



# Letter to Shareholders 2008

Zurich Financial Services Group  
Report for the Six Months ended June 30, 2008



## Dear Shareholder

Success in the face of any challenge requires focus – on both one’s own capabilities and on the environment in which one competes. That is why we are particularly pleased to announce excellent operating results of Zurich Financial Services Group over the first six months of 2008. Through a dual focus on operational discipline and targeted growth we increased our business operating profit (BOP), held our net income steady, and posted another strong return on equity exceeding our target mid-term level.

Our ability to execute on that strategy became clear across all our businesses. General Insurance leveraged its diverse portfolio to boost BOP 22 percent to USD 2.2 billion and achieve significant growth in Europe and within International Businesses. Similarly, Global Life increased BOP 6 percent to USD 766 million, driven by improved operating results in the UK, Germany, Switzerland, and emerging markets, while enhanced product and distribution capabilities helped generate 15 percent growth in new business annual premium equivalent. In US personal lines, Farmers Management Services benefited from a 7 percent increase in gross earned premiums in the Farmers Exchanges, which we manage but do not own, to grow its management fees and other related revenues 9 percent, though BOP decreased 8 percent to USD 617 million mainly due to a decline in net investment income as a result of a lower average invested asset base following dividends and cash transfers paid to the Group.

Further evidence of our focus is seen in our investment results, where continued discipline in matching assets to liabilities allowed Zurich to achieve a 2.1 percent investment return, despite volatile financial markets. Moreover, our exposure to US sub-prime mortgage-backed securities remains immaterial.

These are excellent results under any market conditions, but are particularly strong considering today’s turbulent environment. They illustrate both the resilience and expanding breadth of Zurich’s operations, as well as the execution capability of its people.

Based on those capabilities, we remain confident in Zurich’s ability to achieve superior financial results and generate continued shareholder value. By continuously transforming our operations, maintaining a focus on operating and financial discipline, and pursuing a targeted growth strategy we will strive toward our aspiration of becoming one of the leading insurers in the world.

As always, we would also like to recognize the enthusiasm and dedication of our employees, who truly bring this strategy to life. We thank them for their untiring commitment, and our customers and shareholders for their loyalty and support.



Manfred Gentz  
Chairman of the Board



James J. Schiro  
Chief Executive Officer

## Financial Highlights (unaudited)

The following table presents the summarized consolidated results of the Group for the six months ended June 30, 2008 and 2007 and the financial position as of June 30, 2008 and December 31, 2007, respectively. Interim results are not necessarily indicative of full-year results. All amounts are shown in USD millions and rounded to the nearest million unless otherwise stated 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. This document should be read in conjunction with the Zurich Financial Services Group Annual Report 2007. Certain comparatives have been restated as a result of a change in accounting policy. Comparatives for return on common shareholders' equity and business operating profit (after tax) return on common shareholders' equity have also been restated as we have changed the calculation from a compound to a linear basis.

in USD millions, for the six months ended June 30, unless otherwise stated	2008	2007	Change <sup>1</sup>
Business operating profit	<b>3,549</b>	3,284	8%
Net income attributable to shareholders	<b>2,681</b>	2,676	–
General Insurance gross written premiums and policy fees	<b>20,593</b>	19,026	8%
Global Life gross written premiums, policy fees and insurance deposits	<b>10,395</b>	10,427	–
Farmers Management Services management fees and other related revenues	<b>1,196</b>	1,093	9%
General Insurance business operating profit	<b>2,236</b>	1,838	22%
General Insurance combined ratio	<b>96.2%</b>	96.5%	0.4 pts
Global Life business operating profit	<b>766</b>	721	6%
Global Life new business annual premium equivalent (APE)	<b>1,528</b>	1,323	15%
Global Life new business margin, after tax (as % of APE)	<b>22.4%</b>	24.1%	(1.7 pts)
Global Life new business value, after tax	<b>342</b>	319	7%
Farmers Management Services gross management result	<b>574</b>	542	6%
Farmers Management Services business operating profit	<b>617</b>	672	(8%)
Farmers Management Services managed gross earned premium margin	<b>7.1%</b>	7.2%	(0.1 pts)
Group investments average invested assets	<b>192,806</b>	187,751	3%
Group investments result, net	<b>3,975</b>	4,785	(17%)
Group investments return (as % of average invested assets)	<b>2.1%</b>	2.5%	(0.5 pts)
Shareholders' equity <sup>2</sup>	<b>26,796</b>	28,945	(7%)
Diluted earnings per share (in USD)	<b>18.99</b>	18.31	4%
Diluted earnings per share (in CHF)	<b>19.94</b>	22.48	(11%)
Return on common shareholders' equity (ROE)	<b>19.5%</b>	21.1%	(1.5 pts)
Business operating profit (after tax) return on common shareholders' equity	<b>19.9%</b>	19.1%	0.8 pts

<sup>1</sup> Parentheses around numbers represent an adverse variance.

<sup>2</sup> As of June 30, 2008, and December 31, 2007, respectively.

