

Financial Review

The information contained within this document is unaudited. This document should be read in conjunction with the Zurich Financial Services Group Annual Report 2005. Interim results are not necessarily indicative of full-year results.

Group performance highlights

Zurich Financial Services Group (the Group) achieved **business operating profit** of USD 1.4 billion for the three months ended March 31, 2006, an increase of USD 325 million, or 31%, reflecting solid operating performances from our business segments. **Net income attributable to shareholders** increased by USD 6 million, or 1%, to USD 785 million for the three months ended March 31, 2006, demonstrating the resilience of our diversified business to significant one-off charges, such as the United States regulatory settlement costs (USD 262 million net of tax) incurred this quarter.

| Key financial highlights | in USD millions, for the three months ended March 31 | | |
|--|--|--------|-----------|
| | 2006 | 2005 | Change |
| Gross written premiums and policy fees | 13,434 | 13,892 | (3%) |
| Net investment result ¹ | 7,613 | 3,601 | nm |
| Business operating profit | 1,359 | 1,034 | 31% |
| Net income before income taxes | 1,482 | 1,293 | 15% |
| Net income attributable to shareholders | 785 | 779 | 1% |
| General Insurance combined ratio | 95.1% | 96.9% | 1.8 pts |
| Life Insurance new business profit margin (as % of APE) | 14.5% | 7.9% | 6.6 pts |
| Diluted earnings per share (in CHF) | 6.88 | 6.19 | 11% |
| Return on common shareholders' equity (ROE) ² | 15.2% | 16.7% | (1.5 pts) |
| Business operating profit (after tax) return on common shareholders' equity ² | 18.1% | 15.5% | 2.6 pts |

¹ Net investment result includes net investment income and net capital gains on investments and impairments. The unit-linked portion was USD 5.4 billion and USD 1.4 billion for the three months ended March 31, 2006 and 2005, respectively. The Group investments portion was USD 2.2 billion for both periods.

² Returns for the periods ended March 31, 2006 and 2005 are annualized on a compound basis using the results for the three months ended March 31. ROE is based on net income attributable to common shareholders.

Performance overview

Business operating profit increased by USD 325 million, or 31%, in the first three months of 2006 to USD 1.4 billion. Business operating profit (after tax) return on common shareholders' equity increased by 2.6 percentage points to 18.1% as a result of our improved performance.

- Our **General Insurance** segment achieved an improvement of 1.8 percentage points for a **combined ratio** of 95.1%, delivering a USD 128 million increase to the net underwriting result.
- **Global Life business operating profit** increased by USD 105 million in the first quarter of 2006 to USD 275 million demonstrating the continued benefits of structural changes in our life business.
- **Farmers Management Services** sustained its solid performance with a 3% increase in **management fees and other related revenues** due to higher gross earned premiums at the Farmers Exchanges, which we manage but do not own.
- **Other Businesses** achieved **business operating profit** of USD 105 million, a 14% decrease following lower levels of reinsurance ceded by the Farmers Exchanges in 2006.
- The issuances of ECAPS and further issuance under the Group's EMTN Programme after March 31, 2005, led to an increase in **interest expense on debt** of USD 49 million within **Corporate Functions**.
- **Net investment income** on Group investments remained stable at USD 1.9 billion. An increase due to higher interest rates was offset by foreign currency effects.

Net income before income taxes increased by USD 189 million, or 15%, to USD 1.5 billion from USD 1.3 billion for the first three months of 2006 compared with the same period in the prior year.

- In the United States, we recorded USD 325 million for the settlement of regulatory matters. On a segment basis, we allocated USD 240 million of restitutions to General Insurance, North America Commercial, and USD 65 million of fines and USD 20 million of costs to Corporate Functions.
- **Net capital gains on investments** increased by USD 4.0 billion to USD 5.2 billion. These gains, which are substantially distributed to life policyholders, primarily resulted from the continued strong performance of equity markets. The shareholders' portion of net capital gains on investments increased by USD 16 million to USD 170 million for the three months ended March 31, 2006.

Net income attributable to shareholders increased by USD 6 million, or 1%, to USD 785 million in the first three months of 2006 compared with USD 779 million in the same period of 2005.

- The **shareholders' effective tax rate** was 32.3% compared with 30.0% for the first three months of 2005. The Group's overall effective income tax rate includes the impact of income tax expenses attributable to policyholders in certain jurisdictions. This overall rate increased by 7.6 percentage points to 45.7% for the first three months of 2006. As a significant portion of the settlement costs, referred to above, are not deductible for tax purposes, we incurred approximately a 1.0 percentage point impact to our effective tax rate.

Segmental performance highlights

General Insurance

General Insurance highlights

in USD millions, for the three months ended March 31

| | Business operating profit | | Combined ratio | |
|------------------------------|---------------------------|------------|----------------|--------------|
| | 2006 | 2005 | 2006 | 2005 |
| Global Corporate | 201 | 180 | 92.8% | 93.3% |
| North America Commercial | 317 | 141 | 95.3% | 97.5% |
| Europe General Insurance | 354 | 307 | 93.7% | 96.0% |
| International Businesses | 19 | 37 | 102.6% | 99.2% |
| Centrally Managed Businesses | (5) | (56) | nm | nm |
| Total | 886 | 609 | 95.1% | 96.9% |

Our General Insurance segment benefited from The Zurich Way process improvements in underwriting, claims and expense control, and recorded an improved performance with **business operating profit** increasing by USD 277 million, or 45%, from USD 609 million for the three months ended March 31, 2005, to USD 886 million for the same period in 2006.

