

Zurich Financial Services Group  
Report for the Half Year

# 2007



ZURICH®

Letter to  
Shareholders

## **Content**

Letter to Shareholders	3
Group Performance Highlights	4
Financial Information Overview	5
Shareholder Information	16

## Dear Shareholder

We are particularly delighted, considering prevailing financial market conditions, to report that Zurich achieved another excellent operating result for the first six months of 2007. Net income after tax grew by 33 percent to USD 2.7 billion, producing an annualized return on equity of 22.3 percent, while business operating profit improved by 12 percent to USD 3.3 billion.

By leveraging a strong balance sheet through disciplined underwriting, targeted growth and operational efficiency, the Group achieved consistent shareholder value and produced top-tier financial results. This solid performance reflects our well-diversified book of business, capable of absorbing significant weather events, as well as our ability to balance growth in attractive businesses with underwriting discipline in more challenging markets. The recent upgrade of the Group's credit rating is further indication of our financial strength, as well as our industry-leading risk, capital and investment management strategies.

In our General Insurance business segment, business operating profit rose by USD 51 million to USD 1.8 billion. Gross written premiums and policy fees were USD 19 billion, largely flat in local currency when compared with 2006, while our combined ratio increased by 2 points to 96.5 percent, mainly as a result of the June floods and storms in the UK.

In Global Life, new business volume increased 51 percent to USD 319 million and business operating profit rose 25 percent to USD 71 million. These results were fueled by increased quarter-on-quarter growth, and by continuing to focus on unit-linked and protection markets we are confident we can continue to deliver similarly strong results.

Farmers Management Services posted another strong result, increasing business operating profit by 7 percent to USD 672 million. Furthermore, management fees and other related revenues rose by 4 percent to USD 1.1 billion, reflecting strong premium growth at the Farmers Exchanges, which we manage but do not own.

Our Other Businesses segment produced a business operating profit of USD 478 million, an increase of 57 percent, and Group Investments' net result rose 10 percent to USD 4.8 billion.

This robust performance reflects our customer-focused strategy, our determination to maintain financial discipline and sustainable growth, and the success of The Zurich Way, which continues to deliver measurable improvements in the way we operate.

Beyond these financial results, our businesses demonstrated once again the competitive strengths that our Group can bring to bear on behalf of our customers. For example, in the aftermath of the UK floods, our local business was able to leverage tested best practices and a global network of vendor relationships, allowing us to provide superior customer service. In California, Farmers' agents were at the scene of wildfires within hours, reassuring customers and giving practical help and guidance. While in Italy, after a fire destroyed a popular campsite, we deployed cars and buses from across boundaries to ensure that our customers could safely return home. None of these actions alone contributed directly to our six-month results, but together they reflect the core competitive strengths and customer focus that differentiate Zurich in the marketplace.

As always, these strengths ultimately rest on the enthusiasm and dedication of our employees, who maintain the focus and drive to excel. We thank them for their commitment, and our customers and shareholders for their loyalty and support.



Manfred Gentz  
Chairman of the Board



James J. Schiro  
Chief Executive Officer

## Group performance highlights

in USD millions, for the six months ended June 30, unless otherwise stated	2007	2006 <sup>1</sup>	Change <sup>2</sup>
Business operating profit	<b>3,278</b>	2,923	12%
Net income attributable to shareholders	<b>2,684</b>	2,011	33%
General Insurance gross written premiums and policy fees	<b>19,026</b>	18,454	3%
Global Life gross written premiums, policy fees and insurance deposits	<b>10,427</b>	10,190	2%
Farmers Management Services management fees	<b>1,093</b>	1,054	4%
General Insurance business operating profit	<b>1,838</b>	1,787	3%
General Insurance combined ratio (in %) <sup>3</sup>	<b>96.5%</b>	94.5%	(2.0 pts)
Global Life business operating profit	<b>721</b>	576	25%
Global Life new business value, after tax <sup>4</sup>	<b>319</b>	211	51%
Global Life gross new business annual premium equivalent (APE) <sup>5</sup>	<b>1,323</b>	1,184	12%
Farmers Management Services business operating profit	<b>672</b>	626	7%
Farmers Management Services gross operating margin (in %) <sup>6</sup>	<b>49.5%</b>	52.3%	(2.8 pts)
Group investments average invested assets <sup>7</sup>	<b>187,751</b>	182,245	3%
Group investments result, net	<b>4,798</b>	4,379	10%
Group investments return (as % of average invested assets)	<b>2.6%</b>	2.4%	0.2 pts
Shareholders' equity <sup>8</sup>	<b>26,077</b>	25,587	2%
Diluted earnings per share (in CHF)	<b>22.55</b>	17.37	30%
Return on common shareholders' equity (ROE) <sup>9</sup>	<b>22.3%</b>	20.6%	1.7 pts
Business operating profit (after tax) return on common shareholders' equity <sup>9</sup>	<b>20.1%</b>	20.4%	(0.3 pts)

<sup>1</sup> Restated as a result of the adoption of the SoRIE option under IAS 19 Employee Benefits.

<sup>2</sup> Positive / (negative) change.

