

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.