Half Year Results Reporting 2005 – Consolidated Financial Statements
Consolidated operating statements (unaudited)

in USD millions, for the six months ended June 30

	Notes	2005	2004
Revenues			
Gross written premiums and policy fees		**25,954**	26,356
Less premiums ceded to reinsurers		**(3,535)**	(3,931)
Net written premiums and policy fees		**22,419**	22,425
Net change in reserves for unearned premiums		**(1,729)**	(1,813)
Net earned premiums and policy fees		**20,690**	20,612
Farmers management fees		**1,020**	980
Net investment income	4	**5,070**	4,403
Net capital gains on investments and impairments	4	**4,409**	1,655
Net loss on divestments of businesses	5	**(13)**	(14)
Other income		**679**	775
Total revenues		**31,855**	28,411
Benefits, losses and expenses			
Insurance benefits and losses, gross	6	**18,932**	18,563
Less ceded insurance benefits and losses	6	**(2,707)**	(2,269)
Insurance benefits and losses, net of reinsurance	6	**16,225**	16,294
Policyholder dividends and participation in profits, net of reinsurance	6	**5,234**	2,400
Underwriting and policy acquisition costs, net of reinsurance	6	**3,706**	3,709
Administrative expense		**1,820**	1,955
Other operating expense		**943**	923
Amortization and impairments of intangible assets		**125**	194
Interest expense on debt	10	**223**	166
Interest credited to policyholders and other interest		**536**	469
Total benefits, losses and expenses		**28,812**	26,110
Net income before income taxes		**3,043**	2,301
Income tax expense	7	**(1,188)**	(763)
Net income		**1,855**	1,538
Net income attributable to minority interests		**(56)**	(54)
Net income attributable to shareholders		**1,799**	1,484
of which: – attributable to common stockholders		**1,778**	1,468
– attributable to preferred securities holders		**21**	16
in USD			
Basic earnings per share		**12.37**	10.24
Diluted earnings per share		**12.29**	10.16
in CHF			
Basic earnings per share		**14.87**	12.95
Diluted earnings per share		**14.77**	12.84

The notes to the 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	**06/30/05**	12/31/04
Investments			
Cash and cash equivalents		**23,176**	22,457
Trading equity portfolios in capital markets and banking activities		**2,155**	2,773
Equity securities		**81,979**	83,315
Debt securities		**128,849**	131,370
Investments in associates		**677**	645
Other investments		**36,963**	41,595
Total investments	4	**273,799**	282,155
Reinsurers' share of reserves for insurance contracts	9	**21,387**	20,919
Deposits made under assumed reinsurance contracts		**2,667**	3,282
Deferred policy acquisition costs	8	**10,745**	11,281
Deferred origination costs		**691**	736
Accrued investment income		**2,335**	2,614
Receivables		**10,186**	13,121
Derivative trading assets and other assets		**2,323**	3,095
Mortgage loans given as collateral		**3,504**	4,135
Deferred tax assets	7	**4,179**	4,211
Assets held for sale	5	**3,943**	–
Fixed assets		**1,788**	2,116
Goodwill		**625**	744
Other intangible assets		**2,260**	2,477
Total assets		**340,432**	350,886

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

Liabilities and equity	Notes	06/30/05	12/31/04
Liabilities			
Reserve for premium refunds		**630**	820
Liabilities for investment contracts		**37,413**	40,046
Deferred profit on inception of reinsurance contracts		**123**	130
Deposits received under ceded reinsurance contracts		**3,370**	4,276
Deferred front-end fees		**4,663**	4,912
Reserves for insurance contracts	9	**219,807**	227,087
Obligation to repurchase securities		**5,761**	5,009
Accrued liabilities		**2,139**	2,605
Derivative trading liabilities and other liabilities		**21,848**	24,887
Collateralized loans		**3,504**	4,135
Deferred tax liabilities	7	**6,224**	5,718
Liabilities held for sale	5	**3,072**	–
Debt related to capital markets and banking activities	10	**3,164**	3,880
Senior and subordinated debt	10	**5,993**	5,871
Total liabilities		**317,711**	329,376
Equity			
Common stock		**186**	635
Treasury stock		**(1)**	(1)
Additional paid-in capital		**10,284**	10,288
Net unrealized gains on investments	4	**1,654**	1,075
Cumulative translation adjustment		**92**	755
Retained earnings		**8,623**	6,822
Common stockholders' equity		**20,838**	19,574
Preferred securities		**1,096**	1,096
Shareholders' equity		**21,934**	20,670
Minority interests		**787**	840
Total equity		**22,721**	21,510
Total liabilities and equity		**340,432**	350,886

The notes to the 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

	2005	2004
Cash flows from operating activities		
Net income attributable to shareholders	**1,799**	1,484
Adjustments for:		
Net capital gains on investments and impairments	**(4,409)**	(1,655)
Net loss on divestments of businesses	**13**	14
Equity in income of investments in associates	**(96)**	(85)
Depreciation, amortization and impairments of fixed and intangible assets	**220**	297
Other non-cash items	**(19)**	(14)
Changes in operational assets and liabilities:		
Deferred policy acquisition costs	**(434)**	(282)
Deferred origination costs	**(6)**	2
Reinsurers' share of reserves for insurance contracts	**(1,225)**	(172)
Deposits made under assumed reinsurance contracts	**602**	232
Deposits received under ceded reinsurance contracts	**(735)**	(247)
Receivables and payables	**(279)**	(581)
Net changes in trading securities	**339**	1,326
Reserves for insurance contracts	**9,292**	6,983
Liabilities for investment contracts	**105**	(2,005)
Deferred income tax, net	**645**	107
Net changes in other operational assets and liabilities	**201**	1,308
Net cash provided by operating activities	**6,013**	6,712
Cash flows from investing activities		
Sales and maturities:		
Debt securities	**34,767**	32,689
Equity securities	**19,598**	15,303
Other (primarily other investments and fixed assets)	**4,953**	4,149
Purchases:		
Debt securities	**(39,824)**	(39,809)
Equity securities	**(18,775)**	(15,748)
Other (primarily other investments and fixed assets)	**(4,641)**	(5,368)
Investments in associates, net	**41**	66
Acquisitions of companies, net of cash acquired	**(1)**	–
Divestments of companies, net of cash balances	**17**	1,559
Dividends from associates	**1**	17
Net cash used in investing activities	**(3,864)**	(7,142)

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

	2005	2004
Cash flows from financing activities		
Proceeds from sale and repurchase agreements	**1,130**	935
Dividends on preferred securities paid to shareholders	**(21)**	(16)
Redemption of preferred securities by subsidiaries	**–**	(195)
Issuance of debt	**630**	779
Payments on debt outstanding	**(712)**	(2,471)
Net cash provided by/(used in) financing activities	**1,027**	(968)
Effect of exchange rate changes on cash and cash equivalents	**(1,199)**	(156)
Change in cash and cash equivalents excluding change in cash received as collateral for securities lending	**1,977**	(1,554)
Change in cash received as collateral for securities lending	**(800)**	5,607
Cash and cash equivalents reclassified to assets held for sale	**(458)**	–
Cash and cash equivalents as of January 1, including cash received as collateral for securities lending	**22,457**	15,889
Cash and cash equivalents as of June 30, including cash received as collateral for securities lending	**23,176**	19,942

Other supplementary cash flow disclosures
in USD millions

	2005	2004
Other interest income received	**3,979**	3,541
Dividend income received	**985**	782
Other interest expense paid	**(706)**	(592)
Income tax paid	**(553)**	(356)

As of June 30, 2005 and 2004, cash and cash equivalents restricted as to use were USD 436 million and USD 605 million, respectively. Cash and cash equivalents held for the benefit of policyholders in connection with unit-linked products amounted to USD 3,611 million and USD 3,507 million as of June 30, 2005 and December 31, 2004, respectively. The balances of cash received as collateral for securities lending were USD 4,397 million and USD 5,197 million as of June 30, 2005 and December 31, 2004, respectively.