<sup>3</sup> The General Insurance combined ratio is calculated as the sum of net earned premiums and policy fees less the net underwriting result, divided by net earned premiums and policy fees.

<sup>4</sup> Global Life new business value is the present value of the projected after tax profit from life insurance contracts sold in the year.

<sup>5</sup> APE is calculated as annual premiums plus 10% of single premiums.

<sup>6</sup> Farmers Management Services gross operating margin is calculated as the sum of Farmers management fees less management expenses, divided by Farmers management fees.

<sup>7</sup> Excluding cash collateral received for securities lending.

<sup>8</sup> As of June 30, 2007 and December 31, 2006, respectively.

<sup>9</sup> Returns for the six months ended June are annualized on a compound basis using the results for the six months. ROE (based on net income attributable to common shareholders) and business operating profit (after tax) return on common shareholders' equity for the year ended December 31, 2006 were 20.4% and 19.4%, respectively.

# Financial Information Overview

This information is an extract taken from the Financial Review and Consolidated Financial Statements in the Half Year Report 2007. Interim results are not necessarily indicative of full-year results. Certain comparatives in the Financial Review have been restated as a result of the adoption of the SoRIE option under IAS 19 Employee Benefits. As of the second quarter 2007 we have changed our presentation of rounded numbers. Comparatives are for the six months ended June 30, 2006 or as of December 31, 2006, unless otherwise specified.

## Performance overview

**Business operating profit** for the Group increased by 12 percent to USD 3.3 billion demonstrating the strong underlying performance of our core operating segments.

- **General Insurance business operating profit** increased by USD 51 million to USD 1.8 billion, reflecting the strength of our diversified portfolio to absorb the adverse impacts of Winter storm Kyrill and the June UK floods in the total amount of USD 566 million.
- **Global Life business operating profit** increased by USD 145 million or 25 percent to USD 721 million, reflecting increases, primarily in the UK and Germany, as well as a one-time benefit in the US. **New business value**, after tax, increased by USD 108 million, or 51 percent in US dollar terms (45 percent on a local currency basis) to USD 319 million primarily as a result of growth initiatives and changes in the business operating model.
- **Farmers Management Services business operating profit** increased by USD 46 million as a result of increased management fees, which more than offset an increase in expenses related to growth initiatives.

**Other Businesses business operating profit** increased by USD 174 million with strong results contributed by **Farmers Re, Centre** and **Centrally Managed Businesses**. **Corporate Functions business operating loss** increased by USD 59 million, primarily as a result of expenses associated with the early redemption of subordinated debt following the issuance of lower cost hybrid debt.

**Net income attributable to shareholders** increased by USD 673 million, or 33 percent, to USD 2.7 billion, with the prior year affected by the regulatory settlements amounting to USD 262 million, net of tax. The **shareholders' effective tax rate** was 26.0 percent compared with 26.9 percent for the year ended December 31, 2006. The Group's overall effective income tax rate of 28.5 percent, which includes the impact of tax expense attributable to policyholders in certain jurisdictions, decreased by 2.8 percentage points from 31.3 percent for the year ended December 31, 2006, primarily due to lower levels of policyholder net capital gains on investments.

Business volumes in our core operating segments developed as follows:

- **General Insurance** gross written premiums and policy fees increased by 3 percent in US dollar terms, and remained flat on a local currency basis, reflecting both underwriting discipline in all our divisions in a competitive market environment and our ability to find attractive growth opportunities.
- **Global Life** insurance deposits increased by 9 percent in US dollar terms, and by 1 percent on a local currency basis, while gross written premiums and policy fees decreased by 5 percent in US dollar terms, and by 10 percent on a local currency basis, reflecting the strategic shift in business mix from traditional to unit-linked products. New business annual premium equivalent (APE) increased by 12 percent in US dollar terms, and by 5 percent on a local currency basis, driven by the Isle of Man and new product launches in Ireland and the US.
- **Farmers Management Services** management fees and other related revenues increased by 4 percent, reflecting the underlying increase in the gross written premiums of 5 percent in the Farmers Exchanges, which we manage but do not own.

**Diluted earnings per share** increased by CHF 5.18, or 30 percent, to CHF 22.55 for the six months ended June 30, 2007, compared with CHF 17.37 for the same period in 2006.

Our **business operating profit (after tax) return on common shareholders' equity** slightly decreased by 0.3 percentage points to 20.1 percent. **Return on common shareholders' equity** increased by 1.7 percentage points to 22.3 percent due to a higher relative growth of net income compared with average shareholders' equity.

