Business operating profit	162	148	9%
Net income	153	117	31%

Business operating profit increased by USD 14 million, or 9%, from USD 148 million for the first six months of 2003 to USD 162 million for the same period in 2004 mainly due to stock market impacts on investment performance as well as reduced expenses and foreign exchange movements.

Net income rose by USD 36 million, or 31%, from USD 117 million for the first half of 2003 to USD 153 million in 2004. In addition to the factors that improved business operating profit, net income also benefited from a net gain on divestments of businesses of USD 21 million.

Gross written premiums and policy fees increased by USD 98 million, or 10%, to USD 1.0 billion in the first half of 2004 compared with USD 948 million in the same period in 2003. This corresponds to a decrease of 2% in local currency terms, which was largely driven by the divestment of Zurich Life UK in the second half of 2003, partially offset by the impact of stock market movements and the corresponding impact on policy fees included in gross written premiums in addition to higher new business volume.

Insurance deposits increased by USD 745 million, or 37% (21% in local currency), from USD 2.0 billion in the first half of 2003 to USD 2.8 billion in 2004 reflecting higher volumes of sales of our investment bond products.

Total benefits, losses and expenses decreased by USD 592 million, or 16%, from USD 3.6 billion in the first half of 2003 to USD 3.0 billion in 2004. **Insurance benefits and losses** declined by USD 150 million or 22% (-30% in local currency). This decrease was primarily due to the sale of Zurich Life UK and a new reinsurance agreement.

Policyholder dividends and participation in profit declined by USD 543 million to USD 1.7 billion for the first half year of 2004. The implementation of an accounting standard (SOP 03-01) created greater volatility in policyholder dividends reflecting the movements in investment income and net capital gains on investments and impairments attributable to policyholders now included in our total investment result. **Underwriting and policy acquisition costs** rose by USD 89 million or 25% to USD 449 million for the first half of 2004 compared with USD 360 million in 2003 mainly driven by an increase in the amount of DAC amortization. This increase was partially offset by the higher amount of front-end fees included in gross written premiums. **Administrative and other operating expenses** decreased by 10% (-20% in local currency) to USD 269 million in the first half of 2004 driven by lower year-on-year expenses due to the divestment of Zurich Life UK and various expense initiatives instigated in 2004.

UKISA – embedded value results

in USD millions, for the six months ended June 30

	2004	2003	Change
Gross new business annual premiums equivalent (APE)	519	382	36%
New business profit, after tax	36	28	29%
Embedded value total operating profit, after tax ¹	260	176	48%
Embedded value operating return, after tax ¹	4.6%	4.1%	0.5 pts

¹ Before foreign currency translation effects.

UKISA saw strong **new business** growth with APE at USD 519 million, an increase of USD 137 million over the first half of 2003. This was primarily the result of a large increase in single premium sales (up 56% in local currency) due to strong sales of investment bond products in Zurich Assurance through the IFA network.

New business profit, after tax, was USD 36 million, an increase of USD 8 million over the prior year, resulting from increased sales volumes.

An embedded value after-tax operating return of 4.6%, corresponding to an **operating profit** of USD 260 million, has been achieved in the region for the first half of 2004, largely due to the contribution from new business.

Life Insurance Rest of the World

Rest of the World – highlights

in USD millions, for the six months ended June 30

	2004	2003	Change
Gross written premiums, policy fees and insurance deposits	674	701	(4%)
Gross written premiums and policy fees	318	391	(19%)
Net investment income	64	58	10%
Net capital gains on investments and impairments	17	14	21%
Total benefits, losses and expenses	393	453	(13%)
Business operating profit	18	7	157%
Net income	24	6	300%

Business operating profit improved by USD 11 million, or 157%, from USD 7 million in the first six months of 2003 to USD 18 million in the first half of 2004.

Net income increased to USD 24 million, or 300%, compared with an income of USD 6 million in the first half of 2003. The region recorded USD 9 million gains on divestments of businesses mainly in Australia and USD 3 million higher net capital gains on investments and impairments.

Gross written premiums and policy fees decreased by USD 73 million, or 19% (-25% in local currency), from USD 391 million in the first six months of 2003 to USD 318 million in the same period in 2004. The divestments of certain life businesses in this region in 2003 contributed to the lower volume.

The region recorded a USD 46 million, or 15%, increase in **insurance deposits** from USD 310 million in 2003 to USD 356 million in the first half of 2004, mainly from higher deposits in Australia.

Total benefits, losses and expenses declined by USD 60 million, or 13%, from USD 453 million in the first half of 2003 to USD 393 million in 2004. **Insurance benefits and losses** decreased by 21% (–27% in local currency) to USD 209 million for the first half of 2004.

Rest of the World – embedded value results

in USD millions, for the six months ended June 30	2004	2003	Change
Gross new business annual premiums equivalent (APE)	97	183	(47%)
New business profit, after tax	(1)	4	nm
Embedded value total operating profit, after tax ¹	34	36	(6%)
Embedded value operating return, after tax ¹	4.6%	5.3%	(0.7 pts)

¹ Before foreign currency translation effects.

Gross new business premiums (APE) for the Rest of the World region reduced by USD 86 million, or 56% in local currency, from USD 183 million in the first half of 2003, to USD 97 million in 2004. Significant sales of bancassurance products in Asia Pacific during the first half of 2003 were not repeated in 2004.

For the first half of 2004, **new business profit**, after tax, was a loss of USD 1 million, down USD 5 million on the same period in 2003. Lower overall volumes in Asia Pacific combined with changes in product mix of sales were responsible for the reduction.

Embedded value operating profit, after tax, was broadly in line with the result achieved in 2003 and corresponds to an after-tax operating return of 4.6%.

Life Insurance Centrally Managed Businesses

Life Insurance business units included in Centrally Managed Businesses are the remaining operations of businesses divested in 2003 particularly that of Kemper Investors Life Insurance Company. These operations were reported in this region for the first time in the fourth quarter of 2003, but comparatives for the half year 2003 relating to the original businesses have not been transferred to this region because the nature of the businesses changed significantly following their divestment.

The region recorded a loss of USD 10 million in **business operating profit** as well as a **net loss** of USD 16 million. The net loss is higher as business operating profit does not include the effects of net capital losses on investments and impairments.

Gross written premiums and policy fees recorded were USD 166 million for the first half of 2004. As the majority of the business is reinsured **net earned premiums** amounted to USD 32 million.

Revenues are driven by the investment return and policy fees from separate account assets under management. For the first half of 2004 **total revenues** were USD 56 million. Investment income and net capital losses on investments and impairments resulted in a positive total investment result of USD 16 million.

Total benefits, losses and expenses were USD 74 million in the first half of 2004 primarily consisting of insurance benefits and losses amounting to USD 24 million, underwriting and policy acquisition costs of USD 20 million and administrative and other operating expenses of USD 23 million.

Farmers Management Services

In the United States, our Farmers Management Services segment continued to show profitable growth in 2004. Farmers Group, Inc. and its subsidiaries (FGI) provide non-claims related management services to the Farmers P&C Group Companies, prominent writers of personal lines and small commercial lines business. While premiums are written and claims are paid by the Farmers P&C Group Companies, which we do not own, FGI provides non-claims related management services to the Farmers P&C Group Companies and receives management fees for these services.

Farmers Management Services – highlights

in USD millions, for the six months ended June 30	2004	2003	Change
Management fees and other related revenue	980	935	5%
Management expenses and other related expenses	458	422	9%
Business operating profit	539	513	5%
Net income	344	313	10%
Gross operating margin	53.3%	54.7%	(1.4 pts)
Gross written premiums of the Farmers P&C Group Companies	7,083	6,908	3%
Gross earned premiums of the Farmers P&C Group Companies	6,943	6,803	2%

Business operating profit increased by USD 26 million, or 5%, from USD 513 million for the first half of 2003 to USD 539 million for the same period in 2004, as a result of the growth in revenues and lower interest expenses.

Net income for this segment increased by 10% from USD 313 million in the first half of 2003 to USD 344 million in 2004 reflecting the growth in business operating profit.

Management fees and other related revenue increased by USD 45 million, or 5%, from USD 935 million in the first six months of 2003 to USD 980 million in 2004. This increase primarily resulted from higher premium volumes in the Farmers P&C Group Companies. In the first six months of 2004, gross earned premiums were USD 6.9 billion as compared with USD 6.8 billion in the same period of 2003. This premium growth of 2% was largely attributable to higher premiums in the Farmers specialty, commercial and fire lines of business. Additionally, the motor line of business fees were higher than the prior year as a result of revisions to the fee structure effective from January 2004. This growth was partially offset by a USD 80 million decline in medical malpractice premiums due to a decision to exit this business.

Expenses were USD 36 million or 9% higher in the first half of 2004 compared with the same period in 2003. This increase was driven by variable expenses related to our growing revenues. As a result, the **operating margin** of Farmers Management Services showed a decrease of 1.4 percentage points to 53.3% for the first six months of 2004 compared with 54.7% for 2003. The full-year 2003 operating margin was 52.3%.

Other Businesses

Our Other Businesses segment includes capital markets and banking activities, our Centre operations, asset management activities and reinsurance run-off operations. These activities are not considered to be core businesses, and certain parts of these operations were discontinued, divested or put in run-off in 2003 and 2002.

Other businesses – highlights

in USD millions, for the six months ended June 30	2004	2003	Change
Net earned premiums and policy fees	744	732	2%
Net investment result	453	772	(41%)
Net (loss)/gain on divestments of businesses	(2)	27	nm
Insurance benefits and losses, including policyholder dividends	813	1,123	(28%)
Other operating and administrative expenses	248	320	(23%)
Business operating profit/(loss)	(69)	(330)	79%
Net income/(loss)	(89)	(237)	62%

Due to the relative importance of Centre to the Other Businesses segment, key financial data for Centre is shown below.