Cash and cash equivalents comprise the following:
in USD millions

	2005	2004
Cash at bank and in hand	**8,335**	6,504
Cash equivalents	**10,444**	7,792
Cash received as collateral for securities lending	**4,397**	5,646
Balance as of June 30	**23,176**	19,942

Cash and cash equivalents of Universal Underwriters Group and other Group entities reclassified to assets held for sale
in USD millions, for the six months ended June 30, 2005

Net cash provided by operating activities	**326**
Net cash provided by investing activities	**22**
Cash and cash equivalents as of January 1, 2005	**110**
Cash and cash equivalents reclassified to assets held for sale as of June 30, 2005	**458**

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

Consolidated statements of changes in equity (unaudited)

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

	Number of common shares issued	Common stock
As of December 31, 2003, as previously reported	144,006,955	923
Implementation of new and revised IFRS accounting standards:		
– IFRS 4	–	–
– IAS 28/31	–	–
– IAS 32/39	–	–
Total adjustment due to implementation of new and revised IFRS accounting standards[1]	–	–
As of December 31, 2003, restated	144,006,955	923
Change in net unrealized gains/(losses) on investments (excluding translation adjustments)	–	–
Translation adjustments	–	–
Change in net unrealized losses on investments not recognized in the operating statement	–	–
Nominal value reduction of common stock	–	(288)
Share-based payment transactions	–	–
Treasury stock transactions	–	–
Net income	–	–
Dividends on preferred securities	–	–
Net changes in capitalization and minority interests	–	–
As of June 30, 2004, restated	144,006,955	635
As of December 31, 2004, as previously reported	144,006,955	635
Implementation of new and revised IFRS accounting standards:		
– IFRS 4	–	–
– IAS 27	–	–
– IAS 28/31	–	–
– IAS 32/39	–	–
Total adjustment due to implementation of new and revised IFRS accounting standards[1]	–	–
As of December 31, 2004, restated	144,006,955	635
Write-off of negative goodwill (IFRS 3)	–	–
Change in net unrealized gains on investments (excluding translation adjustments)	–	–
Translation adjustments	–	–
Change in net unrealized gains/(losses) on investments not recognized in the operating statement	–	–
Nominal value reduction of common stock[2]	–	(449)
Share-based payment transactions	–	–
Net income	–	–
Dividends on preferred securities	–	–
Net changes in capitalization and minority interests	–	–
As of June 30, 2005	**144,006,955**	**186**

[1] Implementation of new and revised accounting standards as discussed in note 3.
[2] As approved by the Annnual General Meeting on April 19, 2005, the share capital was reduced by a nominal value reduction of CHF 4.00 from CHF 6.50 to CHF 2.50 in respect of each registered share. The payment to shareholders was made on July 4, 2005.

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

	Treasury stock (nominal value)	Additional paid-in capital	Net unrealized gains/(losses) on investments	Cumulative translation adjustment	Retained earnings	Preferred securities	Total shareholders' equity	Minority interests	Total equity
	(6)	10,208	862	152	5,699	1,096	**18,934**	969	**19,903**
	–	–	–	–	(1,320)	–	**(1,320)**	–	**(1,320)**
	–	–	–	–	19	–	**19**	–	**19**
	–	–	–	–	(4)	–	**(4)**	–	**(4)**
	–	–	–	–	(1,305)	–	**(1,305)**	–	**(1,305)**
	(6)	10,208	862	152	4,394	1,096	**17,629**	969	**18,598**
	–	–	(981)	–	–	–	**(981)**	2	**(979)**
	–	–	(9)	(86)	–	–	**(95)**	(45)	**(140)**
	–	–	(990)	(86)	–	–	**(1,076)**	(43)	**(1,119)**
	–	–	–	–	–	–	**(288)**	–	**(288)**
	–	(14)	–	–	–	–	**(14)**	–	**(14)**
	4	45	–	–	–	–	**49**	–	**49**
	–	–	–	–	1,484	–	**1,484**	54	**1,538**
	–	–	–	–	(16)	–	**(16)**	(5)	**(21)**
	–	–	–	–	–	–	**–**	(215)	**(215)**
	(2)	10,239	(128)	66	5,862	1,096	**17,768**	760	**18,528**
	(1)	10,288	1,075	840	8,248	1,096	**22,181**	846	**23,027**
	–	–	–	(85)	(1,443)	–	**(1,528)**	–	**(1,528)**
	–	–	–	–	–	–	**–**	(6)	**(6)**
	–	–	–	–	21	–	**21**	–	**21**
	–	–	–	–	(4)	–	**(4)**	–	**(4)**
	–	–	–	(85)	(1,426)	–	**(1,511)**	(6)	**(1,517)**
	(1)	10,288	1,075	755	6,822	1,096	**20,670**	840	**21,510**
	–	–	–	–	23	–	**23**	–	**23**
	–	–	654	–	–	–	**654**	11	**665**
	–	–	(75)	(663)	–	–	**(738)**	(111)	**(849)**
	–	–	579	(663)	–	–	**(84)**	(100)	**(184)**
	–	–	–	–	–	–	**(449)**	–	**(449)**
	–	(4)	–	–	–	–	**(4)**	–	**(4)**
	–	–	–	–	1,799	–	**1,799**	56	**1,855**
	–	–	–	–	(21)	–	**(21)**	(12)	**(33)**
	–	–	–	–	–	–	**–**	3	**3**
	(1)	**10,284**	**1,654**	**92**	**8,623**	**1,096**	**21,934**	**787**	**22,721**

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 2004 of Zurich Financial Services Group ("the Group"), except for new and revised accounting standards implemented in 2005. These resulted in restatement of certain 2004 amounts and are discussed in note 3. 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 2004 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 2004. 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 23.

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

Segment information

In the 2004 annual report, the Group's primary reporting segments were defined as General Insurance, Life Insurance, Farmers Management Services, Other Businesses and Corporate Center. The only change to these primary segments in 2005 was to rename Corporate Center to Corporate Functions. However, to be consistent with the Group's management structure, the following transfers between primary segments have been made for 2005 financial reporting:

- Farmers Re business from General Insurance to Other Businesses;
- Group Reinsurance business relating to certain European run-off operations from Corporate Functions to Other Businesses;
- Certain investments of Farmers New World Life from Life Insurance to Farmers Management Services;
- The Reinsurance businesses of various Group entities from Corporate Functions to Other Businesses or General Insurance.

The Group's secondary reporting format for segment reporting is geographic. In 2004 these secondary segments were North America Corporate, North America Consumer, Continental Europe, UKISA, Rest of the World and Centrally Managed Businesses. For 2005 financial reporting, these regions have been aligned to better reflect management responsibility and are North America, Europe, International Businesses and Centrally Managed Businesses.

The 2004 results have been restated to reflect these changes.

2. Foreign currency translation and transactions

The table below summarizes the principal exchange rates that have been used for translation purposes. The net losses on foreign currency transactions included in the consolidated operating statements were USD 60 million and USD 47 million for the six months ended June 30, 2005 and 2004, respectively.

Table 2
Principal exchange rates
USD per foreign currency unit

	Balance sheets as of		**Operating statements and cash flows for the six months ended**	
	06/30/05	12/31/04	**06/30/05**	06/30/04
Euro	**1.2101**	1.3555	**1.2860**	1.2274
Swiss franc	**0.7802**	0.8769	**0.8316**	0.7907
British pound sterling	**1.7917**	1.9183	**1.8744**	1.8225

3. Implementation of new and revised accounting standards and adjustments implemented in 2005 (IFRS restatement)

As presented on May 3, 2005, the Group has implemented several new and revised accounting standards within the International Financial Reporting Standards (IFRS) framework, which became effective January 1, 2005.