## General Insurance

in USD millions, for the six months ended June 30	2007	2006	Change
Gross written premiums and policy fees	19,026	18,454	3%
Net earned premiums and policy fees	14,484	13,900	4%
Insurance benefits and losses, net of reinsurance	(10,465)	(9,839)	(6%)
Net underwriting result	503	764	(34%)
Net investment income	1,773	1,539	15%
<b>Business operating profit</b>	<b>1,838</b>	<b>1,787</b>	3%
Loss ratio	72.3%	70.8%	(1.5 pts)
Expense ratio	24.2%	23.7%	(0.5 pts)
<b>Combined ratio</b>	<b>96.5%</b>	<b>94.5%</b>	<b>(2.0 pts)</b>

### Highlights by division

in USD millions, for the six months ended June 30	Business operating profit		Combined ratio	
	2007	2006	2007	2006
Global Corporate	385	367	94.4%	93.6%
North America Commercial	767	544	92.9%	95.5%
Europe General Insurance	612	811	98.9%	92.5%
International Businesses	76	71	99.5%	99.8%
Group Reinsurance	(1)	(6)	nm	nm
<b>Total</b>	<b>1,838</b>	<b>1,787</b>	<b>96.5%</b>	<b>94.5%</b>

**Business operating profit** increased by USD 51 million, or 3 percent, to USD 1.8 billion for the six months ended June 30, 2007, with increases across all divisions except Europe General Insurance. An improvement in the net underwriting result in North America Commercial offset the decrease in Europe General Insurance, which was affected by Winter storm Kyrill and the June UK floods. Additionally, net investment income increased by USD 234 million as a result of rising interest rates, as well as an increase in the average invested asset base.

**Gross written premiums and policy fees** increased by USD 572 million, or 3 percent in US dollar terms, to USD 19.0 billion, while on a local currency basis remaining flat. The market environment continued to be competitive with pressure on rates varying by region, but most significantly affecting North America and the UK.

The **net underwriting result** decreased by USD 261 million, or 34 percent, to USD 503 million, driven by the impact of losses associated with Winter storm Kyrill and the UK floods amounting to USD 488 million for Europe General Insurance and USD 78 million for Global Corporate.

## Global Life

in USD millions, for the six months ended June 30	2007	2006	Change
Insurance deposits <sup>1</sup>	5,534	5,056	9%
Gross written premiums and policy fees	4,893	5,134	(5%)
Net investment income	3,797	3,272	16%
Insurance benefits and losses, net of reinsurance	3,121 <sup>2</sup>	(4,557)	168%
Underwriting and policy acquisition costs, net of reinsurance	(702)	(630)	(11%)
Administrative and other operating expenses	(817)	(749)	(9%)
<b>Business operating profit</b>	<b>721</b>	<b>576</b>	<b>25%</b>
<b>Embedded value – highlights</b>			
<b>New business annual premium equivalent (APE) <sup>3</sup></b>	<b>1,323</b>	<b>1,184</b>	<b>12%</b>
Present value of new business premiums (PVNBP)	10,721	9,343	15%
<b>New business margin, after tax (as % of APE)</b>	<b>24.1%</b>	<b>17.8%</b>	<b>6.3 pts</b>
New business margin, after tax (as % of PVNBP)	3.0%	2.3%	0.7 pts
<b>New business value, after tax</b>	<b>319</b>	<b>211</b>	<b>51%</b>

<sup>1</sup> Insurance deposits in International Businesses for 2006 have been presented to exclude deposits received as funds under management.

<sup>2</sup> Includes a USD 7.0 billion impact from the reinsurance of a significant portion of our UK Life annuities business.

<sup>3</sup> APE is calculated as annual premiums plus 10% of single premiums.

### Highlights by region

in USD millions, for the six months ended June 30	Business operating profit		New business value, after tax	
	2007	2006	2007	2006
United States	214	108	57	26
United Kingdom	160	128	56	37
Germany	101	78	64	42
Switzerland	96	105	19	4
Rest of Europe	98	106	94	76
<i>of which: Ireland</i>	35	30	31	24
<i>of which: Isle of Man</i>	8	16	44	28
International Businesses	52	50	29	25
<b>Total</b>	<b>721</b>	<b>576</b>	<b>319</b>	<b>211</b>

**Business operating profit** increased by USD 145 million, 25 percent in US dollar terms (20 percent on a local currency basis), to USD 721 million for the six months ended June 30, 2007. This increase reflected a benefit of USD 106 million related to the amortization of deferred policy acquisition costs (DPAC) in the US. The UK and Germany also contributed to the increase, while ongoing transfers of group life contracts continued to impact the result in Switzerland.

**New business annual premium equivalent (APE)** increased by USD 139 million, or 12 percent in US dollar terms (5 percent on a local currency basis). The increase was driven by our international expatriate business in the Isle of Man, with strong sales in Asia and the Middle East. Ireland and the US were also strong contributors primarily due to new product launches. **New business value**, after tax increased by USD 108 million, or 51 percent in US dollar terms (45 percent on a local currency basis), which led to a 6.3 percentage point increase in **new business margin**, after tax of 24.1 percent. We realized benefits from the restructuring of our reinsurance program in the US, from refinements to the business model in Switzerland, from synergies following the merger of our life entities in Germany, volume growth in the Isle of Man and the redesign of certain UK product features.