## Performance overview

**Business operating profit** increased by 8 percent to USD 3.5 billion demonstrating the sustainability of the business model of our core operating segments in challenging market conditions, including a higher frequency of weather-related losses and continued turbulence in financial markets.

- **General Insurance business operating profit** increased by USD 398 million, or 22 percent, to USD 2.2 billion. This performance reflects the strength of our diversified portfolio in an environment that continues to be competitive.
- **Global Life business operating profit** increased by USD 45 million, or 6 percent, to USD 766 million, reflecting a strong performance in the current challenging economic environment. **New business value, after tax**, increased by 7 percent, primarily as a result of increased volumes in Germany and Zurich International Solutions (ZIS).
- **Farmers Management Services business operating profit** decreased by USD 55 million to USD 617 million resulting from lower other net income items, with the underlying business increasing by 6 percent, benefiting from a combination of organic and inorganic growth in the Farmers Exchanges, which we manage but do not own. The decrease in other net income items reflects a reduction in net investment income following dividends paid to the Group and one-time gains of USD 43 million realized on the sale of own-use properties in 2007.

**Other Businesses business operating profit** decreased by USD 281 million to USD 190 million primarily resulting from the impact of decreases in interest rates affecting insurance liabilities, and from lower levels of run-off transactions. The **Corporate Functions** result improved by USD 156 million following improved net headquarter expenses and higher gains on foreign currency transactions.

**Net income attributable to shareholders** increased by USD 5 million, to USD 2.7 billion after absorbing USD 87 million of restructuring charges mainly related to expense management initiatives in the US. The **shareholders' effective tax rate** was 23.0 percent compared with 24.7 percent previously reported for the year ended December 31, 2007, and 24.4 percent for the year ended December 31, 2007, allowing for the aforementioned restatement.

Business volumes in our core operating segments developed as follows:

- **General Insurance** gross written premiums and policy fees increased by 8 percent in US dollar terms, while increasing by 1 percent on a local currency basis. We maintained underwriting discipline while capitalizing on attractive opportunities in line with our strategy of further diversifying our businesses through growth focused on personal and small business lines, as well as key emerging markets.
- **Global Life** insurance deposits increased by 2 percent in US dollar terms, and decreased by 3 percent on a local currency basis, and gross written premiums and policy fees decreased by 3 percent in US dollar terms, and decreased by 13 percent on a local currency basis. The decrease in gross written premiums and policy fees reflects our continued focus on unit-linked products. The development in these two measures also reflects the impact of growth in assets managed by third parties where only the fee element is recognized in other income. New business annual premium equivalent (APE) increased by 15 percent in US dollar terms, and by 9 percent on a local currency basis, driven by increases in Germany, ZIS and the UK.
- **Farmers Management Services** management fees and other related revenues increased by 9 percent, reflecting the underlying increase in the gross earned premiums of 7 percent in the Farmers Exchanges, which we manage but do not own, as a result of targeted investments and product enhancements.

As a consequence of the USD 2.0 billion increase in average common shareholders' equity compared with the six months ended June 30, 2007, **return on common shareholders' equity** decreased by 1.5 percentage points to 19.5 percent. **Business operating profit (after tax) return on common shareholders' equity** increased by 0.8 percentage points to 19.9 percent.

**Diluted earnings per share** decreased by CHF 2.54, or 11 percent, to CHF 19.94 for the six months ended June 30, 2008, compared with CHF 22.48 for the same period in 2007, reflecting the weakening of the dollar against the Swiss franc. The corresponding diluted earnings per share movement in US dollars was an increase of USD 0.68, or 4 percent, to USD 18.99.

### Outlook

The Group delivered a strong performance in the first half of 2008 despite challenging conditions facing the insurance industry including the ongoing competitive insurance markets, a higher frequency of weather-related losses and continued turbulence in financial markets. Our outlook for the remainder of 2008 is that conditions will remain challenging across all areas. We are confident that our business is positioned to cope with those conditions subject to the risks inherent in our business, which are laid out in our 2007 consolidated financial statements.

### Shareholder distributions and share buybacks

A net dividend of CHF 9.75 per share was paid from April 8, 2008, after the Annual General Meeting approved a gross dividend of CHF 15.00 per share on April 3, 2008. This gross dividend represents a 36 percent increase over the 2007 total gross dividend to shareholders of CHF 11.00, and has been recognized through shareholders' equity in the second quarter of 2008.

On February 14, 2008, the Board of Zurich Financial Services authorized a share buyback program for the repurchase of CHF 2.2 billion worth of shares over the course of 2008. As of June 30, 2008, 2,000,000 shares had been repurchased, reducing total equity by USD 624 million. As of August 5, 2008, 3,750,500 shares had been repurchased in the amount of CHF 1.1 billion, representing 50 percent of the announced share buyback.

On April 3, 2008, the cancellation of the 3,432,500 shares with a nominal value of CHF 0.10 repurchased through our share buyback program in 2007, was approved by the Annual General Meeting. The effective date of the capital reduction was June 27, 2008.