The International Accounting Standards Board (IASB) issued IFRS 4 "Insurance Contracts" on March 31, 2004. The publication of this standard provides, for the first time, guidance on accounting for insurance contracts. This standard applies to all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds, except for specified contracts covered by other IFRS standards. The most significant change as a result of the adoption of the standard is the re-classification of certain contracts as financial instruments and hence the application of IAS 39 to these contracts. The adoption of IFRS 4 does not provide comprehensive guidance on the accounting treatment for insurance contracts and as such the Group will continue to apply US GAAP in certain circumstances where IFRS is silent.

IAS 39 "Financial Instruments: Recognition and Measurement" was revised in December 2003 as part of the IASB's project to improve IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39. A further amendment was made in March 2004. The changes related to Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk. The most significant changes are as follows:

- The standard clarifies that the evaluation of the transfer of risks and rewards of ownership precedes the evaluation of the transfer of control for all derecognition transactions.
- The standard permits an entity to designate any financial asset or financial liability on initial recognition as one to be measured at fair value, with changes in fair value recognized in profit or loss. To impose discipline on this categorization, an entity is precluded from reclassifying financial instruments into or out of this category.
- The standard provides additional guidance about how to determine fair values using valuation techniques.
- The standard clarifies that an impairment loss is recognized only when it has been incurred. It also provides additional guidance on what events provide objective evidence of impairment for investments in equity instruments.
- Hedges of firm commitments are to be treated as fair value hedges rather than cash flow hedges. However, the standard clarifies that a hedge of the foreign currency risk of a firm commitment can be treated as either a cash flow hedge or a fair value hedge.

The IASB issued IFRS 3 "Business Combinations" on March 31, 2004. In accordance with the transitional provisions of the standard, the Group has applied this standard to business combinations for which the agreement date is on or after March 31, 2004. The remaining requirements of IFRS 3 have been adopted as of January 1, 2005. The most significant changes required by this standard are:

- All business combinations within its scope are to be accounted for using the purchase method, previously IAS 22 permitted business combinations to be accounted for using the pooling of interests method in certain circumstances.
- The acquiree's identifiable assets, liabilities and contingent liabilities are to be recognized as part of allocating the cost of the combination to be measured initially by the acquirer at their fair values at the acquisition date. Therefore, any minority interest in the acquiree is stated at the minority's proportion of the net fair values of those items.
- Goodwill acquired in a business combination is to be measured after initial recognition at cost less any accumulated impairment losses. Therefore, goodwill is not amortised and instead must be tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

Upon adoption of IFRS 3, the Group wrote back USD 23 million of negative goodwill.

IAS 36 "Impairment of Assets" and IAS 38 "Intangible Assets" were revised in March 2004 by the IASB as part of the IASB project resulting in the publication of IFRS 3 "Business Combinations". Consistent with the Group's adoption of IFRS 3, the revised standards were adopted as of January 1, 2005.

The IASB issued IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" on March 31, 2004. The standard adopts the classification "held for sale", introduces the concept of a disposal group, and specifies that assets or disposal groups that are classified as held for sale are carried at the lower of carrying amount and fair value less costs to sell. It also replaces IAS 35 regarding the accounting treatment for discontinued operations. The most significant impact for the Group was the re-classification of some of its assets and liabilities as "held for sale".

IAS 27 "Consolidated and Separate Financial Statements" was revised in March 2004. The adoption of the revised guidance with respect to the consolidation requirements of venture capital organizations, mutual funds and similar entities resulted in an equivalent gross-up of the Group's assets and liabilities to reflect the liabilities to third parties and minority interests. Also, IAS 27 revised requires to disclose minority interests within equity, separately from the parent shareholders' equity.

The accounting policy for securities lending has been changed, primarily driven by the revised IFRS standards which led the Group to review its previous policy and make changes to the criteria for recognizing collateral received as part of securities lending arrangements. As a result of the Group having future economic benefits and retaining significant risk and rewards of the cash collateral received, the Group now has to recognize both cash collateral and an equal and offsetting liability related to the cash collateral. No income effect resulted from the change in this policy.

As a result of the adoption of the above noted new and amended accounting standards, the 2004 comparatives have been restated as summarized in the following tables.

Effect of new and revised accounting standards and adjustments implemented in 2005 (IFRS restatement)

Table 3.1
Consolidated operating statement for the six months ended June 30, 2004 IFRS restatement (unaudited) – reconciliation to previously reported financial information

in USD millions, for the six months ended June 30, 2004	As reported[1]	IFRS 4	Other IFRS	Restated
Net income attributable to shareholders[2]	1,448	36	–	1,484

[1] As published in the Annual Report 2004.
[2] Revised IAS 1 changed the bottom line from "Net income", as described, to "Net income attributable to shareholders".

Table 3.2
Consolidated balance sheet as of December 31, 2004 IFRS restatement (unaudited) – reconciliation to previously reported financial information

in USD millions, as of December 31, 2004	As reported[1]	IFRS 4	Other IFRS	Restated
Shareholders' equity	22,181	(1,528)	17	20,670
Total equity	23,027	(1,528)	11	21,510

[1] As published in the Annual Report 2004.

4. Investments

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

Table 4.1
Investment result

in USD millions, for the six months ended June 30	Net investment income		Net capital gains/(losses) and impairments[1]		Investment result	
	2005	2004	**2005**	2004	**2005**	2004
Cash and cash equivalents	**310**	163	**2**	5	**312**	168
Equity securities	**1,069**	857	**3,289**	1,159	**4,358**	2,016
Debt securities	**2,807**	2,665	**802**	2	**3,609**	2,667
Investments in associates	**96**	85	**(5)**	(77)	**91**	8
Other investments:						
Short-term investments	**48**	56	**2**	–	**50**	56
Investments held by investment companies	**5**	7	**126**	167	**131**	174
Real estate held for investment	**404**	408	**256**	168	**660**	576
Mortgage loans, policyholders' collateral and other loans	**567**	500	**93**	143	**660**	643
Other[2]	**84**	79	**(156)**	88	**(72)**	167
Investment result, gross	**5,390**	4,820	**4,409**	1,655	**9,799**	6,475
Investment expenses[3]	**(320)**	(417)	**–**	–	**(320)**	(417)
Investment result, net	**5,070**	4,403	**4,409**	1,655	**9,479**	6,058

[1] Impairments on total investments of USD 35 million and USD 55 million for the six months ended June 30, 2005 and 2004, respectively.
[2] Including net capital gains/(losses) on derivative financial instruments of USD (159) million and USD 12 million for the six months ended June 30, 2005 and 2004, respectively.
[3] Including rental operating expenses for real estate held for investment of USD 72 million and USD 80 million for the six months ended June 30, 2005 and 2004, respectively.

The details of the investment balances as of June 30, 2005 and December 31, 2004 are given in the tables below.

Table 4.2
Breakdown of Investments
as of

	Total investments			
	06/30/05		12/31/04	
	USD millions	**% of total**	USD millions	% of total
Cash and cash equivalents	**23,176**	**8.5%**	22,457	8.0%
Equity securities (including trading equity portfolios in capital markets and banking activities):				
Trading	**2,351**	**0.9%**	2,843	1.0%
of which: – Trading equity portfolios in capital markets and banking activities	***2,155***	***0.8%***	*2,773*	*1.0%*
Fair value through profit and loss	**70,682**	**25.8%**	71,087	25.2%
Available-for-sale	**11,101**	**4.0%**	12,158	4.3%
Total equity securities	**84,134**	**30.7%**	86,088	30.5%
Debt securities:				
Trading	**485**	**0.2%**	540	0.2%
Fair value through profit and loss	**17,587**	**6.4%**	17,101	6.1%
Available-for-sale	**105,364**	**38.5%**	107,874	38.2%
Held-to-maturity	**5,413**	**2.0%**	5,855	2.1%
Total debt securities	**128,849**	**47.1%**	131,370	46.6%
Investments in associates	**677**	**0.2%**	645	0.2%
Other investments:				
Short-term investments	**1,386**	**0.5%**	1,943	0.7%
Investments held by investment companies	**1,789**	**0.7%**	1,789	0.6%
Real estate held for investment	**11,797**	**4.3%**	12,541	4.4%
Mortgage loans	**9,278**	**3.4%**	10,251	3.6%
Policyholders' collateral and other loans	**12,630**	**4.6%**	14,906	5.3%
Other	**83**	**0.0%**	165	0.1%
Total other investments	**36,963**	**13.5%**	41,595	14.7%
Total investments	**273,799**	**100.0%**	282,155	100.0%

As of June 30, 2005 and December 31, 2004 the Group had USD 17,378 million and USD 15,687 million, respectively, of loaned securities outstanding. The restricted cash contains USD 4,397 million and USD 5,197 million of cash collateral received for loaned securities as of June 30, 2005 and December 31, 2004, respectively. The non-cash collateral received for loaned securities was USD 14,678 million and USD 12,543 million as of June 30, 2005 and December 31, 2004, respectively.

