

Financial Information Overview

This information is an extract taken from the Financial Review and Consolidated Financial Statements in the Financial Report. For further information please see the Financial Report, which is available on our Web site www.zurich.com or can be ordered.

The information contained within is unaudited. This document should be read in conjunction with our audited Consolidated Financial Statements. Comparatives are as of or for the year ended December 31, 2005, unless otherwise specified.

Group performance highlights

in USD millions, for the years ended December 31	2006	2005	Change ¹
Business operating profit	5,861	3,947	48%
Net income attributable to shareholders	4,527	3,214	41%
General Insurance gross written premiums and policy fees	34,178	33,401	2%
Global Life gross written premiums, policy fees and insurance deposits	21,022	19,536	8%
Farmers Management Services management fees	2,133	2,058	4%
General Insurance business operating profit	3,831	1,913	100%
General Insurance combined ratio (in %) ²	94.2%	100.8%	6.6 pts
Global Life business operating profit	1,162	1,079	8%
Global Life new business value, after tax ³	515	406	27%
Global Life gross new business annual premium equivalent (APE)	2,368	2,303	3%
Farmers Management Services business operating profit	1,202	1,221	(2%)
Farmers Management Services gross operating margin (in %) ⁴	49.1%	51.9%	(2.8 pts)
Group investments average invested assets ⁵	185,370	185,072	–
Group investments result, net	9,435	10,294	(8%)
Group investments return (as % of average invested assets)	5.1%	5.6%	(0.5 pts)
Shareholders' equity	26,531	22,426	18%
Diluted earnings per share (in CHF)	38.71	27.11	43%
Return on common shareholders' equity (ROE)	19.0%	15.5%	3.5 pts
Business operating profit (after tax) return on common shareholders' equity	18.1%	13.6%	4.5 pts

¹ Positive / (negative) change.

² 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.

³ Global Life new business value is the present value of the projected after tax profit from life insurance contracts sold in the year.

⁴ Farmers Management Services gross operating margin is calculated as the sum of Farmers management fees less management expenses, divided by Farmers management fees.

⁵ Excluding cash collateral received for securities lending.

Performance overview

Business operating profit for Zurich Financial Services Group (the Group) increased by 48 percent to USD 5.9 billion demonstrating the strong underlying performance of our operating segments.

- **General Insurance business operating profit** increased by USD 1.9 billion to USD 3.8 billion driven by the 6.6 percentage point improvement in the **combined ratio**, resulting from an underlying improvement to our net underwriting result and also reflecting the benign catastrophe experience in 2006 relative to 2005.
- **Global Life business operating profit** increased by 8 percent to USD 1.2 billion, reflecting the shift in business mix to more profitable products. Targeted sales initiatives and changes in the operating model led to an increase of 27 percent to our **new business value, after tax**.
- **Farmers Management Services** contributed USD 1.2 billion to the Group's **business operating profit** as a net result of increased management fees and other related revenues and increased management and other related expenses associated with growth initiatives.

- **Other Businesses business operating profit** increased by USD 141 million to USD 554 million with solid contributions from **Farmers Re** and **Centre**.
- **Corporate Functions business operating loss** increased by USD 209 million largely due to increased interest expense driven by issuances of debt during 2005.

Net income before income taxes increased by USD 1.3 billion, or 23 percent, to USD 6.7 billion for the year ended December 31, 2006.

- In the first quarter of 2006, we recorded USD 325 million for the settlement of regulatory matters in the United States. On a segment basis we allocated USD 240 million of restitutions to General Insurance, North America Commercial, and USD 65 million of fines and USD 20 million of costs to Corporate Functions.
- The USD 2.6 billion decrease in **net capital gains on investments and impairments** was primarily attributable to the Global Life segment where the net gains on unit-linked equities were lower than 2005, and we recorded net capital losses on debt securities as a result of rising interest rates.

Net income attributable to shareholders increased by USD 1.3 billion, or 41 percent, to USD 4.5 billion for the year ended December 31, 2006.

- The shareholders' **effective tax rate** was 26.8 percent compared with 29.1 percent for the year ended December 31, 2005. The decrease was primarily the result of lower taxed income levels from shifts in the geographic profit mix and the utilization of tax losses. The Group's overall effective income tax rate of 31.3 percent includes the impact of tax expense attributable to policyholders in certain jurisdictions. This rate decreased by 7.8 percentage points from 39.1 percent for the year ended December 31, 2005, primarily due to lower levels of policyholder net capital gains on investments.

