

## Financial Review

Amounts for 2004 have been restated for the implementation of several new and revised accounting standards within the International Financial Reporting Standards (IFRS) framework, which became effective January 1, 2005. Details are set out in note 3 to our Consolidated Financial Statements. Amounts for 2004 have also been restated to conform to the current presentation of segments.

### Group performance highlights

The Zurich Financial Services Group (the Group) earned net income attributable to shareholders of USD 3.2 billion for the year ended December 31, 2005, an increase of 30% compared with USD 2.5 billion for the year ended December 31, 2004. The increase in net income attributable to shareholders was recorded despite the exceptional catastrophe costs in 2005 and demonstrates the benefits of the diversity of our operations.

Key financial highlights	in USD millions, for the years ended December 31		
	2005	2004	Change
Gross written premiums and policy fees	46,797	49,236	(5%)
Net investment result <sup>1</sup>	23,147	15,595	48%
<i>Net of policyholder dividends and participation in profits</i>	8,715	6,843	27%
Business operating profit	3,947	2,988	32%
Net income attributable to shareholders	3,214	2,466	30%
General Insurance combined ratio	100.8%	102.0%	1.2 pts
Life Insurance new business profit margin (as % of APE)	14.5%	11.4%	3.1 pts
Diluted earnings per share (in CHF)	27.11	20.83	30%
Return on common shareholders' equity (ROE) <sup>2</sup>	15.5%	13.6%	1.9 pts
Business operating profit (after tax) return on common shareholders' equity <sup>2</sup>	13.6%	12.6%	1.0 pts

<sup>1</sup> Net investment result includes net investment income and net capital gains on investments and impairments.

<sup>2</sup> Performance measures for 2004 are based on financial information as restated. ROE is based on net income attributable to common shareholders.

### Performance overview

**Business operating profit** increased by USD 959 million, or 32%, for the year ended December 31, 2005, to USD 3.9 billion.

- The Group achieved excellent results with improvements in all performance measures for each of our operating segments, continuing the quality of our earnings reported throughout the year.
- The **General Insurance** segment contributed **business operating profit** of USD 1.9 billion and a combined ratio of 100.8%, an improvement of 1.2 percentage points from 2004. The General Insurance business operating profit absorbed losses and reinstatement premiums of USD 1.2 billion and USD 111 million for hurricanes and floods respectively, impacting our combined ratio by 4.6 percentage points.
- In our **Life Insurance** segment we realized the benefits of our business model changes and refocused product strategy, resulting in an increase to our **new business profit margin** of 3.1 percentage points. Key elements included the launch of Openwork in the United Kingdom in June 2005, cost savings in Europe and increased sales of unit-linked products resulting in an increase to business operating profit of USD 145 million to USD 1.1 billion in 2005.
- **Farmers Management Services** continued its strong performance with a 10% increase in business operating profit to USD 1.2 billion in 2005 driven by higher fee and investment income, along with tight cost controls.

- **Other Businesses** contributed USD 212 million to the increase in the Group's business operating profit, largely driven by **Centre's** continued successful commutations.
- During 2005 the Group issued USD 1.7 billion of ECAPS and EUR 500 million of debt through its EMTN Programme, which, together with the full year effect of the 2004 EMTN issuance, contributed to the increase of USD 84 million in **interest expense on debt**.
- Higher short-term interest rates in the United States, higher dividend income in Europe and International Businesses as well as a higher average invested asset base (after adjusting for foreign currency effects) resulted in an increase to **net investment income** of USD 712 million, or 8%, to USD 9.8 billion.

**Net income before income taxes** increased by USD 1.8 billion, or 49%, from USD 3.7 billion to USD 5.5 billion in 2005.

- Lower long-term interest rates in Europe and higher equity markets resulted in an increase to our **net capital gains on investments** and impairments of USD 6.8 billion, to USD 13.4 billion, of which USD 12.4 billion is distributable to policyholders.

**Net income attributable to shareholders** increased by USD 748 million, or 30%, to USD 3.2 billion in 2005 compared with USD 2.5 billion in 2004.

- The shareholders' **effective tax rate** was 29.1% compared with 23.2% in 2004. The Group's overall effective income tax rate of 39.1% includes the impact of tax expense attributable to policyholders in certain jurisdictions. This rate increased by 9.2 percentage points from 29.9 % in 2004. The increases in both rates are primarily due to the recognition of significant deferred tax assets in 2004 for net operating losses which were not repeated in 2005.

Our **business operating profit (after tax) return on common shareholders' equity** increased by 1.0 percentage point to 13.6%. The increase in our **return on common shareholders' equity** of 1.9 percentage points to 15.5% is greater primarily due to the increase in net capital gains on investments.

**Diluted earnings per share** increased by CHF 6.28 per share, or 30%, to CHF 27.11 per share in 2005 compared with CHF 20.83 per share in 2004.

Total payout to shareholders of CHF 7.00 per share comprises a dividend of CHF 4.60 per share and a payout of CHF 2.40 per share in the form of the nominal value reduction of each registered share. The proposed total payout of CHF 7.00 per share is expected around the beginning of July 2006, subject to approval by the Annual General Meeting. The nominal value reduction is further subject to the fulfillment of the necessary requirements and the registration of the share capital reduction in the Commercial Registrar of the Canton of Zurich. The proposed value reduction would reduce the nominal value of each registered share from CHF 2.50 to CHF 0.10.

## 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).

		in USD millions, for the years ended December 31	
		2005	2004
<b>Reconciliation of net income before shareholders' taxes and business operating profit</b>	Net income before shareholders' taxes	4,694	3,350
	Adjusted for:		
	Net capital gains on investments and impairments, excluding capital markets and banking activities and certain securities held for specific economic hedging purposes	(13,205)	(6,378)
	Policyholder allocation of net capital gains on investments and impairments	12,416	6,155
	Net income attributable to minority interests	(116)	(106)
	Net loss/(gain) on divestments of businesses	2	(88)
	Restructuring provisions and other	156	55
	<b>Business operating profit</b>	<b>3,947</b>	<b>2,988</b>

		in USD millions, for the years ended December 31		Business operating profit		Gross written premiums and policy fees	
		2005	2004	2005	2004		
<b>Business operating profit and gross written premiums and policy fees by business segment</b>	General Insurance	1,914	1,241	33,401	33,855		
	Life Insurance	1,079	934	10,535	10,948		
	Farmers Management Services	1,221	1,109	–	–		
	Other Businesses	441	229	3,004	4,704		
	Corporate Functions	(708)	(525)	182	139		
	<b>Total <sup>1</sup></b>	<b>3,947</b>	<b>2,988</b>	<b>46,797</b>	<b>49,236</b>		

<sup>1</sup> After intersegment eliminations.

## General Insurance highlights

In 2005, we benefited from our well diversified portfolio allowing us to improve our underwriting result in certain markets and lines of business, while absorbing losses in others. We have experienced growth in expanding markets, and at the same time, by maintaining pricing discipline, we have improved the underlying profitability across the General Insurance segment.

We continued our operational progress by focusing on The Zurich Way, improving our product mix and by adapting our reinsurance programs. The purchase of reinsurance is managed centrally and is used to protect our balance sheet and manage our use of capital.

During 2005 we embedded The Zurich Way of Reserving which was launched in 2004. With The Zurich Way of Reserving, we have moved to global processes reflecting best practices. Reserves governance has been strengthened through centralization of the actuarial reporting structure, and peer reviews providing additional insight and confidence.

The Zurich Way of Claims Management focused on customer experience, and control of expense and indemnity costs. We enhanced our relationship with customers by reducing cycle times and through consistent service standards. We lowered our expenses through streamlined operations and vendor management, and benefited from efficiencies created through increased use of technology, as well as through consistent use of best practices.

We continued our disciplined underwriting approach through The Zurich Way of Underwriting and, where in some lines of business, rates were not adequate to meet our technical price targets, we have chosen not to write that business. This process emphasizes underwriting profit and appropriate risk selection rather than just premium growth. As with the actuarial and claims functions, we have centralized the reporting structure to ensure consistency in approach and application of common methodologies.

### General Insurance – highlights

in USD millions, for the years ended December 31			
	2005	2004	Change
Gross written premiums and policy fees	33,401	33,855	(1%)
Net earned premiums and policy fees	27,569	26,937	2%
Insurance benefits and losses, net of reinsurance	(21,068)	(21,455)	2%
Net underwriting result	(223)	(537)	58%
<b>Business operating profit</b>	<b>1,914</b>	<b>1,241</b>	<b>54%</b>
Loss ratio	76.4%	79.7%	3.3 pts
Expense ratio	24.4%	22.3%	(2.1 pts)
<b>Combined ratio</b>	<b>100.8%</b>	<b>102.0%</b>	<b>1.2 pts</b>

**Business operating profit** for the General Insurance segment increased by USD 673 million to USD 1.9 billion in 2005 from USD 1.2 billion in 2004. This performance was achieved in a year of exceptional catastrophes. After consideration of the catastrophe losses and reinstatement premiums, the **net underwriting result** improved by USD 314 million.

The combined ratio improved by 1.2 percentage points to 100.8%. The catastrophes, which largely affected Global Corporate, North America Commercial, and to a lesser extent, Europe General Insurance, contributed 4.6 percentage points to the General Insurance **combined ratio** for the year ended December 31, 2005. Excluding the impact of the catastrophes, the improved underwriting result for General Insurance was driven by strong performances in North America Commercial, Europe General Insurance and International Businesses.

In addition, net investment income was a significant contributor to the General Insurance result for the year. **Net investment income** increased by 18% due to improved asset yields and a higher average invested asset base.



### General Insurance – combined ratio

in %, for the years ended December 31

	Total		Global Corporate		North America Commercial		Europe General Insurance		International Businesses		Centrally Managed Businesses	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	100.8%	102.0%	107.4%	93.9%	106.3%	121.9%	93.8%	92.5%	94.0%	93.0%	482.2%	156.8%

### Global Corporate

Global Corporate serves multinational companies with products tailored to their domestic and international insurance needs. Our global network enables us to operate across national, regional and functional boundaries. We provide our customers with the benefit of our international expertise and detailed local knowledge.

### Global Corporate – highlights

in USD millions, for the years ended December 31

	2005	2004	Change
Gross written premiums and policy fees	6,526	6,818	(4%)
Net earned premiums and policy fees	4,567	4,794	(5%)
Insurance benefits and losses, net of reinsurance	(4,110)	(3,700)	(11%)
Net underwriting result	(338)	291	nm
<b>Business operating profit</b>	<b>25</b>	<b>585</b>	<b>(96%)</b>
Loss ratio	90.0%	77.2%	(12.8 pts)
Expense ratio	17.4%	16.7%	(0.7 pts)
<b>Combined ratio</b>	<b>107.4%</b>	<b>93.9%</b>	<b>(13.5 pts)</b>

Catastrophes and an increasingly competitive market environment resulted in a decrease of USD 560 million, or 96%, for a **business operating profit** in 2005 of USD 25 million compared with 2004.

Costs of catastrophes in North America and Europe of USD 471 million, as well as a few large individual property losses relating to fire and floods of USD 183 million contributed 14.3 percentage points to the 2005 **loss ratio** after the benign experience of 2004.

Rate decreases in the US and Europe together with our underwriting discipline resulted in a decrease in **gross written premiums and policy fees** of USD 292 million, or 4%, to USD 6.5 billion. Total net technical expenses remained relatively stable; however, the decrease in net earned premiums and policy fees resulted in a 0.7 percentage point increase in the **expense ratio**.

**Net investment income** increased by USD 18 million, or 5%, to USD 410 million compared with 2004 due to a higher average invested asset base.

### North America Commercial

We are a leading commercial property and casualty insurance provider in North America, serving our commercial customers, including middle market, small business, specialties and program sectors in the US and Canada.

#### North America Commercial – highlights

in USD millions, for the years ended December 31	2005	2004	Change
Gross written premiums and policy fees	12,511	12,772	(2%)
Net earned premiums and policy fees	9,152	8,415	9%
Insurance benefits and losses, net of reinsurance	(7,270)	(8,456)	14%
Net underwriting result	(574)	(1,842)	69%
<b>Business operating profit</b>	<b>223</b>	<b>(1,298)</b>	<b>nm</b>
Loss ratio	79.4%	100.5%	21.1 pts
Expense ratio	26.9%	21.4%	(5.5 pts)
<b>Combined ratio</b>	<b>106.3%</b>	<b>121.9%</b>	<b>15.6 pts</b>

**Gross written premiums and policy fees** declined by 2% to USD 12.5 billion in 2005 compared with the prior year, primarily due to the decision to reduce certain specialties lines of business where rates did not meet our technical price target as well as rate decreases in both the property and casualty lines of business. However, premiums ceded to reinsurers have decreased by USD 1.4 billion due to revised exposures and reductions of some reinsurance programs in order to retain more profitable business as our capacity increased with the strength of our balance sheet. Consequently, **net earned premiums and policy fees** increased 9% to USD 9.2 billion in 2005.

**Insurance benefits and losses, net of reinsurance**, decreased by 14% to USD 7.3 billion in 2005, compared with 2004 due to lower prior year loss development partially offset by higher current year losses caused by the hurricanes and the changes to our reinsurance program.

Increased cash flows from operations, higher yields as well as a higher average invested asset base resulted in an increase of USD 294 million to **net investment income** in 2005 compared with 2004.

The **net underwriting result** improved by USD 1.3 billion and contributed to an improved business operating profit, although significant items impacted the result. In particular, the hurricanes in North America resulted in **losses and loss adjustment expenses** of USD 634 million and reinstatement premiums of USD 84 million.

The changes in our reinsurance program and resultant lower commissions, combined with a one-time increase in underwriting expense for a change in accounting classification, and one-off cost savings in 2004 not repeated in 2005, resulted in a net 5.5 percentage point increase in the **expense ratio**.

### Europe General Insurance

Europe General Insurance consists of commercial and personal customer segments. Our largest markets in Europe are the UK, Germany, Switzerland, Italy and Spain. Additionally, we are well-positioned in Ireland, Portugal and Austria.

#### Europe General Insurance – highlights

in USD millions, for the years ended December 31	2005	2004	Change
Gross written premiums and policy fees	12,184	12,258	(1%)
Net earned premiums and policy fees	11,727	11,726	0%
Insurance benefits and losses, net of reinsurance	(8,285)	(8,089)	(2%)
Net underwriting result	729	886	(18%)
<b>Business operating profit</b>	<b>1,509</b>	<b>1,564</b>	<b>(4%)</b>
Loss ratio	70.7%	69.0%	(1.7 pts)
Expense ratio	23.1%	23.5%	0.4 pts
<b>Combined ratio</b>	<b>93.8%</b>	<b>92.5%</b>	<b>(1.3 pts)</b>

**Business operating profit** of USD 1.5 billion in 2005 continued to be a major contribution to the Group's results though it decreased by USD 55 million.

Market competition in the UK has intensified during 2005, with rate decreases in most commercial lines, in particular in liability. We maintained our pricing integrity which resulted in reduced volume across most major commercial lines in the UK. In contrast we maintained both rate and volume in the UK commercial property account despite the market conditions. Germany experienced an overall increase in gross written premiums and policy fees of 1%, primarily attributable to higher volume in commercial lines, partially offset by rate decreases in personal lines as a result of the softening market conditions primarily in the motor business. In Italy, we experienced overall growth of 9% partly due to the new agents added to our sales force. Spain grew by 7% and is benefiting from several initiatives implemented over the last two years, including a sales efficiency program and the impact of the implementation of The Zurich Way of Underwriting in 2005.

Net earned premiums and policy fees of USD 11.7 billion remained at the same level in both 2005 and 2004 benefiting from higher premium retention levels.

The **net underwriting result** decreased by 18%, or USD 157 million, to USD 729 million in 2005 with the **combined ratio** increasing by 1.3 percentage points to 93.8%, resulting from 1.7 percentage point increase in the loss ratio offset by a 0.4 percentage point improvement in the expense ratio.

The 1.7 percentage point increase in the **loss ratio** was impacted by the European flood losses in August 2005, mainly affecting our Swiss business, and the 2004 effect in the UK of the favorable loss experience and the release of reserves. Favorable loss experience in Germany was broadly offset by higher than average claims and frequency in Spain.

The **expense ratio** improved by 0.4 percentage points to 23.1%, primarily driven by improvements in Switzerland and Spain, as well as from a one-time gain of USD 53 million in Switzerland from the changes to its pension plan.

The increase of USD 151 million in **net investment income** to USD 1.1 billion in 2005 is primarily due to positive operational cash flows resulting in a higher average invested asset base, with the main contribution from the UK.

### International Businesses

Our International Businesses division consists of Asia Pacific, Latin America and Rest of International Businesses with Australia, South Africa and Japan being the largest units.

Australia concentrates on the small and medium enterprises and corporate markets, and has a single channel distribution strategy focused on brokers.

South Africa has a product mix that is currently 70% commercial business and 30% personal business and utilizes the broker distribution channel for its business.

Japan is focused on both personal and corporate lines. Personal lines account for approximately 80% of the business. The core products are auto insurance, which is sold directly to the consumer, and personal accident insurance.