Table 4.3
Realized capital gains/(losses) and impairments on available-for-sale debt and equity securities
in USD millions, for the six months ended June 30

	Equity securities		Debt securities		Total	
	2005	2004	**2005**	2004	**2005**	2004
Gross realized capital gains – available-for-sale	**275**	388	**362**	334	**637**	722
Gross realized capital losses – available-for-sale	**(154)**	(426)	**(81)**	(93)	**(235)**	(519)
Impairments – available-for-sale	**(23)**	(34)	**(7)**	(12)	**(30)**	(46)
Total	**98**	(72)	**274**	229	**372**	157

Table 4.4
Unrealized gains/(losses) on investments included in shareholders' equity
in USD millions, as of

	Total	
	06/30/05	12/31/04
Equity securities – available-for-sale	**703**	310
Debt securities – available-for-sale	**4,607**	3,635
Other	**(46)**	79
Less amount of net unrealized gains on investments attributable to:		
Life policyholder dividends and other policyholder liabilities	**(2,682)**	(2,234)
Life deferred acquisition costs	**(235)**	(176)
Deferred income taxes	**(657)**	(514)
Minority interests	**(36)**	(25)
Total	**1,654**	1,075

5. Changes in the scope of consolidation

During the six months ended June 30, 2005 and 2004, the Group completed divestments of several businesses and recognized post-completion adjustments.

Table 5.1
Net loss on divestments
in USD millions, for the six months ended June 30

	2005	2004
Consideration received	**83**	1,739
Less: net assets divested	**(99)**	(1,708)
Costs related to divestments	**3**	(45)
Net loss on divestments before tax	**(13)**	(14)
Tax effect	**–**	(4)
Net loss on divestments after tax	**(13)**	(18)
Net assets divested		
Cash and cash equivalents	**68**	180
Other assets	**196**	3,955
Insurance liabilities	**(39)**	(515)
Other liabilities	**(126)**	(1,912)
Net assets divested	**99**	1,708

The Group's most significant transactions affecting the scope of consolidation during the six months ended June 30, 2005 and 2004 were as described below.

Changes in 2005

The Group completed the sale of its equity stake in ZC Sterling Corporation to Trident III, L.P, the sale of 10% of the total issued share capital of South African Eagle Insurance Company Limited (SA Eagle), a majority-owned subsidiary, to Royal Bafokeng Finance (RBF), a company wholly-owned by the Royal Bafokeng Nation (RBN), South Africa, the sale of its interest in Zurich National Life Assurance Company Limited in Thailand to National Finance Public Company Limited and the acquisition of the life business portfolio of ING Insurance Argentina, realizing a net loss before taxes of USD 17 million. The Group also realized post-completion adjustments for divestments closed in 2004, realizing a net gain before taxes of USD 4 million.

On April 4, 2005, the Group announced the sale of Universal Underwriters Group to an investor group led by Hellman & Friedmann LLC. The assets and liabilities of Universal Underwriters Group have been classified as held for sale as of June 30, 2005 in accordance with IFRS 5 (see below). We, together with the purchaser, continue to work towards a number of pre-closing conditions which need to be satisfied prior to the closing of the transaction.

In the first six months 2005, the companies divested did not materially contribute to the Group's net income.

Assets and liabilities held for sale

As of January 1, 2005, the Group adopted IFRS 5 resulting in a change in accounting policy and a change in the balance sheet presentation for assets and liabilities held for sale. The following assets and liabilities of Universal Underwriters Group and other Group entities have been classified as held for sale as of June 30, 2005:

Table 5.2
Assets classified as held for sale
in USD millions, as of June 30, 2005

Total investments	**1,238**
of which cash and cash equivalents	***458***
Deferred policy acquisition costs	**464**
Reinsurers' share of reserves for insurance contracts	**230**
Other assets	**2,011**
Total	**3,943**

Table 5.3
Liabilities classified as held for sale
in USD millions, as of June 30, 2005

Reserves for insurance contracts	**2,557**
Other liabilities	**515**
Total	**3,072**

Net unrealized gains on investments in the Group's shareholders' equity relating to assets held for sale amounted to USD 16 million as of June 30, 2005.

Changes in 2004

During the first six months of 2004, the Group completed the sale of Zurich Insurance (Singapore) Pte. Ltd., the sale of Zürich Krankenversicherung AG (Deutschland), the sale of the Group's stake in Globale Krankenversicherungs-AG, the sale of the insurance portfolio of its subsidiary Zurich Life Philippines, Inc, the sale of McMillan Shakespeare Australia Pty Limited, and the sale of the general insurance (consumer and small commercial lines) and life insurance (consumer and commercial lines) operations in Belgium, recognizing a net loss before taxes of USD 15 million. The Group also recognized several post-completion adjustments for divestments completed during or prior to the first six months of 2004, realizing a net gain before taxes of USD 1 million.

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

6. Insurance benefits, losses and expenses

Table 6.1
Insurance benefits and losses
in USD millions, for the six months ended June 30

	Gross		Ceded		Net	
	2005	2004	**2005**	2004	**2005**	2004
Losses and loss adjustment expenses	**13,330**	12,890	**(2,337)**	(2,004)	**10,993**	10,886
Life insurance death and other benefits	**6,046**	7,409	**(142)**	(137)	**5,904**	7,272
Decrease in future life policyholders' benefits	**(444)**	(1,736)	**(228)**	(128)	**(672)**	(1,864)
Total insurance benefits and losses	**18,932**	18,563	**(2,707)**	(2,269)	**16,225**	16,294
of which:						
Losses and loss adjustment expenses paid	**10,515**	10,425	**(1,752)**	(1,974)	**8,763**	8,451

Table 6.2
Other technical expenses
in USD millions, for the six months ended June 30

	Gross		Ceded		Net	
	2005	2004	**2005**	2004	**2005**	2004
Policyholder dividends and participation in profits	**5,234**	2,399	**–**	1	**5,234**	2,400
Underwriting and policy acquisition costs	**3,899**	4,328	**(193)**	(619)	**3,706**	3,709

7. Income taxes

Table 7.1
Income tax expense – current/deferred split
in USD millions, for the six months ended June 30

	2005	2004
Current	**562**	538
Deferred	**626**	225
Total income tax expense	**1,188**	763

Table 7.2
Income tax expense – policyholders/shareholders split
in USD millions, for the six months ended June 30

	2005	2004
Income tax expense attributable to policyholders	**397**	33
Income tax expense attributable to shareholders	**791**	730
Total income tax expense	**1,188**	763

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

Table 7.3
Expected and actual income tax expense

in USD millions, for the six months ended June 30	2005	2004
Expected income tax expense	**983**	748
Increase/(reduction) in taxes resulting from:		
Lower taxed income	**(238)**	(138)
Non-deductible expenses	**52**	41
Non-utilizable tax losses	**140**	58
Additional tax expense attributable to life insurance policyholder earnings	**269**	22
Other	**(18)**	32
Actual income tax expense	**1,188**	763

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

The weighted average statutory income tax rate for the Group is 32.3% and 32.5% for the six months ended June 30, 2005 and 2004, respectively. These rates were derived by obtaining a weighted average of the applicable statutory income tax rate in relation to the net income before income tax generated in the taxable territories in which the Group operates.

