



ZURICH®

Letter to Shareholders 2010

Results for the six months ended June 30, 2010

Zurich HelpPoint



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We delivered a robust operating performance from our core businesses in a challenging economic environment, demonstrating the underlying strength of our business strategy.

Dear Shareholder,

We are pleased to present the Group's financial results for the first half of 2010. We delivered a robust operating performance from our core businesses in a challenging economic environment, demonstrating the underlying strength of our business strategy. General Insurance posted a solid performance, protecting margins despite top-line pressures due to weak demand. Global Life continued to produce top-line and bottom-line growth. Farmers delivered another set of high-quality results by continuing to focus on margin, while fully leveraging the 21st Century acquisition.

The Group's business operating profit and net income attributable to shareholders were impacted by the provisions of USD 330 million we announced in July related to our banking activities in Ireland and the UK, which are included in our Non-Core Businesses segment, and by the earthquake in Chile and other weather-related losses. Business operating profit fell 10 percent to USD 2,286 million. Net income attributable to shareholders fell 16 percent to USD 1,642 million. The reduction in net income year-on-year also reflects a restatement in connection with the implementation of a dynamic hedge in the first quarter on a closed U.S. life portfolio. Without the restatement, we would have shown an increase against the USD 1,254 million of net income as published last year. Our capital and solvency positions remain very strong with a Solvency I ratio of 232 percent.

The operating performances of our core business segments were as follows:

In General Insurance, our business operating profit was USD 1,377 million. This is down 20 percent compared with

the same period in 2009, largely due to the Chile earthquake. While customer retention levels remain strong, our continued disciplined approach to underwriting constrains the amount of new business we choose to write in the current market environment.

Global Life continued to reap the benefits of its strategy of targeted proposition and distribution excellence. The results are evident across all key metrics. Business operating profit increased by 12 percent, to USD 720 million. New business value also continued its upward trend, increasing by 18 percent to USD 392 million, and annual premium equivalent increased by 9 percent to USD 1,716 million.

Farmers Management Services (FMS) grew its management fees and other related revenues by 12 percent to USD 1,399 million, driven by a 9 percent rise in gross written premiums to USD 9,207 million at the Farmers Exchanges, which are managed but not owned by a wholly-owned subsidiary of Zurich. Growth at the Exchanges was driven by the contribution from 21st Century, which was acquired last year. Business operating profit for Farmers, which includes FMS and Farmers Re, rose by 17 percent, to USD 845 million.

We would like to express our thanks to the 60,000 employees of Zurich. These are demanding times and change is constant. We are therefore especially grateful for the spirit and dynamism our colleagues have shown, especially those who have taken on new or added responsibilities. Together, we look forward to meeting the challenges ahead.



Dr. Manfred Gentz
Chairman of the Board of Directors



Martin Senn
Chief Executive Officer

The information contained within this Letter to Shareholders is an extract taken from the Financial review of the Half Year Report 2010 available on www.zurich.com and is unaudited. This document should be read in conjunction with the Financial Report 2009 and unaudited Consolidated financial statements as of June 30, 2010 for the Zurich Financial Services Group. Comparatives are for the six months ended June 30, 2009 or as of December 31, 2009 unless otherwise stated. All amounts, unless otherwise specified, are shown in U.S. dollars and rounded to the nearest million with the consequence that the rounded amounts may not add to the rounded total in all cases. All ratios and variances are calculated using the underlying amount rather than the rounded amount. Certain comparatives have been restated to reflect the change in accounting policy as set out in note 1 of the unaudited Consolidated financial statements.

Financial highlights

in USD millions, for the six months ended June 30, unless otherwise stated	2010	2009	Change ¹
Business operating profit	2,286	2,552	(10%)
Net income attributable to shareholders	1,642	1,967	(16%)
General Insurance gross written premiums and policy fees	17,940	18,247	(2%)
Global Life gross written premiums, policy fees and insurance deposits	13,111	11,569	13%
Farmers Management Services management fees and other related revenues	1,399	1,247	12%
Farmers Re gross written premiums and policy fees	2,491	2,883	(14%)
General Insurance business operating profit	1,377	1,714	(20%)
General Insurance combined ratio	98.0%	96.2%	(1.7 pts)
Global Life business operating profit	720	641	12%
Global Life new business annual premium equivalent (APE)	1,716	1,579	9%
Global Life new business margin, after tax (as % of APE)	22.8%	21.0%	1.8 pts
Global Life new business value, after tax	392	332	18%
Farmers business operating profit	845	724	17%
Farmers Management Services gross management result	681	610	12%
Farmers Management Services managed gross earned premium margin	7.4%	7.3%	0.1 pts
Group investments average invested assets ²	190,565	184,799	3%
Group investments result, net	3,979	2,274	75%
Group investments return (as % of average invested assets)	2.1%	1.2%	0.9 pts
Total return on Group investments	3.6%	1.6%	2.0 pts
Shareholders' equity ³	28,469	29,304	(3%)
Solvency I ratio ³	232% ⁴	195% ⁵	37 pts
Diluted earnings per share (in CHF)	12.14	15.68	(23%)
Book value per share (in CHF) ³	207.69	206.58	1%
Return on common shareholders' equity (ROE)	11.5%	17.6%	(6.0 pts)
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)	12.4%	17.3%	(4.9 pts)

¹ Parentheses around numbers represent an adverse variance.