## General Insurance

in USD millions, for the six months ended June 30

	2008	2007	Change
Gross written premiums and policy fees	20,593	19,026	8%
Net earned premiums and policy fees	15,889	14,484	10%
Insurance benefits and losses, net of reinsurance	(11,206)	(10,465)	(7%)
Net underwriting result	611	503	22%
Net investment income	1,910	1,773	8%
<b>Business operating profit</b>	<b>2,236</b>	<b>1,838</b>	<b>22%</b>
Loss ratio	70.5%	72.3%	1.7 pts
Expense ratio	25.6%	24.2%	(1.4 pts)
<b>Combined ratio</b>	<b>96.2%</b>	<b>96.5%</b>	<b>0.4 pts</b>

in USD millions, for the six months ended June 30

	Business operating profit		Combined ratio	
	2008	2007	2008	2007
Global Corporate	347	389	100.4%	94.3%
North America Commercial	628	767	97.4%	92.9%
Europe General Insurance	1,017	612	94.7%	98.9%
International Businesses	107	72	96.5%	99.7%
Group Reinsurance	137	(1)	nm	nm
Total	2,236	1,838	96.2%	96.5%

**Business operating profit** increased by USD 398 million, or 22 percent, to USD 2.2 billion for the six months ended June 30, 2008. This increase was mainly driven by the combination of an improved net underwriting result and improved net investment income, which increased mainly as a result of the larger average invested asset base more than offsetting lower yields on US debt securities.

**Gross written premiums and policy fees** increased by USD 1.6 billion, or 8 percent in US dollar terms, to USD 20.6 billion. This growth was achieved both organically, primarily in Europe General Insurance and International Businesses, as well as through acquisitions, mainly in Europe and in emerging markets.

The **net underwriting result** increased by USD 108 million to USD 611 million. The prior year was affected by winter storm Kyrill and the June floods in the UK, while 2008 saw no major catastrophe events but was affected by a higher frequency of both large losses and smaller weather-related losses. Additionally, overall positive development emerged from reserves established in prior years. As a result, the overall loss ratio decreased by 1.7 percentage points to 70.5 percent. The expense ratio increase of 1.4 percentage points to 25.6 percent was largely split equally between higher commissions and operational expenses related to investments in operational transformation, partially offset by benefits from disciplined expense management.

## Global Life

in USD millions, for the six months ended June 30	2008	2007	Change
Insurance deposits	5,637	5,534	2%
Gross written premiums and policy fees	4,758	4,893	(3%)
Net investment income on Group investments	2,209	2,157	2%
Insurance benefits and losses, net of reinsurance	(4,148)	3,121 <sup>1</sup>	nm
Underwriting and policy acquisition costs, net of reinsurance	(962)	(702)	(37%)
Administrative and other operating expenses	(914)	(817)	(12%)
<b>Business operating profit</b>	<b>766</b>	<b>721</b>	<b>6%</b>
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts <sup>2</sup>	187,991	191,117	(2%)
<b>Embedded value – highlights</b>			
<b>New business annual premium equivalent (APE)</b>	<b>1,528</b>	<b>1,323</b>	<b>15%</b>
Present value of new business premiums (PVNBP)	12,223	10,721	14%
<b>New business margin, after tax (as % of APE)</b>	<b>22.4%</b>	<b>24.1%</b>	<b>(1.7 pts)</b>
New business margin, after tax (as % of PVNBP)	2.8%	3.0%	(0.2 pts)
<b>New business value, after tax</b>	<b>342</b>	<b>319</b>	<b>7%</b>

<sup>1</sup> In 2007, ceded insurance benefits and losses included USD 7.0 billion relating to the reinsurance of a UK annuity portfolio. Subsequent to the approval from the UK High Court effective June 30, 2008, the underlying contracts have been transferred to the reinsurer, resulting in a reduction of reserves for insurance contracts and related reinsurance amounts.

<sup>2</sup> As of June 30, 2008, and December 31, 2007, respectively.

During the six months ended June 30, 2008, Global Life faced challenging market conditions in its core markets from falling and volatile equity markets and from consumer uncertainties resulting from the global credit squeeze. Despite these challenging conditions, new business annual premium equivalent (APE) and business operating profit increased year over year.

**New business annual premium equivalent (APE)** increased by USD 205 million, or 15 percent in US dollar terms, and by 9 percent on a local currency basis. The increase was driven by sales growth in Germany, Zurich International Solutions (ZIS) and the UK.

**Business operating profit** increased by USD 45 million, an increase of 6 percent in US dollar terms, and decreased by 1 percent on a local currency basis. Falling asset values reduced asset-based fees and accelerated amortization of deferred acquisition costs and intangible assets. These negative impacts were offset by improved operating results in the UK, Germany, Switzerland, and emerging markets.