Gross written premiums and policy fees increased by 2 percent in General Insurance reflecting our diversified portfolio, while maintaining our underwriting discipline and improving profitability. While **gross written premiums and policy fees** in Global Life decreased by 3 percent, **insurance deposits** increased by 20 percent primarily due to growth initiatives in the unit-linked business. **Management fees** and other related revenues increased by 4 percent in Farmers Management Services basis reflecting an increase in gross premiums earned of 2 percent in the Farmers Exchanges, which we manage but do not own.

Diluted earnings per share increased by CHF 11.60 per share, or 43 percent, to CHF 38.71 per share for the year ended December 31, 2006, compared with CHF 27.11 per share for the same period in 2005.

Our **business operating profit (after tax) return on common shareholders' equity** increased by 4.5 percentage points to 18.1 percent, demonstrating the strength of our business mix. **Return on common shareholders' equity** increased by 3.5 percentage points to 19.0 percent.

General Insurance

in USD millions, for the years ended December 31

	2006	2005	Change
Gross written premiums and policy fees	34,178	33,401	2%
Net earned premiums and policy fees	28,459	27,569	3%
Insurance benefits and losses, net of reinsurance	(19,934)	(21,069)	5%
Net underwriting result	1,651	(225)	nm
Net investment income	3,216	2,737	18%
Business operating profit	3,831	1,913	100%
Loss ratio	70.0%	76.4%	6.4 pts
Expense ratio	24.2%	24.4%	0.2 pts
Combined ratio	94.2%	100.8%	6.6 pts

Business operating profit increased by USD 1.9 billion to USD 3.8 billion for the year ended December 31, 2006, due to the underlying improvement in our net underwriting result, which increased across all divisions except International Businesses. The most significant contributors to the increase in business operating profit were North America Commercial and Global Corporate, which increased by USD 885 million and USD 754 million, respectively.

Gross written premiums and policy fees increased by USD 777 million, or 2 percent, to USD 34.2 billion in 2006. While maintaining our underwriting discipline and focusing on profitable growth, we increased new business volumes and customer renewals.

Net underwriting result increased by USD 1.9 billion to USD 1.7 billion, which contributed to a 6.4 percentage point improvement to a loss ratio of 70.0 percent. Underlying improvements occurred across most regions. In addition, we experienced a relatively benign catastrophe season compared with 2005 where we reported a 4.6 percentage point impact. The expense ratio decreased by 0.2 percentage points to 24.2 percent.

Global Life

We measure the embedded value of our life insurance business in addition to the valuation in accordance with IFRS. Embedded value information takes into account the value of new business measured from the point of sale of the contract, a value which is not fully recognized under IFRS. Our methodology, developed in accordance with the European Embedded Value Principles, uses a "bottom-up" market consistent approach allowing explicitly for market risk. In particular, asset and liability cash flows are valued using risk discount rates consistent with those applied to similar cash flows in the capital markets, and options and guarantees are valued using market consistent models calibrated to observable market prices.

in USD millions, for the years ended December 31	2006	2005	Change
Insurance deposits ¹	10,769	9,001	20%
Gross written premiums and policy fees	10,253	10,535	(3%)
Net investment income	6,526	6,481	1%
Insurance benefits and losses, net of reinsurance	(8,655)	(9,100)	5%
Underwriting and policy acquisition costs, net of reinsurance	(1,448)	(1,561)	7%
Administrative and other operating expenses	(1,620)	(1,538)	(5%)
Business operating profit	1,162	1,079	8%
Embedded value – highlights			
New business annual premium equivalent (APE) ²	2,368	2,303	3%
Present value of new business premiums (PVNBP)	19,487	18,816	4%
New business margin, after tax (as % of APE)	21.7%	17.7%	4.0 pts
New business margin, after tax (as % of PVNBP)	2.6%	2.2%	0.4 pts
New business value, after tax	515	406	27%

¹ Insurance deposits in International Businesses for 2005 have been presented to exclude deposits received as funds under management.

² APE is taken as annual premiums plus 10% of single premiums.

Business operating profit increased by USD 83 million, or 8 percent, to USD 1.2 billion for the year ended December 31, 2006, primarily due to the change in business mix toward unit-linked products.

The UK contributed USD 124 million to the increase in business operating profit which more than offset the decreases in Switzerland of USD 43 million and International Businesses of USD 36 million.