² Excluding average cash received as collateral for securities lending of USD 396 million and USD 285 million in the six months ended June 30, 2010 and 2009, respectively.

³ As of June 30, 2010 and December 31, 2009, respectively.

⁴ After taking into account a dividend accrual of CHF 8.00 per share. The 2010 dividend proposed to the Annual General Meeting will be the decision of the Board in February 2011. Including a 10 pts increase due to refined methodology.

⁵ Finalized, restated for accounting change and as filed with the Swiss regulator; after 2009 dividend.

**Performance
overview for the
six months ended
June 30, 2010**

Zurich Financial Services Ltd and its subsidiaries (collectively "the Group") delivered a set of results below that of the prior year after allowing for a number of significant events in the first six months of the year. These included losses from the earthquake in Chile of USD 200 million and increases on the banking loan loss provisions of USD 330 million. However, the Group's strong focus on profitability allowed it to deliver robust underlying performance in all its core businesses with significant increases in business operating profit in Global Life and Farmers. The Group's capital and solvency positions remain strong with an increase of 37 percentage points in the Solvency I position since December 31, 2009 to 232 percent, and with shareholders' equity at USD 28.5 billion after paying USD 2.2 billion in dividends in the first six months of the year. Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE) for the six months ended June 30, 2010 was 12.4 percent.

Business operating profit decreased by USD 266 million or 10 percent to USD 2.3 billion in U.S. dollar terms and by 9 percent on a local currency basis.

- **General Insurance** business operating profit decreased by USD 337 million or 20 percent to USD 1.4 billion in U.S. dollar terms and by 19 percent on a local currency basis. The business experienced a higher level of event and weather-related losses, including USD 200 million from the Chilean earthquake in the first three months of the year, and lower levels of investment income. The ongoing focus on profitability and rate increases continued to positively impact the underlying underwriting result for the period in a competitive market.
- **Global Life** business operating profit increased by USD 79 million or 12 percent to USD 720 million in U.S. dollar terms, and also by 12 percent on a local currency basis. During the first six months of 2010, both the expense and the investment margin increased, benefiting from the recovery in global financial markets, while focus on protection business also led to an improved risk margin.
- **Farmers** business operating profit increased by USD 121 million or 17 percent to USD 845 million. **Farmers Management Services** business operating profit increased by USD 51 million, or 8 percent, supported by the successful acquisition and integration of 21st Century which was acquired in July 2009 by the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Group. **Farmers Re** business operating profit increased by USD 70 million or 88 percent to USD 151 million, reflecting its increased participation in the All Lines quota share reinsurance treaty, favorable underlying underwriting trends and the 21st Century acquisition.

Other Operating Businesses business operating loss increased by USD 121 million to USD 361 million. The result reflects a more normalized run-rate for Group financing costs. The prior year included one-off gains associated with buy-backs of subordinated debt.

Non-Core Businesses, comprising the Group's run-off businesses and the Group's banking activities, business operating loss increased by USD 7 million to USD 295 million. The loss in the first six months of the year arose from the increase in banking loan loss provisions in the second three months of USD 330 million as a result of a review of its loans for commercial property development in the UK and Ireland. The loss in the same period of the prior year arose from reserve increases driven by volatile markets. This has been mitigated in the current year through the dynamic hedge strategy implemented in the first three months of the year.

Total Group business volumes, comprising gross written premiums, policy fees, insurance deposits and management fees, increased by USD 1.0 billion or 3 percent in U.S. dollar terms and by 1 percent on a local currency basis. This is aligned to the Group's strategy to grow in chosen markets. Business volumes in the main operating segments developed as follows:

- **General Insurance** gross written premiums and policy fees decreased by USD 306 million or 2 percent to USD 17.9 billion in U.S. dollar terms and by 4 percent on a local currency basis. Average rate increases of 2 percentage points were achieved through continuing disciplined underwriting focused on profit margin. However, these positive actions did not fully compensate for the impact of the economic environment and competitive markets which led to lower levels of new business as well as reduced insured customer exposures. Customer retention levels remain strong across the business.
- **Global Life** gross written premiums, policy fees and insurance deposits increased by USD 1.5 billion or 13 percent to USD 13.1 billion in U.S. dollar terms and by 12 percent on a local currency basis. This increase was primarily driven by higher levels of single premium products manufactured cross-border and continued growth in the Private Banking Client Solutions and Corporate Life & Pensions businesses.
- **Farmers Management Services** management fees and other related revenues increased by USD 152 million or 12 percent to USD 1.4 billion reflecting the underlying increase of 10 percent in the gross earned premiums of the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Group. 21st Century generated USD 179 million in fees and revenues. The 14 percent decrease to USD 2.5 billion in the gross written premiums of **Farmers Re** reflects the changes in the All Lines quota share reinsurance treaty and associated portfolio transfers.