The **net underwriting result** for the first quarter of 2006 increased by USD 128 million, or 61%, to USD 338 million, compared with the same period in 2005. The resulting **combined ratio** was 95.1% for the same period, an improvement of 1.8 percentage points compared with the first three months of 2005. We achieved a 1.7 percentage point decrease in the **loss ratio** to 71.8%. This overall improvement was particularly evident in Global Corporate, North America Commercial and Europe General Insurance. **Insurance benefits and losses** decreased by USD 106 million, or 2%, from USD 5.0 billion for the three months ended March 31, 2005, to USD 4.9 billion for the same period in 2006. Additionally, the **expense ratio** slightly improved to 23.3%.

Market conditions continued to be competitive, but we remain disciplined in our underwriting. **Gross written premiums and policy fees** decreased by 4% compared with the three months ended March 31, 2005, to USD 9.9 billion for the corresponding period in 2006. On a constant exchange rate basis we experienced a 1% increase as a result of increased volumes, primarily attributable to a higher level of renewals in North America Commercial. Foreign currency effects were most evident in Europe General Insurance where the strengthened US dollar adversely affected the main European currencies. **Net earned premiums and policy fees**, although stable at USD 6.8 billion in US dollars, increased by 5% on a constant exchange rate basis as a result of continued reduced cessions to reinsurers.

Global Life

Global Life highlights

| | in USD millions, for the three months ended March 31 | | | |
|--------------------------|--|------|---|--------|
| | Business operating profit | | New business profit margin, after tax (as % of APE) | |
| | 2006 | 2005 | 2006 | 2005 |
| United States | 52 | 52 | 46.0% | 50.3% |
| United Kingdom | 63 | (19) | 7.2% | (7.7%) |
| Germany | 36 | 30 | 16.6% | 13.0% |
| Switzerland | 53 | 47 | 13.8% | 10.4% |
| Rest of Europe | 46 | 45 | 16.8% | 11.9% |
| International Businesses | 25 | 15 | 12.7% | 6.6% |
| Total | 275 | 170 | 14.5% | 7.9% |

Our Global Life segment is benefiting from improvements made to reposition our products and from executing changes to the operating model. **Business operating profit** increased by USD 105 million, or 62%, from USD 170 million in the first three months of 2005, to USD 275 million for the same period in 2006. We experienced increases in our businesses, which were augmented by improvements from our United Kingdom restructuring activity and from the absence of one-off charges compared with the first three months of 2005.

For the three months ended March 31, 2006, **gross new business annual premiums equivalent** increased by USD 20 million, or 4% (16% on a local currency basis), to USD 575 million compared with USD 555 million in the same period in 2005 due to increased sales, partly as a result of our new distribution channel. With our focus on profitable growth and the cost efficiencies recently introduced, **new business profit margin** increased by 6.6 percentage points to 14.5%.

Gross written premiums and policy fees increased by USD 225 million, or 8%, to USD 3.1 billion for the first three months of 2006, due in part to the recovery of policyholder taxes related to net capital gains on unit-linked products, the volume of which increased. For the three months ended March 31, 2006, the **net investment result**, much of which is attributable to policyholders, more than doubled, increasing by USD 3.6 billion to USD 6.4 billion as a result of favorable performance in financial markets, while **policyholder dividends and participation in profits, net of reinsurance** increased by USD 3.5 billion to USD 5.5 billion, primarily due to the increase in volume and value of unit-linked products.

Farmers Management Services

| | | 2006 | 2005 | Change |
|---|--|------------|------------|-----------|
| Farmers Management Services highlights | in USD millions, for the three months ended March 31 | | | |
| | Management fees and other related revenues | 522 | 508 | 3% |
| | Management and other related expenses | (249) | (237) | (5%) |
| | Business operating profit | 313 | 306 | 2% |
| | Gross operating margin | 52.3% | 53.2% | (0.9 pts) |

Farmers Management Services continued to benefit from the strong performance of the Farmers Exchanges in the first three months of 2006. **Business operating profit** increased to USD 313 million, an increase of USD 7 million, or 2%, compared with the same period in 2005. Increased revenues from service charges and membership fees contributed to this result, more than offsetting increased management and other related expenses.

Farmers Management Services receives a fee based upon **gross earned premiums and policy fees** recorded by the Farmers Exchanges, which we manage but do not own. In a very competitive environment where industry premium growth is subdued, gross earned premiums by the Exchanges increased by USD 66 million, or 2%, to USD 3.6 billion for the three months ended March 31, 2006. Consequently, **management fees and other related revenues** increased by USD 14 million to USD 522 million for the same period. For the first three months of 2006, the **gross operating margin** slightly decreased by 0.9 percentage points to 52.3%. **Management and other related expenses** increased by 5% to USD 249 million compared with the first three months of 2005, primarily as a result of investments in marketing and sales related IT initiatives.

Other Businesses

| | | 2006 | 2005 | