Embedded Value Results – Life Insurance (unaudited)

in USD millions, for the years ended December 31	USA	
	2005	2004
Gross new business premiums including deposits, of which:	**192**	252
Annual premiums	**102**	106
Single premiums	**90**	146
Gross new business annual premiums equivalent (APE)	**111**	**120**
Embedded value information:		
Opening embedded value	**2,402**	2,555
Operating profit expected from in-force business and net assets, after tax	**151**	176
New business profit, after tax	**47**	**74**
Operating variance, after tax	**58**	(1)
Operating assumptions changes	**11**	81
Total operating profit, after tax	**267**	**330**
Economic variance:		
Investment variance	**5**	4
Change in economic assumptions	**(32)**	(15)
Embedded value profit, after tax	**240**	319
Dividends and capital movements	**(622)**	(472)
Closing embedded value before currency translation effects	**2,020**	2,402
Currency translation effects	**–**	–
Closing embedded value after currency translation effects, of which:	**2,020**	2,402
Shareholders' net assets	**612**	1,012
Value of business in-force	**1,408**	1,390
Operating return, after tax and before currency translation effects	**14.1%**	15.0%
Return, after tax, on opening embedded value before currency translation effects	**12.7%**	14.5%
New business profit margin (as % of APE)	**42.0%**	**61.0%**
Embedded value economic assumptions:		
Discount rate	**8.0%**	8.0%
Investment returns before tax:		
Fixed interest	**5.1%**	5.4%
Equities	**8.0%**	8.0%
Property	**–**	–
Expense inflation	**2.3%**	2.3%
Attributed tax rate	**35.0%**	35.0%

The above information should be read in conjunction with the notes on the following pages.

Europe											
United Kingdom		Germany		Switzerland		Rest of Europe		International Businesses		Total	
2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
5,773	5,322	**815**	1,116	**395**	478	**2,558**	1,578	**337**	1,189	**10,070**	9,935
489	399	**493**	757	**73**	74	**168**	132	**115**	98	**1,440**	1,566
5,284	4,923	**322**	359	**322**	404	**2,390**	1,446	**222**	1,091	**8,630**	8,369
1,017	**891**	**525**	**794**	**105**	**114**	**407**	**277**	**138**	**207**	**2,303**	**2,403**
6,146	4,270	**1,214**	814	**1,026**	433	**1,107**	1,601	**862**	739	**12,757**	10,412
459	426	**93**	65	**77**	33	**78**	67	**84**	75	**942**	842
90	**49**	**87**	**95**	**16**	**11**	**70**	**38**	**23**	**6**	**333**	**273**
(162)	(130)	**(29)**	(99)	**64**	(23)	**43**	22	**24**	(1)	**(2)**	(232)
(12)	(113)	**(3)**	211	**67**	19	**(2)**	12	**10**	24	**71**	234
375	**232**	**148**	**272**	**224**	**40**	**189**	**139**	**141**	**104**	**1,344**	**1,117**
171	29	**18**	(3)	**391**	96	**125**	49	**(3)**	30	**707**	205
(106)	16	**(131)**	7	**(164)**	152	**(21)**	1	**10**	(35)	**(444)**	126
440	277	**35**	276	**451**	288	**293**	189	**148**	99	**1,607**	1,448
(1,067)	1,175	**25**	38	**12**	223	**349**	(762)	**(26)**	–	**(1,329)**	202
5,519	5,722	**1,274**	1,128	**1,489**	944	**1,749**	1,028	**984**	838	**13,035**	12,062
(562)	424	**(160)**	86	**(196)**	82	**(220)**	79	**(15)**	24	**(1,153)**	695
4,957	6,146	**1,114**	1,214	**1,293**	1,026	**1,529**	1,107	**969**	862	**11,882**	12,757
2,349	3,823	**742**	672	**845**	390	**836**	380	**626**	596	**6,010**	6,873
2,608	2,323	**372**	542	**448**	636	**693**	727	**343**	266	**5,872**	5,884
6.2%	4.4%	**10.9%**	33.8%	**21.9%**	9.2%	**17.1%**	16.2%	**15.8%**	13.7%	**10.9%**	10.8%
7.3%	5.2%	**2.6%**	34.3%	**43.9%**	66.4%	**26.4%**	22.1%	**16.7%**	13.1%	**13.0%**	14.0%
8.9%	**5.4%**	**16.6%**	**12.0%**	**15.7%**	**10.0%**	**17.1%**	**13.9%**	**17.0%**	**3.1%**	**14.5%**	**11.4%**
7.4%	7.6%	**7.0%**	7.3%	**7.5%**	7.5%	**6.6%**	7.1%	**9.2%**	9.4%	**7.5%**	7.7%
4.6%	4.9%	**3.3%**	3.9%	**2.9%**	3.5%	**3.3%**	3.8%	**5.9%**	5.7%	**3.8%**	4.3%
6.8%	7.0%	**6.8%**	7.3%	**7.0%**	7.0%	**6.4%**	6.7%	**8.5%**	8.9%	**6.8%**	7.1%
6.5%	6.8%	**4.3%**	4.8%	**4.5%**	4.8%	**5.1%**	5.5%	**8.5%**	8.5%	**4.7%**	5.0%
3.0%	3.0%	**1.6%**	1.6%	**1.0%**	1.0%	**2.8%**	2.8%	**3.3%**	3.1%	**2.6%**	2.4%
26.7%	30.0%	**39.9%**	39.9%	**22.0%**	25.0%	**22.3%**	25.2%	**28.9%**	29.2%	**28.5%**	30.9%

Embedded Value Results – Rest of Europe by country (unaudited)

in USD millions, for the years ended December 31	Italy	
	2005	2004
Gross new business premiums including deposits, of which:	**906**	706
Annual premiums	**14**	12
Single premiums	**892**	694
Gross new business annual premiums equivalent (APE)	**103**	81
New business profit, after tax	**18**	15
Total operating profit, after tax	**44**	37
After-tax operating return before currency translation effects	**12.5%**	12.9%
New business profit margin (as % of APE)	**17.2%**	18.5%

The above information should be read in conjunction with the notes below and on the following pages.

Consulting actuaries review

Deloitte & Touche LLP ("Deloitte"), our consulting actuaries, have reviewed the choice of methodology together with the assumptions and calculations made by Zurich Financial Services Group ("the Group") in the calculation of the embedded value results of its Life Insurance business as of December 31, 2005. Deloitte have reported to the Group that they consider that the methodology is appropriate, the Group's assumptions are together reasonable and that the embedded value results as published above have been properly compiled on the basis of the methodology and assumptions chosen. For the purpose of this report, Deloitte have performed certain checks on data provided by the Group, but have not verified and have relied on financial information underlying the Group's financial statements.

Embedded value methodology

The embedded value represents the shareholders' interest, excluding any value from future new business, in the entities included in the Life Insurance segment as set out in the Group financial statements. It is the total of the shareholders' interests in the net assets of these life insurance entities and the present value of the projected future releases to shareholders arising from the business in-force, less a charge for the cost of capital supporting the solvency requirements of the business. The discount rate used to value the in-force business in each country reflects long term government bond rates at the valuation date plus a risk margin. The assumptions for mortality, persistency and expenses reflect recent and expected experience. All changes in assumptions not classified as "economic" are included in the "Operating assumption changes" line item. Gross new business annual premium equivalent (APE) is calculated as new annual premiums plus 10% of single premiums.

Embedded value profit is the change in the embedded value over the year, after adjustment for any dividends and capital movements. The profit is calculated on an after-tax basis.

	Spain		Ireland		Other European Countries		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	862	342	**668**	448	**122**	82	**2,558**	1,578
	20	14	**111**	90	**23**	16	**168**	132
	842	328	**557**	358	**99**	66	**2,390**	1,446
	104	47	**167**	126	**33**	23	**407**	277
	15	10	**34**	11	**3**	2	**70**	38
	55	41	**80**	32	**10**	29	**189**	139
	29.1%	31.2%	**19.2%**	9.6%	**6.7%**	27.8%	**17.1%**	16.2%
	14.5%	22.1%	**20.2%**	8.5%	**9.4%**	10.2%	**17.1%**	13.9%

Consulting actuaries review (continued)

Embedded value profit consists of the following components, the first two of which in aggregate are referred to as operating profit:

- new business profit, after tax, which represents the value added by new business written during the period, including allowance for the cost of holding solvency capital, and is valued at point of sale using the applicable discount rate;
- the operating profit from existing business, which is equal to:
  - the profit expected from in-force business and net assets, after tax, including allowance for the cost of holding solvency capital,
  - the experience variances caused by the differences between the actual experience during the period and the expected experience assumed in the prior year embedded value, and
  - the impact of changes in assumptions of future operating experience;
- the economic variance, which is equal to:
  - the investment variance caused by differences between the actual and the expected experience over the reporting period, and
  - the change in future economic assumptions, such as changes in discount rates and future investment rates including, where appropriate, the effect of changes in legislation.

The calculation of embedded values necessarily makes numerous assumptions with respect to economic conditions, operating conditions, taxes, and other matters, many of which are beyond the Group's control. Although the assumptions used represent estimates which the Group and Deloitte believe are together reasonable, actual future experience may vary from that assumed in the calculation of the embedded value results, and such variation may be material. Deviations from assumed experience are normal and are to be expected. The embedded value results have been prepared using generally accepted actuarial methods that use deterministic projections which do not allow for all of the cost of options and guarantees on a market consistent basis.

Notes to the embedded value results

1. To improve transparency and to reflect management responsibilities, the presentation of the embedded value results has been enhanced. In particular, additional information on the countries within Europe has been disclosed. The information for the United Kingdom includes the Isle of Man.