New business annual premium equivalent (APE) increased by USD 65 million, or 3 percent, to USD 2.4 billion. APE increased by 15 percent on a local currency basis driven by continued growth across most regions, particularly in Zurich International Solutions (based in the Isle of Man) where much of the increase arose from emerging markets, as well as in Ireland and Hong Kong. This growth is aided by the strong performance of the financial markets. **New business margin, after tax** increased by 4.0 percentage points to 21.7 percent due to the aforementioned growth, business model changes and the effect of rising interest rates.

Farmers Management Services

in USD millions, for the years ended December 31	2006	2005	Change
Management fees and other related revenues	2,133	2,058	4%
Management and other related expenses	(1,086)	(990)	(10%)
Business operating profit	1,202	1,221	(2%)
Gross operating margin	49.1%	51.9%	(2.8 pts)

Business operating profit decreased by USD 19 million, or 2 percent, to USD 1.2 billion during 2006. Management fees and other related revenues increased by 4 percent. This is in line with the full year growth of 2 percent in gross earned premiums at the Farmers Exchanges, which we manage but do not own. In addition to an increase of USD 52 million in management fees, other related revenue increased by USD 23 million, primarily as a result of increased service fees, auto membership fees and property inspection fees. In 2006 work began on the creation of a shared service platform in North America. In addition, several investments were made in agency development and other growth initiatives. Altogether, these investments led to an increase in management and other related expenses, causing a reduction in gross operating margin to a solid 49.1 percent.

Other Businesses

in USD millions, for the years ended December 31	2006	2005	Change
Net earned premiums and policy fees	2,338	3,057	(24%)
Net investment result	1,969	2,037	(3%)
Total benefits, losses and expenses	(3,923)	(4,863)	19%
Business operating profit	554	413	34%

Business operating profit increased by USD 141 million with solid contributions from both Farmers Re and Centre. **Farmers Re** contributed USD 181 million to Other Businesses business operating profit. The effect of lower levels of reinsurance ceded by the Exchanges to Farmers Re in 2006 more than offset improved loss development primarily due to the more benign catastrophe experience in 2006. Other operations within the segment contributed USD 373 million with profits arising in certain run-off businesses, including **Centre's** contribution of USD 246 million.

Corporate Functions

in USD millions, for the years ended December 31	2006	2005	Change
Net investment income	645	616	5%
Interest expense	(1,168)	(984)	(19%)
Business operating loss	(888)	(679)	(31%)
Headquarter expenses, after recharges to operating businesses and excluding foreign currency	(188)	(91)	nm

Business operating loss increased by USD 209 million to USD 888 million for the year ended December 31, 2006. Interest expense increased by USD 184 million primarily as a result of debt issued in 2005. **Headquarter expenses, after recharges to operating businesses and excluding foreign currency** increased by USD 97 million, primarily as a result of expenses for our global branding campaign. Partially offsetting these factors was an increase of foreign currency gains for the Corporate Functions segment of USD 112 million.

Investment 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.

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

Performance of Group Investments

in USD millions, for the years ended December 31	2006	2005	Change
Net investment income	7,899	7,782	2%
Net capital gains on investments and impairments	1,536	2,512	(39%)
of which: net capital gains on investments and impairments attributable to shareholders	1,088	966	13%
Net investment result	9,435	10,294	(8%)
Net investment return on Group investments	5.1%	5.6%	(0.5 pts)
Movements in net unrealized gains on investments included in total equity	(1,555)	(300)	nm
Total investment result, net of investment expenses¹	7,880	9,994	(21%)
Average investments ²	185,370	185,072	0%
Total return on Group investments	4.3%	5.4%	(1.1 pts)

¹ After deducting investment expenses of USD 265 million and USD 251 million for the years ended December 31, 2006 and 2005, respectively.

² Excluding average cash received as collateral for securities lending of USD 4.2 billion and USD 4.9 billion in the years ended December 31, 2006 and 2005, respectively.

Net investment income from our Group investments increased by 2 percent to USD 7.9 billion resulting in an increase of return on net investment income from 4.2 percent to 4.3 percent. Investment income from the General Insurance segment increased due to a growing asset base and higher interest rates on reinvestment. This increase offset a reduction in the investment income from our Global Life segment, which declined due to a strategic shift of assets to unit-linked products.

Net capital gains on investments and impairments on Group investments decreased by 39 percent to USD 1.5 billion for the year ended December 31, 2006, compared with the prior year. The value of our debt securities, particularly in our UK Life with-profits business, declined due to rising interest rates in 2006 compared with 2005. This decrease was partially offset by gains on equity securities, particularly in the UK General Insurance and Germany life businesses.

The net investment return on Group investments decreased by 0.5 percentage points to 5.1 percent.