Table 7.4
Deferred income taxes

in USD millions, as of	06/30/05	12/31/04
Deferred tax assets		
Deferred tax assets, gross	**4,774**	4,701
Valuation allowance on deferred tax assets	**(595)**	(490)
Deferred tax assets, net	**4,179**	4,211
Deferred tax liabilities	**(6,224)**	(5,718)
Net deferred tax liabilities	**(2,045)**	(1,507)

The current income tax payable (net of income tax receivable) as of June 30, 2005 and December 31, 2004 was USD 925 million and USD 971 million, respectively.

As of June 30, 2005 and December 31, 2004, respectively, the Group had income tax loss carryforwards of USD 4,570 million and USD 4,835 million available (subject to various statutory restrictions) for use against future taxable income. Deferred tax assets for loss carryforwards of USD 2,802 million and USD 3,300 million were recognized as of June 30, 2005 and December 31, 2004, respectively. No deferred tax assets were recognized in respect of the remaining USD 1,768 million and USD 1,535 million as of June 30, 2005 and December 31, 2004, respectively. The majority of the income tax loss carryforwards expire after five years.

8. Deferred policy acquisition costs

Table 8
Deferred policy acquisition costs

in USD millions	General Insurance		Life Insurance		Other segments[1]		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
As of January 1 (opening balance)	**2,143**	1,916	**8,932**	7,858	**206**	303	**11,281**	10,077
Acquisition costs deferred and transfers	**1,624**	1,168	**664**	604	**3**	38	**2,291**	1,810
Amortization charged to income[2]	**(972)**	(951)	**(542)**	(508)	**(30)**	(72)	**(1,544)**	(1,531)
Divestments	**(15)**	(10)	**(12)**	(59)	**–**	–	**(27)**	(69)
Reclassifications to assets held for sale	**(464)**	–	**–**	–	**–**	–	**(464)**	–
Increase/(decrease) due to currency translation	**(114)**	(23)	**(678)**	24	**–**	1	**(792)**	2
As of June 30 (closing balance)	**2,202**	2,100	**8,364**	7,919	**179**	270	**10,745**	10,289

[1] Including eliminations of intersegment transactions.
[2] The portion of amortization being recorded directly to shareholders' equity for Life Insurance was USD (70) million and USD 50 million for the six months ended June 30, 2005 and 2004, respectively.

9. Reserves for insurance contracts

Table 9.1
Reserves for insurance contracts
in USD millions, as of

	06/30/05	12/31/04
Gross		
Reserves for losses and loss adjustment expenses	**57,026**	57,765
Reserves for unearned premiums	**14,473**	14,231
Future life policyholders' benefits	**73,771**	81,852
Policyholders' contract deposits and other funds	**21,877**	22,391
Reserves for unit-linked products	**52,660**	50,848
Reserves for insurance contracts	**219,807**	227,087
Ceded		
Reserves for losses and loss adjustment expenses	**(14,475)**	(14,278)
Reserves for unearned premiums	**(2,040)**	(2,097)
Future life policyholders' benefits	**(1,539)**	(1,169)
Policyholders' contract deposits and other funds	**(3,515)**	(3,594)
Reserves for unit-linked products	**–**	–
Reinsurers' share of reserves for insurance contracts	**(21,569)**	(21,138)
Net		
Reserves for losses and loss adjustment expenses	**42,551**	43,487
Reserves for unearned premiums	**12,433**	12,134
Future life policyholders' benefits	**72,232**	80,683
Policyholders' contract deposits and other funds	**18,362**	18,797
Reserves for unit-linked products	**52,660**	50,848
Reserves for insurance contracts	**198,238**	205,949

Table 9.2
Development of reserves for losses and loss adjustment expenses
in USD millions

	2005	2004
As of January 1 (opening balance)		
Gross reserves for losses and loss adjustment expenses	**57,765**	51,007
Reinsurers' share	**(14,278)**	(14,036)
Net reserves for losses and loss adjustment expenses	**43,487**	36,971
Losses and loss adjustment expenses incurred		
Current period	**10,896**	10,230
Prior years	**97**	656
Total	**10,993**	10,886
Losses and loss adjustment expenses paid		
Current period	**(2,500)**	(2,555)
Prior years	**(6,263)**	(5,896)
Total	**(8,763)**	(8,451)
Divestments of companies and businesses, including transfers to liabilities held for sale	**(1,083)**	(394)
Foreign currency translation effects	**(2,083)**	(517)
As of June 30 (closing balance)		
Net reserves for losses and loss adjustment expenses	**42,551**	38,495
Reinsurers' share	**14,475**	13,908
Gross reserves for losses and loss adjustment expenses	**57,026**	52,403

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 156 million and USD 182 million as of June 30, 2005 and December 31, 2004, respectively, have been deducted from reserves for losses and loss adjustment expenses.

Table 9.3
Policyholders' contract deposits and other funds (gross of reinsurance)

in USD millions, as of	06/30/05	12/31/04
Policyholders' contract deposits and other funds		
Annuities	**1,818**	1,949
Universal life and other investment contracts	**10,739**	11,203
Policyholder dividends	**9,320**	9,239
Total	**21,877**	22,391

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 recoveries that the Group would have under these policies at the balance sheet date as of June 30, 2005, would be USD 513 million (December 31, 2004: USD 451 million). The Group believes the realization of such liability is not likely.

Table 9.4
Equity component of discretionary participation features (DPF)

in USD millions,	2005	2004
As of January 1 (opening balance)	**1,568**	1,627
Change in net unrealized gains/(losses) on investments (excluding effect of initial application of "legal quote" legislation in Switzerland)	**30**	(146)
Initial application of the "legal quote" in Switzerland as of June 30, 2004	**–**	(226)
Change in current year period profit	**(3)**	(10)
As of June 30 (closing balance)	**1,595**	1,245

The Group sells certain insurance and investment contracts containing benefit features for which the amount and timing of declaration and payment are at the discretion of the management of the Group. These benefits may exceed contractual or regulatory minimum participation levels for such contracts, with the remainder allocated to the Group. The table above shows the change in the amount of funds surplus available to the Group after allocations to policyholder liabilities, and which have not yet been declared for bonus. As the investment funds underlying the DPF contracts fluctuate in value, and the bonus paid to policyholders may exceed the contractual or legal minimum, the ultimate DPF amount of this component of discretionary participation features accreting to the Group may differ in amount to that disclosed.

10. Debt

Table 10.1
Debt

in USD millions, as of		06/30/05	12/31/04
a) Debt related to capital markets and banking activities			
Zurich Capital Markets	Notes and loans payable, due within 2005	**2,323**	2,873
	Notes and loans payable, due 2006–2014	**744**	726
	Notes and loans payable, due after 2014	**–**	150
Dunbar Bank	Short-term borrowings	**20**	19
Centre Solutions (Bermuda) Ltd.	Various debt instruments	**77**	112
Debt related to capital markets and banking activities		**3,164**	3,880
b) Senior debt			
Zurich Finance (USA), Inc.	2.75% CHF bond, due July 2006	**390**	438
	3.5% CHF bond, due July 2008	**234**	263
	4.5% EUR bond, due September 2014	**1,197**	1,342
Kemper Corporation	Various debt instruments, due in 2009	**27**	27
Zurich Insurance Company	3.875% CHF bond, due July 2011	**780**	880
	Various borrowings and notes	**114**	99
Other	Various short- and medium-term debt instruments	**254**	306
Senior debt		**2,996**	3,355
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	**793**	848
Zurich Finance (USA), Inc.	5.75% EUR bond, due October 2023	**596**	668
	4.50% EUR bond, due June 2025	**608**	–
Subordinated debt		**2,997**	2,516
Total senior and subordinated debt		**5,993**	5,871
Total debt		**9,157**	9,751

On June 15, 2005, Zurich Finance (USA), Inc. issued a 4.5% EUR 500 million bond under the Group's Euro Medium Term Note Programme (EMTN Programme), guaranteed by Zurich Insurance Company on a subordinated basis. The bond is due in 2025 and is callable from June 15, 2015. The coupon is fixed until June 15, 2015, and will then become floating at the three month Euribor plus a spread of 2.2%. In line with the Group's policy of managing its interest rate risk and foreign currency exposure, cross-currency interest rate swaps have been used for fair value hedging of this debt until the first call date. After taking into account the cross-currency interest rate swaps, this issuance has become a floating rate US dollar obligation, with a variable rate coupon being reset every six months.