## Farmers Management Services

in USD millions, for the six months ended June 30	2007	2006	Change
Management fees and other related revenues	1,093	1,054	4%
Management and other related expenses	(552)	(503)	(10%)
<b>Business operating profit</b>	<b>672</b>	<b>626</b>	<b>7%</b>
Gross operating margin	49.5%	52.3%	(2.8 pts)

**Business operating profit** increased by USD 46 million, or 7 percent, to USD 672 million, for the six months ended June 30, 2007. Management fees and other related revenues increased by USD 39 million driven by increased gross earned premiums in the Farmers Exchanges, which we manage but do not own. Management and other related expenses increased by USD 49 million, primarily due to continued investments in growth and IT-related initiatives, in addition to costs arising from the increased new business volumes generated by the Exchanges. The gross operating margin decreased by 2.8 percentage points to 49.5 percent. Improved investment income also contributed to the increase in business operating profit.

## Other Businesses

in USD millions, for the six months ended June 30	2007	2006	Change
<b>Business operating profit:</b>			
Farmers Re	88	87	1%
Centre	122	128	(5%)
Centrally Managed Businesses	220	110	100%
Other	48	(20)	nm
Total business operating profit	478	304	57%

**Farmers Re** business operating profit remained stable at USD 88 million as a result of the business development of the Farmers Exchanges. **Centre** business operating profit remained at a similar level to prior year as a result of continuing profitable commutation activities. **Centrally Managed Businesses**, which comprise portfolios which we proactively manage to achieve a profitable run-off, contributed a business operating profit increase of USD 110 million. This was largely as a result of successful commutations, as well as increased investment income. The rest of Other Businesses experienced lower insurance benefits and losses.

## Corporate Functions

in USD millions, for the six months ended June 30	2007	2006	Change
Net investment income	354	305	16%
Interest expense on debt	(676)	(557)	(21%)
<b>Business operating loss</b>	<b>(430)</b>	<b>(371)</b>	<b>(16%)</b>
Headquarter expenses, after allocations to operating businesses and excluding foreign currency impacts	(45)	(107)	58%

**Business operating loss** increased by USD 59 million to USD 430 million for the six months ended June 30, 2007, primarily as a result of costs associated with the early redemption of subordinated debt. As a

replacement, we issued lower cost hybrid debt. Also contributing to the USD 119 million increase in net funding costs was a higher yield on the floating rate ECAPS issuance and a higher level of intercompany funding, largely offset by an increase in net investment income.

**Headquarter expenses** decreased by USD 62 million, as a result of higher allocations to the operating businesses.

## Investment position and performance

Total investments as shown in the consolidated balance sheet include Group investments, where we bear part or all of the investment risk, and investments for unit-linked products, where policyholders bear the investment risk. Investments for unit-linked products include those held for liabilities related to insurance and investment contracts, except for investment policies with discretionary participation features where the investments are managed as part of Group investments.

### Performance of Group investments

in USD millions, for the six months ended June 30	2007	2006	Change
Net investment income	4,282	3,872	11%
Net capital gains on investments and impairments	516	507	2%
Net investment result	4,798	4,379	10%
<b>Net investment return on Group investments<sup>1</sup></b>	<b>2.6%</b>	<b>2.4%</b>	<b>0.2 pts</b>
Movements in net unrealized gains/(losses) on investments included in total equity	(2,704)	(3,718)	27%
<b>Total investment result, net of investment expenses<sup>2</sup></b>	<b>2,093</b>	<b>661</b>	<b>217%</b>
Average investments <sup>3</sup>	187,751	182,245	3%
<b>Total return on Group investments<sup>1</sup></b>	<b>1.1%</b>	<b>0.4%</b>	<b>0.7 pts</b>

<sup>1</sup> Net investment and total return are not annualized.

<sup>2</sup> After deducting investment expenses of USD 125 million and USD 122 million for the six months ended June 30, 2007 and 2006, respectively.

<sup>3</sup> Excluding average cash received as collateral for securities lending of USD 3.2 billion and USD 4.3 billion in the six months ended June 30, 2007 and 2006, respectively.

During the period, total return (net of investment expenses) was 1.1 percent of average investments, driven by equity securities and other investments, representing returns of 6.8 percent and 2.6 percent, respectively. Debt securities, which are invested to match our liability profiles, showed an overall negative return of 0.2 percent due to rising interest rates.

During the period, total **net investment income** was USD 4.3 billion, of which USD 2.9 billion came from debt securities, contributing an investment income yield of 2.4 percent, 21 basis points higher than prior year. Other investments and equity securities contributed USD 1.2 billion and USD 360 million, respectively, both of which outperformed prior year yield by 7 and 5 basis points, respectively. The total investment income yield was 2.3 percent, 16 basis points higher than the same period in the prior year.

Rising interest rates and higher dividend income were the main drivers of the improvement of net investment income of USD 410 million compared with the prior year. General Insurance drove the improvement with an increase of USD 234 million. Global Life contributed an increase of USD 107 million as the benefit from significant positive currency effects and a higher yield offset a lower asset base reflecting the continuing strategic shift to unit-linked products.

During the period, total **net capital gains** were USD 516 million, an increase of USD 9 million compared with the prior year. Equity securities contributed USD 928 million and other investments added another USD 25 million, which were offset by capital losses of USD 435 million from debt securities.

Realized gains on sales of securities of USD 472 million were USD 18 million lower than prior year as a USD 158 million increase in losses on debt securities offset an increase of USD 147 million gains in equity securities.