Centre and other operations

in USD millions, for the six months ended June 30	Centre		Other operations	
	2004	2003	2004	2003
Net earned premiums and policy fees	592	638	152	94
Net investment result	166	452	287	320
Insurance benefits and losses, including policyholder dividends	514	1,017	299	106
Business operating profit/(loss)	(79)	(328)	10	(2)
Net income/(loss)	(83)	(287)	(6)	50

Centre improved its **business operating profit** by USD 249 million and **net income** by USD 204 million in 2004 compared with the half year of 2003, which was impacted by the USD 474 million reserves strengthening for certain asset-backed transactions. Centre's profitability is affected by movements in financial markets, because of the nature of its business, specifically the classification as trading of investments supporting life and health insurance liabilities and because of the restructuring of its portfolio. As a result, net investment result reduced by USD 286 million to USD 166 million in the first six months of 2004.

Zurich Capital Markets (ZCM) remains in winding-down mode. As announced in July 2003 the Group and BNP Paribas (BNPP) agreed on a framework agreement to transfer certain derivative transactions and credit facilities and related assets from ZCM to BNPP. BNPP took over responsibility for servicing those transactions, and relevant ZCM employees were transferred to BNPP. Zurich and BNPP expect to conclude individual agreements for the transfer of specific transactions and facilities during the remainder of 2004 as more than 90% of the designated trades have been novated, unwound or terminated. ZCM will continue to wind down its other business lines.

The other operations in this segment, including ZCM, recorded a **business operating profit** of 10 million in the first half of 2004 compared to a loss of USD 2 million in 2003. **Net income** decreased by USD 56 million to a loss of USD 6 million in the first half of 2004.

Corporate Center

The Corporate Center segment includes Group holding companies, central expenses at the headquarters in Zurich, and central financing vehicles.

Corporate Center – highlights

in USD millions, for the six months ended June 30

	2004	2003	Change
Total revenues	601	114	427%
Insurance benefits and losses, including policyholder dividends	33	19	74%
Interest expenses	378	337	12%
Total benefits, losses and expenses	751	587	28%
Business operating profit/(loss)	(277)	(273)	(1%)
Net costs	(181)	(488)	63%

Business operating profit for the Corporate Center segment decreased by USD 4 million over the comparable period to a net loss of USD 277 million for the first half year 2004. **Net costs** improved by USD 307 million to net costs of USD 181 million for the first half of 2004.

The increase in **total revenues** of USD 487 million was primarily attributable to a USD 436 million increase in total investment result. Net investment income improved by USD 133 million to USD 298 million for the first half of 2004, mainly reflecting higher interest income from loans to affiliates and from short-term investments. In the first half of 2003, this segment incurred losses related to the Bâloise investment of USD 158 million; the Group completed the sale of nearly all of its holding in Bâloise in November 2003.

Total benefits, losses and expenses increased by 28% to USD 751 million in the first half of 2004 driven by an increase in administrative and other operating expenses for services performed for the local operating units, partially offset by improved billing for these services.

Consolidated operating statements (unaudited)

in USD millions
for the six months ended June 30

	Notes	2004	2003 ¹
Revenues			
Gross written premiums and policy fees		26,412	25,971
Less premiums ceded to reinsurers		(3,960)	(4,257)
Net written premiums and policy fees		22,452	21,714
Net change in reserves for unearned premiums		(1,805)	(1,913)
Net earned premiums and policy fees		20,647	19,801
Management fees		1,002	1,037
Net investment income	5	4,442	4,277
Net capital gains on investments and impairments	5	1,091	1,178
Net (loss)/gain on divestments of businesses	4	(14)	1
Other income		752	779
Total revenues		27,920	27,073
Benefits, losses and expenses			
Insurance benefits and losses	7	16,275	16,621
Policyholder dividends and participation in profits	7	1,977	1,974
Underwriting and policy acquisition costs	7	3,780	3,163
Administrative expense		1,910	1,868
Other operating expense		894	855
Amortization of intangible assets		207	216
Interest expense on debt	11	166	223
Interest credited to policyholders and other interest		470	642
Total benefits, losses and expenses		25,679	25,562
Net income before income taxes and minority interests			
Income tax expense	9	(739)	(723)
Net income applicable to minority interests		(54)	(36)
Net income		1,448	752
in USD			
Basic earnings per share		10.10	5.30
Diluted earnings per share		10.02	5.28
in CHF			
Basic earnings per share		12.78	7.15
Diluted earnings per share		12.67	7.12

¹ Restated for implementation of new accounting standard as discussed in note 3.

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

Consolidated balance sheets (unaudited)

in USD millions, as of

Assets	Notes	06/30/04	12/31/03 ¹
Investments			
Debt securities		121,368	119,032
Equity securities		52,450	52,322
Trading equity portfolios in capital markets and banking activities		2,840	4,303
Investments in associates		720	991
Other investments		34,726	33,422
Cash and cash equivalents		14,125	15,677
Total investments	5	226,229	225,747
Investments held on account and at risk of life insurance policyholders	6	22,298	21,980
Accrued investment income		2,190	2,570
Receivables		11,699	11,008
Reinsurance assets		22,069	22,670
Deposits made under assumed reinsurance contracts		3,374	3,608
Deferred policy acquisition costs	10	11,975	11,784
Fixed assets		2,115	2,306
Goodwill		716	779
Other intangible assets		2,636	2,794
Deferred tax assets	9	3,630	3,719
Derivative trading assets and other assets		3,211	3,976
Mortgage loans given as collateral		4,202	4,701
Total assets		316,344	317,642
Liabilities, minority interests and shareholders' equity			
Liabilities			
Insurance reserves, gross	8	224,795	223,418
Reserve for premium refunds		731	943
Insurance reserves for life insurance where the investment risk is carried by policyholders	6	22,378	22,063
Deposits received under ceded reinsurance contracts		4,514	4,825
Obligation to repurchase securities		4,743	3,742
Deferred tax liabilities	9	5,238	5,450
Accrued liabilities		2,983	2,865
Deferred front-end fees		3,078	3,015
Debt related to capital markets and banking activities	11	4,221	5,961
Senior and subordinated debt	11	4,726	4,775
Other liabilities		14,922	15,981
Collateralized loans		4,202	4,701
Total liabilities		296,531	297,739
Minority interests		766	969
Shareholders' equity			
Preferred securities		1,096	1,096
Common stock		635	923
Treasury stock		(2)	(6)
Additional paid-in capital		10,239	10,208
Net unrealized (losses)/gains on investments	5	(131)	862
Cumulative translation adjustment		79	152
Retained earnings		7,131	5,699
Common stockholders' equity		17,951	17,838
Total shareholders' equity		19,047	18,934
Total liabilities, minority interests and shareholders' equity		316,344	317,642

¹ Restated for implementation of new accounting standard as discussed in note 3.

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

Consolidated statements of cash flows (unaudited)

in USD millions
for the six months ended June 30

	2004	2003 ¹
Cash flows from operating activities		
Net income	1,448	752
<i>Adjustments for:</i>		
Net capital (gains) on investments and impairments	(1,091)	(1,178)
Net loss/(gain) on divestments of businesses	14	(1)
Equity in income of investments in associates	(85)	(6)
Depreciation and amortization	310	377
Other non-cash items	(14)	599
<i>Changes in operational assets and liabilities:</i>		
Deferred policy acquisition costs	(187)	(347)
Reinsurance assets, net	202	(858)
Deposits made under assumed reinsurance contracts	228	209
Receivables and payables	(1,391)	(3,117)
Insurance reserves, gross	4,716	8,199
Deferred income tax, net	81	465
Net changes in other operational assets and liabilities	(124)	1,308
Net cash provided by operating activities	4,107	6,402
Cash flows from investing activities		
<i>Sales and maturities:</i>		
Debt securities	33,444	50,934
Equity securities	21,356	23,432
Other (primarily other investments and fixed assets)	4,845	8,664
<i>Purchases:</i>		
Debt securities	(40,527)	(60,915)
Equity securities	(19,966)	(18,407)
Other (primarily other investments and fixed assets)	(5,417)	(7,453)
Investments in associates, net	66	(1)
Divestments of companies, net of cash balances	1,559	138
Dividends from associates	17	9
Net cash used in investing activities	(4,623)	(3,599)
Cash flows from financing activities		
Change in universal life and investment contracts, net	88	325
Proceeds from sale and repurchase agreements	935	1,358
Dividends paid to shareholders	(16)	(20)
Redemption of preferred stock by subsidiaries	(195)	(527)
Issuance of debt	779	113
Payments on debt outstanding	(2,471)	(1,134)
Net cash (used in)/provided by financing activities	(880)	115
Effect of exchange rate changes on cash and cash equivalents	(156)	296
Change in cash and cash equivalents	(1,552)	3,214
Cash and cash equivalents as of January 1 (opening balance)	15,677	10,033
Cash and cash equivalents as of June 30	14,125	13,247
Other supplementary cash flow disclosures		
in USD millions	2004	2003 ¹
Other interest income received	3,528	3,335
Dividend income received	632	684
Other interest expense paid	(594)	(528)
Income tax paid	(356)	(490)
As of June 30, 2004 and 2003, cash and cash equivalents restricted as to use were USD 605 million and USD 1,004 million, respectively. Cash and cash equivalents held for the benefit of policyholders in connection with unit-linked products amounted to USD 2,772 million and USD 1,933 million, respectively.		
Cash and cash equivalents comprise the following:		
in USD millions	2004	2003 ¹
Cash at bank and in hand	6,440	7,374
Cash equivalents	7,685	5,873
Balance as of June 30	14,125	13,247

¹ Restated for implementation of new accounting standard as discussed in note 3.

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

Consolidated statements of shareholders' equity (unaudited)

in USD millions, except number of shares
for the six months ended June 30

	Number of common shares issued	Preferred securities
Balance as of December 31, 2002, as previously reported	144,006,955	1,096
Implementation of new accounting standard ¹	–	–
Balance as of December 31, 2002, restated	144,006,955	1,096
Change in net unrealized (losses)/gains on investments (excluding translation adjustments)	–	–
Translation adjustments	–	–
Change in net unrealized (losses)/gains not recognized in the operating statement	–	–
Share-based payment transactions	–	–
Treasury stock transactions	–	–
Net income	–	–
Dividends on preferred securities	–	–
Balance as of June 30, 2003, restated	144,006,955	1,096
Balance as of December 31, 2003, as previously reported	144,006,955	1,096
Implementation of new accounting standard ¹	–	–
Balance as of December 31, 2003, restated	144,006,955	1,096
Change in net unrealized (losses)/gains on investments (excluding translation adjustments)	–	–
Transfer arising from the "legal quote" legislation in Switzerland ²	–	–
Translation adjustments	–	–
Change in net unrealized (losses)/gains not recognized in the operating statement	–	–
Nominal value reduction of common stock ³	–	–
Share-based payment transactions	–	–
Treasury stock transactions	–	–
Net income	–	–
Dividends on preferred securities	–	–
Balance as of June 30, 2004	144,006,955	1,096

¹ Implementation of new accounting standard is discussed in note 3.