The size of the Group's EMTN Programme, which allows for the potential issuance of senior and subordinated notes, was increased on March 10, 2005 from a maximum of USD 4 billion to a maximum of USD 6 billion. Issuing entities under the EMTN Programme include Zurich Finance (USA), Inc. and Zurich Finance (UK) p.l.c.

Table 10.2
Maturity schedule of outstanding debt

in USD millions	**2005**
2005 (six months)	**2,468**
2006	**563**
2007	**620**
2008	**273**
2009	**120**
after 2009	**5,113**
Total	**9,157**

Table 10.3
Interest expense on debt

in USD millions, for the six months ended June 30	**2005**	2004
Debt related to capital markets and banking activities	**54**	37
Senior debt	**71**	45
Subordinated debt	**98**	84
Total	**223**	166

11. Segment information

Table 11.1

Operating statements by business segment for the six months ended June 30

in USD millions, for the six months ended June 30

	General Insurance		Life Insurance	
	2005	2004	**2005**	2004
Revenues				
Direct written premiums and policy fees	**17,963**	17,918	**5,413**	5,440
Assumed written premiums	**672**	548	**47**	32
Gross written premiums and policy fees	**18,635**	18,466	**5,460**	5,472
Less premiums ceded to reinsurers	**(2,917)**	(3,527)	**(323)**	(286)
Net written premiums and policy fees	**15,718**	14,939	**5,137**	5,186
Net change in reserves for unearned premiums	**(1,813)**	(1,860)	**6**	(5)
Net earned premiums and policy fees	**13,905**	13,079	**5,143**	5,181
Farmers management fees	**–**	–	**–**	–
Net investment income	**1,330**	1,082	**3,362**	3,095
Net capital gains on investments and impairments	**117**	95	**3,811**	1,095
Net gain/(loss) on divestments of businesses	**(20)**	(46)	**(9)**	41
Other income	**170**	232	**396**	408
Total revenues	**15,502**	14,442	**12,703**	9,820
Intersegment transactions	**(490)**	(259)	**(71)**	(87)
Benefits, losses and expenses				
Losses and loss adjustment expenses, net of reinsurance	**10,186**	9,556	**39**	44
Life insurance death and other benefits, net of reinsurance	**49**	52	**5,438**	6,860
(Decrease)/increase in future life policyholders' benefits, net of reinsurance	**3**	6	**(870)**	(1,780)
Insurance benefits and losses, net of reinsurance	**10,238**	9,614	**4,607**	5,124
Policyholder dividends and participation in profits, net of reinsurance	**4**	3	**5,115**	2,077
Underwriting and policy acquisition costs, net of reinsurance	**2,235**	1,962	**868**	949
Administrative and other operating expenses	**1,311**	1,358	**664**	637
Amortization and impairments of intangible assets	**46**	55	**51**	86
Interest expense on debt	**117**	90	**16**	18
Interest credited to policyholders and other interest	**83**	80	**361**	359
Total benefits, losses and expenses	**14,034**	13,162	**11,682**	9,250
Net income/(loss) before income taxes	**1,468**	1,280	**1,021**	570

Farmers Management Services		Other Businesses		Corporate Functions		Eliminations		Total	
2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
–	–	**192**	276	**–**	–	**8**	19	**23,576**	23,653
–	–	**1,718**	2,245	**72**	66	**(131)**	(188)	**2,378**	2,703
–	–	**1,910**	2,521	**72**	66	**(123)**	(169)	**25,954**	26,356
–	–	**(349)**	(221)	**(69)**	(66)	**123**	169	**(3,535)**	(3,931)
–	–	**1,561**	2,300	**3**	–	**–**	–	**22,419**	22,425
–	–	**75**	46	**3**	6	**–**	–	**(1,729)**	(1,813)
–	–	**1,636**	2,346	**6**	6	**–**	–	**20,690**	20,612
1,020	980	**–**	–	**–**	–	**–**	–	**1,020**	980
72	56	**449**	342	**336**	322	**(479)**	(494)	**5,070**	4,403
–	1	**403**	376	**78**	88	**–**	–	**4,409**	1,655
–	–	**7**	(7)	**9**	(2)	**–**	–	**(13)**	(14)
–	12	**130**	156	**358**	196	**(375)**	(229)	**679**	775
1,092	1,049	**2,625**	3,213	**787**	610	**(854)**	(723)	**31,855**	28,411
(1)	(4)	**91**	(128)	**(383)**	(245)	**854**	723	**–**	–
–	–	**771**	1,287	**4**	9	**(7)**	(10)	**10,993**	10,886
–	–	**400**	361	**7**	3	**10**	(4)	**5,904**	7,272
–	–	**134**	(44)	**69**	(47)	**(8)**	1	**(672)**	(1,864)
–	–	**1,305**	1,604	**80**	(35)	**(5)**	(13)	**16,225**	16,294
–	–	**115**	320	**–**	–	**–**	–	**5,234**	2,400
–	–	**612**	796	**(9)**	2	**–**	–	**3,706**	3,709
460	436	**163**	294	**522**	360	**(357)**	(207)	**2,763**	2,878
23	46	**2**	3	**3**	4	**–**	–	**125**	194
–	–	**83**	75	**471**	403	**(464)**	(420)	**223**	166
–	–	**117**	89	**3**	24	**(28)**	(83)	**536**	469
483	482	**2,397**	3,181	**1,070**	758	**(854)**	(723)	**28,812**	26,110
609	567	**228**	32	**(283)**	(148)	**–**	–	**3,043**	2,301

Income tax expense attributable to policyholders	**(397)**	(33)
Income tax expense attributable to shareholders	**(791)**	(730)
Net income	**1,855**	1,538
Net income attributable to minority interests	**(56)**	(54)
Net income attributable to shareholders	**1,799**	1,484

Table 11.2

Assets and liabilities by business segment

in USD millions, as of

	General Insurance		Life Insurance	
	06/30/05	12/31/04	**06/30/05**	12/31/04
Assets				
Total investments	**72,102**	71,627	**171,855**	179,953
Reinsurers' share of reserves for insurance contracts	**14,240**	14,753	**1,733**	1,361
Deposits made under assumed reinsurance contracts	**164**	190	**10**	24
Deferred policy acquisition costs	**2,202**	2,143	**8,364**	8,932
Deferred origination costs	**–**	–	**691**	736
Goodwill	**152**	164	**463**	514
Other related intangible assets[1]	**–**	–	**769**	860
Other assets	**14,442**	14,286	**10,169**	11,344
Total assets after consolidation of investments in subsidiaries	**103,302**	103,163	**194,054**	203,724
Liabilities				
Liabilities for investment contracts	**–**	–	**37,658**	40,288
Reserves for losses and loss adjustment expenses	**50,830**	52,162	**124**	116
Reserves for unearned premiums	**13,583**	13,293	**121**	146
Future life policyholders' benefits	**78**	174	**71,127**	79,234
Policyholders' contract deposits and other funds	**845**	1,038	**14,043**	14,232
Reserves for unit-linked products	**–**	–	**36,645**	34,875
Reserves for insurance contracts	**65,336**	66,667	**122,060**	128,603
Debt related to capital markets and banking activities	**–**	–	**–**	–
Senior debt	**8,087**	8,680	**520**	679
Subordinated debt	**–**	–	**–**	–
Other liabilities	**18,893**	18,521	**22,780**	23,459
Total liabilities	**92,316**	93,868	**183,018**	193,029