### International Businesses – highlights

in USD millions, for the years ended December 31			
	2005	2004	Change
Gross written premiums and policy fees	2,871	2,765	4%
Net earned premiums and policy fees	2,081	1,915	9%
Insurance benefits and losses, net of reinsurance	(1,247)	(1,131)	(10%)
Net underwriting result	123	135	(9%)
<b>Business operating profit</b>	<b>256</b>	<b>244</b>	<b>5%</b>
Loss ratio	59.9%	59.1%	(0.8 pts)
Expense ratio	34.1%	33.9%	(0.2 pts)
<b>Combined ratio</b>	<b>94.0%</b>	<b>93.0%</b>	<b>(1.0 pts)</b>

**Business operating profit** increased by USD 12 million to USD 256 million reflecting higher gross written premiums and policy fees and lower premiums ceded. Partially offsetting these contributions were increased loss and loss adjustment expenses in South Africa and Japan.

**Gross written premiums and policy fees** increased by USD 106 million, or 4%, to USD 2.9 billion in 2005 compared with 2004. Approximately half of this increase arose in Japan resulting from increased marketing and successful collaboration with credit card companies. The remainder of the increase was primarily contributed by South Africa and Venezuela which experienced rate and volume growth, respectively. Premiums ceded to reinsurers decreased by USD 93 million. Consequently, **net earned premiums and policy fees** increased by USD 166 million to USD 2.1 billion in 2005.

A USD 110 million increase in **losses and loss adjustment expenses** was partly due to the growth in net earned premiums. Other contributing factors include an increase in losses and loss adjustment expenses in South Africa of USD 35 million from increased frequency and severity of weather related losses in 2005 compared with 2004, which was a relatively benign year. Hurricane Wilma accounted for USD 14 million of losses and loss adjustment expenses in 2005. **Underwriting and policy acquisition costs** also increased in 2005 compared with 2004, largely due to changes in reinsurance structures resulting in lower ceded commissions.

**Net investment income** increased by USD 32 million, or 26%, due to a mixture of higher average invested asset base resulting from increased cash flows, higher dividend income in Australia and South Africa and higher interest income in Australia, Mexico and Venezuela.

#### Centrally Managed Businesses

The use of reinsurance is a key component of the Group's risk mitigation and capital management strategies. The Centrally Managed Businesses division includes our internal reinsurance programs.

#### Centrally Managed Businesses – highlights

in USD millions, for the years ended December 31		2005	2004	Change
Gross written premiums and policy fees		275	297	(7%)
Net earned premiums and policy fees		42	87	(52%)
Insurance benefits and losses, net of reinsurance		(156)	(79)	(97%)
Net underwriting result		(159)	(49)	nm
<b>Business operating profit</b>		<b>(99)</b>	<b>146</b>	<b>nm</b>

During 2005 a small number of individually significant losses resulted in a **net underwriting loss** of USD 159 million and a **business operating loss** of USD 99 million in 2005 compared with a business operating profit of USD 146 million in 2004.

As a consequence of the gradual transfer, starting in 2003, of our intra-Group reinsurance transactions to the regions that wrote the underlying premiums, as well as further optimization of our reinsurance purchasing, **net earned premiums and policy fees** decreased to USD 42 million, a decline of USD 45 million, or 52%, compared with the prior year.

#### Life Insurance highlights

In 2005 we saw the continuing rewards from our efforts to strengthen sustainable Life Insurance results. We made further progress in refocusing our business portfolio, redefining our business model, de-risking our balance sheet and optimizing our expense base. Our refocused product range is gaining further acceptance in the marketplace, with total new business up after adjusting for the 2004 sales spike in Germany.

Since 2002 we have divested numerous life businesses to focus on profitable growth in our markets. We are making major changes to our business models in Switzerland and in the UK. In Switzerland we redesigned our group pension business model. In the UK we consolidated our remaining life portfolios into a single entity, permitting further operating and commercial synergies. Openwork, our new distribution company, was launched in June 2005 and sells products manufactured by the Group and other selected partners, to take full advantage of the new flexibility permitted by UK regulation. The value realized by Openwork will be shared between the Group and its franchise partners who have shown very strong support for the new model.

We are concentrating on protection and lump sum savings, especially unit-linked business, and de-emphasizing guaranteed products or those with low margins. Our new product range is gaining traction in the marketplace. Our innovative products and service levels are being recognized, with Germany, Ireland and the UK receiving awards for excellent customer service and product quality in the recent past.

The Zurich Way initiatives will enable us to further stabilize our growth and to take full advantage of the momentum we have created. The Zurich Way Sales Excellence program is improving the productivity of our tied agents. Also under The Zurich Way, we are looking at further opportunities for efficiencies and cost saving. We will continue to develop new and innovative products focused on market niches where we have competitive advantage. Despite the encouraging progress, we face continuing challenges in our highly competitive markets, where margins are under pressure. Nonetheless, we believe we have laid solid foundations for the future.

### Life Insurance – highlights

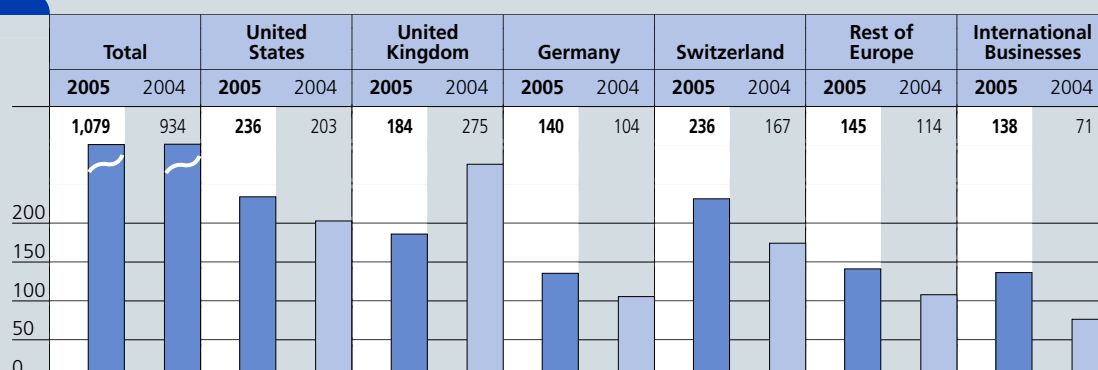
in USD millions, for the years ended December 31			
	2005	2004	Change
Insurance deposits	9,807	8,791	12%
Gross written premiums and policy fees	10,535	10,948	(4%)
Net investment result	17,999	11,413	58%
Total benefits, losses and expenses	(26,695)	(21,284)	(25%)
<b>Business operating profit</b>	<b>1,079</b>	<b>934</b>	<b>16%</b>
<b>Embedded value – highlights</b>			
Gross new business annual premiums equivalent (APE)	2,303	2,403	(4%)
<b>New business profit margin (as % of APE)</b>	<b>14.5%</b>	<b>11.4%</b>	<b>3.1 pts</b>
New business profit, after tax	333	273	22%
Total operating profit, after tax	1,344	1,117	20%
<b>Operating return, after tax and before currency translation effects</b>	<b>10.9%</b>	<b>10.8%</b>	<b>0.1 pts</b>

Both of our Life Insurance key performance indicators, business operating profit and new business profit margin (as a percentage of APE), showed positive trends in 2005 compared with 2004.

**Business operating profit** increased by USD 145 million, or 16%, to USD 1.1 billion in 2005 driven by Switzerland, Germany, the US and International Businesses. Partially offsetting these increases was a decrease in business operating profit in the UK as a result of development and implementation costs of USD 94 million primarily from the introduction of our new distribution unit, Openwork, and the costs associated with the outsourcing agreement with Capita.

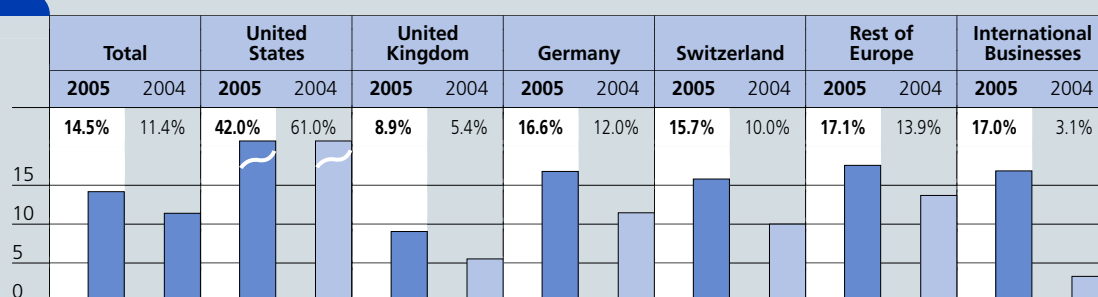
**Gross new business annual premiums equivalent** decreased by USD 100 million, or 4%, to USD 2.3 billion primarily due to a decline in volumes in Germany after changes in tax legislation caused a spike in volumes in 2004. **New business profit, after tax**, contributed USD 333 million to the **total operating profit, after tax**, which increased by USD 227 million to USD 1.3 billion, corresponding to a 10.9% **operating return on embedded value** in 2005. This was 3.2 percentage points above the expected return of 7.7% for the period, driven by the positive contribution from the value of the new business written as a result of our refocused product strategy.