² Transfer of net unrealized gains on investments to insurance reserves as "Policyholders' contract deposits and other funds" in connection with the new "legal quote" legislation in Switzerland as described in note 8.

³ Effective as of June 30, 2004, the share capital was reduced by a nominal value reduction from CHF 9 to CHF 6.50 per each registered share. The payment to shareholders was made on July 1, 2004.

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

Common stock	Treasury stock (nominal value)	Additional paid-in capital	Net unrealized (losses)/gains on investments	Cumulative translation adjustment	Retained earnings	Total shareholders' equity
1,028	(14)	10,031	1,080	(484)	4,038	16,775
-	-	-	2	-	(310)	(308)
1,028	(14)	10,031	1,082	(484)	3,728	16,467
-	-	-	813	-	-	813
-	-	-	21	277	-	298
-	-	-	834	277	-	1,111
-	-	14	-	-	-	14
-	-	(5)	-	-	-	(5)
-	-	-	-	-	752	752
-	-	-	-	-	(20)	(20)
1,028	(14)	10,040	1,916	(207)	4,460	18,319
923	(6)	10,208	862	181	6,120	19,384
-	-	-	-	(29)	(421)	(450)
923	(6)	10,208	862	152	5,699	18,934
-	-	-	(758)	-	-	(758)
-	-	-	(226)	-	-	(226)
-	-	-	(9)	(73)	-	(82)
-	-	-	(993)	(73)	-	(1,066)
(288)	-	-	-	-	-	(288)
-	-	(14)	-	-	-	(14)
-	4	45	-	-	-	49
-	-	-	-	-	1,448	1,448
-	-	-	-	-	(16)	(16)
635	(2)	10,239	(131)	79	7,131	19,047

Notes to the half year consolidated financial statements (unaudited)

1. Basis of presentation

These half year consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting". The accounting policies used to prepare these consolidated financial statements comply with International Financial Reporting Standards (IFRS), and are consistent with those set out in the notes to the Annual Report 2003 of Zurich Financial Services Group ("the Group"), except for the implementation of a new accounting standard, discussed in note 3, which resulted in restatement of the 2003 half year consolidated financial statements included herein. In addition, certain reclassifications have been made to prior period amounts and segment disclosures to conform to the presentation in the Group's Annual Report 2003 and to the current period presentation. These reclassifications have no effect on the previously reported net income.

These unaudited half year consolidated financial statements should be read in conjunction with the Group's Annual Report 2003. The Group's independent auditors have carried out a review of these unaudited half year consolidated financial statements. Their report is set out on page 51.

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

2. Foreign currency translation and transactions

The table below summarizes the principal exchange rates that have been used for translation purposes. The net loss on foreign currency transactions included in the consolidated operating statements was USD 48 million and USD 34 million for the six months ended June 30, 2004 and 2003, respectively.

	Balance sheets as of		Operating statements and cash flows for the six months ended	
	06/30/04	12/31/03	06/30/04	06/30/03
Euro	1.2186	1.2594	1.2274	1.1062
Swiss franc	0.7999	0.8072	0.7907	0.7412
British pound sterling	1.8195	1.7858	1.8225	1.6125

3. Implementation of new accounting standards and adjustments

The Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants (AICPA) issued Statement of Position 03-01 ("SOP 03-01"), Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts. SOP 03-01 has resulted in three significant changes in the treatment of certain life contracts, which have been adopted retrospectively, in accordance with IAS 8:

- Recognition of additional liabilities for guaranteed minimum death benefits, guaranteed retirement income benefits and benefits in respect of annuitization options on an accrual basis, primarily in the life business in the United States. The recognition of guarantee liabilities resulted in a write-down of deferred policy acquisition costs, caused by a reduction in future estimated gross profits supporting these reserves.
- Clarification of the distinction between universal life insurance and investment products, resulting in certain products in the life business in the United Kingdom now being treated as insurance. The classification as insurance consequently resulted in the retrospective accrual of additional insurance reserves.
- "Investments held on account and at risk of life insurance policyholders" and "Insurance reserves for life insurance where the investment risk is carried by policyholders" were reclassified from the respective amounts previously reported to total investments and insurance reserves in the amount of approximately USD 50 billion. This change also resulted in the inclusion in the consolidated operating statements of additional investment result arising from the reclassified investments and a substantially corresponding charge in "Policyholder dividends and participation in profits". As a result, there is no material net impact on the Group's operating results.

The Group has implemented the new standard in these consolidated financial statements and the impact is summarized in the tables below.

Table 3.1
Summary of restatement of key consolidated operating statement items due to implementation of new accounting standard
in USD millions, for the six months ended June 30, 2003

	As previously reported ¹	Restatement adjustment	Restated 2003
Revenues			
Net investment income	3,608	669	4,277
Net capital gains/(losses) on investments and impairments	(398)	1,576	1,178
Benefits, losses and expenses			
Policyholder dividends and participation in profits	(271)	2,245	1,974
Net income before income taxes and minority interests			
Income tax expense	(732)	9	(723)
Net income	779	(27)	752

¹ After implementation of new accounting standards in 2003 as discussed in note 3 of the Annual Report 2003.

Table 3.2
Summary of restatement of key consolidated balance sheet items
due to implementation of new accounting standard

in USD millions, as of December 31, 2003	As previously reported ¹	Restatement adjustment	Restated 2003
Assets			
Debt securities	113,002	6,030	119,032
Equity securities	15,188	37,134	52,322
Other investments	28,947	4,475	33,422
Cash and cash equivalents	13,536	2,141	15,677
Total investments	175,967	49,780	225,747
Investments held on account and at risk of life insurance policyholders	71,936	(49,956)	21,980
Deferred policy acquisition costs	12,023	(239)	11,784
Total assets	317,876	(234)	317,642
Liabilities			
Insurance reserves, gross	171,864	51,554	223,418
Insurance reserves for life insurance where the investment risk is carried by policyholders	73,233	(51,170)	22,063
Total liabilities	297,523	216	297,739
Shareholders' equity			
Cumulative translation adjustment	181	(29)	152
Retained earnings	6,120	(421)	5,699
Total shareholders' equity	19,384	(450)	18,934

¹ After implementation of new accounting standards in 2003 as discussed in note 3 of the Annual Report 2003.

Table 3.3
Summary of restatement of key consolidated statement of cash flows items
due to implementation of new accounting standard

in USD millions, for the six months ended June 30, 2003	As previously reported ¹	Restatement adjustment	Restated 2003
Cash flows from operating activities			
Net income	779	(27)	752
<i>Adjustments for:</i>			
Net capital (gains)/losses on investments and impairments	398	(1,576)	(1,178)
<i>Changes in operational assets and liabilities:</i>			
Insurance reserves, gross	4,849	3,350	8,199
Net cash provided by operating activities	4,452	1,950	6,402
Cash flows from investing activities			
<i>Sales and maturities:</i>			
Debt securities	44,512	6,422	50,934
Equity securities	17,965	5,467	23,432
<i>Purchases:</i>			
Debt securities	(56,296)	(4,619)	(60,915)
Equity securities	(9,594)	(8,813)	(18,407)
Net cash used in investing activities	(1,993)	(1,606)	(3,599)
Change in cash and cash equivalents	2,870	344	3,214
Cash and cash equivalents as of January 1 (opening balance)	8,444	1,589	10,033
Cash and cash equivalents as of June 30	11,314	1,933	13,247

¹ After implementation of new accounting standards in 2003 as discussed in note 3 of the Annual Report 2003.

Table 3.4
Restatement of quarterly consolidated financial information due
to implementation of new accounting standard (unaudited)

in USD millions, for the three months ended	06/30/03	03/31/04	03/31/03
Net income, as previously reported ¹	645	702	134
Restatement adjustment	(11)	28	(16)
Net income, restated	634	730	118

¹ As published in note 29 of the Annual Report 2003.

This SOP 03-01 restatement adjustment is entirely attributable to the Life Insurance segment. The total net adjustment to total shareholders' equity as of December 31, 2003 was USD 450 million, for which an estimated amount of USD 600 million was recorded in the first quarter of 2004.

In 2004, figures for the Group's internal reinsurance transactions have been allocated to the specific regions that wrote the underlying business, whereas in 2003 those results were recorded in our Centrally Managed Businesses region. The 2003 figures have been reclassified to conform to this presentation.

Forthcoming changes in accounting and reporting affecting the basis of presentation and comparability

During the next few years, there will be a number of further changes to our consolidated financial statements. The principal change will occur for 2005 reporting when new and amended standards already issued and likely to be issued by the International Accounting Standards Board will be implemented. The most significant impact will be from the International Financial Reporting Standard on "Insurance Contracts" (IFRS 4). The impact continues to be evaluated, but our net income, shareholders' equity and presentation of the consolidated financial statements will all be affected. To the extent that IFRS 4 does not determine accounting for insurance contracts, we will continue, as disclosed in our Annual Report 2003, to refer to accounting principles generally accepted in the United States (US GAAP) for guidance on accounting for insurance.

4. Changes in the scope of consolidation

During the six months ended June 30, 2004 and June 30, 2003, the Group completed divestments of several businesses. The aggregate net loss on divestments before tax was USD 14 million for the six months ended June 30, 2004. The net gain on divestments before tax was USD 1 million for the six months ended June 30, 2003. For the six months ended June 30, 2004, the after-tax loss on divestments was USD 18 million, whereas the after-tax gain on divestments was USD 6 million for the same period in 2003. Total cash consideration received was USD 1,739 million and USD 146 million for the six months ended June 30, 2004 and 2003, respectively.