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

Reserves for insurance contracts, net				
Reserves for losses and loss adjustment expenses	**38,437**	39,344	**103**	95
Reserves for unearned premiums	**11,568**	11,166	**117**	143
Future life policyholders' benefits	**78**	174	**69,443**	77,919
Policyholders' contract deposits and other funds	**832**	1,011	**14,019**	14,211
Reserves for unit-linked products	**–**	–	**36,645**	34,875
Total reserves for insurance contracts	**50,915**	51,695	**120,327**	127,243

Farmers Management Services 06/30/05	Farmers Management Services 12/31/04	Other Businesses 06/30/05	Other Businesses 12/31/04	Corporate Functions 06/30/05	Corporate Functions 12/31/04	Eliminations 06/30/05	Eliminations 12/31/04	Total 06/30/05	Total 12/31/04
3,707	3,037	**35,978**	36,711	**17,553**	17,095	**(27,396)**	(26,268)	**273,799**	282,155
201	199	**6,791**	6,368	**75**	84	**(1,653)**	(1,846)	**21,387**	20,919
–	–	**2,545**	3,122	**7**	7	**(59)**	(61)	**2,667**	3,282
–	–	**179**	206	**–**	–	**–**	–	**10,745**	11,281
–	–	**–**	–	**–**	–	**–**	–	**691**	736
–	–	**5**	60	**5**	6	**–**	–	**625**	744
1,024	1,024	**–**	–	**–**	–	**–**	–	**1,793**	1,884
1,043	950	**3,287**	3,933	**2,036**	1,566	**(2,252)**	(2,194)	**28,725**	29,885
5,975	5,210	**48,785**	50,400	**19,676**	18,758	**(31,360)**	(30,369)	**340,432**	350,886
–	–	**–**	–	**–**	–	**(245)**	(242)	**37,413**	40,046
–	–	**6,767**	6,350	**148**	158	**(843)**	(1,021)	**57,026**	57,765
–	–	**812**	880	**46**	48	**(89)**	(136)	**14,473**	14,231
–	–	**2,813**	2,642	**455**	470	**(702)**	(668)	**73,771**	81,852
–	–	**7,058**	7,197	**–**	–	**(69)**	(76)	**21,877**	22,391
–	–	**16,015**	15,973	**–**	–	**–**	–	**52,660**	50,848
–	–	**33,465**	33,042	**649**	676	**(1,703)**	(1,901)	**219,807**	227,087
–	–	**4,253**	5,009	**–**	–	**(1,089)**	(1,129)	**3,164**	3,880
–	–	**1,111**	1,247	**18,231**	16,655	**(24,953)**	(23,906)	**2,996**	3,355
–	–	**–**	–	**4,348**	3,749	**(1,351)**	(1,233)	**2,997**	2,516
1,769	1,367	**7,729**	9,058	**2,182**	2,045	**(2,019)**	(1,958)	**51,334**	52,492
1,769	1,367	**46,558**	48,356	**25,410**	23,125	**(31,360)**	(30,369)	**317,711**	329,376

Equity		
Common stockholders' equity	**20,838**	19,574
Preferred securities	**1,096**	1,096
Shareholders' equity	**21,934**	20,670
Minority interests	**787**	840
Total equity	**22,721**	21,510
Total liabilities and equity	**340,432**	350,886

Farmers Management Services 06/30/05	Farmers Management Services 12/31/04	Other Businesses 06/30/05	Other Businesses 12/31/04	Corporate Functions 06/30/05	Corporate Functions 12/31/04	Eliminations 06/30/05	Eliminations 12/31/04	Total 06/30/05	Total 12/31/04
–	–	**3,903**	3,938	**114**	113	**(6)**	(3)	**42,551**	43,487
–	–	**745**	817	**5**	9	**(2)**	(1)	**12,433**	12,134
(201)	(199)	**2,447**	2,313	**455**	471	**10**	5	**72,232**	80,683
–	–	**3,563**	3,631	**–**	–	**(52)**	(56)	**18,362**	18,797
–	–	**16,015**	15,973	**–**	–	**–**	–	**52,660**	50,848
(201)	(199)	**26,673**	26,672	**574**	593	**(50)**	(55)	**198,238**	205,949

Table 11.3

Premiums, revenues and assets by geographical segment

in USD millions

	Gross written premiums and policy fees for the six months ended June 30		Revenues for the six months ended June 30		Assets as of	
	2005	2004	**2005**	2004	**06/30/05**	12/31/04
North America	**9,500**	9,993	**8,675**	8,513	**66,756**	64,167
Europe	**14,488**	14,219	**20,025**	16,541	**225,062**	236,084
International Businesses	**1,722**	1,772	**1,558**	1,629	**11,713**	11,683
Centrally Managed Businesses	**920**	1,101	**2,175**	2,141	**57,856**	57,674
Eliminations	**(676)**	(729)	**(578)**	(413)	**(20,955)**	(18,722)
Total	**25,954**	26,356	**31,855**	28,411	**340,432**	350,886

Review report of the Group auditors

To the Board of Directors of Zurich Financial Services, Zurich

We have reviewed the half year consolidated financial information (operating statement, balance sheet, statement of cash flows, statement of shareholders' equity and notes on pages 1 to 22 of Zurich Financial Services for the six months ended June 30, 2005.

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 Review Engagements (ISREs), 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 M Humphreys

Zurich, August 17, 2005

Embedded value results – Life Insurance (unaudited)

in USD millions, for the six months ended June 30	USA 2005	2004
Gross new business premiums including deposits	**95**	125
of which:		
Annual premiums	**49**	47
Single premiums	**46**	78
Gross new business annual premiums equivalent (APE)	**54**	55
Embedded value information:		
Opening embedded value	**2,402**	2,555
Operating profit expected from in-force business and net assets, after tax	**76**	88
New business profit, after tax	**26**	31
Operating variance, after tax	**66**	1
Total operating profit, after tax	**168**	120
Economic variance	**(8)**	(31)
Embedded value profit/(loss), after tax	**160**	89
Dividends and capital movements	**(502)**	(361)
Closing embedded value before foreign currency translation effects	**2,060**	2,283
Foreign currency translation effects	**–**	–
Closing embedded value after foreign currency translation effects	**2,060**	2,283
of which:		
Shareholders' net assets	**669**	1,014
Value of business in-force	**1,391**	1,269
After-tax operating return before foreign currency translation effects	**8.9%**	5.5%
After-tax operating return before foreign currency translation effects – annualized	**14.3%**	10.9%
After-tax return on opening embedded value before foreign currency translation effects	**8.4%**	4.1%
After-tax return on opening embedded value before foreign currency translation effects – annualized	**13.8%**	9.5%
Expected return – annualized	**8.0%**	8.0%
New business profit margin (as % of APE)	**48.5%**	56.9%
Embedded value economic assumptions:		
Discount rate	**7.8%**	8.5%
Investment returns before tax:		
Fixed interest	**5.0%**	5.5%
Equities	**7.8%**	8.5%
Property	**–**	–
Expense inflation	**2.0%**	2.8%
Attributed tax rate	**35.0%**	35.0%

