

Embedded Value Report – Life Insurance

1. Overview

Zurich Financial Services Group (Zurich) has reported Embedded Value (EV) in respect of the year ended December 31, 2006 together with comparative figures for the year ended December 31, 2005 in line with the European Embedded Value Principles issued by the CFO Forum, for the companies and business reported in its Global Life segment (Global Life), which is defined as covered business. Certain other life businesses are included in Other Businesses segment and have been excluded from the EV. This report primarily relates to Global Life, but information relating to Other Businesses is given in section 2.f below.

The EV methodology adopted by Zurich is based on a “bottom-up” market consistent approach to allow 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 line with the European Embedded Value Principles, the EV is broken down into the following components:

- shareholders’ net assets, including free surplus and required capital allocated to covered business; and
- the value of business in-force.

The adoption of the European Embedded Value Principles does not affect the basis of reporting the statutory results, the regulatory capital position or the dividend paying capacity of Zurich. EV is derived from the local statutory, regulatory and IFRS financial statements of Zurich’s Global Life entities and is presented net of minority interests. However new business value is shown before deduction of minorities.

EV information in this supplement includes:

- Summary of Embedded Value results;
- Geographical analysis of Embedded Value results;
- Embedded Value methodology;
- Embedded Value assumptions.

EV as of December 31, 2006 and the previous year comparatives, as well as the new business value, the analysis of movement and the sensitivities have been subject to external review by Deloitte & Touche LLP. Their Statement of External Review is set out in section 6.

2. Summary of Embedded Value results

a) Embedded Value of Global Life

Table 2.1		2006	2005
in USD millions, as of December 31			
Embedded Value	Shareholders’ net assets	7,176	6,053
	Value of business in-force	6,916	5,627
	Embedded Value	14,092	11,680

The shareholders’ net assets are based on local statutory accounting adjusted to reflect shareholders’ interest in the market value of net assets after the exclusion of goodwill and other necessary actuarial adjustments.

The value of business in-force is the present value of future projected profits from covered business, and can be defined as the certainty equivalent value of business in-force less frictional costs, time value of options and