

## Financial Review

The information contained within the Financial Review is unaudited. This document should be read in conjunction with our audited Consolidated Financial Statements. Comparatives in the Financial Review 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 <sup>1</sup>
Business operating profit	<b>5,861</b>	3,947	48%
Net income attributable to shareholders	<b>4,527</b>	3,214	41%
General Insurance gross written premiums and policy fees	<b>34,178</b>	33,401	2%
Global Life gross written premiums, policy fees and insurance deposits	<b>21,022</b>	19,536	8%
Farmers Management Services management fees	<b>2,133</b>	2,058	4%
General Insurance business operating profit	<b>3,831</b>	1,913	100%
General Insurance combined ratio (in %) <sup>2</sup>	<b>94.2%</b>	100.8%	6.6 pts
Global Life business operating profit	<b>1,162</b>	1,079	8%
Global Life new business value, after tax <sup>3</sup>	<b>515</b>	406	27%
Global Life gross new business annual premium equivalent (APE)	<b>2,368</b>	2,303	3%
Farmers Management Services business operating profit	<b>1,202</b>	1,221	(2%)
Farmers Management Services gross operating margin (in %) <sup>4</sup>	<b>49.1%</b>	51.9%	(2.8 pts)
Group investments average invested assets <sup>5</sup>	<b>185,370</b>	185,072	–
Group investments result, net	<b>9,435</b>	10,294	(8%)
Group investments return (as % of average invested assets)	<b>5.1%</b>	5.6%	(0.5 pts)
Shareholders' equity	<b>26,531</b>	22,426	18%
Diluted earnings per share (in CHF)	<b>38.71</b>	27.11	43%
Return on common shareholders' equity (ROE)	<b>19.0%</b>	15.5%	3.5 pts
Business operating profit (after tax) return on common shareholders' equity	<b>18.1%</b>	13.6%	4.5 pts

<sup>1</sup> Positive / (negative) change.

<sup>2</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>3</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>4</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>5</sup> 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.

## Measuring business performance

We manage our business units on their underlying performance using the measure of business operating profit. Business operating profit eliminates the impact of financial market volatility and other non-operational variables enabling us to assess the underlying insurance performance of each business.

Business operating profit reflects adjustments for net capital gains on investments and impairments (except for the capital markets and banking operations included in Other Businesses), policyholders' share of investment results for the life business, non-operational foreign exchange movements, and significant items arising from special circumstances including gains and losses on divestments of businesses. Non-operational foreign exchange movements arise from intercompany foreign currency hedging and the corporate financing of subsidiaries which are not a reflection of local operating activities and are, therefore, not included in the calculation of business operating profit. Business operating profit is not a substitute for net income as determined in accordance with International Financial Reporting Standards (IFRS).

### Reconciliation to business operating profit

in USD millions, for the years ended December 31		2006	2005
Net income before shareholders' taxes		6,317	4,694
Adjusted for net capital gains on investments and impairments <sup>1</sup>		(10,589)	(13,205)
Policyholder allocation of net capital gains on investments and impairments		9,651	12,416
Net income attributable to minority interests		(98)	(116)
Net loss on divestments of businesses		43	2
Restructuring provisions and other <sup>2</sup>		537	156
<b>Business operating profit</b>		<b>5,861</b>	<b>3,947</b>

<sup>1</sup> Excluding capital markets and banking activities and certain securities held for specific economic hedging purposes.

<sup>2</sup> Included in 2006 are the aforementioned legal settlements in the amount of USD 325 million.

### Segmental performance highlights

in USD millions, for the years ended December 31	Business operating profit		Gross written premiums and policy fees	
	2006	2005	2006	2005
General Insurance	3,831	1,913	34,178	33,401
Global Life <sup>1</sup>	1,162	1,079	10,253	10,535
Farmers Management Services	1,202	1,221	–	–
Other Businesses	554	413	2,289	3,007
Corporate Functions	(888)	(679)	190	182
<b>Total <sup>2</sup></b>	<b>5,861</b>	<b>3,947</b>	<b>46,465</b>	<b>46,797</b>

<sup>1</sup> Insurance deposits were USD 10.8 billion and USD 9.0 billion for the years ended December 31, 2006 and 2005, respectively.

<sup>2</sup> After intercompany eliminations