Net unrealized gains in total equity decreased by USD 1.6 billion for the year ended December 31, 2006, compared with a net decrease of USD 300 million for the same period in 2005, largely due to fixed maturity debt securities declining in value as interest rates rose. Net unrealized gains on available-for-sale equity securities partially offset losses from fixed maturity debt securities. The total return on Group investments was 4.3 percent for the year ended December 31, 2006, compared with 5.4 percent in 2005.

Performance of Unit-linked Investments

in USD millions, for the years ended December 31	2006	2005	Change
Net investment income	2,384	1,983	20%
Net capital gains on investments and impairments	9,203	10,870	(15%)
Net investment result, net of investment expenses ¹	11,587	12,853	(10%)
Average investments	104,082	89,768	16%
Total return on unit-linked investments	11.1%	14.3%	(3.2 pts)

¹ After deducting investment expenses of USD 461 million and USD 381 million for the years ended December 31, 2006 and 2005, respectively.

Unit-linked investments are primarily invested in equity securities. Equity markets, particularly in the UK, increased at a stronger rate in 2005 compared with 2006. As a result, net capital gains on investments and impairments on unit-linked investments decreased by 15 percent for the year ended December 31, 2006.

Performance of Total Investments

in USD millions, for the years ended December 31	2006	2005	Change
Net investment income	10,283	9,765	5%
Net capital gains on investments and impairments	10,739	13,382	(20%)
of which: net capital gains on investments and impairments attributable to shareholders	1,088	966	13%
Net investment result	21,022	23,147	(9%)
Net investment return	7.3%	8.4%	(1.1 pts)
Movements in net unrealized gains on investments included in total equity	(1,555)	(300)	nm
Total investment result, net of investment expenses ¹	19,467	22,847	(15%)
Average investments ²	289,452	274,840	5%
Total return on investments	6.7%	8.3%	(1.6 pts)

¹ After deducting investment expenses of USD 726 million and USD 632 million for the years ended December 31, 2006 and 2005, respectively.

² Excluding average cash received as collateral for securities lending of USD 4.2 billion and USD 4.9 billion in the years ended December 31, 2006 and 2005, 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 years ended December 31	2006	2005
Revenues		
Gross written premiums and policy fees	46,465	46,797
Less premiums ceded to reinsurers	(5,811)	(6,377)
Net written premiums and policy fees	40,654	40,420
Net change in reserves for unearned premiums	(145)	37
Net earned premiums and policy fees	40,509	40,457
Farmers management fees	2,133	2,058
Net investment income	10,283	9,765
Net capital gains on investments and impairments	10,739	13,382
Net loss on divestments of businesses	(43)	(2)
Other income	1,379	1,526
Total revenues	65,000	67,186
Benefits, losses and expenses		
Insurance benefits and losses, gross of reinsurance	33,874	38,261
Less ceded insurance benefits and losses	(3,668)	(5,842)
Insurance benefits and losses, net of reinsurance	30,206	32,419
Policyholder dividends and participation in profits	12,906	14,432
Underwriting and policy acquisition costs, net of reinsurance	6,982	7,253
Administrative and other operating expense	6,393	5,860
Amortization and impairments of intangible assets	257	254
Interest expense on debt	608	446
Interest credited to policyholders and other interest	915	1,056
Total benefits, losses and expenses	58,267	61,720
Net income before income taxes	6,733	5,466
Income tax expense	(2,108)	(2,136)
Net income after taxes	4,625	3,330
Net income attributable to minority interests	(98)	(116)
Net income attributable to shareholders	4,527	3,214
in USD		
Basic earnings per share	31.07	22.04
Diluted earnings per share	30.89	21.80
in CHF		
Basic earnings per share	38.93	27.41
Diluted earnings per share	38.71	27.11

Consolidated balance sheets

Assets	in USD millions, as of December 31	2006	2005
	Investments		
	Cash and cash equivalents	23,122	23,482
	Equity securities	109,005	90,314
	Debt securities	135,357	125,297
	Real estate held for investment	15,281	12,702
	Mortgage loans	10,806	9,307
	Policyholders' collateral and other loans	12,636	11,987
	Investments in associates	153	580
	Other investments	3,643	3,624
	Total investments	310,003	277,293
	Reinsurers' share of reserves for insurance contracts	20,063	20,494
	Deposits made under assumed reinsurance contracts	2,022	2,450
	Deferred policy acquisition costs	13,197	11,179
	Deferred origination costs	815	690
	Accrued investment income	2,654	2,390
	Receivables	11,436	11,283
	Other assets	3,913	1,787
	Mortgage loans given as collateral	2,426	3,064
	Deferred tax assets	2,336	4,393
	Fixed assets	1,905	1,729
	Goodwill	660	605
	Other intangible assets	2,425	2,255
	Total assets	373,855	339,612