**Insurance deposits** increased by 2 percent in US dollar terms, but decreased by 3 percent on a local currency basis, while **gross written premiums and policy fees** decreased by 3 percent in US dollar terms, and by 13 percent on a local currency basis. The decrease in gross written premiums and policy fees reflects our continued focus on unit-linked products and development of mutual funds and other assets managed by third parties where only the fee element is recognized in other income.

**Net reserves** decreased by 2 percent in US dollar terms, and by 6 percent after excluding the impact of foreign currency translation, since December 31, 2007. The decrease is primarily due to the reduction in the value of policyholders' unit-linked insurance and investment contracts as a result of equity market decreases during the six months ended June 30, 2008.

## Farmers Management Services

in USD millions, for the six months ended June 30	2008	2007	Change
Management fees and other related revenues	1,196	1,093	9%
Management and other related expenses	(622)	(552)	(13%)
Gross management result	574	542	6%
Other net income	43	130	(67%)
<b>Business operating profit</b>	<b>617</b>	<b>672</b>	<b>(8%)</b>
Managed gross earned premium margin	7.1%	7.2%	(0.1 pts)

**Business operating profit** decreased by USD 55 million to USD 617 million. An increased contribution from the underlying operations was more than offset by a decrease in net investment income of USD 42 million as a result of a lower average invested asset base following dividends and cash transfers paid to the Group in November 2007, and the sale of debt securities for the acquisition of Bristol West. Additionally, other net income decreased as gains of USD 43 million on the sale of property related to the concentration of customer service activities into two ServicePoints were recognized in 2007, but not repeated in 2008.

**Management fees and other related revenues** increased by USD 103 million, primarily driven by the 7 percent increase in gross earned premiums at the Farmers Exchanges, which we manage but do not own. Bristol West, which was acquired in July 2007, contributed USD 73 million to the increase in management fees and other related revenues. Management and other related expenses increased by USD 70 million, including USD 46 million related to Bristol West. As a result, the gross management result improved by USD 32 million, while the managed gross earned premium margin decreased by 0.1 percentage points to 7.1 percent.

## Other Businesses

in USD millions, for the six months ended June 30	2008	2007	Change
Business operating profit:			
Farmers Re	54	88	(38%)
Centre	4	116	(97%)
Centrally Managed Businesses	54	220	(75%)
Rest of Other Businesses	77	47	65%
<b>Total business operating profit</b>	<b>190</b>	<b>471</b>	<b>(60%)</b>

**Farmers Re** business operating profit decreased by USD 34 million to USD 54 million reflecting lower cession levels from the Farmers Exchanges and an increase in weather-related losses. **Centre** decreased by USD 112 million due to comparatively high levels of profitable run-off transactions in the prior year and to adverse impacts resulting from interest rate decreases on large parts of the life book. **Centrally Managed Businesses**, which largely comprise portfolios that we proactively manage to achieve a profitable run-off over time, decreased by USD 166 million, primarily driven by the impact of adverse equity market movements on Group investments and certain insurance liabilities which are sensitive to equity market developments. The **Rest of Other Businesses** increased by USD 30 million following an improved result in Banking and certain run-off positions carried at Group-level.

## Corporate Functions

in USD millions, for the six months ended June 30	2008	2007	Change
Net investment income	287	354	(19%)
Interest expense on debt	(586)	(676)	13%
<b>Business operating loss</b>	<b>(261)</b>	<b>(417)</b>	<b>37%</b>
Headquarter revenues/(expenses), after allocations to operating businesses and excluding foreign currency impacts	22	(44)	nm

**Business operating loss** improved by USD 156 million to a loss of USD 261 million for the six months ended June 30, 2008, primarily driven by an increase in net headquarter revenues, gains on foreign currency transactions and lower levels of interest expense on debt, net of investment income.

**Net headquarter revenues** improved by USD 66 million to USD 22 million driven by lower gross expense levels, as well as higher allocations to the operating businesses.

## Investment position and performance

Reflecting our outlook for the economy and capital markets, our equity allocation during the first half of 2008 was close to neutral, and we continued our underweight stance to credit exposure relative to our long-term strategic benchmark. Fixed maturity debt securities are invested in accordance with the profile of the liabilities to limit the overall economic interest rate exposure of the Group. Derivative instruments are primarily used to improve the management of interest rate risk and to provide equity downside protection in Life with-profit funds.

Breakdown of investments	in USD millions, as of			
	Group investments		Unit-linked investments	
	06/30/08	12/31/07	06/30/08	12/31/07
Cash and cash equivalents	14,682	13,943	5,690	2,993
Equity securities:	17,481	18,589	88,765	100,178
Common stocks, including equity unit trusts	11,720	12,418	79,180	90,593
Unit trusts (debt securities, real estate and short-term investments)	3,112	3,291	9,585	9,585
Common stock portfolios backing participating with-profit policyholder contracts	1,119	1,274	–	–
Trading equity portfolios in capital markets and banking activities	1,529	1,606	–	–
Debt securities	123,202	123,762	10,250	10,112
Real estate held for investment	8,236	7,563	7,006	7,823
Mortgage loans	13,804	12,718	–	–
Policyholders' collateral and other loans	14,192	12,936	2	2
Investments in associates	236	238	–	–
Other investments	3,233	3,851	1,333	985
<b>Total</b>	<b>195,066</b>	<b>193,600</b>	<b>113,047</b>	<b>122,092</b>

Group investments have increased by USD 1.5 billion to USD 195.1 billion since December 31, 2007. After excluding the effects of foreign currency translation, Group investments decreased by 4 percent. This decrease was primarily driven by investments related to Global Life and was consistent with corresponding development of other life insurance liabilities after adjusting for the transfer of investments relating to our UK Life annuity business, which was reinsured in June 2007.