Net income attributable to shareholders decreased by USD 324 million or 16 percent to USD 1.6 billion. The **shareholders' effective tax rate** was 23.2 percent for the six months ended June 30, 2010 compared with 24.4 percent for the same period in the prior year and 22.7 percent for the year ended December 31, 2009.

ROE of 11.5 percent was affected by a number of factors in the first six months of the year, including the additional banking loan loss provisions, the impact of the Chile earthquake and the continued strengthening of the Group's capital position. **BOPAT ROE** was 12.4 percent. **Diluted earnings per share** decreased by 23 percent to CHF 12.14 for the six months ended June 30, 2010, compared with CHF 15.68 for the same period in the prior year.

General Insurance

in USD millions, for the six months ended June 30	2010	2009	Change
Gross written premiums and policy fees	17,940	18,247	(2%)
Net earned premiums and policy fees	13,778	14,231	(3%)
Insurance benefits and losses, net of reinsurance	(9,785)	(10,047)	3%
Net underwriting result	279	535	(48%)
Net investment income	1,439	1,533	(6%)
Net non-technical result (excl. items not included in BOP)	(333)	(403)	17%
Business operating profit	1,377	1,714	(20%)
Loss ratio	71.0%	70.6%	(0.4 pts)
Expense ratio	27.0%	25.6%	(1.3 pts)
Combined ratio	98.0%	96.2%	(1.7 pts)

General Insurance delivered a set of results below that of the same period of the prior year, driven by losses from catastrophe and weather-related events, including the Chilean earthquake of USD 200 million, as well as the continuing impact of the recessionary environment and lower investment yields. However, rate increases and targeted underwriting actions implemented over the past year are evidenced in lower underlying loss ratios since the prior year end.

Business operating profit decreased by USD 337 million or by 20 percent to USD 1.4 billion in U.S. dollar terms and by 19 percent on a local currency basis. The decrease is mainly attributable to the impact of the Chilean earthquake and the higher occurrence of weather related losses in both Europe and North America. Investment returns declined mainly due to a decrease in yields and a lower asset base after the repatriation of capital to the Group. Rate increases achieved in recent quarters are now earning into the result. The non-technical result improved mainly due to improved foreign exchange positions, including benefits from currency revaluations in Latin America.

Gross written premiums and policy fees decreased by USD 306 million or 2 percent to USD 17.9 billion in U.S. dollar terms and by 4 percent on a local currency basis. In line with strategy to maintain margins, average rate increases of 2 percentage points have been achieved during the first six months of the year with higher increases achieved in European markets compared with North America. The depressed levels of economic activity have reduced many of the insured customer exposures and lower levels of new business activity are evident. Despite this, premium growth has been achieved in International Markets, as well as in certain commercial units in North America and specific market segments in Europe. In the North American market, competitors are aggressively defending their portfolios and the market is experiencing rate decreases. European volumes are under pressure because of higher unemployment and other recessionary impacts, particularly in the personal lines motor business. Overall, customer retention levels continued to develop favorably.

The **net underwriting result** decreased by USD 256 million to USD 279 million with the combined ratio at 98.0 percent having deteriorated by 1.7 percentage points compared with the same period in the prior year. The loss ratio was impacted by the Chilean earthquake, the Tennessee floods and the higher occurrence of severe weather in both Europe and North America after benign experience in the prior year. Excluding these impacts, the underlying result continues to develop favorably with a decrease in the loss ratio since the prior year end and higher favorable development of reserves established in prior years. The expense ratio developed unfavorably by 1.3 percentage points to 27.0 percent. A major driver was the reduction in net earned premiums resulting from lower business volumes and return premiums and reinstatement premiums recorded in the first six months of the year. Within the overall expense ratio, the commission ratio increased as a result of a change in reinsurance structure and profit commissions related to the North America crop business. The Group continued to focus on expense management and maintaining a balance between strategic investments and expense management actions.

Global Life

in USD millions, for the six months ended June 30	2010	2009	Change
Insurance deposits	7,324	5,546	32%
Gross written premiums and policy fees	5,787	6,023	(4%)
Net investment income on Group investments	1,952	2,022	(3%)
Insurance benefits and losses, net of reinsurance	(4,663)	(5,211)	11%
Underwriting and policy acquisition costs, net of reinsurance	(751)	(784)	4%
Administrative and other operating expenses	(1,018)	(910)	(12%)
of which:			
Amortization and impairments of intangible assets	(152)	(124)	(22%)
Depreciation and impairments of property and equipment	(16)	(16)	(1%)
Business operating profit	720	641	12%
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts ¹	165,490	180,145	(8%)
Assets under management ^{1,2}	198,845	214,512	(7%)
Net policyholder flows ³	2,949	1,670	nm
New business – highlights			
New business annual premium equivalent (APE)	1,716	1,579	9%
Present value of new business premiums (PVNBP)	14,619	12,275	19%
New business margin, after tax (as % of APE)	22.8%	21.0%	1.8 pts
New business margin, after tax (as % of PVNBP)	2.7%	2.7%	0 pts
New business value, after tax	392	332	18%

¹ As of June 30, 2010 and December 31, 2009.