**Liabilities
and equity**

in USD millions, as of December 31	2006	2005
Liabilities		
Reserve for premium refunds	655	753
Liabilities for investment contracts	50,705	40,999
Deposits received under ceded reinsurance contracts	2,375	2,500
Deferred front-end fees	5,395	4,659
Reserves for insurance contracts	240,648	219,924
Obligation to repurchase securities	6,144	5,295
Accrued liabilities	2,676	2,150
Other liabilities	21,368	21,040
Collateralized loans	2,427	3,056
Deferred tax liabilities	4,804	6,317
Debt related to capital markets and banking activities	1,889	2,139
Senior and subordinated debt	7,713	7,540
Total liabilities	346,799	316,372
Equity		
Share capital	10	186
Additional paid-in capital	10,448	10,315
Net unrealized gains on investments	819	1,139
Cumulative translation adjustment	823	(111)
Retained earnings	13,760	9,801
Common shareholders' equity	25,860	21,330
Preferred securities	671	1,096
Shareholders' equity	26,531	22,426
Minority interests	525	814
Total equity	27,056	23,240
Total liabilities and equity	373,855	339,612

Consolidated statements of cash flows

in USD millions, for the years ended December 31	2006	2005
Cash flows from operating activities		
Net income attributable to shareholders	4,527	3,214
Adjustments for:		
Net loss on divestments of businesses	43	2
Share of equity in income from investments in associates	(85)	(105)
Depreciation, amortization and impairments of fixed and intangible assets	460	447
Other non-cash items	1,759	(5)
Underwriting activities:	9,493	14,959
<i>Reserves for insurance contracts, gross</i>	4,989	10,629
<i>Reinsurers' share of reserves for insurance contracts</i>	1,011	43
<i>Liabilities for investment contracts</i>	4,204	6,163
<i>Deferred policy acquisition costs</i>	(890)	(1,085)
<i>Deferred origination costs</i>	(32)	(31)
<i>Deposits made under assumed reinsurance contracts</i>	434	820
<i>Deposits received under ceded reinsurance contracts</i>	(223)	(1,580)
Investments:	(14,343)	(16,586)
<i>Net capital gains on investments and impairments</i>	(10,739)	(13,382)
<i>Net change in trading securities</i>	(351)	383
Sales and maturities:		
<i>Debt securities</i>	58,544	72,771
<i>Equity securities</i>	46,044	41,585
<i>Other (primarily other investments)</i>	32,115	12,410
Purchases:		
<i>Debt securities</i>	(61,193)	(75,364)
<i>Equity securities</i>	(46,191)	(41,417)
<i>Other (primarily other investments)</i>	(32,572)	(13,572)
Movement in receivables and payables	324	779
Net changes in other operational assets and liabilities	(1,740)	(1,104)
Deferred income tax, net	305	867
Net cash provided by operating activities	743	2,468
Cash flows from investing activities		
Sales of fixed assets	79	216
Purchases of fixed assets	(280)	(339)
Investments in associates, net	243	75
Acquisitions of companies, net of cash acquired	–	(1)
Divestments of companies, net of cash balances	–	40
Dividends from associates	12	–
Net cash provided by/(used in) investing activities	54	(9)

in USD millions, for the years ended December 31	2006	2005
Cash flows from financing activities		
Proceeds from sale and repurchase agreements	116	836
Dividends paid	(581)	(64)
Nominal value reduction of share capital	(276)	(449)
Redemption of preferred securities and repayments to minority interests	(802)	12
Issuance of debt	311	2,576
Payments on debt outstanding	(592)	(274)
Net change of debt for capital markets and banking activities	(219)	(1,784)
Net cash (used in)/provided by financing activities	(2,043)	853
Foreign currency translation effects on cash and cash equivalents	1,637	(1,661)
Change in cash and cash equivalents excluding change in cash received as collateral for securities lending	391	1,651
Change in cash received as collateral for securities lending	(751)	(626)
Cash and cash equivalents as of January 1, including cash received as collateral for securities lending	23,482	22,457
Cash and cash equivalents as of December 31, including cash received as collateral for securities lending	23,122	23,482
Other supplementary cash flow disclosures		
Other interest income received	7,760	7,605
Dividend income received	2,289	1,833
Other interest expense paid	(1,504)	(1,502)
Income tax paid	(2,564)	(1,234)