Table 4**Net gain/(loss) on significant divestments**

in USD millions, for the six months ended June 30

	2004	2003
Consideration received	1,739	89
Less: net assets divested	(1,708)	(70)
Costs related to divestments	(45)	(19)
Net loss on divestments before tax	(14)	–
Net assets divested		
Cash and cash equivalents	180	8
Other assets	3,955	641
Insurance liabilities	(515)	–
Other liabilities	(1,912)	(579)
Net assets divested	1,708	70

The Group's significant transactions affecting the scope of consolidation during the six months ended June 30, 2004 and 2003 were as follows:

Changes in the first six months of 2004

On June 30, 2004, the Group completed the sale of Zurich Insurance (Singapore) Pte. Ltd. to QBE Insurance (International) Limited, recognizing a gain on the transaction of less than USD 1 million before tax.

On June 14, 2004, the Group completed the sale of Zürich Krankenversicherung AG (Deutschland) as well as the Group's stake in GLOBALE Krankenversicherungs-AG to DKV Deutsche Krankenversicherung AG, recognizing a gain of USD 13 million before tax.

On May 31, 2004, the Group completed the sale of the insurance portfolio of its subsidiary Zurich Life Philippines, Inc to The Manufacturers Life Insurance Company (Phils.), Inc.

On March 10, 2004, the Group completed the sale of McMillan Shakespeare Australia Pty Limited to McMillan Shakespeare Limited, recognizing a gain of USD 9 million before tax.

On February 12, 2004, the Group completed the sale of all of its life insurance operations, its workers' compensation portfolio and its general insurance operations in the consumer and small commercial segments in Belgium to P&V Assurances, recognizing a loss of USD 37 million before tax. The sale of the Luxembourg operation to P&V Assurances is expected to be completed in the second half of 2004.

In 2003, the Group signed a framework agreement with BNP Paribas for the transfer of certain derivative transactions and credit facilities and related assets of Zurich Capital Markets to BNP Paribas. A portion of these transfers was completed as of December 31, 2003, and the remaining portion is ongoing and expected to be completed in 2004.

Additionally, there were several post-completion adjustments recognized or accrued for divestments completed during or prior to the first six months of 2004. The net gain from these post-completion adjustments was USD 1 million.

In the first six months of 2004, the companies and businesses divested contributed USD 8 million to the Group's net income.

Changes in the first six months of 2003

On March 31, 2003, the Group completed the sale of Rüd, Blass & Cie AG, Bankgeschäft to Deutsche Bank (Suisse) SA. For this transaction, a significant portion of the sales proceeds could not be recognized at the time of sale, as it is contingent on the development of assets under management over a period of fifteen months subsequent to the closing. Finalization is expected in the second half of 2004.

In January 2003, the Group completed the sale of its insurance operations in the Czech Republic, recognizing a gain of USD 6 million before tax.

In addition, certain business operations were discontinued or disposed of to third parties in Taiwan, the United Kingdom, the United States and Estonia.

5. Investments

Investments include "Group investments" and "Investments for unit-linked products" (due to the implementation of SOP 03-01 as discussed in note 3). "Group investments" include investments where the Group bears all or part of the investment risk. The investment result of "Investments for unit-linked products" is included in the operating statements, despite the fact that policyholders bear the investment risk. This investment result, however, is offset by a substantially corresponding charge included in "Policyholder dividends and participation in profits". As a result, there is no material net impact on the Group's operating results. To distinguish between the different character of "Group investments" and "Investments for unit-linked products", separate investment disclosures are set forth below.

	Net investment income		Net capital gains/(losses) and impairments		Investment result	
	2004	2003	2004	2003	2004	2003
Group investments						
Debt securities	2,529	2,560	(9)	1,311	2,520	3,871
Equity securities	254	324	(4)	(1,273)	250	(949)
Investments in associates	85	6	(77)	(6)	8	–
<i>Other investments</i>						
Investments held by investment companies	7	–	167	(10)	174	(10)
Real estate held for investment	251	251	(2)	(9)	249	242
Mortgage loans, policyholders' collateral and other loans	500	390	143	86	643	476
Short-term investments	41	31	–	–	41	31
Other	25	84	29	(490)	54	(406)
Cash and cash equivalents	122	104	5	(7)	127	97
Investment result, gross, for Group investments	3,814	3,750	252	(398)	4,066	3,352
Investment expenses for Group investments	(207)	(142)	–	–	(207)	(142)
Investment result, net, for Group investments	3,607	3,608	252	(398)	3,859	3,210
Investments for unit-linked products						
Investment result, net, for investments for unit-linked products	835	669	839	1,576	1,674	2,245
Total investments						
Investment result, net, for total investments	4,442	4,277	1,091	1,178	5,533	5,455

The details of the investment balances as of June 30, 2004 and December 31, 2003 are given in the tables below.

	Group investments				Investments for unit-linked products		Total investments	
	06/30/04	12/31/03	06/30/04	12/31/03	06/30/04	12/31/03	06/30/04	12/31/03
	USD millions	% of total	USD millions	% of total	USD millions	USD millions	USD millions	USD millions
<i>Debt securities:</i>								
Available-for-sale	101,141	58.2%	100,025	56.8%	56	61	101,197	100,086
Held-to-maturity	5,409	3.1%	3,886	2.2%	–	–	5,409	3,886
Trading	9,407	5.4%	9,091	5.2%	5,355	5,969	14,762	15,060
Total debt securities	115,957	66.7%	113,002	64.2%	5,411	6,030	121,368	119,032
<i>Equity securities (including trading equity portfolios in capital markets and banking activities):</i>								
Available-for-sale	11,444	6.6%	13,525	7.7%	–	–	11,444	13,525
Trading	4,559	2.6%	5,966	3.4%	39,287	37,134	43,846	43,100
<i>of which: Trading equity portfolios in capital markets and banking activities</i>	2,840	1.6%	4,303	2.4%	–	–	2,840	4,303
Total equity securities	16,003	9.2%	19,491	11.1%	39,287	37,134	55,290	56,625
Investments in associates	720	0.4%	991	0.6%	–	–	720	991
<i>Other investments:</i>								
Investments held by investment companies	1,793	1.1%	1,576	0.9%	–	–	1,793	1,576
Real estate held for investment	7,012	4.0%	7,462	4.2%	4,181	3,639	11,193	11,101
Mortgage loans	9,621	5.5%	11,283	6.4%	–	–	9,621	11,283
Policyholders' collateral and other loans	9,812	5.7%	7,479	4.3%	17	–	9,829	7,479
Short-term investments	1,442	0.8%	998	0.6%	711	836	2,153	1,834
Other	137	0.1%	149	0.1%	–	–	137	149
Total other investments	29,817	17.2%	28,947	16.5%	4,909	4,475	34,726	33,422
Cash and cash equivalents	11,353	6.5%	13,536	7.6%	2,772	2,141	14,125	15,677
Total	173,850	100.0%	175,967	100%	52,379	49,780	226,229	225,747

Short-term investments include investments that have an original maturity of less than one year.

Table 5.3
Realized capital gains / (losses) and impairments
on available-for-sale debt and equity securities

in USD millions, for the six months ended June 30	Debt securities		Equity securities		Total	
	2004	2003	2004	2003	2004	2003
<i>Group investments:</i>						
Gross realized capital gains – available-for-sale	334	1,317	383	593	717	1,910
Gross realized capital losses – available-for-sale	(93)	(109)	(425)	(1,304)	(518)	(1,413)
Impairments – available-for-sale	(12)	(30)	(38)	(943)	(50)	(973)
Total for Group investments – available-for-sale	229	1,178	(80)	(1,654)	149	(476)

Table 5.4
Unrealized gains / (losses) on
investments included in shareholders' equity

in USD millions, as of	06/30/04	12/31/03
Debt securities – available-for-sale	1,314	2,843
Equity securities – available-for-sale	(437)	(708)
Other	(54)	(157)
<i>Less amount of net unrealized (gains)/losses on investments attributable to:</i>		
Life policyholder dividends and other policyholder liabilities	(837)	(638)
Life deferred acquisition costs	(36)	(119)
Deferred income taxes	(72)	(353)
Minority interests	(9)	(6)
Total	(131)	862

6. Investments held on account and at risk of life insurance policyholders and insurance reserves for life insurance where the investment risk is carried by policyholders

Table 6
Investments held on account and at risk of life insurance policyholders and
insurance reserves for life insurance where the investment risk is carried by policyholders

in USD millions, as of	06/30/04	12/31/03
Debt securities	718	235
Equity securities	20,632	21,175
Collateral and other loans	4	6
Short-term investments	28	–
Other investments	824	453
Cash and cash equivalents	92	111
Total investments held on account and at risk of life insurance policyholders	22,298	21,980
Total insurance reserves for life insurance where the investment risk is carried by policyholders	22,378	22,063

In certain countries "Insurance reserves for life insurance where the investment risk is carried by policyholders" include amounts due to policyholders as well as deferred front-end fees and, thus, the reserves are carried at a higher amount than the total "Investments held on account and at risk of life insurance policyholders".

The implementation of SOP 03-01, as discussed in note 3, resulted in a reclassification of the assets and reserves for products sold in certain countries, predominantly the UK, to their respective investment categories and insurance reserves, respectively, as they do not meet the criteria for classification as "separate accounts". The effects are disclosed in note 3. The remaining balances represent products that consist primarily of variable life insurance and annuity products for which the policyholder directly bears the investment risk of the related assets.