Net gains from market revaluations were USD 44 million, an increase of USD 27 million over the prior year. Hedge funds, private equity investments and real estate were the main drivers, contributing USD 381 million. These increases offset losses on debt securities of USD 262 million due to higher interest rates.

Movements in net unrealized gains included in total equity were 1.0 billion lower than the prior year, primarily because of lower unrealized losses on debt securities in 2007. During the first six months of 2007, net unrealized losses of USD 2.7 billion from debt securities, which we invest to match the respective liabilities, arose as a result of the approximate increase of 40 to 80 basis points in interest rates across major markets. Despite market appreciation, unrealized gains on equity securities were USD 27 million lower than at December 31, 2006, largely as a result of the realization of gains on equity securities in positive markets in order to maintain the relative asset allocation to equities.

### Performance of unit-linked investments

in USD millions, for the six months ended June 30	2007	2006	Change
Net investment income	1,769	1,285	38%
Net capital gains on investments and impairments	4,484	1,808	148%
Net investment result, net of investment expenses <sup>1</sup>	6,253	3,093	102%
Average investments	117,583	97,217	21%
<b>Total return on unit-linked investments <sup>2</sup></b>	<b>5.3%</b>	<b>3.2%</b>	<b>2.1 pts</b>

<sup>1</sup> After deducting investment expenses of USD 224 million and USD 207 million for the six months ended June 30, 2007 and 2006, respectively.

<sup>2</sup> Total return is not annualized.

**Unit-linked investments** are primarily invested in equity securities. The rate of appreciation in many equity markets was higher during the first six months of 2007 compared with the same period in 2006. Consequently, the value of unit-linked equity securities increased, which led to net capital gains on unit-linked investments more than doubling.

### Performance of total investments

in USD millions, for the six months ended June 30	2007	2006	Change
Net investment income	6,051	5,156	17%
Net capital gains on investments and impairments	5,000	2,315	116%
Net investment result	11,051	7,471	48%
<b>Net investment return <sup>1</sup></b>	<b>3.6%</b>	<b>2.7%</b>	<b>0.9 pts</b>
Movements in net unrealized gains/(losses) on investments included in total equity	(2,704)	(3,718)	27%
<b>Total investment result, net of investment expenses <sup>2</sup></b>	<b>8,347</b>	<b>3,753</b>	<b>122%</b>
Average investments <sup>3</sup>	305,334	279,462	9%
<b>Total return on investments <sup>1</sup></b>	<b>2.7%</b>	<b>1.3%</b>	<b>1.4 pts</b>

<sup>1</sup> Net investment and total return are not annualized.

<sup>2</sup> After deducting investment expenses of USD 349 million and USD 329 million for the six months ended June 30, 2007 and 2006, respectively.

<sup>3</sup> Excluding average cash received as collateral for securities lending of USD 3.2 billion and USD 4.3 billion in the six months ended June 30, 2007 and 2006, respectively.

Performance of our total investments is the sum of the performance of our Group investments and unit-linked investments.

## Consolidated income statements

in USD millions, for the six months ended June 30	2007	2006
<b>Revenues</b>		
Gross written premiums and policy fees	25,072	24,605
Less premiums ceded to reinsurers <sup>1</sup>	(10,384)	(3,114)
Net written premiums and policy fees	14,688	21,492
Net change in reserves for unearned premiums	(1,670)	(1,588)
Net earned premiums and policy fees	13,017	19,904
Farmers management fees	1,093	1,054
Net investment income	6,051	5,156
Net capital gains on investments and impairments	5,000	2,315
Net gain on divestments of businesses	2	–
Other income	909	722
<b>Total revenues</b>	<b>26,073</b>	<b>29,151</b>
<b>Benefits, losses and expenses</b>		
Insurance benefits and losses, gross of reinsurance	17,058	16,806
Less ceded insurance benefits and losses <sup>1</sup>	(9,131)	(1,859)
Insurance benefits and losses, net of reinsurance	7,927	14,947
Policyholder dividends and participation in profits	6,963	3,735
Underwriting and policy acquisition costs, net of reinsurance	3,541	3,328
Administrative and other operating expense	2,917	3,125
Amortization and impairments of intangible assets	115	122
Interest expense on debt	345	294
Interest credited to policyholders and other interest	472	450
<b>Total benefits, losses and expenses</b>	<b>22,279</b>	<b>26,001</b>
<b>Net income before income taxes</b>	<b>3,794</b>	<b>3,150</b>
Income tax expense	(1,083)	(1,092)
of which: – attributable to policyholders	(130)	(121)
– attributable to shareholders	(952)	(971)
<b>Net income after taxes</b>	<b>2,711</b>	<b>2,058</b>
Net income attributable to minority interests	(27)	(47)
<b>Net income attributable to shareholders</b>	<b>2,684</b>	<b>2,011</b>
in USD		
Basic earnings per share	18.53	13.77
Diluted earnings per share	18.37	13.69
in CHF		
Basic earnings per share	22.74	17.47
Diluted earnings per share	22.55	17.37

<sup>1</sup> Information pertaining to the transfer of the UK annuity business is contained in Note 3 of the financial statements in the Half Year Report 2007. As a direct result of this transaction, premiums ceded to reinsurers include an amount of USD 7,268 million and ceded insurance benefits and losses include an amount of USD 6,982 million.

## Consolidated balance sheets

<b>Assets</b>	in USD millions, as of	<b>06/30/07</b>	12/31/06
<b>Investments</b>			
Cash and cash equivalents		23,551	23,122
Equity securities		114,273	109,005
Debt securities		125,839	135,357
Real estate held for investment		15,860	15,281
Mortgage loans		11,393	10,806
Policyholders' collateral and other loans		12,636	12,636
Investments in associates		153	153
Other investments		3,286	3,644
<b>Total investments <sup>1</sup></b>		<b>306,990</b>	<b>310,003</b>
Reinsurers' share of reserves for insurance contracts <sup>1</sup>		27,175	20,063
Deposits made under assumed reinsurance contracts		1,471	2,022
Deferred policy acquisition costs		14,138	13,197
Deferred origination costs		938	815
Accrued investment income <sup>1</sup>		2,709	2,654
Receivables		12,910	11,436
Other assets		3,419	3,914
Mortgage loans given as collateral		2,243	2,426
Deferred tax assets		2,053	2,727
Property and equipment		1,925	1,905
Goodwill		890	660
Other intangible assets		2,658	2,425
<b>Total assets</b>		<b>379,519</b>	<b>374,246</b>

<sup>1</sup> Information pertaining to the transfer of the UK annuity business is contained in Note 3 of the financial statements in the Half Year Report 2007. As a direct result of this transaction, investments and associated other assets decreased by USD 7,410 million and reinsurers' share of reserves for insurance contracts increased by USD 7,119 million.

**Liabilities  
and equity**

in USD millions, as of	06/30/07	12/31/06
<b>Liabilities</b>		
Reserve for premium refunds	677	655
Liabilities for investment contracts	53,465	50,705
Deposits received under ceded reinsurance contracts	1,811	2,375
Deferred front-end fees	5,662	5,395
Reserves for insurance contracts	246,795	240,648
Obligation to repurchase securities	5,820	6,144
Accrued liabilities	2,821	2,676
Other liabilities	19,678	22,757
Collateralized loans	2,243	2,426
Deferred tax liabilities	4,701	4,757
Debt related to capital markets and banking activities	1,403	1,889
Senior and subordinated debt	8,037	7,713
<b>Total liabilities</b>	<b>353,113</b>	<b>348,142</b>
<b>Equity</b>		
Share capital	10	10
Additional paid-in capital	10,328	10,448
Net unrealized gains/(losses) on investments	(253)	819
Cumulative translation adjustment	1,208	823
Other recognized income and expenses	(546)	(1,286)
Retained earnings	14,657	14,102
Common shareholders' equity	25,405	24,916
Preferred securities	671	671
Shareholders' equity	26,077	25,587
Minority interests	329	517
<b>Total equity</b>	<b>26,406</b>	<b>26,105</b>
<b>Total liabilities and shareholders' equity</b>	<b>379,519</b>	<b>374,246</b>

## Consolidated statements of cash flows

in USD millions, for the six months ended June 30	2007	2006
<b>Cash flows from operating activities</b>		
Net income attributable to shareholders	2,684	2,011
Adjustments for:		
Net gain on divestments of businesses	(2)	–
Share of equity in income from investments in associates	(12)	(35)
Depreciation, amortization and impairments of fixed and intangible assets	211	217
Other non-cash items	129	767
Underwriting activities:	(2,700)	2,951
<i>Reserves for insurance contracts, gross</i>	3,321	2,256
<i>Reinsurers' share of reserves for insurance contracts</i>	(6,582)	202
<i>Liabilities for investment contracts</i>	1,204	930
<i>Deferred policy acquisition costs</i>	(521)	(609)
<i>Deferred origination costs</i>	(99)	(43)
<i>Deposits made under assumed reinsurance contracts</i>	551	442
<i>Deposits received under ceded reinsurance contracts</i>	(574)	(227)
Investments:	5,552	(6,480)
<i>Net capital gains on investments and impairments</i>	(5,000)	(2,315)
<i>Net change in trading securities</i>	23	(283)
<i>Sales and maturities</i>		
<i>Debt securities</i>	44,482	31,145
<i>Equity securities</i>	30,758	24,565
<i>Other (primarily other investments)</i>	13,336	11,676
<i>Purchases</i>		
<i>Debt securities</i>	(36,633)	(34,464)
<i>Equity securities</i>	(28,151)	(24,037)
<i>Other (primarily other investments)</i>	(13,263)	(12,767)
Movement in receivables and payables	(490)	123
Net changes in other operational assets and liabilities	(1,440)	(1,374)
Deferred income tax, net	857	489
<b>Net cash provided by/(used in) operating activities</b>	<b>4,789</b>	<b>(1,331)</b>