### Life Insurance – <sup>1</sup> business operating profit



<sup>1</sup> in USD millions, for the years ended December 31.

### Life Insurance – <sup>1</sup> new business profit margin, after tax (in % of APE)



<sup>1</sup> In %, for the years ended December 31.

### United States

Farmers New World Life (FNWL) is the Group's life insurance provider in the US, with individual life insurance as its primary line of business. FNWL focuses on the middle market, providing income protection through its line of term products. FNWL also offers whole life, universal life and variable universal life insurance. Annuity products offered by FNWL include flexible and single premium deferred annuities, single premium immediate annuities, equity indexed annuities and variable annuities. FNWL distributes its life and annuity products through the more than 17,000 agents of the Farmers Exchanges.

### United States – highlights

in USD millions, for the years ended December 31

	2005	2004	Change
Insurance deposits	500	547	(9%)
Gross written premiums and policy fees	617	568	9%
Net investment income	313	316	(1%)
Net capital gains on investments and impairments	19	23	(17%)
Total benefits, losses and expenses	(574)	(570)	(1%)
<b>Business operating profit</b>	<b>236</b>	<b>203</b>	<b>16%</b>
<b>Embedded value – highlights</b>			
Gross new business annual premiums equivalent (APE)	111	120	(8%)
New business profit, after tax	47	74	(36%)
Total operating profit, after tax	267	330	(19%)
<b>Operating return, after tax and before currency translation effects</b>	<b>14.1%</b>	<b>15.0%</b>	<b>(0.9 pts)</b>

**Gross written premiums and policy fees** increased by USD 49 million, or 9%, to USD 617 million in 2005 primarily due to growth of traditional and universal life products. Consistent with the increase in gross written premiums and policy fees, insurance benefits and losses, net of reinsurance also increased, however by 4%, resulting in an increase to business operating profit. Also contributing to business operating profit was the sale and leaseback of the FNWL headquarters.

Given the low interest rate environment during 2005, marketing of annuities has been de-emphasized, resulting in a decline of **gross new business annual premiums equivalent** by USD 9 million, or 8%, to USD 111 million in 2005. In addition reinsurance costs increased, causing a decrease in **new business profit, after tax** of USD 27 million, or 36%, to USD 47 million in 2005. Offsetting the decrease in new business profit, was a reduction in the cost of capital associated with the transfer of surplus notes to Farmers Management Services, resulting in an **after tax operating return** of 14.1%.

### United Kingdom

In the UK we principally offer protection products, investment bonds and tax advantaged investment products, which are distributed through a wide range of independent intermediaries, and through Openwork, one of the largest multi-tied distribution networks in the UK.

#### United Kingdom – highlights

in USD millions, for the years ended December 31	2005	2004	Change
Insurance deposits	5,117	4,965	3%
Gross written premiums and policy fees	2,264	2,104	8%
Net investment income	2,953	2,778	6%
Net capital gains on investments and impairments	8,974	4,132	nm
Total benefits, losses and expenses	(13,487)	(8,604)	(57%)
<b>Business operating profit</b>	<b>184</b>	<b>275</b>	<b>(33%)</b>
<b>Embedded value – highlights</b>			
Gross new business annual premiums equivalent (APE)	1,017	891	14%
New business profit, after tax	90	49	84%
Total operating profit, after tax	375	232	62%
<b>Operating return, after tax and before currency translation effects</b>	<b>6.2%</b>	<b>4.4%</b>	<b>1.8 pts</b>

**Gross written premiums and policy fees** increased by USD 160 million, or 8%, to USD 2.3 billion in 2005 compared with 2004. This was primarily due to the increase in the value of unit-linked products as a result of stronger equity markets, causing an increase in policyholder participations and consequently, policyholder taxes, which we recover through corresponding policy fees.

**Net investment income** increased by USD 175 million to USD 3.0 billion in 2005 primarily due to a higher average invested asset base including unit-linked assets.

**Business operating profit** decreased by USD 91 million in 2005 to USD 184 million due to Openwork set-up costs and costs associated with the outsourcing agreement with Capita.

Growth in investment products in the UK led to a 14% increase in **gross new business annual premiums equivalent**. Higher sales, an improved business mix and new reinsurance structures resulted in an increase to our new business profit, after tax, of USD 41 million, or 84%, to USD 90 million in 2005.

**Embedded value operating profit, after tax**, increased by 62%, mainly due to higher new business profit and legal entity restructuring.

### Germany

In Germany we distribute a comprehensive range of traditional and unit-linked products through our tied sales force, brokers and our exclusive partnership with Deutsche Bank.

## Germany – highlights

in USD millions, for the years ended December 31	2005	2004	Change
Insurance deposits	800	703	14%
Gross written premiums and policy fees	3,764	3,819	(1%)
Net investment income	1,545	1,567	(1%)
Net capital gains on investments and impairments	1,027	191	nm
Total benefits, losses and expenses	(6,368)	(5,629)	(13%)
<b>Business operating profit</b>	<b>140</b>	<b>104</b>	<b>35%</b>
<b>Embedded value – highlights</b>			
Gross new business annual premiums equivalent (APE)	525	794	(34%)
New business profit, after tax	87	95	(8%)
Total operating profit, after tax	148	272	(46%)
<b>Operating return, after tax and before currency translation effects</b>	<b>10.9%</b>	<b>33.8%</b>	<b>(22.9 pts)</b>

**Gross written premiums and policy fees** declined 1% in 2005 to USD 3.8 billion, caused by the decline in sales of traditional products in Germany after the spike in sales in 2004. The decrease was mitigated by an increase in sales of unit-linked products, the marketing of which was intensified at the end of 2004 and continued to gain momentum during 2005, resulting in an increase in insurance deposits of 14% to USD 800 million.

Despite the decline in top line growth, **business operating profit** increased by USD 36 million in 2005 to USD 140 million due to the full year benefit of business model changes implemented in 2004.

Following the 2004 increase in traditional products due to changes in tax legislation, **gross new business annual premiums equivalent** decreased by USD 269 million, or 34%, to USD 525 million in 2005, compared with 2004. Despite the overall decrease in new business annual premiums equivalent, **new business profit, after tax**, decreased by USD 8 million, or 8%, compared with 2004 due to the effect of changes in our business model and business mix.

## Switzerland

In Switzerland we focus on individual life products, where we offer a comprehensive range of traditional and unit-linked products. We serve the needs of our group pensions customers mainly through our relationship with independent foundations. We distribute through our tied sales force, brokers and other intermediaries.

## Switzerland – highlights

in USD millions, for the years ended December 31	2005	2004	Change
Insurance deposits	25	19	32%
Gross written premiums and policy fees	2,249	2,657	(15%)
Net investment income	722	821	(12%)
Net capital gains on investments and impairments	215	45	nm
Total benefits, losses and expenses	(2,852)	(3,404)	16%
<b>Business operating profit</b>	<b>236</b>	<b>167</b>	<b>41%</b>
<b>Embedded value – highlights</b>			
Gross new business annual premiums equivalent (APE)	105	114	(8%)
New business profit, after tax	16	11	45%
Total operating profit, after tax	224	40	nm
<b>Operating return, after tax and before currency translation effects</b>	<b>21.9%</b>	<b>9.2%</b>	<b>12.7 pts</b>

We have implemented changes to our product mix to de-risk our balance sheet and to maintain and improve profitable business growth leading to increased fee income and lower risk. As a result, we have begun promoting unit-linked products, and providing alternative options for less profitable products as contracts expire. Consequently, gross written premiums and policy fees decreased by USD 408 million to USD 2.2 billion. However, this was also more than offset by a decrease in future life policyholders' benefits. These strategic decisions combined with lower pension costs and releases arising from reserve reviews led to business operating profit growth of USD 69 million, or 41%, to USD 236 million in 2005, compared with 2004.

**Net investment income** decreased by USD 99 million due to a lower average invested asset base following the de-risking of our balance sheet.

Lower sales in individual life products and the non-renewal of certain expiring group pensions products led to **gross new business annual premiums equivalent** of USD 105 million, a decrease of USD 9 million, or 8%, compared with 2004. However, in line with our strategy to retain and develop profitable business, **new business profit, after tax** increased by USD 5 million.

The **total operating profit, after tax**, for 2005 of USD 224 million benefited from additional clarification of the implementation of the "legal quote" for group life business corresponding to a 21.9% after tax operating return.

### Rest of Europe

In the Rest of Europe, principally Ireland, Italy and Spain, we offer selected products to meet the needs of our customers in each market. In Ireland we distribute mainly through independent intermediaries. In Italy and Spain we distribute through our tied agents and through our partnership arrangements with Deutsche Bank and other intermediaries.