Unit-linked investments decreased by USD 9.0 billion to USD 113.0 billion since December 31, 2007. After excluding the effect of foreign currency translation, unit-linked investments decreased by 9 percent, primarily as a result of lower equity valuations following adverse market movements.

Our investment policy remains conservative; investment grade securities comprise 99 percent of our debt securities, of which 62 percent are rated AAA. US sub-prime mortgage-backed securities comprise 0.1 percent of Group investments, with 66 percent of these securities rated AAA, and USD 10 million of impairments recognized in the current period.

**Performance of Group investments**

in USD millions, for the six months ended June 30			
	2008	2007	Change
Net investment income	4,402	4,282	3%
Net capital (losses)/gains on investments and impairments	(426)	503	(185%)
of which: net capital gains on investments and impairments attributable to shareholders	9	440	(98%)
Net investment result	3,975	4,785	(17%)
<b>Net investment return on Group investments<sup>1</sup></b>	<b>2.1%</b>	<b>2.5%</b>	<b>(0.5 pts)</b>
Movements in net unrealized gains/(losses) on investments included in total equity	(4,648)	(2,689)	(73%)
<b>Total investment result, net of investment expenses<sup>2</sup></b>	<b>(672)</b>	<b>2,096</b>	<b>(132%)</b>
Average investments <sup>3</sup>	192,806	187,751	3%
<b>Total return on Group investments<sup>1</sup></b>	<b>(0.3%)</b>	<b>1.1%</b>	<b>(1.5 pts)</b>

<sup>1</sup> Net investment return is not annualized.

<sup>2</sup> After deducting investment expenses of USD 136 million and USD 125 million for the six months ended June 30, 2008 and 2007, respectively.

<sup>3</sup> Excluding average cash received as collateral for securities lending of USD 1.5 billion and USD 3.2 billion in the six months ended June 30, 2008 and 2007, respectively.

Total return (net of investment expenses) was negative 0.3 percent on average Group investments, largely as a result of the change in unrealized capital gains as interest rates rose in many of our major regions, and all major equity markets declined. Debt securities, which are invested to match our liability profiles, returned negative 0.4 percent and equity securities had a negative return of 10.0 percent. Other investments returned positive 3.4 percent.

Total **net investment income** was USD 4.4 billion, representing a return of 2.3 percent. This increase in return arose mainly from debt securities, with an increase of 4 basis points to a return of 2.4 percent. Overall, net investment income increased by 3 percent in US dollar terms, but decreased by 5 percent on a local currency basis, driven by the lower average invested asset base in Global Life. This was a result of the transfer of investments relating to our UK Life annuity business, which was reinsured in June 2007, and the continued shift in our life business to unit-linked products and the related unit-linked investments.

Total **net capital losses on investments and impairments** were USD 426 million, which included losses of USD 15 million arising from the sale of investments and impairments of USD 495 million, mainly USD 171 million attributable to debt securities and USD 315 million attributable to equity securities. These losses were partially offset by net positive revaluations of USD 84 million. Positive revaluations were driven by derivative gains of USD 382 million, including hedges on equity securities of USD 349 million, and gains from alternative investments and real estate of USD 219 million, partially offset by negative revaluations, primarily USD 360 million on debt securities and USD 154 million on equity securities.

**Net unrealized losses included in total equity** have increased by USD 4.6 billion since December 31, 2007, due to the USD 2.9 billion increase in net unrealized losses on debt securities as interest rates rose, as well as USD 1.7 billion decrease in net unrealized gains on equity securities as a result of declines in major global equity markets.

**Performance of unit-linked investments**

in USD millions, for the six months ended June 30			
	2008	2007	Change
Net investment income	2,046	1,769	16%
Net capital (losses)/gains on investments and impairments	(11,450)	4,484	(355%)
Net investment result, net of investment expenses <sup>1</sup>	(9,404)	6,253	(250%)
Average investments	117,570	117,583	–
<b>Total return on unit-linked investments<sup>2</sup></b>	<b>(8.0%)</b>	<b>5.3%</b>	<b>(13.3 pts)</b>

<sup>1</sup> After deducting investment expenses of USD 432 million and USD 224 million for the six months ended June 30, 2008 and 2007, respectively.

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

Net investment income on unit-linked investments increased by USD 277 million, or 16 percent, primarily attributable to equity securities in the US. Net capital gains on investments decreased by USD 15.9 billion to net losses of USD 11.5 billion as a result of adverse market conditions primarily affecting the UK, as well as US, Ireland, Germany and ZIS.