in USD millions, for the six months ended June 30	2007	2006
<b>Cash flows from investing activities</b>		
Sales of property and equipment	102	50
Purchase of property and equipment	(129)	(137)
Investments in associates, net	7	7
Acquisitions of companies, net of cash acquired	27	–
Divestments of companies, net of cash balances	18	–
Other acquisitions and divestments related cashflow <sup>1</sup>	(260)	–
Dividends from associates	2	4
<b>Net cash provided by/(used in) investing activities</b>	<b>(233)</b>	<b>(76)</b>
<b>Cash flows from financing activities</b>		
Proceeds from sale and repurchase agreements	(471)	(110)
Dividends paid	(1,315)	(34)
Share buyback	(1,018)	–
Redemption of preferred securities and repayments to minority interests	–	(794)
Issuance of debt	1,651	87
Payments on debt outstanding	(1,414)	(111)
Net change of debt for capital markets and banking activities	(545)	192
<b>Net cash (used in) financing activities</b>	<b>(3,113)</b>	<b>(770)</b>
Foreign currency translation effects on cash and cash equivalents	301	973
<b>Change in cash and cash equivalents excluding change in cash received as collateral for securities lending</b>	<b>1,744</b>	<b>(1,204)</b>
Cash and cash equivalents as of January 1 excluding cash received as collateral for securities lending	19,302	18,911
<b>Cash and cash equivalents as of June 30 excluding cash received as collateral for securities lending</b>	<b>21,046</b>	<b>17,707</b>
Change in cash received as collateral for securities lending	(1,314)	(514)
Cash and cash equivalents as of January 1, including cash received as collateral for securities lending	23,122	23,482
<b>Cash and cash equivalents as of June 30, including cash received as collateral for securities lending</b>	<b>23,552</b>	<b>21,764</b>
<b>Other supplementary cash flow disclosures</b>		
in USD millions		
Other interest income received	4,541	3,779
Dividend income received	1,384	1,120
Other interest expense paid	(756)	(662)
Income tax paid	(1,046)	(853)

<sup>1</sup> This line item consists of acquisitions that have not yet been fully consolidated in the current period. The line contains the cash outflow associated with the acquisition of NASTA.

# Shareholder Information

## Zurich Financial Services registered share data

### Key indicators

	06/30/2007	12/31/2006
Number of shares issued	145,472,560.00	144,749,399.00
Number of dividend-bearing shares	145,472,560.00	144,749,399.00
Market capitalization (in CHF millions at end of period)	55,170.00	47,478.00
Authorized capital, number of shares	6,000,000.00	6,000,000.00
Contingent capital, number of shares	3,276,839.00	6,239,384.00

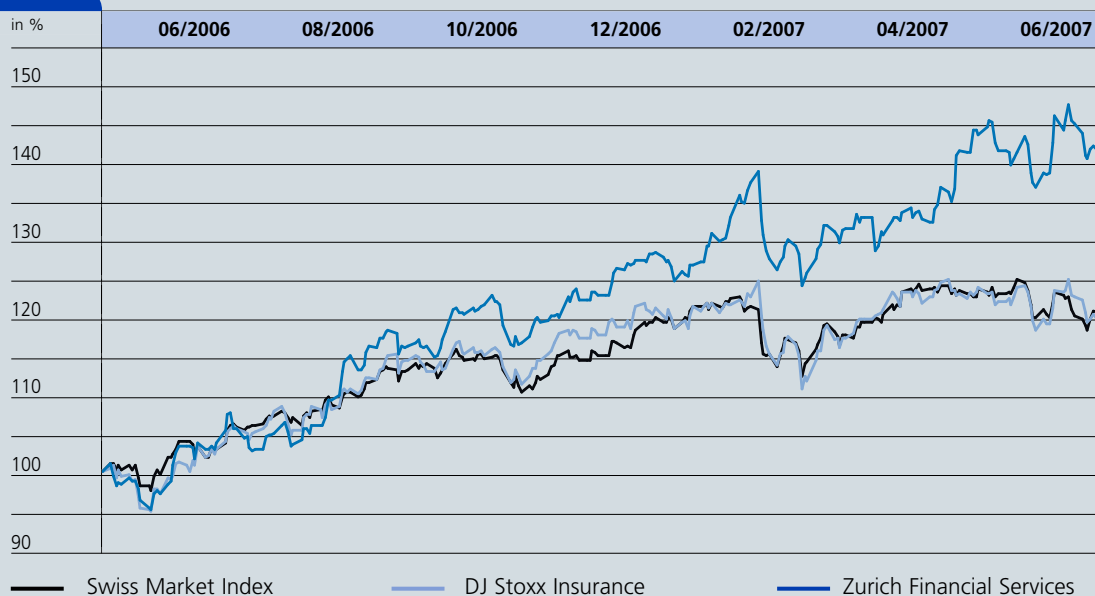
### Per share data

in CHF	06/30/2007	06/30/2006
Gross dividend/payout per registered share	11.00 <sup>1</sup>	7.00 <sup>2</sup>
Basic earnings per share	22.74	17.47
Diluted earnings per share	22.55	17.37
Nominal value per share	0.10 <sup>2</sup>	2.50
Price at end of period	379.25	268.00
Price period high	393.25	320.00
Price period low	328.00	251.75

<sup>1</sup> Gross dividend per registered share; payment date was on April 10, 2007.