### Rest of Europe – highlights

in USD millions, for the years ended December 31

	2005	2004	Change
Insurance deposits	2,090	1,349	55%
Gross written premiums and policy fees <sup>1</sup>	1,125	1,121	0%
Net investment income	616	601	2%
Net capital gains on investments and impairments	951	314	nm
Total benefits, losses and expenses	(2,344)	(1,852)	(27%)
<b>Business operating profit</b>	<b>145</b>	<b>114</b>	<b>27%</b>
<b>Embedded value – highlights</b>			
Gross new business annual premiums equivalent (APE)	407	277	47%
New business profit, after tax	70	38	84%
Total operating profit, after tax	189	139	36%
<b>Operating return, after tax and before currency translation effects</b>	<b>17.1%</b>	<b>16.2%</b>	<b>0.9 pts</b>

<sup>1</sup> Including inter-region eliminations.

Increased marketing for unit-linked products primarily in Spain, but also in Ireland and Italy, resulted in an increase in insurance deposits of USD 741 million, or 55%, to USD 2.1 billion compared with 2004. The increase in insurance deposits in Spain of USD 480 million was primarily the result of increased marketing activity for products sold through the banking channel. Ireland's increase in insurance deposits is attributed to the launch of a number of new unit-linked funds in 2005. Italy also launched a new product in May 2005 demonstrating its new focus on index-linked products.

The USD 31 million increase in **business operating profit** is largely due to an increase in the term insurance portfolio and net increase in insurance deposits in Spain, a reduction in insurance benefits and losses in Italy and good claims experience in Ireland over the second half of 2005.

Strong sales combined with the change in business mix in Italy, Ireland and Spain resulted in an increase of USD 130 million in **gross new business annual premiums equivalent** as well as contributing USD 70 million to **new business profit, after tax** compared with 2004.

### International Businesses

Our International Businesses offer primarily traditional and unit-linked products. In some markets such as Australia we also offer investment products. Our major markets are Australia, Japan, Hong Kong, Mexico, Chile and Argentina.

#### International Businesses – highlights

in USD millions, for the years ended December 31	2005	2004	Change
Insurance deposits	1,275	1,208	6%
Gross written premiums and policy fees	519	679	(24%)
Net investment income	332	260	28%
Net capital gains on investments and impairments	332	365	(9%)
Total benefits, losses and expenses	(1,070)	(1,226)	13%
<b>Business operating profit</b>	<b>138</b>	<b>71</b>	<b>94%</b>
<b>Embedded value – highlights</b>			
Gross new business annual premiums equivalent (APE)	138	207	(33%)
New business profit, after tax	23	6	nm
Total operating profit, after tax	141	104	36%
<b>Operating return, after tax and before currency translation effects</b>	<b>15.8%</b>	<b>13.7%</b>	<b>2.1 pts</b>

Gross written premiums and policy fees decreased by USD 160 million; however, after adjusting for the divestment in Taiwan, they increased by USD 41 million, largely due to growth in the term life, lump sum disability and income protection products.

**Net investment income** increased due to higher sales of unit-linked products, combined with lower investment expenses contributing to an increase in **business operating profit** of USD 67 million, to USD 138 million compared with 2004.

**Gross new business annual premiums equivalent** of USD 138 million is USD 69 million lower than in 2004 because wholesale investment products, for which only administration services are provided, have not been classified as new business in 2005 and hence have been excluded from both new business profit and gross new business annual premiums equivalent. Despite the decrease in volumes, **new business profit, after tax** increased from USD 6 million to USD 23 million due to increased profitability in our Asia Pacific businesses.

### Farmers Management Services highlights

Farmers Group, Inc. and its subsidiaries (FGI) provide non-claims related management services to the Farmers Exchanges, prominent writers of personal lines and small commercial lines business in the US. FGI receives fee income for the provision of these services and additional fee income for the provision of other services to the Exchanges, which we manage, but do not own, and their customers.

#### Farmers Management Services – highlights

in USD millions, for the years ended December 31	2005	2004	Change
Management fees and other related revenue	2,058	1,985	4%
Management expenses and other related expenses	(990)	(955)	(4%)
Net investment income	152	119	28%
<b>Business operating profit</b>	<b>1,221</b>	<b>1,109</b>	<b>10%</b>
Gross operating margin	51.9%	51.9%	–

Farmers Management Services continued its strong performance in 2005 as **business operating profit** increased by USD 112 million, to USD 1.2 billion in 2005 compared with 2004. This performance primarily reflects the steady increase in **management fees and other related revenue** due to increased gross earned premiums in the Farmers Exchanges. Further increases in management fees and other related revenue were derived from new services provided by the management services company, and new products offered by the Exchanges introduced in 2005. Other contributing factors to the increase in business operating profit include lower amortization charges on intangible assets of USD 46 million partially offset by increased advertising expenses in 2005, resulting in an unchanged **gross operating margin** at 51.9%.

A higher average invested asset base contributed to **net investment income** of USD 152 million in 2005, an increase of USD 33 million, or 28%, compared with 2004.

### Farmers Exchanges – highlights

in USD millions, for the years ended December 31

	2005	2004	Change
Gross earned premiums	14,380	14,020	3%
Combined ratio	97.1%	96.8%	(0.3 pts)

In 2005, the **Farmers Exchanges** experienced premium growth in the three major lines, Personal, Specialty and Commercial resulting in an increase in **gross earned premiums** of 3% to USD 14.4 billion compared with 2004. The Exchanges also delivered a strong **combined ratio** of 97.1%, which represented a slight increase of 0.3 percentage points when compared with the prior year. Excluding the effects of the hurricanes, which increased the combined ratio 3.2 percentage points, the combined ratio would have been 93.9% in 2005.

For the year, the Farmers Exchanges increased their surplus by an additional USD 484 million, adding USD 946 million of surplus over two years, well ahead of the pace to achieve their commitment to add USD 1.0 billion over three years.

### Other Businesses highlights

Other Businesses includes Farmers Re which provides reinsurance to the Farmers Exchanges, Centre and capital markets and banking activities. This segment also includes certain businesses which are centrally managed and are not considered to be core businesses. Certain of the business operations in this segment were discontinued, divested or put into run-off in previous years. The current year results of this segment are not indicative of future results.

### Other Businesses – highlights

in USD millions, for the years ended December 31

	2005	2004	Change
Net earned premiums and policy fees	3,057	4,584	(33%)
Net investment income	757	713	6%
Total benefits, losses and expenses	(4,832)	(6,627)	27%
<b>Business operating profit</b>	<b>441</b>	<b>229</b>	<b>93%</b>

**Business operating profit** increased by USD 212 million, or 93%, to USD 441 million in 2005, compared with 2004 primarily due to an increase of USD 175 million in business operating profit for Centre. Also contributing to the strong performance was Farmers Re with a business operating profit of USD 196 million in 2005.

## Other Businesses – highlights by operations

in USD millions, for the years ended December 31

	Farmers Re		Centre		Other operations	
	2005	2004	2005	2004	2005	2004
Net earned premiums and policy fees	2,127	3,063	599	1,131	331	390
Net investment income	110	101	359	406	288	206
Total benefits, losses and expenses	(2,041)	(2,941)	(1,114)	(1,748)	(1,677)	(1,938)
<b>Business operating profit</b>	<b>196</b>	<b>224</b>	<b>222</b>	<b>47</b>	<b>23</b>	<b>(42)</b>

### Farmers Re

Farmers Re showed strong performance in its operations. **Business operating profit** was USD 196 million in 2005, a decrease of USD 28 million compared with 2004. Within this result Farmers Re has absorbed both a USD 61 million effect of the cancellation of the Auto Quota Share treaty and a USD 50 million impact from the hurricanes. The underlying increase in business operating profit was being driven by an increase in our participation in the All Lines Quota Share agreement from the Farmers Exchanges.

### Centre

During 2005 Centre successfully commuted a number of contracts, resulting in commutation gains, asset sales and settled liabilities, as part of the continuing wind-down of the business. The result contributed to the reductions of **net earned premiums and policy fees** by USD 532 million and **total benefits, losses and expenses** of USD 634 million. Additionally, we reduced our total investments by USD 3.4 billion and reserves for insurance contracts by USD 3.3 billion.

Although interest rates were higher, the average invested asset base was lower due to the commutations throughout the year. Consequently, **net investment income** decreased by USD 47 million to USD 359 million in 2005.

Centre continues to actively pursue commutation and asset divestment opportunities.

### Other operations

Primarily as a result of decreased investment expenses and decreased benefits, losses and expenses, **business operating profit** increased by USD 65 million to a profit of USD 23 million in 2005 from a loss of USD 42 million in 2004.

As expected in run-off businesses, **net earned premiums and policy fees** decreased by 15% compared with 2004, to USD 331 million in 2005. **Total benefits, losses and expenses** also decreased by 13%, to USD 1.7 billion not only due to the operations in run-off, but also because claims development has been favorable compared with 2004.

A combination of lower investment expenses and increased investment income led to an increase in **net investment income** of USD 82 million, to USD 288 million.

## Corporate Functions highlights

Corporate Functions includes Group holding and financing companies, Corporate Center operations and alternative investments.