² Assets under management comprise Group and unit-linked investments that are included in the Global Life balance sheet plus assets that are managed by third parties, on which the Group earns fees.

³ Net policyholder flows are defined as the sum of gross written premiums and policy fees and deposits, less policyholder benefits and reinsurance.

New business value, after tax, increased by USD 60 million or 18 percent to USD 392 million in U.S. dollar terms and by 17 percent on a local currency basis. The major movements were the increase in domestic and cross-border IFA/ Broker sales in and manufactured from Ireland, higher Corporate Life & Pensions business sales volumes in the UK and Latin America, growth in Private Banking Client Solutions in the UK, and the beneficial impacts of higher interest rates and lower volatilities on savings products in Germany. These improvements were partially offset by the business in the U.S. with higher interest rates adversely impacting the margin on protection products. Overall, the new business margin after tax was 22.8 percent, an increase of 1.8 percentage points compared with the same period in the prior year.

New business annual premium equivalent (APE) increased by USD 137 million or 9 percent to USD 1.7 billion in U.S. dollar terms and by 8 percent on a local currency basis. In Ireland, APE increased by 57 percent in both U.S. dollar terms and on a local currency basis due to the successful domestic sales of long-term savings products and continued growth in cross-border sales. In the UK, APE increased by 31 percent in U.S. dollar terms and by 28 percent on a local currency basis with the main drivers being the Private Banking Client Solutions and Corporate Life & Pensions businesses. In Switzerland, APE decreased by 27 percent in U.S. dollar terms and by 30 percent on a local currency basis as customers anticipated the reduction in the technical interest rate effective January 1, 2010 during the later part of 2009, leading to reduced sales in 2010. In the Americas, APE increased by 26 percent in U.S. dollar terms and by 27 percent on a local currency basis which was driven by strong growth in Latin America, especially from Corporate Life & Pensions and Bank Distribution sales. APE in Emerging Markets in Asia decreased by 3 percent in U.S. dollar terms and by 2 percent on a local currency basis. Higher sales through a bank partner in Hong Kong and the market recovery, which benefited the

International/Expats business, were partly offset by lower international corporate business. APE in Spain decreased by 31 percent in both U.S. dollar terms and on a local currency basis primarily due to lower volumes of short term savings products in a highly competitive market, partly offset by growth in protection sales. APE in the Rest of the World increased by 52 percent in U.S. dollar terms and by 46 percent on a local currency basis, driven by cross-border sales through the Private Banking Client Solutions hub in Luxembourg into Italy, as well as by strong IFA/Broker sales through the Finanza e Futuro distribution channel in Italy.

Business operating profit increased by USD 79 million or 12 percent to USD 720 million in U.S. dollar terms, and also by 12 percent on a local currency basis. The improved performance was driven by increases in the investment, expense and risk margins. The investment margin improved in particular due to foreign exchange gains in Switzerland and a net positive impact from interest rate movements on spread products. The expense margin benefited from the recovery in the financial markets that increased fee income, especially in the UK, and the focus on expense management in all territories. The risk margin increased as a result of the social security business in Chile that commenced in the third quarter of 2009, and favorable experience in Australia.

Insurance deposits increased by USD 1.8 billion or 32 percent to USD 7.3 billion in U.S. dollar terms and by 31 percent on a local currency basis, driven by growth in Ireland, the UK, Hong Kong and Germany.

Gross written premiums and policy fees decreased by USD 236 million or 4 percent to USD 5.8 billion in U.S. dollar terms and by 5 percent on a local currency basis. The decrease was primarily due to a reduction in sales of short-term saving products in Spain.

Net reserves decreased by 8 percent in U.S. dollar terms compared with December 31, 2009. On a local currency basis the net reserves increased by 1 percent due to increased net policyholder flows, the improved financial markets, which resulted in higher interest and bonuses credited to policyholders, as well as increases to net reserves which flow directly through shareholders' equity. **Assets under management** decreased by 7 percent in U.S. dollar terms and increased by 1 percent on a local currency basis, compared with December 31, 2009. **Net policyholder flows** increased by USD 1.3 billion in U.S. dollar terms over the same period of the prior year driven by new business flows as well as focused efforts on in-force management.

Farmers

Farmers business operating profit was USD 845 million compared with USD 724 million in the same period of the prior year. Farmers Management Services contributed USD 694 million compared with USD 643 million and Farmers Re contributed USD 151 million compared with USD 80 million.