7. Insurance benefits, losses and expenses

Table 7.1

Breakdown of insurance benefits, losses and expenses

in USD millions, for the six months ended June 30

	Gross		Ceded		Net	
	2004	2003	2004	2003	2004	2003
Losses and loss adjustment expenses	12,882	12,163	(2,007)	(1,915)	10,875	10,248
Life insurance death and other benefits	7,480	5,031	(130)	(283)	7,350	4,748
(Decrease)/increase in future life policyholders' benefits	(1,815)	1,694	(135)	(69)	(1,950)	1,625
Total insurance benefits and losses	18,547	18,888	(2,272)	(2,267)	16,275	16,621
<i>of which:</i>						
Losses and loss adjustment expenses paid	10,425	8,797	(1,974)	(797)	8,451	8,000

Table 7.2

Breakdown of policyholder dividends and participation in profits

in USD millions, for the six months ended June 30

	Gross		Ceded		Net	
	2004	2003	2004	2003	2004	2003
Policyholder dividends and participation in profits	1,976	1,996	1	(22)	1,977	1,974

Table 7.3

Breakdown of underwriting and policy acquisition costs

in USD millions, for the six months ended June 30

	Gross		Ceded		Net	
	2004	2003	2004	2003	2004	2003
Underwriting and policy acquisition costs	4,416	3,876	(636)	(713)	3,780	3,163

SOP03-01, as discussed in note 3, clarifies the distinction between universal life insurance and investment products, resulting in certain products in the UK life business now being treated as insurance. The classification as insurance consequently resulted in the retrospective accrual of additional reserves. In addition, the Group recognized additional liabilities for contract features such as guaranteed minimum death benefits ("GMDB") and guaranteed retirement income benefits ("GRIB") included in universal-life type contracts, as well as guaranteed annuitization options ("GAO"). The determination of the GMDB, GRIB and GAO liabilities is based on models that involve a range of scenarios and assumptions, including those regarding expected market rates of return and volatility, contract surrender rates, annuitization elections and mortality experience. The assumptions used are consistent with those used in determining estimated gross profits for purposes of amortizing deferred policy acquisition costs.

8. Insurance reserves

Table 8.1

Insurance reserves

in USD millions, as of

	06/30/04	12/31/03
Gross		
Reserves for losses and loss adjustment expenses	52,457	51,068
Reserves for unearned premiums	15,891	13,944
Future life policyholders' benefits	81,154	85,211
Policyholders' contract deposits and other funds	21,618	22,007
Reserves for unit-linked products	53,675	51,188
Total insurance reserves, gross	224,795	223,418
Ceded		
Reserves for losses and loss adjustment expenses	(13,934)	(14,055)
Reserves for unearned premiums	(2,401)	(2,157)
Future life policyholders' benefits	(894)	(875)
Policyholders' contract deposits and other funds	(3,724)	(3,799)
Total ceded reserves (reinsurers' share of insurance reserves)	(20,953)	(20,886)
Net		
Reserves for losses and loss adjustment expenses	38,523	37,013
Reserves for unearned premiums	13,490	11,787
Future life policyholders' benefits	80,260	84,336
Policyholders' contract deposits and other funds	17,894	18,208
Reserves for unit-linked products	53,675	51,188
Total insurance reserves, net	203,842	202,532

Reserves for unit-linked products relate to the implementation of SOP 03-01 as discussed in note 3.

Table 8.2

Development of reserves for losses and loss adjustment expenses

in USD millions

	2004	2003
As of January 1 (opening balance)		
Gross reserves for losses and loss adjustment expenses	51,068	45,306
Reinsurance recoverable	(14,055)	(14,940)
Net reserves for losses and loss adjustment expenses	37,013	30,366
Net losses and loss adjustment expenses incurred		
Current period	10,219	9,835
Prior years	656	413
Total	10,875	10,248
Net losses and loss adjustment expenses paid		
Current period	(2,555)	(2,465)
Prior years	(5,896)	(5,535)
Total	(8,451)	(8,000)
Divestments of companies and businesses	(394)	(105)
Foreign currency translation effects	(520)	898
As of June 30 (closing balance)		
Net reserves for losses and loss adjustment expenses	38,523	33,407
Reinsurance recoverable	13,934	14,980
Gross reserves for losses and loss adjustment expenses	52,457	48,387

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

Significant delays occur in the notification of claims and a substantial measure of experience and judgment is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as at 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.

Deferred charges relating to retrospective reinsurance assumed totaling USD 178 million and USD 251 million as of June 30, 2004 and 2003, respectively, have been deducted from reserves for losses and loss adjustment expenses.

Table 8.3

Future life policyholders' benefits and policyholders' contract deposits and other funds (gross of reinsurance)

in USD millions, as of

	06/30/04	12/31/03
Future life policyholders' benefits		
Long-duration contracts	81,052	85,119
Short-duration contracts	102	92
Total	81,154	85,211
Policyholders' contract deposits and other funds		
Annuities	1,797	1,953
Universal life and other investment contracts	12,197	12,461
Policyholder dividends	7,624	7,593
Total	21,618	22,007

The Group, through its subsidiary Kemper Investors Life Insurance Company, has written variable annuity contracts that provide annuitants with certain guarantees related to minimum death and income benefits. The maximum additional potential liability after reinsurance recovers that the Group would have under these policies at the balance sheet date as of June 30, 2004 would be USD 545 million (December 31, 2003 – USD 463 million). The Group believes the crystallization of such liability is not likely.

The "legal quote" legislation came into force on April 1, 2004, with retroactive effect from January 1, 2004. It relates to the regulated pension business in Switzerland and provides for mandatory participation in profits by policyholders. A minimum dividend rate of 90% of the calculated surplus must be allocated to policyholders as the surplus arises, where previously such allocations occurred when bonuses were declared. The Group accounted for this change by transferring net unrealized gains on investments included in shareholders' equity amounting to USD 226 million to insurance reserves as "Policyholders' contract deposits and other funds". The current accounting treatment reflects management's best estimate and assumptions. However, as this legislation is recent and lacking detailed guidance, and as there are certain matters requiring clarification by the Swiss regulator (Swiss Federal Office of Private Insurance – FOPI), estimates and assumptions may change, and, as a consequence, the accounting treatment may be adjusted. Depending on the final guidance, the resulting impacts on the Group's financial position could be material.

9. Income taxes

Table 9.1

Income tax expense

in USD millions, for the six months ended June 30

	2004	2003
Current	530	443
Deferred	209	280
Total income tax expense	739	723

The Group, as a proxy for life insurance policyholders in the UK, is required to record taxes on investment income and gains each year. Accordingly, the tax benefit or expense attributable to UK life insurance policyholder earnings is included in income tax expense. The tax expense attributable to UK policyholder earnings was USD 4 million and USD 75 million for the six months ended June 30, 2004 and 2003, respectively. In addition, deferred income tax on unrealized investment gains on unit-linked contracts is included as income tax expense and an accrual for future policy fees that will cover the tax charge is included in gross written premiums and policy fees revenue. Income tax is shown before reduction for the element attributable to policyholders.

Table 9.2

Expected and actual income tax expense

in USD millions, for the six months ended June 30

	2004	2003
Expected income tax expense	728	507
<i>Increase/(reduction) in taxes resulting from:</i>		
Non-taxable income	(138)	(52)
Non-deductible expenses	41	37
Withholding, state and local taxes	12	20
Non-utilizable tax losses	58	125
Additional tax expense attributable to life insurance policyholder earnings	(7)	42
Other	45	44
Actual income tax expense	739	723

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

The expected weighted average tax rate for the Group was 32.5% and 33.5% in the first six months in 2004 and 2003, respectively. These rates were derived by obtaining a weighted average of the applicable statutory income tax rate in relation to the operating income/(loss) generated in the main taxable territories in which the Group operates.

Table 9.3

Deferred income taxes

in USD millions, as of	06/30/04	12/31/03
Deferred tax assets		
Deferred tax assets, gross	3,895	4,070
Valuation allowance on deferred tax assets	(265)	(351)
Deferred tax assets, net	3,630	3,719
Deferred tax liabilities	(5,238)	(5,450)
Net deferred tax liabilities	(1,608)	(1,731)

The current income tax payable (net of income tax receivable) as of June 30, 2004 and December 31, 2003 was USD 775 million and USD 614 million, respectively.

As of June 30, 2004, and December 31, 2003, respectively, the Group had income tax loss carryforwards of USD 2,978 million and USD 3,251 million available (subject to various statutory restrictions) for use against future taxable income. The majority of the income tax loss carryforwards expire after five years. Deferred tax assets for loss carryforwards of USD 2,020 million and USD 2,218 million have been recognized as of June 30, 2004, and December 31, 2003, respectively.

10. Deferred policy acquisition costs

Table 10

Deferred policy acquisition costs

in USD millions	General Insurance 2004	Life Insurance 2004	Other segments ¹ 2004	Total 2004
As of January 1 (opening balance)	2,085	9,601	98	11,784
Acquisition costs deferred and transfers	1,218	643	(12)	1,849
Amortization charged to income	(1,003)	(649)	(11)	(1,663)
Amortization charged to shareholders' equity	–	50	1	51
Divestments	(10)	(28)	–	(38)
Increase/(decrease) due to currency translation	(21)	14	(1)	(8)
As of June 30 (closing balance)	2,269	9,631	75	11,975

¹ Including eliminations of intersegment transactions

11. Debt

Table 11.1

Debt

in USD millions, as of		06/30/04	12/31/03
a) Debt related to capital markets and banking activities			
Zurich Capital Markets	Commercial paper, due in the following year	–	2,113
	Notes and loans payable, due within 2004	3,523	2,855
	Notes and loans payable, due 2005–2013	391	546
	Notes and loans payable, due after 2014	155	150
Dunbar Bank	Short-term borrowings	28	136
Centre Solutions (Bermuda) Ltd.	Various debt instruments	124	161
Debt related to capital markets and banking activities		4,221	5,961
b) Senior debt			
Zurich Finance (USA), Inc.	3.5% CHF bond, due July 2008	239	242
	2.75% CHF bond, due July 2006	398	403
Zurich International (Bermuda) Ltd.	Zero coupon CHF exchangeable bond, due July 2004	429	427
Kemper Corporation	Various debt instruments, due in 2009	27	27
Zurich Insurance Company	3.875% CHF bond, due July 2011	800	807
	Various borrowings and notes	152	94
Zurich Financial Services (UKISA)	Short-term bank borrowings	–	54
Other	Various debt instruments	277	306
Senior debt		2,322	2,360
c) Subordinated debt			
Zurich Capital Trust I	8.376% USD Capital Securities, due June 2037	1,000	1,000
Zurich Finance (UK) p.l.c	6.625% GBP bond, undated notes	804	795
Zurich Finance (USA), Inc.	5.75% EUR bond, due October 2023	600	620
Subordinated debt		2,404	2,415
Total senior and subordinated debt		4,726	4,775
Total debt		8,947	10,736

Table 11.2**Maturity schedule of outstanding debt**

in USD millions

06/30/04

2004 (six months)	4,014
2005	162
2006	620
2007	257
2008	271
after 2008	3,623
Total	8,947

Table 11.3**Interest expense on debt**

in USD millions, for the six months ended June 30

2004

2003

Debt related to capital markets and banking activities	37	87
Senior debt	45	73
Subordinated debt	84	63
Total	166	223

On April 21, 2004, a new USD 3 billion syndicated revolving credit facility was signed to replace the USD 1.5 billion facility, which would have matured on May 28, 2004. The new syndicated credit facility consists of two equal tranches maturing in 2007 and 2009. Zurich Group Holding, together with Zurich Insurance Company and Farmers Group, Inc. are guarantors of the new facility, which allows for drawings of up to USD 1.25 billion, USD 1.5 billion and USD 250 million, respectively for themselves and a number of defined subsidiary borrowers. No borrowings were outstanding as of June 30, 2004 under the new facility. Farmers Group, Inc. cancelled their existing USD 250 million credit facility, which would otherwise have expired in September 2004 after the above facility was in place.