## Consolidated income statements (unaudited)

In USD millions, for the six months ended June 30	2008	2007
<b>Revenues</b>		
Gross written premiums and policy fees	26,376	25,072
Less premiums ceded to reinsurers <sup>1</sup>	(3,392)	(10,384)
Net written premiums and policy fees	22,984	14,688
Net change in reserves for unearned premiums	(1,541)	(1,670)
Net earned premiums and policy fees	21,443	13,017
Farmers management fees and other related revenues	1,196	1,093
Net investment result on Group investments	3,975	4,785
Net investment income on Group investments	4,402	4,282
Net capital gains/(losses) and impairments on Group investments	(426)	503
Net investment result on unit-linked investments	(9,404)	6,253
Net gain/(loss) on divestments of businesses	4	2
Other income	945	909
<b>Total revenues</b>	<b>18,160</b>	<b>26,060</b>
<b>Benefits, losses and expenses</b>		
Insurance benefits and losses, gross of reinsurance <sup>1</sup>	10,158	17,052
Less ceded insurance benefits and losses <sup>1</sup>	6,103	(9,131)
Insurance benefits and losses, net of reinsurance <sup>1</sup>	16,261	7,920
Policyholder dividends and participation in profits, net of reinsurance	(9,034)	6,963
Underwriting and policy acquisition costs, net of reinsurance	4,083	3,541
Administrative and other operating expense	2,953	2,917
Amortization and impairments of intangible assets	186	115
Interest expense on debt	302	345
Interest credited to policyholders and other interest	440	472
<b>Total benefits, losses and expenses</b>	<b>15,192</b>	<b>22,272</b>
<b>Net income before income taxes</b>	<b>2,968</b>	<b>3,787</b>
Income tax expense	(219)	(1,084)
of which:		
– attributable to policyholders	604	(130)
– attributable to shareholders	(823)	(954)
<b>Net income after taxes</b>	<b>2,749</b>	<b>2,703</b>
Net income attributable to minority interests	(69)	(27)
<b>Net income attributable to shareholders</b>	<b>2,681</b>	<b>2,676</b>
in USD		
Basic earnings per share	19.15	18.47
Diluted earnings per share	18.99	18.31
in CHF		
Basic earnings per share	20.11	22.68
Diluted earnings per share	19.94	22.48

<sup>1</sup> In 2007, premiums ceded to reinsurers included USD 7.3 billion and ceded insurance benefits and losses included USD 7.0 billion relating to the reinsurance of a UK annuity portfolio. Subsequent to the approval from the UK High Court, effective on June 30, 2008, the underlying contracts have been transferred to the reinsurer. This transaction had no impact on the income statement in 2008.

## Consolidated statements of total recognized income and expenses (unaudited)

in USD millions, for the six months ended June 30	2008	2007
<b>Net income attributable to shareholders</b>	<b>2,681</b>	<b>2,676</b>
Net unrealized gains/(losses) on available for sale investments <sup>1</sup>	(2,412)	(994)
Change in net unrealized gains/(losses) (excluding currency translation adjustments)	(2,389)	(919)
Foreign currency translation adjustments	(49)	1
Net realized gains/(losses) and impairment charges reclassified to the income statement	26	(76)
Change in fair value of cash flow hedges <sup>1</sup>	(23)	(69)
Cumulative translation adjustments	344	385
Net other recognized income and expense <sup>1</sup>	(28)	740
Net actuarial gains/(losses) on pension plans	(52)	720
Revaluation reserve	24	20
<b>Total recognized income and expense attributable to shareholders</b>	<b>562</b>	<b>2,738</b>
Total recognized income and expense attributable to minority interests	68	35
<b>Total recognized income and expense</b>	<b>630</b>	<b>2,774</b>

<sup>1</sup> Amounts are net of tax.

## Consolidated balance sheets (unaudited)

in USD millions, as of		06/30/08	12/31/07
<b>Assets</b>	<b>Investments</b>		
	Total Group Investments	195,066	193,600
	Cash and cash equivalents	14,682	13,943
	Equity securities	17,481	18,589
	Debt securities	123,202	123,762
	Real estate held for investment	8,236	7,563
	Mortgage loans	13,804	12,718
	Other loans	14,192	12,936
	Investments in associates	236	238
	Other investments	3,233	3,851
	Investments for unit-linked contracts	113,047	122,092
	<b>Total investments</b>	<b>308,113</b>	<b>315,693</b>
	Reinsurers' share of reserves for insurance contracts <sup>1</sup>	19,605	26,970
	Deposits made under assumed reinsurance contracts	1,310	1,359
	Deferred policy acquisition costs	16,337	14,941
	Deferred origination costs	1,018	1,003
	Accrued investment income	2,676	2,593
	Receivables	14,807	12,846
	Other assets	4,322	3,405
	Mortgage loans given as collateral	2,379	2,243
	Deferred tax assets	1,755	1,682
	Property and equipment	2,055	1,972
	Goodwill	2,080	1,730
	Other intangible assets	3,137	2,906
	<b>Total assets</b>	<b>379,593</b>	<b>389,342</b>

<sup>1</sup> In 2007, reinsurers' share of reserves for insurance contracts included USD 7.1 billion related to the reinsurance of a UK annuity portfolio. Subsequent to the approval from the UK High Court, effective on June 30, 2008, the underlying contracts have been transferred to the reinsurer, resulting in a reduction of reinsurers' share of reserves for insurance contracts.