Farmers Management Services

in USD millions, for the six months ended June 30	2010	2009	Change
Management fees and other related revenues	1,399	1,247	12%
Management and other related expenses	(718)	(636)	(13%)
Gross management result	681	610	12%
Other net income	13	33	(60%)
Business operating profit	694	643	8%
Managed gross earned premium margin	7.4%	7.3%	0.1 pts

Business operating profit increased by USD 51 million or 8 percent to USD 694 million, supported by the USD 82 million contribution from 21st Century, which was acquired in July 2009 by the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Group. This was partially offset by lower investment income. The underlying gross management result was driven by a lower contribution from the business, excluding 21st Century, as volumes decreased.

Management fees and other related revenues increased by USD 152 million or 12 percent to USD 1.4 billion driven by a 10 percent increase in gross earned premiums in the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Group. 21st Century contributed USD 179 million in the first six months of 2010. This contribution was partially offset by a reduction in management fees from the auto line of business, reflecting the continuing economic pressures in the U.S.

Management and other related expenses increased by USD 82 million or 13 percent to USD 718 million driven by USD 91 million related to 21st Century. The underlying expenses of the remaining business were lower compared with the same period in the prior year reflecting continued strict expense discipline and the benefits of ongoing operational transformation. Overall, the gross management result improved by USD 71 million or 12 percent to USD 681 million while the **managed gross earned premium margin** remained broadly flat at 7.4 percent.

Other Operating Businesses

in USD millions, for the six months ended June 30	2010	2009	Change
Business operating profit:			
Holding and financing	(307)	(209)	(47%)
Headquarters	(38)	(17)	nm
Alternative investments	(16)	(14)	(11%)
Total business operating profit	(361)	(239)	(51%)

Holding and financing increased its business operating loss by USD 99 million or 47 percent to USD 307 million. This reflects a more normalized run-rate for Group financing costs. The prior period included USD 73 million of one-off gains associated with buy-backs of subordinated debt. **Headquarters** business operating loss increased by USD 21 million to USD 38 million compared with the same period in the prior year, primarily as a result of expense timing differences.

Non-Core Businesses

in USD millions, for the six months ended June 30	2010	2009	Change
Business operating profit:			
Centre	3	57	(95%)
Banking activities	(318)	(25)	nm
Centrally managed businesses	21	(322)	nm
Other run-off	–	2	nm
Total business operating profit	(295)	(287)	(3%)

Centre business operating profit decreased by USD 55 million to USD 3 million, driven by the negative impact of financial markets on an insurance portfolio where both assets and liabilities are carried at fair value, and also due to reserve increases. **Banking activities** decreased by USD 293 million to a loss of USD 318 million predominantly driven by an increase in loan loss provisions of USD 330 million during the second three months of 2010 as a result of a review of its loans for commercial property development in the UK and Ireland. **Centrally managed businesses**, which comprise portfolios that are managed with the intention to achieve a profitable run-off over time, improved by USD 343 million to a profit of USD 21 million, primarily driven by the lower impact of reserve increases as a consequence of the implementation of a dynamic hedge strategy in the first three months of 2010. As set out in note 1 of the unaudited Consolidated financial statements, there has been a change in accounting policy for a closed block of variable annuity products. Along with implementation of the dynamic hedge strategy, this will reduce future volatility and the economic exposure associated with this block of business.

Investment position and performance

Breakdown of investments	in USD millions, as of	Group investments		Unit-linked investments	
		06/30/10	12/31/09	06/30/10	12/31/09
		Cash and cash equivalents	9,747	11,631	6,191
Equity securities:	9,819	12,450	71,296	78,311	
Common stocks, including equity unit trusts	7,196	8,839	62,459	69,004	
Unit trusts (debt securities, real estate and short-term investments)	2,059	2,477	8,837	9,307	
Common stock portfolios backing participating with-profit policyholder contracts	414	673	–	–	
Trading equity portfolios in capital markets and banking activities	150	461	–	–	
Debt securities	134,910	136,344	9,744	10,194	
Real estate held for investment	7,313	7,789	3,791	3,897	
Mortgage loans	10,923	12,736	–	–	
Policyholders' collateral and other loans	12,765	15,077	1,370	924	
Equity method accounted investments	187	232	–	–	
Total	185,664	196,258	92,392	99,167	

Group investments decreased by USD 10.6 billion or 5 percent to USD 185.7 billion since December 31, 2009 driven by currency translation effects. In local currency terms, total Group investments increased by 2 percent largely driven by positive revaluations of debt securities.

Unit-linked investments decreased by USD 6.8 billion or 7 percent to USD 92.4 billion since December 31, 2009. On a local currency basis, unit-linked investments increased by USD 1.6 billion or 2 percent driven by positive cash flows and performance of the financial markets in the first six months of 2010.

The quality of the Group's investment portfolio remains high. Investment grade securities comprise 98.3 percent of the Group's debt securities, of which 52.9 percent are rated AAA as of June 30, 2010. The Group's investment policy remains conservative and the Group continues to selectively reduce those risks for which it believes that the compensation received is not appropriate or which incur high regulatory capital costs.