Zurich Capital Markets' USD 1.27 billion syndicated revolving credit facility (multi-currency credit agreement), which was in place as of December 31, 2003 as a backstop for the commercial paper program, was terminated as per March 12, 2004. No commercial papers were outstanding as of June 30, 2004.

12. Commitments and contingencies

The Group and its subsidiaries are continuously involved in legal proceedings, claims and litigation arising, for the most part, in the ordinary course of business as an insurer. Based on management's current understanding of facts and circumstances, the expected outcome of these matters would not have a material impact on the Group's consolidated financial position. However, the ultimate outcome of such current legal proceedings, claims and litigation could differ from current expectations, and, consequently, could potentially have a material effect on operating results or cash flows in a future period.

13. Segment information

Table 13.1
Operating statements by business segment

in USD millions, for the six months ended June 30

	General Insurance		Life Insurance	
	2004	2003	2004	2003
Revenues				
Direct written premiums and policy fees	17,953	16,607	5,644	6,299
Assumed written premiums	2,604	2,701	32	37
Gross written premiums and policy fees	20,557	19,308	5,676	6,336
Less premiums ceded to reinsurers	(4,012)	(4,288)	(421)	(404)
Net written premiums and policy fees	16,545	15,020	5,255	5,932
Net change in reserves for unearned premiums	(1,908)	(1,903)	(1)	8
Net earned premiums and policy fees	14,637	13,117	5,254	5,940
Management fees	–	–	7	88
Net investment income	1,128	962	3,042	3,002
Net capital gains/(losses) on investments and impairments	92	187	850	932
Net (loss)/gain on divestments of businesses	(46)	(26)	36	–
Other income	232	249	414	375
Total revenues	16,043	14,489	9,603	10,337
Intersegment transactions	(195)	147	(180)	(37)
Benefits, losses and expenses				
Losses and loss adjustment expenses	10,503	9,656	44	28
Life insurance death and other benefits	45	71	6,942	4,370
(Decrease)/increase in future life policyholders' benefits	6	5	(1,909)	1,583
Insurance benefits and losses	10,554	9,732	5,077	5,981
Policyholder dividends and participation in profits	3	5	1,850	1,784
Underwriting and policy acquisition costs	2,552	2,219	1,040	764
Administrative and other operating expenses	1,349	1,219	608	669
Amortization of intangible assets	55	47	99	77
Interest expense on debt	92	90	18	24
Interest credited to policyholders and other interest	78	57	365	473
Total benefits, losses and expenses	14,683	13,369	9,057	9,772
Net income / (loss) before income taxes and minority interests	1,360	1,120	546	565
Net income / (loss)	981	782	393	382
Supplementary segment information				
Losses and loss adjustment expenses paid, net	7,774	7,335	49	42
<i>Significant non-cash expenses:</i>				
Depreciation and impairments of fixed assets	31	61	33	49
Amortization and impairments of intangible assets	55	47	99	77

Farmers Management Services		Other Businesses		Corporate Center		Eliminations		Total	
2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
-	-	95	71	-	3	8	4	23,700	22,984
-	-	638	751	445	355	(1,007)	(857)	2,712	2,987
-	-	733	822	445	358	(999)	(853)	26,412	25,971
-	-	(88)	(71)	(438)	(347)	999	853	(3,960)	(4,257)
-	-	645	751	7	11	-	-	22,452	21,714
-	-	99	(19)	5	1	-	-	(1,805)	(1,913)
-	-	744	732	12	12	-	-	20,647	19,801
980	935	14	16	4	3	(3)	(5)	1,002	1,037
39	43	395	498	298	165	(460)	(393)	4,442	4,277
1	(2)	58	274	90	(213)	-	-	1,091	1,178
-	-	(2)	27	(2)	-	-	-	(14)	1
12	-	120	124	199	147	(225)	(116)	752	779
1,032	976	1,329	1,671	601	114	(688)	(514)	27,920	27,073
(4)	7	(282)	(358)	(27)	(273)	688	514	-	-
-	-	405	454	2	150	(79)	(40)	10,875	10,248
-	-	288	263	9	18	66	26	7,350	4,748
-	-	(4)	106	(44)	(72)	1	3	(1,950)	1,625
-	-	689	823	(33)	96	(12)	(11)	16,275	16,621
-	-	124	300	-	(115)	-	-	1,977	1,974
-	-	184	180	4	-	-	-	3,780	3,163
436	401	248	320	370	211	(207)	(97)	2,804	2,723
46	44	3	5	4	43	-	-	207	216
-	21	63	97	378	337	(385)	(346)	166	223
-	-	83	157	28	15	(84)	(60)	470	642
482	466	1,394	1,882	751	587	(688)	(514)	25,679	25,562
550	510	(65)	(211)	(150)	(473)	-	-	2,241	1,511
344	313	(89)	(237)	(181)	(488)	-	-	1,448	752
-	-	690	559	16	101	(78)	(37)	8,451	8,000
20	22	6	14	13	15	-	-	103	161
46	44	3	5	4	43	-	-	207	216

Table 13.2
Balance sheets (summarized) by business segment

in USD millions, as of

	General Insurance		Life Insurance	
	06/30/04	12/31/03	06/30/04	12/31/03
Total investments	59,681	56,778	153,996	154,443
Investments held on account and at risk of life insurance policyholders	–	6	22,298	21,974
Reinsurance assets	17,006	17,128	5,246	4,947
Deposits made under assumed reinsurance contracts	1,576	1,683	17	9
Deferred policy acquisition costs	2,269	2,085	9,631	9,601
Goodwill	153	184	494	524
Other related intangible assets ¹	–	–	973	1,025
Other segment assets	12,920	12,570	11,053	12,278
Total segment assets after consolidation of investments in subsidiaries	93,605	90,434	203,708	204,801
Reserves for losses and loss adjustment expenses, gross	47,178	45,337	216	157
Reserves for unearned premiums, gross	15,646	13,470	127	131
Future life policyholders' benefits, gross	163	157	79,057	82,740
Policyholders' contract deposits and other funds, gross	932	1,058	17,760	18,128
Reserves for unit-linked products, gross	–	–	53,675	51,188
Insurance reserves, gross	63,919	60,022	150,835	152,344
Insurance reserves for life insurance where the investment risk is carried by policyholders	–	–	22,378	22,063
Debt related to capital markets and banking activities	–	–	–	–
Senior debt	7,929	7,717	753	1,488
Subordinated debt	–	–	–	–
Other segment liabilities	12,635	13,048	18,021	18,594
Total segment liabilities	84,483	80,787	191,987	194,489
Minority interests	193	188	150	149
Segment equity	8,929	9,459	11,571	10,163
Supplementary segment information				
Reserves for losses and loss adjustment expenses, net	33,723	31,986	122	82
Reserves for unearned premiums, net	13,030	11,215	124	129
Future life policyholders' benefits, net	162	159	77,942	81,988
Policyholders' contract deposits and other funds, net	917	1,043	14,050	14,345
Reserves for unit-linked products, net	–	–	53,675	51,188
Insurance reserves, net	47,832	44,403	145,913	147,732

¹ Other related intangible assets consists of present value of profits of acquired insurance contracts and attorney-in-fact relationship.

Farmers Management Services		Other Businesses		Corporate Center		Eliminations		Total	
06/30/04	12/31/03	06/30/04	12/31/03	06/30/04	12/31/03	06/30/04	12/31/03	06/30/04	12/31/03
1,980	2,219	19,238	20,761	14,865	14,644	(23,531)	(23,098)	226,229	225,747
-	-	-	-	-	-	-	-	22,298	21,980
432	429	3,120	3,423	541	385	(4,276)	(3,642)	22,069	22,670
-	-	1,791	1,931	55	51	(65)	(66)	3,374	3,608
-	-	78	100	-	1	(3)	(3)	11,975	11,784
-	-	62	64	7	7	-	-	716	779
1,046	1,067	-	-	-	-	-	-	2,019	2,092
701	767	3,506	4,432	1,579	2,196	(2,095)	(3,261)	27,664	28,982
4,159	4,482	27,795	30,711	17,047	17,284	(29,970)	(30,070)	316,344	317,642
-	-	7,184	7,741	654	715	(2,775)	(2,882)	52,457	51,068
-	-	365	481	229	115	(476)	(253)	15,891	13,944
-	-	2,079	2,065	576	674	(721)	(425)	81,154	85,211
-	-	3,241	3,194	-	-	(315)	(373)	21,618	22,007
-	-	-	-	-	-	-	-	53,675	51,188
-	-	12,869	13,481	1,459	1,504	(4,287)	(3,933)	224,795	223,418
-	-	-	-	-	-	-	-	22,378	22,063
-	-	5,511	6,321	-	-	(1,290)	(360)	4,221	5,961
-	-	151	191	14,571	14,288	(21,082)	(21,324)	2,322	2,360
-	429	-	-	3,508	3,398	(1,104)	(1,412)	2,404	2,415
1,269	1,379	8,559	9,836	2,134	1,706	(2,207)	(3,041)	40,411	41,522
1,269	1,808	27,090	29,829	21,672	20,896	(29,970)	(30,070)	296,531	297,739
-	-	14	219	409	413	-	-	766	969
2,890	2,674	691	663	(5,034)	(4,025)	-	-	19,047	18,934
-	-	4,476	4,731	207	219	(5)	(5)	38,523	37,013
-	-	290	390	3	9	43	44	13,490	11,787
(195)	(194)	1,804	1,801	539	577	8	5	80,260	84,336
(237)	(235)	3,222	3,175	-	-	(58)	(120)	17,894	18,208
-	-	-	-	-	-	-	-	53,675	51,188
(432)	(429)	9,792	10,097	749	805	(12)	(76)	203,842	202,532