**Liabilities  
and equity**

in USD millions, as of	06/30/08	12/31/07
<b>Liabilities</b>		
Reserve for premium refunds	712	625
Liabilities for investment contracts	51,141	54,485
Deposits received under ceded reinsurance contracts	1,613	1,739
Deferred front-end fees	5,961	5,791
Reserves for insurance contracts <sup>1</sup>	248,735	252,740
Obligations to repurchase securities	5,101	5,370
Accrued liabilities	2,735	2,755
Other liabilities	20,048	20,257
Collateralized loans	2,379	2,243
Deferred tax liabilities	3,466	4,057
Debt related to capital markets and banking activities	1,984	1,663
Senior and subordinated debt	8,550	8,300
<b>Total liabilities</b>	<b>352,426</b>	<b>360,023</b>
<b>Equity</b>		
Share capital	10	10
Additional paid-in capital	10,158	10,289
Net unrealized gains/(losses) on investments	(2,227)	185
Cumulative translation adjustment	1,728	1,385
Net other recognized income and expense	(745)	(717)
Cash flow hedges	(125)	(103)
Retained earnings	17,436	17,224
Common shareholders' equity	26,235	28,273
Preferred securities	561	671
Shareholders' equity	26,796	28,945
Minority interests	372	374
<b>Total equity</b>	<b>27,168</b>	<b>29,318</b>
<b>Total liabilities and equity</b>	<b>379,593</b>	<b>389,342</b>

<sup>1</sup> In 2007, reinsurers' share of reserves for insurance contracts included USD 7.1 billion related to the reinsurance of a UK annuity portfolio. Subsequent to the approval from the UK High Court, effective on June 30, 2008, the underlying contracts have been transferred to the reinsurer, resulting in a reduction of reserves for insurance contracts.

## Consolidated statements of cash flows (unaudited)

in USD millions, for the six months ended June 30	2008	2007
<b>Cash flows from operating activities</b>		
Net income attributable to shareholders	2,681	2,676
Adjustments for:		
Net (gain)/loss on divestments of businesses	(4)	(2)
Share of equity in income from investments in associates	(4)	(12)
Depreciation, amortization and impairments of fixed and intangible assets	279	211
Other non-cash items	1,151	129
Underwriting activities:	(9,849)	(2,707)
Reserves for insurance contracts, gross <sup>1</sup>	(12,208)	3,314
Reinsurers' share of reserves for insurance contracts <sup>1</sup>	7,664	(6,582)
Liabilities for investment contracts	(4,580)	1,204
Deferred policy acquisition costs	(558)	(521)
Deferred origination costs	(1)	(99)
Deposits made under assumed reinsurance contracts	58	551
Deposits received under ceded reinsurance contracts	(224)	(574)
Investments:	15,289	5,561
Net capital (gain)/loss on investments and impairments	11,877	(4,987)
Net change in trading securities	(337)	23
Sales and maturities		
Debt securities <sup>1</sup>	36,094	44,478
Equity securities	37,403	30,758
Other (primarily other investments)	21,804	13,336
Purchases		
Debt securities	(34,715)	(36,633)
Equity securities	(35,165)	(28,151)
Other (primarily other investments)	(21,673)	(13,263)
Proceeds from sale and repurchase agreements	(284)	(471)
Movements in receivables and payables	(1,085)	(490)
Net changes in debt for capital markets and banking activities	313	(545)
Net changes in other operational assets and liabilities	(1,777)	(1,440)
Deferred income tax, net	(160)	863
<b>Net cash provided by operating activities</b>	<b>6,550</b>	<b>3,773</b>

<sup>1</sup> In 2007, the consolidated statements of cash flows included proceeds of USD 6.3 billion from the sale of debt securities, a reduction in cash and cash equivalents of USD 0.6 billion and an increase in reinsurers' share of reserves for insurance contracts of USD 7.0 billion related to the reinsurance of a UK annuity portfolio. Subsequent to the approval from the UK High Court, effective on June 30, 2008, the underlying contracts have been transferred to the reinsurer, resulting in a reduction of both the reinsurers' share of reserves for insurance contracts and gross reserves for insurance contracts.