Performance of Group investments	in USD millions, for the six months ended June 30	2010	2009	Change
		Net investment income	3,561	3,739
Net capital gains/(losses) on investments and impairments	418	(1,465)	nm	
of which: net capital gains/(losses) on investments and impairments attributable to shareholders	46	(1,138)	nm	
Net investment result	3,979	2,274	75%	
Net investment return on Group investments	2.1%	1.2%	0.9 pts	
Movements in net unrealized gains/(losses) on investments included in total equity	2,828	722	nm	
Total investment result, net of investment expenses¹	6,807	2,996	nm	
Average group investments ²	190,565	184,799	3%	
Total return on Group investments	3.6%	1.6%	2.0 pts	

¹ After deducting investment expenses of USD 109 million and USD 107 million for the six months ended June 30, 2010 and 2009, respectively.

² Excluding average cash received as collateral for securities lending of USD 396 million and USD 285 million for the six months ended June 30, 2010 and 2009, respectively.

Total return, net of investment expenses, on average Group investments was positive 3.6 percent. This was driven largely from debt securities, which are invested to match the Group's insurance liability profiles, and returned positive 4.6 percent. Equity securities returned negative 0.1 percent. Other investments returned a positive 1.7 percent, which includes the USD 330 million in additional banking loan loss provisions.

Total **net investment income** decreased by USD 178 million or 5 percent to USD 3.6 billion in U.S. dollar terms and by 6 percent on a local currency basis. Net investment income yield was 1.9 percent, a decrease of 15 basis points compared with the same period of the prior year. This decrease was driven by cash balances yielding lower return rates and lower income from debt securities.

Total **net capital gains on investments and impairments** were USD 418 million, comprising net realized gains of USD 501 million, and positive asset revaluations of USD 680 million which were offset by impairments of USD 763 million. Asset revaluations on securities booked as fair value through profit and loss were driven by gains on equity securities at fair value of USD 86 million, gains on debt securities at fair value of USD 397 million and gains from derivatives of USD 197 million, mainly from hedging activity. Impairments consisted of USD 393 million attributable to equity securities, USD 345 million to mortgages, mainly from the Group's banking activities in the UK and Ireland, and USD 24 million on equity method accounted investments.

Net unrealized gains included in total equity increased by USD 2.8 billion since December 31, 2009 primarily due to a USD 2.7 billion increase in net unrealized gains on debt securities principally as a consequence of lower interest rates. In general, credit spreads on corporate and mortgage backed securities widened slightly, but did not exceed the favorable effects of the fall in interest rates. Net unrealized gains on equity securities remained broadly flat at USD 61 million.

Performance of
unit-linked
investments

in USD millions, for the six months ended June 30	2010	2009	Change
Net investment income	767	811	(5%)
Net capital (losses)/gains on investments and impairments	(402)	112	nm
Net investment result, net of investment expenses ¹	364	923	(61%)
Average investments	95,779	81,539	17%
Total return on unit-linked investments²	0.4%	1.1%	(0.8 pts)

¹ After deducting investment expenses of USD 264 million and USD 215 million for the six months ended June 30, 2010 and 2009, respectively.

² Total return is not annualized.

Total return on unit-linked investments delivered a positive 0.4 percent compared with 1.1 percent in the same period of the prior year. The reduction in the total return was due to net capital losses of USD 402 million compared with net capital gains of USD 112 million in the same period of the prior year, resulting from the developments of the financial markets in the first six months of 2010 compared with the same period of the prior year. Net investment income decreased by USD 44 million or 5 percent, primarily due to lower dividend income on equity investments.

Consolidated income statements (unaudited)

in USD millions	Restated		Restated	
	2010	2009	2010	2009
	for the	for the	for the	for the
	three months	three months	six months	six months
	ended June 30	ended June 30	ended June 30	ended June 30
Revenues				
Gross written premiums and policy fees	11,403	13,184	26,387	27,426
Less premiums ceded to reinsurers	(1,559)	(1,639)	(3,084)	(3,095)
Net written premiums and policy fees	9,844	11,544	23,303	24,331
Net change in reserves for unearned premiums	826	(347)	(707)	(1,853)
Net earned premiums and policy fees	10,670	11,198	22,595	22,478
Farmers management fees and other related revenues	696	624	1,399	1,247
Net investment result on Group investments	2,008	1,515	3,979	2,274
Net investment income on Group investments	1,782	1,907	3,561	3,739
Net capital gains/(losses) and impairments on Group investments	227	(392)	418	(1,465)
Net investment result on unit-linked investments	(4,169)	4,226	364	923
Net gain/(loss) on divestments of businesses	1	–	1	(4)
Other income	331	406	641	792
Total revenues	9,537	17,969	28,979	27,709
Benefits, losses and expenses				
Insurance benefits and losses, gross of reinsurance	9,457	8,278	19,705	17,816
Less ceded insurance benefits and losses	(923)	(738)	(2,264)	(1,510)
Insurance benefits and losses, net of reinsurance	8,535	7,540	17,441	16,306
Policyholder dividends and participation in profits, net of reinsurance	(3,936)	4,418	845	1,189
Underwriting and policy acquisition costs, net of reinsurance	2,123	2,018	4,384	4,036
Administrative and other operating expense	1,863	1,735	3,575	3,225
Interest expense on debt	139	141	284	275
Interest credited to policyholders and other interest	127	122	267	244
Total benefits, losses and expenses	8,851	15,974	26,796	25,275
Net income before income taxes	686	1,995	2,183	2,434
Income tax expense	40	(565)	(505)	(466)
attributable to policyholders	239	(104)	3	170
attributable to shareholders	(199)	(460)	(508)	(636)
Net income after taxes	726	1,430	1,679	1,968
attributable to non-controlling interests	19	(5)	36	1
attributable to shareholders	707	1,434	1,642	1,967
in USD				
Basic earnings per share	4.86	10.03	11.32	13.99
Diluted earnings per share	4.82	9.96	11.22	13.89
in CHF				
Basic earnings per share	5.26	11.32	12.24	15.80
Diluted earnings per share	5.21	11.24	12.14	15.68