Table 13.3 Premiums, revenues and assets by geographical segment in USD millions	Gross written premiums and policy fees		Revenues		Assets as of	
	for the six months ended		for the six months ended		06/30/04	12/31/03
	06/30/04	06/30/03	06/30/04	06/30/03		
North America Corporate	8,042	7,838	5,524	4,870	39,029	36,549
North America Consumer	1,951	2,202	2,990	3,353	14,773	14,671
Continental Europe	10,379	10,429	10,361	9,734	107,734	113,070
UKISA	4,511	4,216	6,338	6,403	104,919	100,059
Rest of the World	1,482	1,403	1,180	1,061	10,244	10,429
Centrally Managed Businesses	1,449	1,691	1,942	1,921	58,217	61,573
Eliminations	(1,402)	(1,808)	(415)	(269)	(18,572)	(18,709)
Total	26,412	25,971	27,920	27,073	316,344	317,642

Review report by the Group auditors

To the Board of Directors of Zurich Financial Services, Zurich

We have reviewed the half year consolidated financial information (operating statement, balance sheet, statement of cash flows, statement of shareholders' equity and notes on pages 31 to 50) of Zurich Financial Services for the six months ended June 30, 2004.

The financial information is the responsibility of the Board of Directors. Our responsibility is to issue a report on the half year consolidated financial information based on our review.

Our review was conducted in accordance with auditing standards promulgated by the Swiss profession and with the International Standards on Auditing, which require that a review be planned and performed to obtain moderate assurance about whether the half year consolidated financial information is free from material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

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

PricewaterhouseCoopers AG

R Marshall W Eriksen-Grundbacher

Zurich, August 18, 2004

Statistical data per region – General Insurance (unaudited)

in USD millions
for the six months ended June 30

	North America Corporate		North America Consumer	
	2004	2003	2004	2003
Gross written premiums and policy fees	8,042	7,838	1,677	1,583
Net earned premiums and policy fees	5,095	4,285	1,526	1,601
Insurance benefits and losses	3,957	3,208	895	1,036
Policyholder dividends and participation in profits	2	4	–	–
Total net technical expenses	1,028	911	584	540
Net underwriting result	108	162	47	25
Net investment income	342	288	46	34
Net capital gains/(losses) on investments and impairments	38	181	1	(4)
Net non-technical result	(46)	18	(1)	(1)
Net income/(loss) before income taxes and minority interests	442	649	93	54
Net income/(loss)	377	492	81	46
Ratios, as % of net earned premiums and policy fees				
Loss ratio	77.7%	74.9%	58.7%	64.8%
Expense ratio ¹	20.2%	21.4%	38.3%	33.7%
Combined ratio	97.9%	96.3%	97.0%	98.5%

¹ Including policyholder dividends and participation in profits.

Continental Europe		UKISA		Rest of the World		Centrally Managed Businesses		Eliminations		Total	
2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
6,500	6,044	3,465	3,279	1,164	1,012	239	517	(530)	(965)	20,557	19,308
4,451	4,057	2,751	2,345	719	560	95	269	–	–	14,637	13,117
3,219	3,025	2,010	1,771	415	321	58	369	–	2	10,554	9,732
–	(3)	–	–	1	4	–	–	–	–	3	5
1,053	994	626	511	262	206	44	62	(4)	(2)	3,593	3,222
179	41	115	63	41	29	(7)	(162)	4	–	487	158
332	335	278	185	40	37	110	84	(20)	(1)	1,128	962
49	33	(5)	(3)	9	7	–	(27)	–	–	92	187
(182)	(128)	(68)	(54)	9	3	(75)	(26)	16	1	(347)	(187)
378	281	320	191	99	76	28	(131)	–	–	1,360	1,120
239	179	187	126	65	56	32	(117)	–	–	981	782
72.3%	74.6%	73.0%	75.5%	57.7%	57.3%	61.0%	137.4%	n/a	n/a	72.1%	74.2%
23.7%	24.4%	22.8%	21.8%	36.5%	37.6%	46.3%	23.2%	n/a	n/a	24.6%	24.6%
96.0%	99.0%	95.8%	97.3%	94.2%	94.9%	107.3%	160.6%	n/a	n/a	96.7%	98.8%

Statistical data per region – Life Insurance (unaudited)

in USD millions
for the six months ended June 30

	North America Consumer		Continental Europe	
	2004	2003	2004	2003
Gross written premiums, policy fees and insurance deposits	557	1,526	4,506	5,113
Gross written premiums and policy fees	274	619	3,879	4,385
Net earned premiums and policy fees	212	349	3,802	4,334
Management fees	–	–	1	1
Net investment income	182	349	1,412	1,429
Net capital gains/(losses) on investments and impairments	(8)	2	65	(706)
Other income (incl. net gain on divestments of businesses)	1	46	220	218
Total revenues	387	746	5,500	5,276
Insurance benefits and losses	106	171	4,206	4,864
Policyholder dividends and participation in profits	1	4	179	(434)
Underwriting and policy acquisition costs	40	47	457	274
Administrative and other operating expenses	32	102	193	185
Amortization of intangible assets	9	30	36	34
Interest expense on debt and other interest	87	216	227	219
Total benefits, losses and expenses	275	570	5,298	5,142
Net income / (loss) before income taxes and minority interests	112	176	202	134
Net income / (loss)	72	127	160	132

UKISA		Rest of the World		Centrally Managed Businesses		Eliminations		Total	
2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
3,821	2,978	674	701	512	–	(7)	(8)	10,063	10,310
1,046	948	318	391	166	–	(7)	(7)	5,676	6,336
922	899	286	358	32	–	–	–	5,254	5,940
–	82	6	5	–	–	–	–	7	88
1,364	1,166	64	58	20	–	–	–	3,042	3,002
780	1,622	17	14	(4)	–	–	–	850	932
168	85	53	28	8	–	–	(2)	450	375
3,234	3,854	426	463	56	–	–	(2)	9,603	10,337
532	682	209	264	24	–	–	–	5,077	5,981
1,654	2,197	15	17	1	–	–	–	1,850	1,784
449	360	74	83	20	–	–	–	1,040	764
269	300	91	84	23	–	–	(2)	608	669
51	10	3	3	–	–	–	–	99	77
62	60	1	2	6	–	–	–	383	497
3,017	3,609	393	453	74	–	–	(2)	9,057	9,772
217	245	33	10	(18)	–	–	–	546	565
153	117	24	6	(16)	–	–	–	393	382

Embedded value results – Life Insurance (unaudited)

in USD millions
for the six months ended June 30

	North America Consumer	
	2004	2003
Gross new business premiums including deposits	125	509
<i>of which:</i>		
Annual premiums	47	88
Single premiums	78	421
Gross new business annual premiums equivalent (APE)	55	130
<i>Embedded value information:</i>		
Opening embedded value	2,555	3,160
Operating profit expected from in-force business and net assets, after tax	88	127
New business profit, after tax	31	36
Operating variance, after tax	1	21
Total operating profit, after tax	120	184
Economic variance	(31)	37
Embedded value profit, after tax	89	221
Dividends and capital movements	(361)	(16)
Closing embedded value before foreign currency translation effects	2,283	3,365
Foreign currency translation effects	–	–
Closing embedded value after foreign currency translation effects	2,283	3,365
<i>of which:</i>		
Shareholders' net assets	1,014	1,563
Value of business in-force	1,269	1,802
After-tax operating return before foreign currency translation effects	5.5%	5.8%
After-tax return on opening embedded value before foreign currency translation effects	4.1%	7.0%
New business profit margin (in % of APE)	56.9%	27.5%
<i>Embedded value economic assumptions:</i>		
Discount rate	8.5%	7.5%
<i>Investment returns before tax:</i>		
Fixed interest	5.5%	4.4%
Equities	8.5%	7.5%
Property	–	–
Expense inflation	2.8%	1.0%
Attributed tax rate	35.0%	35.4%

Embedded value notes: The above information should be read in conjunction with additional notes on page 58.

External Review: Deloitte & Touche LLP ("Deloitte"), our consulting actuaries, have considered any changes in methodology and assumptions applied by Zurich Financial Services Group ("the Group") and considered the Group's analysis of the changes in embedded value since December 31, 2003 for the main life companies of the Group in the US, UK, Switzerland and Germany. Deloitte have reported to the Group that, based on this limited review, they consider that the methodology remains appropriate, that the Group's assumptions are together reasonable and that the embedded value results for these main life companies as of June 30, 2004 have been compiled in a manner consistent with the results previously reported as of December 31, 2003. For the purpose of this report, Deloitte have performed certain consistency checks on the data provided by the Group but have not verified, and have relied on the underlying data.