2. The after-tax operating return and after-tax return on opening embedded value have been calculated reflecting the incidence of capital movements in and out of the embedded value.

3. Life Insurance includes some non-insurance service companies and our distribution units in the United Kingdom and Germany. In line with our embedded value methodology, we have included the present value of future profits of these companies in both the Group's embedded value and new business profit. New business profit arises in these companies through servicing of the Group's life insurance business as well as that of general insurance Group companies and third parties. The contribution to new business profit from servicing of general and third party business is USD 15 million in Germany, and a loss of USD 2 million in the United Kingdom. There is however no contribution to the annual premium equivalent in respect of general and third party new business. Removing the value of this new business from the new business profit would reduce the new business margin in Germany to 13.8%, increase the new business margin in the United Kingdom to 9.0% and reduce the new business margin of the Group to 13.9%.

4. For several companies in Life Insurance, no embedded value has been calculated but these companies have been included in the embedded value results at their shareholders' equity value, as calculated in accordance with IFRS. The contribution from these companies to the Group's total published embedded value is approximately 2%.

5. Following the launch during 2005 of our United Kingdom distribution unit, Openwork, the results of this entity have been fully consolidated within our UK embedded value results. 25% of the operating loss, after excluding one-off costs, is attributable to new business, in line with the Group's long term financial interest in this entity. The remainder of the operating loss has been allowed for in the operating result for the United Kingdom.

6. Where the Group has a majority interest in a subsidiary company, the new business profit and new business premium information are shown gross of minority holdings although the embedded value is shown net of minority holdings. The minorities' share of new business profit is eliminated through "Operating variance, after tax". The minorities' share of new business profit mostly relates to our subsidiaries in Germany. For Life Insurance in total, the new business profit and gross new business annual premium equivalent (APE) net of minority holdings for 2005 are USD 315 million and USD 2'198 million, respectively.

7. Effective January 1, 2005, in the USA there was a transfer of capital of USD 512 million from Life Insurance to Farmers Management Services, including USD 490 million of surplus notes. The embedded value operating profit includes a net benefit of USD 60 million due to the reduction in cost of capital associated with the transfer of these surplus notes.

8. In April 2004, the Group changed the organizational structure of its business units in line with its strategy. As a result, certain life insurance operations have been reclassified as Other Businesses. One of these, Kemper Investors Life Insurance Company (KILICO), has written variable annuity contracts that provide annuitants with certain guarantees related to minimum death and income benefits. The Group has recorded provisions for these embedded guarantee features in accordance with its accounting policy. The embedded value related to KILICO as of January 1, 2004 was USD 357 million. The Group has not determined embedded value results for this company since its reclassification into Other Businesses.

9. In 2005, wholesale investment products, for which only administration services are provided, have not been classified as new business and hence have been excluded from both the new business profit and the annual premium equivalent. This has impacted the results in our International Businesses.

10. The published embedded value assumes that at least the locally required minimum statutory capital is held to support the business. In some countries, a higher amount has been locked-in where this is in line with management strategy or market practice. In 2005, the amount of shareholder capital used to meet these requirements was USD 4.2 billion, which produced an associated shareholder economic cost of USD 1.2 billion.

11. In 2005, the capital strain on writing new business was approximately USD 0.9 billion. The after-tax internal rate of return on new business was approximately 11% and the new business profit before cost of solvency was USD 396 million.

Embedded value sensitivities

The following tables show the sensitivity of our 2005 embedded value and value of new business to changes in several key assumptions:

in USD millions	Discount rate 1% increase	Discount rate 1% decrease	Invest ment return 1% increase	Invest ment return 1% decrease	Market value of equities 10% decrease	Renewal expenses 10% decrease	Demo-graphy 10% worsening	Lapses 10% worsening
Change in embedded value	**(581)**	**674**	**544**	**(679)**	**(282)**	**183**	**(565)**	**(206)**

	Discount rate 1% increase	Discount rate 1% decrease	Invest ment return 1% increase	Invest ment return 1% decrease	Initial expenses 10% decrease	Renewal expenses 10% decrease	Demo-graphy 10% worsening	Lapses 10% worsening
Change in new business value	**(68)**	**81**	**53**	**(69)**	**101**	**25**	**(37)**	**(39)**

The figures shown above are "sensitivities" - for each assumption change, all other assumptions have remained unchanged.

The exceptions to this are the investment return sensitivities which assume a change to future new money rates for fixed interest securities and a change to returns on both existing assets and future new money rates for equities and properties. These sensitivities reflect the change to embedded value in such a changed investment environment. For example, where appropriate, changes to statutory valuation bases or policyholder bonuses have been reflected accordingly. In addition, changes to the market values of fixed interest assets have been reflected where appropriate. However, these investment return sensitivities assume that the risk discount rates remain unaffected.