Consolidated balance sheets (unaudited)

Assets	in USD millions, as of		Restated	Restated
		06/30/10	12/31/09	12/31/08
Investments				
Total Group investments		185,664	196,258	179,570
Cash and cash equivalents		9,747	11,631	12,428
Equity securities		9,819	12,450	14,303
Debt securities		134,910	136,344	118,287
Real estate held for investment		7,313	7,789	7,524
Mortgage loans		10,923	12,736	12,820
Other loans		12,765	15,077	13,988
Equity method accounted investments		187	232	220
Investments for unit-linked contracts		92,392	99,167	78,203
Total investments		278,056	295,425	257,773
Reinsurers' share of reserves for insurance contracts		18,801	18,751	18,778
Deposits made under assumed reinsurance contracts		3,474	3,861	2,397
Deferred policy acquisition costs		15,032	16,181	14,323
Deferred origination costs		784	856	770
Accrued investment income		2,380	2,744	2,429
Receivables		12,715	13,182	13,229
Other assets		3,622	3,327	4,095
Mortgage loans given as collateral		926	1,102	1,233
Deferred tax assets		2,306	2,421	3,165
Assets held for sale ¹		12	67	–
Property and equipment		1,619	1,942	1,889
Goodwill		2,180	2,297	1,677
Other intangible assets		6,296	7,044	6,633
Total assets		348,202	369,202	328,391

¹ Includes land and buildings formerly classified as held for own use.

Liabilities
and equity

in USD millions, as of

	06/30/10	Restated 12/31/09	Restated 12/31/08
Liabilities			
Reserve for premium refunds	564	649	620
Liabilities for investment contracts	42,510	46,124	35,979
Deposits received under ceded reinsurance contracts	1,361	1,558	1,619
Deferred front-end fees	5,113	5,543	4,695
Reserves for insurance contracts	228,204	242,094	224,078
Obligations to repurchase securities	3,471	3,976	3,608
Accrued liabilities	2,457	2,839	2,820
Other liabilities	18,370	17,485	16,944
Collateralized loans	926	1,102	1,233
Deferred tax liabilities	4,000	4,445	3,273
Debt related to capital markets and banking activities	881	839	2,527
Senior and subordinated debt	10,358	11,444	8,455
Total liabilities	318,216	338,098	305,850
Equity			
Share capital	10	10	10
Additional paid-in capital	11,491	11,400	10,131
Net unrealized gains/(losses) on available-for-sale investments	1,933	387	(3,024)
Cash flow hedges	60	(9)	(16)
Cumulative foreign currency translation adjustment	(1,768)	(396)	(1,341)
Revaluation reserve	126	98	99
Retained earnings	16,102	17,253	14,441
Common shareholders' equity	27,954	28,743	20,301
Preferred securities	515	561	561
Shareholders' equity	28,469	29,304	20,862
Non-controlling interests	1,518	1,800	1,678
Total equity	29,986	31,104	22,540
Total liabilities and equity	348,202	369,202	328,391

Consolidated statements of cash flows (unaudited)