Main drivers of the result of this segment are investment income and interest expense relating to the financing of the Group, capital gains and losses on investments together with central costs for services provided to the businesses and projects managed centrally before recharges to the businesses.

During 2005 we made an investment in our brand aiming to increase the Group's profile with our business and consumer customers as well as to enhance our market presence and ability to attract and retain customers.

## Corporate Functions – highlights

in USD millions, for the years ended December 31	2005	2004	Change
Headquarter expenses, net of recharges to operating businesses and foreign currency	(91)	(97)	6%
Foreign currency	(90)	94	nm
Net investment income	614	498	23%
Financing costs <sup>1</sup>	(986)	(837)	(18%)
<b>Business operating loss</b>	<b>(708)</b>	<b>(525)</b>	<b>(35%)</b>

<sup>1</sup> Includes interest expense on debt, interest credited to policyholders and other interest.

Corporate Functions recorded a **business operating loss** of USD 708 million in 2005, an increase of USD 183 million compared with 2004. The increase is primarily due to increased financing costs and adverse foreign currency impacts, partially offset by increased net investment income. Additionally, net gains on divestments of businesses, which contributed to increased revenues in 2004, were not repeated in 2005.

Increases in recharges to the operating businesses more than offset increases in gross headquarter expenses (excluding foreign exchange hedging and transactions), resulting in a USD 6 million decrease in **headquarter expenses, net of recharges to operating businesses and foreign currency**.

In 2005 we experienced a loss of USD 90 million in foreign currency hedging and transaction losses, compared with a gain of USD 94 million in 2004, primarily due to the strengthening of the US dollar against the British pound, Swiss franc and euro during 2005.

Higher interest income on intercompany loans contributed to **net investment income** of USD 614 million, a USD 116 million increase compared with the prior year.

Debt issuances of EUR 1.0 billion and EUR 500 million under the Euro Medium Term Note Programme in September 2004 and in June 2005, respectively, contributed to the increase in **interest expense on debt** of USD 60 million. In addition to these debt issuances **interest credited to policyholders and other interest** increased by USD 89 million on borrowings from other segments. Together these developments resulted in an increase to **financing costs** of USD 149 million. In December 2005 we issued three new series of Enhanced Capital Advantaged Preferred Securities.

## 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 investment 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.

## Investment performance

in USD millions, for the years ended December 31	2005	2004	Change
Net investment income	9,765	9,053	8%
<i>Group investments</i>	7,782	7,460	4%
<i>Investments for unit-linked products</i>	1,983	1,593	24%
Net capital gains on investments and impairments	13,382	6,542	nm
<i>Group investments</i>	2,512	956	nm
<i>Investments for unit-linked products</i>	10,870	5,586	95%
<b>Net investment result <sup>1</sup></b>	<b>23,147</b>	<b>15,595</b>	<b>48%</b>
Movements in net unrealized gains on investments included in common shareholders' equity (Group investments)	(300)	2,053	nm
Average investments <sup>2</sup>	274,840	262,930	5%
<i>Group investments <sup>2</sup></i>	185,072	183,737	1%
<i>Investments for unit-linked products</i>	89,768	79,193	13%
<b>Total return on Group investments <sup>3</sup></b>	<b>5.5%</b>	<b>5.8%</b>	<b>(0.3 pts)</b>
<b>Total return on investments for unit-linked products</b>	<b>14.7%</b>	<b>9.6%</b>	<b>5.1 pts</b>

<sup>1</sup> Net investment result, net of policyholder dividends and participation in profits amounted to USD 8.7 billion and USD 6.8 billion for the years ended December 31, 2005 and 2004, respectively.

<sup>2</sup> Excluding average cash received as collateral for securities lending of USD 4.9 billion and USD 2.6 billion in 2005 and 2004, respectively.

<sup>3</sup> After add-back of investment expenses.

**Net investment income** on Group investments increased by USD 322 million to USD 7.8 billion in 2005 primarily due to higher short-term interest rates, particularly in the US, on cash balances and short-term debt securities, which contributed USD 248 million.

**Net capital gains on investments and impairments** on Group investments increased by USD 1.6 billion to USD 2.5 billion primarily due to fair value increases and active gains realization.

We increased net capital gains on investments and impairments on both Group investments equity securities by USD 1.0 billion, and Group investments debt securities by USD 282 million.

A substantial portion of active gains realizations on our equity securities arose from our Germany Life business, where stronger equity markets strengthened our equity securities. In 2005, continental European equity markets increased by approximately 20%, and the FTSE 100 increased by approximately 17%, compared with 2004, contributing significantly to the fair value increases in our equity securities.

Active gains realization on our debt securities accounted for approximately half of the net capital gains on investments and impairments.

Group investments real estate held for investment, in particular in Spain, also contributed to the result, increasing in value by USD 134 million.

Higher interest rates in the US are impacting the market value of our bond portfolio contributed to a USD 2.4 billion decrease to the year on year **movement in net unrealized gains on investments** included in common shareholders' equity. We have maintained an AA+ quality bond portfolio and have adhered to our strategy of closely matching this portfolio to corresponding insurance liabilities.

Approximately 80% of unit-linked investments are in equity securities, therefore the increases in the continental European and UK markets noted above drove the USD 5.3 billion increase in net capital gains on investments and impairments for unit-linked products.

## Currency translation impact

The Group operates worldwide in multiple currencies and seeks to match its foreign exchange exposures on an economic basis. As the Group has chosen the US dollar as its presentation currency, differences arise when functional currencies are translated into the Group's presentation currency.

Currency translation impact on selected balance sheet items	variance over December 31, 2004, as of December 31, 2005	
	in USD millions	in %
Total investments	(25,808)	(9%)
Gross reserves for insurance contracts	(19,337)	(8%)
Cumulative translation adjustment in common shareholders' equity	(940)	(5%)

The balance sheet is translated at closing foreign currency rates where the strength of the US dollar has had a negative impact of USD 940 million on common shareholders' equity. However, in the operating statements, which are translated at average foreign currency rates, the US dollar declined against the euro, but rose against the Swiss franc and British pound. The foreign currency translation impact on net income attributable to shareholders was USD 3 million.

## Quarterly consolidated financial information

### Summary of 2005 quarterly consolidated financial information

in USD millions, for the three months ended	12/31/05	09/30/05	06/30/05	03/31/05
Gross written premiums and policy fees	10,497	10,346	12,062	13,892
Net earned premiums and policy fees	10,001	9,766	10,359	10,331
Net investment income and net capital gains on investments and impairments	6,061	7,607	5,878	3,601
Other revenues	995	901	869	817
<b>Total revenues</b>	<b>17,057</b>	<b>18,274</b>	<b>17,106</b>	<b>14,749</b>
Insurance benefits and losses, net of reinsurance	8,253	7,941	8,325	7,900
Policyholder dividends and participation in profits, net of reinsurance	3,642	5,556	3,350	1,884
Other expenses	3,641	3,875	3,681	3,672
<b>Total benefits, losses and expenses</b>	<b>15,536</b>	<b>17,372</b>	<b>15,356</b>	<b>13,456</b>
<b>Net income before income taxes</b>	<b>1,521</b>	<b>902</b>	<b>1,750</b>	<b>1,293</b>
<b>Net income attributable to shareholders</b>	<b>958</b>	<b>457</b>	<b>1,020</b>	<b>779</b>
<b>Business operating profit</b>	<b>1,084</b>	<b>558</b>	<b>1,271</b>	<b>1,034</b>

### Summary of 2004 quarterly consolidated financial information

in USD millions, for the three months ended	12/31/04	09/30/04	06/30/04	03/31/04
Gross written premiums and policy fees	11,715	11,165	12,123	14,233
Net earned premiums and policy fees	10,987	10,191	10,097	10,515
Net investment income and net capital gains on investments and impairments	6,458	3,079	2,879	3,179
Other revenues	1,206	882	902	839
<b>Total revenues</b>	<b>18,651</b>	<b>14,152</b>	<b>13,878</b>	<b>14,533</b>
Insurance benefits and losses, net of reinsurance	9,212	8,606	7,827	8,467
Policyholder dividends and participation in profits, net of reinsurance	4,838	1,514	999	1,401
Other expenses	3,765	3,501	3,747	3,669
<b>Total benefits, losses and expenses</b>	<b>17,815</b>	<b>13,621</b>	<b>12,573</b>	<b>13,537</b>
<b>Net income before income taxes</b>	<b>836</b>	<b>531</b>	<b>1,305</b>	<b>996</b>
<b>Net income attributable to shareholders</b>	<b>609</b>	<b>373</b>	<b>840</b>	<b>644</b>
<b>Business operating profit</b>	<b>498</b>	<b>512</b>	<b>1,104</b>	<b>874</b>

## Balance sheet highlights

### Balance sheet highlights

in USD millions, as of December 31	2005	2004	Change
Group investments	183,455	196,457	(7%)
Investments for unit-linked products	93,838	85,698	9%
<b>Total investments</b>	<b>277,293</b>	<b>282,155</b>	<b>(2%)</b>
Reserves for losses and loss adjustment expenses, gross	60,425	57,765	5%
Other reserves for insurance contracts, gross (excluding unit-linked products)	103,808	118,344	(12%)
Reserves for unit-linked insurance contracts, gross	55,691	51,920	7%
<b>Total reserves for insurance contracts</b>	<b>219,924</b>	<b>228,029</b>	<b>(4%)</b>
Liabilities for investment contracts (primarily unit-linked)	40,999	39,260	4%
<b>Total financial debt and equity</b>	<b>30,780</b>	<b>27,226</b>	<b>13%</b>

**Total investments** decreased by USD 4.9 billion, or 2%, to USD 277.3 billion as of December 31, 2005. However, after adjusting for foreign currency effects total investments increased by USD 20.9 billion, or 7%. The increase was primarily driven by a 20% increase (on a currency adjusted basis) in equity **investments for unit-linked products** to USD 74.7 billion. Approximately 80% of unit-linked investments are invested in equity securities. Corresponding increases are shown in liabilities for investment contracts (primarily unit-linked) and **reserves for unit-linked insurance contracts**.