in USD millions, for the six months ended June 30	2008	2007
<b>Cash flows from investing activities</b>		
Sales of property and equipment	227	102
Purchase of property and equipment	(236)	(129)
Investments in associates, net	12	7
Acquisitions of companies, net of cash acquired	(316)	27
Divestments of companies, net of cash balances	5	18
Other acquisitions and divestments related cashflow	–	(260)
Dividends from associates	1	2
<b>Net cash used in investing activities</b>	<b>(307)</b>	<b>(233)</b>
<b>Cash flows from financing activities</b>		
Dividends paid	(2,092)	(1,315)
Net movement in treasury shares	(441)	(1,018)
Redemption of preferred securities and repayments to minority interests	(124)	–
Issuance of debt	159	1,651
Payments on debt outstanding	(217)	(1,414)
<b>Net cash used in financing activities</b>	<b>(2,714)</b>	<b>(2,097)</b>
Foreign currency translation effects on cash and cash equivalents	608	301
Change in cash and cash equivalents excluding change in cash received as collateral for securities lending <sup>1</sup>	4,136	1,744
Cash and cash equivalents as of January 1, excluding cash received as collateral for securities lending	15,059	19,302
<b>Cash and cash equivalents as of June 30, excluding cash received as collateral for securities lending</b>	<b>19,195</b>	<b>21,046</b>
Change in cash received as collateral for securities lending	(699)	(1,314)
Cash and cash equivalents as of January 1, including cash received as collateral for securities lending	16,936	23,122
<b>Cash and cash equivalents as of June 30, including cash received as collateral for securities lending</b>	<b>20,372</b>	<b>23,552</b>
<b>Other supplementary cash flow disclosures</b>		
in USD millions		
Other interest income received	4,540	4,541
Dividend income received	2,079	1,384
Other interest expense paid	(655)	(756)
Income tax paid	(902)	(1,046)

As of June 30, 2008 and 2007, cash and cash equivalents restricted as to use were USD 5,705 million and USD 923 million, respectively. Cash and cash equivalents held for the benefit of policyholders in connection with unit-linked products amounted to USD 5,690 million and USD 6,701 million as of June 30, 2008 and 2007, respectively.

### Cash and cash equivalents

in USD millions, as of June 30	2008	2007
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	5,839	5,865
Cash equivalents	13,356	15,181
Cash held as collateral for securities lending	1,177	2,506
<b>Total</b>	<b>20,372</b>	<b>23,552</b>

## Financial calendar

### Results Reporting for the Nine Months to September 30, 2008

November 13, 2008

### Annual Results Reporting 2008

February 5, 2009

### Annual General Meeting 2009

April 2, 2009

### Results Reporting for the Three Months to March 31, 2009

May 7, 2009

### Half Year Results Reporting 2009

August 6, 2009

## Contact information

### Registered Office

Zurich Financial Services  
Mythenquai 2  
8002 Zurich, Switzerland

### Media Relations

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

### 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 Responsibility

Group Government and Industry Affairs  
Zurich Financial Services, Switzerland  
Telephone: +41 (0)44 639 20 02  
E-mail: [corporate.responsibility@zurich.com](mailto:corporate.responsibility@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)

### 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).

The information contained within this document is unaudited. The Letter to Shareholders 2008 should be read in conjunction with the Zurich Financial Services Group Annual Report 2007. Additional information on the Half Year Results Reporting 2008 is available on our Web site [www.zurich.com](http://www.zurich.com)

### Disclaimer and 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.

This communication is directed only at persons who (i) have professional experience in matters relating to investments or (ii) are persons falling within Article 49 (2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (as amended) or to whom it may otherwise lawfully be communicated (all such persons together being referred to as relevant persons). This communication must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this communication relates is available only to relevant persons and will be engaged in only with relevant persons.

It should be noted that past performance is not a guide to future performance. Please also note that interim results are not necessarily indicative of the full year results. Persons requiring advice should consult an independent adviser.

THE OFFER TO REPURCHASE SECURITIES OF ZURICH FINANCIAL SERVICES IS NOT MADE IN THE UNITED STATES OF AMERICA AND TO U.S. PERSONS AND MAY BE ACCEPTED ONLY BY NON-U.S. PERSONS AND OUTSIDE THE UNITED STATES. OFFERING MATERIALS WITH RESPECT TO THIS OFFER MAY NOT BE DISTRIBUTED IN OR SENT TO THE UNITED STATES AND MAY NOT BE USED FOR THE PURPOSE OF SOLICITATION OF AN OFFER TO PURCHASE OR SELL ANY SECURITIES IN THE UNITED STATES.

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 Addison Corporate Marketing Ltd., London, England.

Cover photograph by Elisabeth Real, Zurich, Switzerland.

Production by Multimedia Solutions AG, Zurich, Switzerland.

Printed end of August 2008 by NZZ Fretz AG, Schlieren, Switzerland.

The paper used in this report is made from 100% virgin wood fiber from well-managed forests independently certified according to the rules of the Forest Stewardship Council (FSC). It is manufactured at a mill that is certified to ISO14001 and EMAS environmental standards. The mill uses pulps that are totally chlorine free (TCF), and some pulp is bleached using an elemental chlorine free (ECF) process.



Zurich Financial Services Group

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

46828-08

*Because change happenz™*