in USD millions, for the six months ended June 30	2010	Restated 2009
Cash flows from operating activities		
Net income attributable to shareholders	1,642	1,967
Adjustments for:		
Net (gain)/loss on divestments of businesses	(1)	4
Income from equity method accounted investments	(9)	3
Depreciation, amortization and impairments of fixed and intangible assets	434	356
Other non-cash items	(485)	(120)
Underwriting activities:	3,716	931
<i>Reserves for insurance contracts, gross</i>	3,759	2,299
<i>Reinsurers' share of reserves for insurance contracts</i>	(727)	(130)
<i>Liabilities for investment contracts</i>	738	(100)
<i>Deferred policy acquisition costs</i>	(325)	(562)
<i>Deferred origination costs</i>	(2)	20
<i>Deposits made under assumed reinsurance contracts</i>	380	(614)
<i>Deposits received under ceded reinsurance contracts</i>	(108)	19
Investments:	(2,880)	(4,616)
<i>Net capital (gains)/losses on total investments and impairments</i>	(16)	1,353
<i>Net change in trading securities and derivatives</i>	(97)	138
<i>Net change in money market investments</i>	327	(630)
<i>Sales and maturities</i>		
<i>Debt securities</i>	98,250	38,390
<i>Equity securities</i>	27,387	22,252
<i>Other</i>	8,368	3,522
<i>Purchases</i>		
<i>Debt securities</i>	(102,809)	(43,754)
<i>Equity securities</i>	(26,071)	(22,257)
<i>Other</i>	(8,219)	(3,631)
Proceeds from sale and repurchase agreements	(212)	21
Movements in receivables and payables	405	3,602
Net changes in debt for capital markets and banking activities	96	(733)
Net changes in other operational assets and liabilities	274	(114)
Deferred income tax, net	(415)	273
Net cash provided by/(used in) operating activities	2,566	1,574

in USD millions, for the six months ended June 30	2010	2009
Cash flows from investing activities		
Sales of property and equipment	30	42
Purchase of property and equipment	(89)	(145)
Investments in equity method accounted investments, net	2	3
Divestments of companies, net of cash balances	30	(10)
Dividends from equity method accounted investments	1	–
Net cash used in investing activities	(26)	(111)
Cash flows from financing activities		
Dividends paid	(2,214)	(1,413)
Issuance of share capital	51	797
Net movement in treasury shares	(38)	340
Issuance of debt	–	2,159
Repayments of debt outstanding	(200)	(347)
Net cash provided by/(used in) financing activities	(2,401)	1,536
Foreign currency translation effects on cash and cash equivalents	(1,478)	678
Change in cash and cash equivalents excluding change in cash held as collateral for securities lending	(1,340)	3,678
Cash and cash equivalents as of January 1, excluding cash held as collateral for securities lending	16,978	16,711
Cash and cash equivalents as of June 30, excluding cash held as collateral for securities lending	15,639	20,389
Change in cash held as collateral for securities lending	(193)	216
Cash and cash equivalents as of January 1, including cash held as collateral for securities lending	17,471	16,888
Cash and cash equivalents as of June 30, including cash held as collateral for securities lending	15,938	20,782
of which:		
– cash and cash equivalents – Group investments	9,747	15,554
– cash and cash equivalents – unit-linked	6,191	5,228
Other supplementary cash flow disclosures		
Other interest income received	3,616	3,666
Dividend income received	801	848
Other interest expense paid	(503)	(476)
Income tax paid	(608)	(451)

As of June 30, 2010 and 2009, cash and cash equivalents restricted as to use were USD 1,292 million and USD 3,048 million, respectively.

Cash and cash equivalents

in USD millions, as of June 30	2010	2009
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	6,087	8,666
Cash equivalents	9,551	11,723
Cash held as collateral for securities lending	299	393
Total	15,938	20,782

Shareholder information

Zurich Financial Services Ltd registered share data

Key indicators	as of	06/30/2010	06/30/2009
		Number of shares issued	145,636,664
Number of dividend-bearing shares ¹		145,636,664	146,922,620
Market capitalization (in CHF millions at end of period)		34,880	28,121
Authorized capital, number of shares		10,000,000	5,200,000
Contingent capital, number of shares		15,000,000	13,194,279

¹ Treasury shares are not entitled to dividends.

Per share data	in CHF	06/30/2010	06/30/2009
		Gross dividend	16.00 ¹
Basic earnings per share		12.24	15.80
Diluted earnings per share		12.14	15.68
Nominal value per share		0.10	0.10
Price at end of period		239.50	191.40
Price period high		271.20	245.00
Price period low		224.90	127.80

¹ Gross dividend per registered share; payment date was on April 8, 2010.

² Gross dividend per registered share; payment date was on April 7, 2009

Zurich share performance (indexed) over one year, ending June 2010



Source: Thomson Reuters

Financial calendar

Results Reporting for the Nine Months
to September 30, 2010
November 4, 2010

Investors' Day
December 2, 2010

Annual Results Reporting 2010
February 10, 2011

Annual General Meeting 2011
March 31, 2011

Results Reporting for the Three Months
to March 31, 2011
May 5, 2011

Half Year Results Reporting 2011
August 4, 2011

Results Reporting for the Nine Months
to September 30, 2011
November 10, 2011

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American Depositary Receipts

Zurich Financial Services Ltd has an American Depositary Receipt program with The Bank of New York Mellon (BNY). For information relating to an ADR account, please call BNY Mellon's Shareowner Services in the USA on +1-888-BNY-ADRs (1-888-269-2377) or outside the USA on +1-201-680-6825. General information on the company's ADR-program can be obtained from The Bank of New York Mellon at www.adrbnymellon.com.

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