**Reserves for insurance contracts** decreased by USD 8.1 billion, or 4% to USD 219.9 billion as of December 31, 2005. After adjusting for foreign currency effects reserves for insurance contracts increased by USD 11.2 billion, or 5%.

These foreign currency translation effects of USD 940 million are reflected in common shareholders' equity.

### Investments

Total investments as shown in the consolidated balance sheets 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. Investments for unit-linked products include investments held for liabilities related to insurance and investment contracts except for investment policies with discretionary participation features where the investments are managed as part of Group investments.

Breakdown of Group investments	in USD millions, as of December 31			
	2005	% of total	2004	% of total
Cash and cash equivalents	18,723	10.2%	18,950	9.6%
Equity securities	15,550	8.5%	17,051	8.7%
<i>Common stock, including equity unit-trusts</i>	9,413	5.2%	9,522	4.9%
<i>Unit-trusts (debt securities, real estate, short-term investments)</i>	2,420	1.3%	2,707	1.4%
<i>Common stock portfolios backing the participating with-profit policyholder contracts</i>	1,691	0.9%	2,049	1.0%
<i>Trading equity portfolios in capital markets and banking activities</i>	2,026	1.1%	2,773	1.4%
Debt securities	118,011	64.3%	124,285	63.3%
Real estate held for investment	6,314	3.4%	7,193	3.7%
Mortgage loans	9,307	5.1%	10,251	5.2%
Policyholders' collateral and other loans	11,984	6.5%	14,901	7.6%
Other Group investments	3,566	2.0%	3,826	1.9%
<b>Total</b>	<b>183,455</b>	<b>100.0%</b>	<b>196,457</b>	<b>100.0%</b>

The increase in Group investments of USD 4.2 billion (after adjusting for currency translation effects) was primarily due to an increase in debt securities arising from increased cash flows and higher values from lower long-term interest rates in Europe.

#### Reserves for Losses and Loss Adjustment Expenses

We establish reserves for losses and loss adjustment expenses, which are estimates of future payments of reported and unreported claims for losses and related expenses, with respect to insured events that have occurred. These estimates are based on assumptions regarding the development of reserved claims, which may be different from the actual development of claims over time. In determining the level of reserves, the Group considers historical trends and patterns of loss payments, pending levels of unpaid claims and types of coverage. In addition, court decisions, economic conditions and public attitudes may affect the ultimate cost of settlement and, as a result, the Group's estimation of reserves. Between the reporting and final settlement of a claim, circumstances may change which would result in changes to established reserves. Items such as changes in law and interpretations of relevant case law, results of litigation, changes in medical costs, as well as costs of vehicle and home repair materials and labor rates can substantially impact ultimate settlement costs. Accordingly, the Group reviews and re-evaluates claims and reserves on a regular basis.

### Development of reserves for losses and loss adjustment expenses

in USD millions	2005	2004	Change
As of January 1 (opening balance)			
Gross reserves for losses and loss adjustment expenses	57,765	51,007	13%
Reinsurers' share	(14,278)	(14,036)	2%
<b>Net reserves for losses and loss adjustment expenses</b>	<b>43,487</b>	<b>36,971</b>	<b>18%</b>
Net losses and loss adjustment expenses incurred			
Current period	22,465	21,529	(4%)
Prior years	141	1,964	93%
Total	22,606	23,493	4%
Total net losses and loss adjustment expenses paid	(17,200)	(17,517)	2%
Divestments of companies and businesses	(37)	(743)	95%
Foreign currency translation effects	(2,662)	1,283	nm
As of December 31 (closing balance)			
<b>Net reserves for losses and loss adjustment expenses</b>	<b>46,194</b>	<b>43,487</b>	<b>6%</b>
Reinsurers' share	14,231	14,278	–
Gross reserves for losses and loss adjustment expenses	60,425	57,765	5%

As of December 31, 2005 our general insurance net reserves for losses and loss adjustment expenses were USD 46.2 billion, an increase of 6% over the prior year. On a currency adjusted basis general insurance net reserves for losses and loss adjustment expenses increased by 13%. This balance includes the non-life insurance reserves for the Group, not only those included within the General Insurance segment. Gross reserves for losses and loss adjustment expenses increased by USD 2.7 billion, or 5%; however, on a foreign currency adjusted basis the increase was USD 6.0 billion.

Prior year development during 2005, which includes both increases and decreases to prior year reserves, was USD 141 million.

For the first time we have published a net loss and loss adjustment expense reserves development table for the Group. The table below has been derived from the information in note 11 of the Consolidated Financial Statements and shows the development of loss ratios by accident year.

### Development of cumulative net loss ratios

	2001	2002	2003	2004	2005
In the year	81.4%	70.6%	67.1%	68.3%	<b>73.3%</b>
One year later	85.7%	72.0%	66.1%	<b>64.2%</b>	
Two years later	85.8%	72.3%	<b>65.4%</b>		
Three years later	87.4%	<b>74.5%</b>			
Four years later	<b>88.5%</b>				

Focusing on the 2004 accident year and prior years, the leading diagonal of the triangle shows a steady improvement in loss ratio from 88.5% in 2001 to 64.2% in 2004.

The step change in pricing which started in 2002 and has subsequently continued is evident in the loss ratios shown in the triangle. The triangle demonstrates the trend in the quality of recent years and the more conservative stance on current year reserving.

The 2005 accident year includes the effect of the catastrophe losses and this accounts for approximately 4.6% of the loss ratio estimate of 73.3%.

## Capitalization and Indebtedness

Capitalization and indebtedness	in USD millions, as of December 31		
	2005	2004	Change
Collateralized loans	3,056	4,135	(26%)
Debt related to capital markets and banking activities	2,139	3,880	(45%)
Obligation to repurchase securities	5,295	5,009	6%
<b>Total operational debt</b>	<b>10,490</b>	<b>13,024</b>	<b>(19%)</b>
Senior debt	2,933	3,355	(13%)
Subordinated debt	4,607	2,516	83%
<b>Total financial debt</b>	<b>7,540</b>	<b>5,871</b>	<b>28%</b>
Minority interests	814	840	(3%)
Shareholders' equity	22,426	20,515	9%
<b>Total equity</b>	<b>23,240</b>	<b>21,355</b>	<b>9%</b>
<b>Total financial debt and equity</b>	<b>30,780</b>	<b>27,226</b>	<b>13%</b>

Collateralized loans, which are secured by mortgage loans given as collateral of a similar amount, decreased by USD 1.1 billion to USD 3.1 billion as of December 31, 2005. As part of the Deutscher Herold transaction in 2002 the Group acquired various mortgage loans which had been sold to credit institutions while Deutscher Herold retained the related credit and interest risk. The balances will continue to decline as the loans mature.

Debt relating to capital markets and banking activities decreased by USD 1.7 billion arising mainly from the continued wind-down of business in Zurich Capital Markets (ZCM), which is included in Other Businesses. Our obligation to repurchase securities increased by USD 286 million to USD 5.3 billion as of December 31, 2005, resulting from increased short-term activities in the Repo market in the normal course of business as part of our investment and liquidity management.

Total financial debt increased by USD 1.7 billion, or 28%, to USD 7.5 billion as of December 31, 2005 due to the issuance of Enhanced Capital Advantaged Preferred Securities (ECAPS) in December 2005. These securities have the benefit of a subordinated support agreement from Zurich Financial Services and Zurich Group Holding.

The size of the Group's Euro Medium Term Note (EMTN) Programme, which allows for the potential issuance of senior and subordinated notes, was increased in March 2005, from a maximum of USD 4 billion to a maximum of USD 6 billion. As part of the EMTN Programme, Zurich Finance (USA), Inc. issued a 4.5% EUR 500 million bond in June 2005.