Europe								International Businesses		Total	
United Kingdom		Germany		Switzerland		Rest of Europe					
2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
2,698	2,736	**365**	448	**174**	259	**1,139**	644	**567**	577	**5,038**	4,789
228	205	**240**	254	**37**	45	**79**	63	**47**	44	**680**	658
2,470	2,531	**125**	194	**137**	214	**1,060**	581	**520**	533	**4,358**	4,131
475	458	**252**	274	**51**	67	**185**	120	**99**	97	**1,116**	1,071
6,146	4,270	**1,182**	830	**1,026**	433	**1,139**	1,585	**862**	739	**12,757**	10,412
228	213	**43**	33	**38**	16	**40**	47	**40**	36	**465**	433
20	31	**40**	23	**6**	6	**23**	14	**7**	(1)	**122**	104
(165)	(18)	**(5)**	15	**129**	(29)	**48**	48	**9**	(1)	**82**	16
83	226	**78**	71	**173**	(7)	**111**	109	**56**	34	**669**	553
36	(46)	**(158)**	(77)	**52**	45	**18**	(4)	**(9)**	(22)	**(69)**	(135)
119	180	**(80)**	(6)	**225**	38	**129**	105	**47**	12	**600**	418
(24)	1,046	**61**	61	**(4)**	216	**–**	(578)	**11**	3	**(458)**	387
6,241	5,496	**1,163**	885	**1,247**	687	**1,268**	1,112	**920**	754	**12,899**	11,217
(414)	104	**(125)**	(28)	**(137)**	(6)	**(135)**	(37)	**(20)**	(35)	**(831)**	(2)
5,827	5,600	**1,038**	857	**1,110**	681	**1,133**	1,075	**900**	719	**12,068**	11,215
3,888	3,406	**637**	509	**633**	139	**488**	466	**650**	472	**6,965**	6,006
1,939	2,194	**401**	348	**477**	542	**645**	609	**250**	247	**5,103**	5,209
1.4%	4.3%	**6.6%**	9.0%	**16.9%**	(1.6%)	**9.8%**	9.1%	**6.5%**	4.6%	**5.5%**	5.2%
5.5%	8.9%	**13.6%**	16.0%	**21.3%**	3.5%	**15.4%**	14.2%	**12.0%**	9.4%	**10.4%**	10.2%
2.0%	3.4%	**(6.8%)**	(0.8%)	**21.9%**	8.7%	**11.4%**	8.8%	**5.5%**	1.6%	**5.0%**	3.9%
6.1%	8.0%	**0.2%**	6.3%	**26.3%**	13.7%	**17.0%**	14.0%	**11.0%**	6.4%	**9.8%**	9.0%
7.6%	8.1%	**7.3%**	8.0%	**7.5%**	7.5%	**7.1%**	7.9%	**9.4%**	9.8%	**7.7%**	8.1%
4.2%	6.7%	**15.7%**	8.5%	**12.1%**	8.5%	**12.6%**	12.2%	**6.7%**	(1.0%)	**10.9%**	9.7%
7.3%	8.3%	**7.0%**	8.0%	**7.5%**	7.5%	**6.8%**	7.8%	**9.0%**	9.9%	**7.5%**	8.3%
4.2%	5.2%	**3.3%**	4.5%	**3.1%**	3.5%	**3.3%**	4.6%	**5.2%**	5.8%	**3.7%**	4.6%
6.8%	7.8%	**6.8%**	8.0%	**7.0%**	7.0%	**6.6%**	7.4%	**8.7%**	9.2%	**6.8%**	7.8%
6.5%	7.3%	**4.1%**	5.0%	**4.5%**	4.8%	**5.1%**	5.7%	**7.5%**	8.5%	**4.6%**	5.1%
3.0%	3.0%	**1.7%**	1.6%	**1.0%**	1.0%	**2.9%**	3.4%	**3.0%**	2.6%	**2.4%**	2.5%
30.0%	30.0%	**39.9%**	43.6%	**22.0%**	25.0%	**25.5%**	27.3%	**28.8%**	26.7%	**30.3%**	31.2%

Life Insurance – Rest of Europe by country (unaudited)

in USD millions, for the six months ended June 30
Gross new business premiums including deposits
of which:
Annual premiums
Single premiums
Gross new business annual premiums equivalent (APE)
New business profit, after tax
Total operating profit, after tax
After-tax operating return before foreign currency translation effects
After-tax operating return before foreign currency translation effects – annualized
Expected return – annualized
New business profit margin (as % of APE)

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

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, 2004 for the main life companies of the Group in the USA, United Kingdom, Switzerland, Germany, Ireland, Italy and Spain. 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, 2005 have been compiled in a manner consistent with the results previously reported as of December 31, 2004. For the purpose of this report, Deloitte have performed certain checks on data provided by the Group, but have not verified and have relied on the underlying data.

Italy 2005	Italy 2004	Spain 2005	Spain 2004	Ireland 2005	Ireland 2004	Other European Countries 2005	Other European Countries 2004	Total 2005	Total 2004
348	269	**515**	122	**240**	224	**36**	29	**1,139**	644
9	8	**6**	5	**53**	42	**11**	8	**79**	63
339	261	**509**	117	**187**	182	**25**	21	**1,060**	581
43	34	**57**	17	**72**	61	**13**	8	**185**	120
7	6	**7**	2	**7**	5	**2**	1	**23**	14
27	13	**30**	22	**35**	34	**19**	40	**111**	109
7.5%	4.7%	**15.6%**	7.3%	**8.5%**	10.2%	**11.2%**	14.2%	**9.8%**	9.1%
13.2%	10.8%	**23.2%**	12.1%	**13.6%**	15.6%	**15.6%**	18.5%	**15.4%**	14.2%
7.3%	8.0%	**7.3%**	8.0%	**6.8%**	7.5%	**7.3%**	8.0%	**7.1%**	7.9%
16.8%	17.3%	**13.0%**	15.0%	**10.2%**	9.1%	**10.6%**	8.1%	**12.6%**	12.2%

Additional notes to the embedded value results

1. To improve transparency and to reflect management responsibilities, the presentation of the embedded value results has been enhanced. In particular, additional information on the countries within Europe has been disclosed. The results of the United Kingdom include the Isle of Man.
2. The after-tax operating return and after-tax return on opening embedded value have been calculated reflecting the incidence of current year capital movements in and out of embedded value.
3. For the calculation of the annualized returns it is assumed that the embedded value return in the second half of the year is equal to the expected rate plus the expected value of new business in the second half year (which is assumed to be equal to the new business value in the first half year).
4. The Life Insurance segment includes 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 approximately 3% of the total published embedded value.
5. For both 2004 and 2005, the new business profit and new business premium information are shown gross of any minority holdings although the embedded value is shown net of minority holdings. The minorities share of new business profit is eliminated through "Operating variance, after tax". The minorities share of new business profit mostly relates to our subsidiary Deutscher Herold Lebensversicherung AG. For the total Life Insurance segment, the new business profit and APE net of minority holdings for the six months ended June 30, 2005, are USD 114 million and USD 1,067 million, respectively.
6. Effective January 1, 2005, in the USA there was a transfer of capital of USD 512 million from Life to Farmers Management Services, including USD 490 million of surplus notes. The embedded value operating profit includes a net benefit of USD 58 million due to the reduction in cost of capital associated with the transfer of these surplus notes.
7. The UK new business profit, after tax, decreased for the six months ended June 30, 2005, compared to last year because it was adversely affected by the transitional measures for the repositioning of the Group's UK life business. These transitional measures reduced the new business profit for the six months ended June 30, 2005, by USD 25 million, which corresponds to an effect of 5.3 percentage points on the UK new business profit margin, and 2.2 percentage points on the total new business profit margin.
8. In April 2004, the Group changed the organizational structure of its business units in line with its strategy. As a result, certain life insurance operations have been reclassified to the Other Businesses reporting segment. One of these, Kemper Investors Life Insurance Company ("KILICO"), has written variable annuity contracts that provide annuitants with certain guarantees related to minimum death and income benefits. The Group has recorded provisions for these embedded guarantee features in accordance with its accounting policies set out in the 2004 Annual Report. The embedded value related to KILICO as of January 1, 2004 was USD 357 million. The Group has not determined embedded value results for this company since its reclassification into Other Businesses.

Embedded value methodology

The embedded value represents the shareholders' interest, excluding any value from future new business, in the entities included in the Life Insurance segment in per the IFRS financial statements. It is the total of the shareholders' interest in the net assets of these life insurance entities 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 "Operating variance".

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 during the period, 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, after tax:

- 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 the point of sale using applicable discount rates;
- the operating profit after tax 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 which 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 using deterministic projections that do not allow for all of the cost of options and guarantees on a market consistent basis.