<sup>2</sup> Payout to shareholders of CHF 7.00 per share (comprising a regular dividend of CHF 4.60 and a payout of CHF 2.40 per share in form of a reduction of the nominal value) effective July 3, 2006; payment was made on July 4, 2006.

### Zurich share performance (indexed) from June 2006 to June 2007



Source: Datastream

## Financial Calendar

### **Results Reporting for the Nine Months to September 30, 2007**

November 15, 2007

### **Annual Results Reporting 2007**

February 14, 2008

### **Annual General Meeting 2008**

April 3, 2008

### **Results Reporting for the Three Months to March 31, 2008**

May 15, 2008

Zurich Financial Services Group (Zurich) is an insurance-based financial services provider with a global network of subsidiaries and offices in North America and Europe as well as in Asia Pacific, Latin America and other markets. Founded in 1872, the Group is headquartered in Zurich, Switzerland. It employs approximately 58,000 people serving customers in more than 170 countries.

## Contacts

### Registered Office

Zurich Financial Services  
Mythenquai 2  
8022 Zurich, Switzerland

### Media Inquiries

Corporate Communications  
Media and Public Relations  
Zurich Financial Services, Switzerland  
Telephone: +41 (0)44 625 21 00  
E-mail: [media@zurich.com](mailto:media@zurich.com)

### Investor Inquiries

Investor Relations  
Zurich Financial Services, Switzerland  
Telephone: +41 (0)44 625 22 99  
E-mail: [investor.relations@zurich.com](mailto:investor.relations@zurich.com)

Share Register Services  
Zurich Financial Services, Switzerland  
Telephone: +41 (0)44 625 22 55  
E-mail: [shareholder.services@zurich.com](mailto:shareholder.services@zurich.com)

### Corporate Citizenship/ Responsibility Inquiries

Group Government and Industry Affairs  
Zurich Financial Services, Switzerland  
Telephone: +41 (0)44 625 20 07  
E-mail: [zurich.basics@zurich.com](mailto:zurich.basics@zurich.com)

### Securities Custody Service

Zurich Financial Services, Custody Accounts  
c/o SAG SIS Aktienregister AG  
P.O. Box 4601 Olten, Switzerland  
Telephone: +41 (0) 62 311 61 45  
Fax: +41 (0) 62 205 39 71  
Web site: [www.sag.ch](http://www.sag.ch)

### CDI Holder Inquiries

within the Zurich Financial Services  
corporate nominee service

Lloyds TSB Registrars  
The Causeway, Worthing  
West Sussex, BN99 6DA, United Kingdom  
Nominee Service helpline: 0870 600 3979  
Lloyds TSB share dealing helpline:  
0870 850 0852  
International: +44 131 527 3903  
Hard of hearing (text phone, domestic):  
0121 415 7028  
Web site: [www.shareview.co.uk](http://www.shareview.co.uk)

### American Depositary Receipts

Zurich Financial Services has an  
American Depositary Receipt program with  
The Bank of New York (BNY), a subsidiary  
of The Bank of New York Mellon.  
For more information call BNY Mellon's  
Shareowner Services in the USA at  
+1-888-BNY-ADRs (1-888-269-2377) or  
outside the USA on +1-212-815-3700.  
ADR holder assistance may also be obtained from  
The Bank of New York Mellon at  
[www.adrbny.com](http://www.adrbny.com).

## Disclaimer & Cautionary Statement

Certain statements in this document are forward-looking statements, including, but not limited to, statements that are predicated on or indicate future events, trends, plans or objectives. Forward-looking statements include statements regarding our targeted profit improvement, return on equity targets, expense reductions, pricing conditions, dividend policy and underwriting claims improvements. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results and Zurich Financial Services' plans and objectives to differ materially from those expressed or implied in the forward looking statements (or from past results). Factors such as (i) general economic conditions and competitive factors, particularly in our key markets; (ii) performance of financial markets; (iii) levels of interest rates and currency exchange rates; (iv) frequency, severity and development of insured claims events; (v) mortality and morbidity experience; (vi) policy renewal and lapse rates; and (vii) changes in laws and regulations and in the policies of regulators may have a direct bearing on Zurich Financial Services' results of operations and on whether Zurich Financial Services will achieve its targets. Zurich Financial Services undertakes no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information, future events or circumstances or otherwise.

It should be noted that past performance is not a guide to future performance.

Persons requiring advice should consult an independent adviser.

The Letter to Shareholders is published in English, German and French.

In the case of inconsistencies in the German and French translations, the English original version shall prevail.

Design by Publicis KommunikationsAgentur GmbH, Erlangen/Munich, Germany

Production by Management Digital Data AG, Schlieren, Switzerland

Printed end of August 2007 by NZZ Fretz AG, Schlieren, Switzerland

The paper used in this report is manufactured from pulp sourced from fully sustainable forests and has been produced without the use of elemental chlorine.

Zurich Financial Services Group

Mythenquai 2  
8002 Zurich, Switzerland  
Phone +41 (0) 44 625 25 25  
[www.zurich.com](http://www.zurich.com)

47623-07

*Because change happenz™*