Continental Europe		UKISA		Rest of the World		Total	
2004	2003	2004	2003	2004	2003	2004	2003
1,125	1,283	2,962	1,781	577	547	4,789	4,120
319	299	248	226	44	142	658	755
806	984	2,714	1,555	533	405	4,131	3,365
400	397	519	382	97	183	1,071	1,092
2,510	1,944	4,608	4,309	739	675	10,412	10,088
84	79	225	163	36	38	433	407
38	22	36	28	(1)	4	104	90
17	86	(1)	(15)	(1)	(6)	16	86
139	187	260	176	34	36	553	583
(41)	76	(41)	(121)	(22)	(19)	(135)	(27)
98	263	219	55	12	17	418	556
(302)	(110)	1,047	(97)	3	(8)	387	(231)
2,306	2,097	5,874	4,267	754	684	11,217	10,413
(58)	168	91	136	(35)	59	(2)	363
2,248	2,265	5,965	4,403	719	743	11,215	10,776
1,073	964	3,447	1,873	472	482	6,006	4,882
1,175	1,301	2,518	2,530	247	261	5,209	5,894
6.6%	9.7%	4.6%	4.1%	4.6%	5.3%	5.2%	5.8%
4.7%	13.5%	3.9%	1.3%	1.6%	2.5%	3.9%	5.5%
9.5%	5.5%	7.0%	7.4%	(1.0%)	1.9%	9.7%	8.2%
7.8%	7.5%	8.3%	7.3%	9.7%	9.6%	8.3%	7.6%
4.2%	3.8%	5.2%	4.3%	4.6%	4.7%	4.6%	4.0%
7.8%	7.2%	7.6%	6.9%	8.6%	8.0%	7.7%	7.2%
4.8%	4.5%	7.3%	6.5%	6.8%	6.7%	5.1%	5.0%
1.6%	1.3%	3.1%	3.0%	2.6%	3.0%	2.5%	2.1%
34.8%	27.6%	29.0%	28.9%	26.7%	27.3%	31.2%	30.6%

Additional notes to the embedded value results

1. The after-tax operating return and after-tax return on opening embedded value have been calculated to reflect the incidence of capital movements in and out of the embedded value.
2. The 2003 year-end embedded value included the value of certain discontinued life operations which are now managed outside the Life Insurance segment. To make our embedded value consistent with this management view, the life embedded value results as of June 30, 2004 assume that these operations have been transferred out of the Life Insurance segment at their embedded value as of January 1, 2004 (USD 770 million). The regions affected by this change are North America Consumer and Continental Europe. This assumed transfer out is not reflected in our IFRS financial statements as of June 30, 2004, but is expected to be introduced for the 2004 year-end accounts. The value of these businesses included in the IFRS shareholders' equity as of June 30, 2004 is USD 670 million.
3. The Life Insurance segment includes some non-insurance subsidiary companies. Where appropriate, we have included the value of these companies in accordance with our embedded value methodology. For those companies for which no embedded value has been calculated, these have been included at their shareholders' equity value, as calculated in accordance with IFRS, which represents less than 2% of our total published embedded value.
As of June 30, 2003, however, the value of all of these companies was not included. Had their value been included as of June 30, 2003, the published embedded value would have increased to USD 11.3 billion.
4. To better reflect the performance of the UK life distribution channel, the UKISA 2004 new business profit after tax includes USD 9 million of profit relating to a product distributed by the UK life business but accounted for in a non-insurance subsidiary. To ensure consistency with the IFRS accounts, the profit on this product has not been included in the value of business in force.
5. The embedded value published assumes that at least the locally required minimum statutory capital is held to support the business. In some countries, a higher amount has been locked in where this is in line with management strategy or market practice.

Embedded value methodology

The embedded value represents the shareholders' interest, excluding any value from future new business, in the existing life insurance related activities. It is the total of the shareholders' interest in the net assets of the life insurance related activities and the present value of the projected releases to shareholders arising from the business in-force, less a charge for the cost of capital supporting the solvency requirements of the business. The discount rate used to value the in-force business in each country reflects long-term government bond rates at the valuation date plus a risk margin. The assumptions for mortality, persistency and expenses reflect recent and expected experience. All changes in assumptions not classified as "economic" are included in the "Operating variance" item. Gross new business annual premium equivalent (APE) is calculated as new annual premiums plus 10% of single premiums.

Embedded value profit is the change in the embedded value over the year, after adjustment for any dividends and capital movements. The profit is calculated on an after-tax basis.

Embedded value profit consists of the following components, the first two of which in aggregate are referred to as operating profit:

- new business profit, after tax, which represents the value added by new business written during the period, including allowance for the cost of holding solvency capital, and is valued at point of sale using the applicable discount rate;
- the operating profit from existing business, which is equal to:
 - the profit expected from the in-force business and net assets, after tax, including allowance for the cost of holding solvency capital,
 - the experience variances caused by the differences between the actual experience during the period and the expected experience assumed in the prior-year embedded value, and
 - the impact of changes in assumptions of future operating experience;
- the economic variance, which is equal to:
 - the investment variance caused by differences between the actual and the expected experience over the reporting period, and
 - the change in future economic assumptions, such as changes in discount rates and future investment rates. This also includes, where appropriate, changes in legislation.

The calculation of embedded values necessarily makes numerous assumptions with respect to economic conditions, operating conditions, taxes, and other matters, many of which are beyond the Group's control. Although the assumptions used represent estimates which the Group and Deloitte believe are together reasonable, actual future experience may vary from that assumed in the calculation of the embedded value results, and such variation may be material. Deviations from assumed experience are normal and are to be expected. The embedded value results have been prepared using generally accepted actuarial methods that use deterministic projections that do not allow for all of the cost of options and guarantees on a market consistent basis.

Zurich Financial Services registered share data

Share data	06/30/2004	12/31/2003
Number of shares issued with a nominal value of CHF 6.50 ¹ and CHF 9.00, respectively	144,006,955	144,006,955
Number of dividend-bearing shares with a nominal value of CHF 6.50 ¹ and CHF 9.00, respectively	144,006,955	144,006,955
Market capitalization (in CHF millions at end of period price)	28,477	25,633

Share price in CHF	06/30/2004	12/31/2003
End of period value	197.75	178.00
Period high	217.75	189.75
Period low	166.25	91.50

Per share data in CHF, for the six months ended	06/30/2004	06/30/2003
Basic earnings per share	12.78	7.15 ²
Diluted earnings per share	12.67	7.12 ²
Payout of nominal value reduction	2.50³	1.00 ⁴

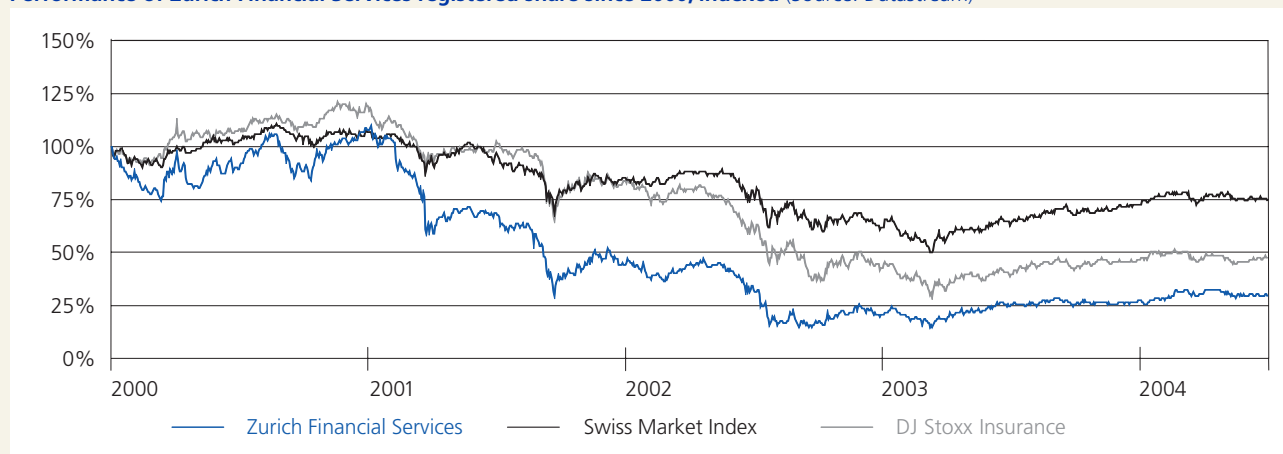
Additional data number of shares	06/30/2004	12/31/2003
Treasury stock ¹	465,750	761,312
Authorized stock, CHF 6.50 ¹ and CHF 9.00 par value, respectively	6,000,000	6,000,000
Contingent stock, CHF 6.50 ¹ and CHF 9.00 par value, respectively	6,981,828	6,981,828

¹ Nominal value reduction from CHF 9.00 to CHF 6.50 per registered share effective as of June 30, 2004. Shares with the nominal value of CHF 6.50 per registered share were traded for the first time on July 1, 2004.

² Restated as discussed in note 3 of the Half Year Consolidated Financial Statements.

³ Payout of nominal value reduction of CHF 2.50 per registered share was made on July 1, 2004.

⁴ Nominal value reduction of CHF 1.00 per registered share was effective on July 14, 2003.

Performance of Zurich Financial Services registered share since 2000, indexed (Source: Datastream)**Stock listings**

Place	Nature	Official Symbol	Reuters/Bloomberg	Exchange	Security identification codes
Zurich	primary listing	ZURN	ZURN.VX/ZURN VX	–	Swiss security number (Valorennummer): 1107539 ISIN: CH0011075394 SEDOL: 5983816 WKN: 579919
London	secondary listing	ZURN.L	ZURNq.L/ZURN LI	1:1	

US American Depositary Receipt (ADR) Program

Depository	Nature	Official Symbol	Reuters/Bloomberg	Exchange	Security identification code
Bank of New York	ADR	ZFSVY	ZFSVY.PK/ZFSVY US	10:1	CUSIP: 98982M107

Financial calendar and contacts

Financial Calendar	Quarterly Results Reporting 2004/Q3	November 17, 2004
	Annual Results Reporting 2004	February 17, 2005
	Annual General Meeting 2005	April 19, 2005
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	Swiss Custody Service	Zurich Financial Services Custody Accounts c/o S A G SIS Aktienregister AG P.O. Box 4601 Olten, Switzerland Telephone: +41 (0) 62 311 61 45 Fax: +41 (0) 62 205 39 71 Web site: www.sag.ch
	CDI Holder Inquiries within the Zurich Financial Services corporate nominee service	Lloyds TSB Registrars The Causeway, Worthing West Sussex, BN99 6DA, United Kingdom Nominee Service helpline: 0870 600 3970 Lloyds TSB share dealing helpline: 0870 242 4244 International: +44 121 415 7172 Hard of hearing (text phone, domestic): 0870 600 3915 Web site: www.shareview.co.uk
	General CDI Inquiries	CRESTCo Limited 33 Cannon Street London EC4M 5SB, United Kingdom CREST Service Desk: 0845 964 5648 International: +44 845 964 5648 or +44 20 7849 0199 Web site: www.crestco.co.uk
	American Depositary Receipts	Zurich Financial Services has an American Depositary Receipt program with The Bank of New York (BNY). For more information call BNY's ADR Services Center in the USA +1-888-bny-adrs or outside the USA on +1-610-382-7836. ADR holder assistance may also be obtained from BNY at www.adrbny.com.
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