The Group has access to a syndicated revolving credit facility of USD 3 billion which was put in place in April 2004. This credit facility consists of two equal tranches maturing in 2007 and 2009. Zurich Group Holding, together with Zurich Insurance Company and Farmers Group, Inc., are guarantors of the facility and can draw up to USD 1.25 billion, USD 1.5 billion and USD 250 million, respectively. No borrowings were outstanding under this facility as of December 31, 2005.

Dunbar Bank has access to various committed credit facilities totaling GBP 465 million. GBP 10 million of borrowings were drawn under these facilities as of December 31, 2005.

The reduction in minority interests of USD 26 million, or 3%, primarily resulted from foreign currency translation effects.

## Total Equity

Total equity	in USD millions	Shareholders' equity	Minority interests	Total equity
<b>As of December 31, 2004, as previously reported</b>		<b>22,181</b>	<b>846</b>	<b>23,027</b>
Total adjustments due to implementation of new and revised IFRS accounting standards		(1,666)	(6)	(1,672)
As of December 31, 2004, restated		20,515	840	21,355
Write-off of negative goodwill (IFRS 3)		23	–	23
Change in net unrealized gains on investments (excluding currency translation adjustments)		81	7	88
Currency translation adjustments		(940)	(125)	(1,065)
Nominal value reduction of share capital		(449)	–	(449)
Share-based payment transactions		16	–	16
Treasury shares transactions		12	–	12
Net income after tax		3,214	116	3,330
Dividends		(46)	(18)	(64)
Net changes in capitalization and minority interests		–	(6)	(6)
<b>As of December 31, 2005</b>		<b>22,426</b>	<b>814</b>	<b>23,240</b>

Net income attributable to shareholders of USD 3.2 billion more than offset the impact of unfavorable currency translation effects, as well as the nominal value reduction of common shares by CHF 4 per registered share, which was paid in July 2005. As a result, total shareholders' equity increased to USD 22.4 billion as of December 31, 2005, a change of USD 1.9 billion, or 9%, compared with 2004.

## Regulatory capital

Regulated entities of the Group are required to submit returns to their local regulators, usually on an annual basis but in some countries more frequently. These returns show the compliance of the reporting entity with local solvency requirements and include information on eligible funds and admissible assets.

Several regulatory initiatives are under way to reform and modernize the capital requirements of insurance companies and insurance groups and this may lead to increased regulatory capital requirements for some Group companies. The Swiss insurance supervisory law, which became effective on January 1, 2006, introduces new risk based capital requirements (Swiss Solvency Test). Solvency II is being developed for application to insurance companies in the European Union. The Financial Services Authority in the UK has introduced more stringent solvency requirements than those currently applicable in the European Union.

In October 2005, the National Association of Insurance Commissioners (NAIC) in the US adopted changes for application in 2006 to risk based capital requirements for variable annuities with guarantees. These changes, known as C-3 Phase II, address risks associated with variable annuities and group annuities that contain death benefits or certain living benefit guarantees and use models that involve a range of scenarios and assumptions.

On a consolidated basis, Zurich Financial Services, with headquarters in Zurich, Switzerland, is subject to supervision by the Federal Office of Private Insurance (FOPI) based on the Decree on the Consolidated Supervision of the Zurich Financial Services Group issued by FOPI on April 23, 2001. Meanwhile Zurich Financial Services continues to be subject to certain solvency requirements based on this decree. It is, however, expected that based on the new Swiss insurance supervisory law this Decree will be replaced by a new decree of FOPI in the first half of 2006, subjecting Zurich Financial Services to the supervision exercised under the new law.

For further details, refer to note 23 in the Consolidated Financial Statements in the Financial Report.

## Cash flows

Our cash flow from operating activities consists of cash flow arising from our insurance businesses, after payments to reinsurers (net premiums, policy fees and deposits received less net claims after recoveries from reinsurers, benefit payments, policy surrenders and operating expenses) and investment income received (dividends, interest and rents) less interest paid and tax payments. Farmers Management Services receives management fees as well as investment income and pays operating expenses and taxes.

Surplus operating cash flows, plus the proceeds from the sale and maturity of investments as well as divestments, are reinvested through our investing activities. Our investments may be used to fund operating cash flow deficits.

Our financing activities result from our corporate funding and borrowing arrangements, capital raising and repayment as well as payments to shareholders.

<b>Summary of cash flows</b>	in USD millions, for the years ended December 31	
	<b>2005</b>	2004
Net income attributable to shareholders	3,214	2,466
Adjustments for:		
<i>Net capital gains on investments and impairments</i>	(13,382)	(6,542)
<i>Net loss/(gain) on divestments of businesses</i>	2	(88)
<i>Equity in income of investments in associates</i>	(105)	(86)
<i>Depreciation, amortization and impairments of fixed and intangible assets</i>	447	677
<i>Other non-cash items</i>	(5)	21
Changes in operational assets and liabilities <sup>1</sup>	15,884	14,492
Net cash provided by operating activities	6,055	10,940
Net cash used in investing activities	(3,596)	(9,811)
Net cash provided by/(used in) financing activities	853	(402)
Foreign currency translation effects on cash and cash equivalents	(1,661)	683
Change in cash and cash equivalents <sup>2,3</sup>	1,651	1,410
Change in cash received as collateral for securities lending	(626)	5,158
Cash and cash equivalents as of January 1, including cash received as collateral for securities lending <sup>3</sup>	22,457	15,889
<b>Cash and cash equivalents as of December 31, including cash received as collateral for securities lending <sup>3</sup></b>	<b>23,482</b>	<b>22,457</b>

<sup>1</sup> Cash flows related to investments held for trading purposes are reflected in "cash flows provided by operating activities".

<sup>2</sup> Excluding the change in cash received as collateral for securities lending.

<sup>3</sup> Cash and cash equivalents have been restated as a result of the IFRS changes effective January 1, 2005. Previously, we reported the balance "Investment held on account and at risk of life insurance policyholders". This balance included various types of investments, including cash and cash equivalents, which are now segregated into their individual investment categories.

The payout for commutation of contracts in 2005 decreased liabilities by USD 4.0 billion. This payout was effected by selling investments that backed the liabilities, and resulted in an investing cash inflow of USD 4.2 billion. Additionally, the continued run-off of Zurich Capital Markets (ZCM) reduced the level of investments resulting in a decrease to net cash inflows of USD 2.4 billion.

USD 1.7 billion and EUR 500 million of new external debt was raised in December and June 2005, respectively. However, debt at ZCM and Banking decreased by USD 1.4 billion.

## Litigation and regulatory investigations

The Group and its subsidiaries are continuously involved in legal proceedings, claims and litigation arising, for the most part, in the ordinary course of their business operations. The Group and its subsidiaries are also involved in a number of industry-wide civil and criminal investigations by various State Insurance Departments and State Attorneys General in the US, the US Attorney's Office for the Southern District of New York, the US Securities and Exchange Commission, other US authorities and supervisory bodies, and other non-US authorities regarding certain business practices involving insurance brokers and insurance companies, the purchase and sale of "non-traditional" products, certain reinsurance transactions engaged in by the Group and its subsidiaries, and other matters, such as financing hedge funds engaged in mutual-fund market-timing activities. The Group has been conducting its own internal reviews with respect to some of these matters and is cooperating fully in these investigations.

Various Group subsidiaries are also defendants in corporate class action litigation, and they intend to defend such actions vigorously. Certain of these putative class actions consolidated before a US District Court were brought by private parties based on matters that have been the subject of the investigation regarding business practices involving insurance brokers and insurance carriers. By entering into a Memorandum of Understanding with the plaintiffs in this consolidated class action subject to various contingencies, Zurich Financial Services and certain of its US subsidiaries have created a platform to negotiate a settlement with these plaintiffs that could be terminated or changed in material respects if efforts to negotiate satisfactory separate settlements with State Insurance Departments and State Attorneys General in the United States are unsuccessful. Zurich Financial Services is a defendant in class action lawsuits brought on behalf of the holders of securities issued by Converium Holding AG.

The outcome of such current legal proceedings, claims, litigation and investigations could have a material effect on operating results and/or cash flows when resolved in a future period. At this time we are unable to predict the potential effects, if any, that the investigations and related actions may have upon the insurance and the reinsurance markets and industry business practices or what, if any, changes may be made to laws and regulations regarding the industry. Any of the foregoing could adversely affect our business, results of operations and financial condition. Management is, however, not aware that these matters would materially affect the Group's consolidated financial position.

## Implementation of new accounting standards in 2005

As announced on May 3, 2005, the Group has implemented several new and revised accounting standards within the International Financial Reporting Standards (IFRS) framework, which became effective January 1, 2005. The main adjustments for the Group result from the adoption of IFRS 4. For further details on adjustments relating to IFRS 4 and the adoption of other accounting standards refer to note 3 of our Consolidated Financial Statements.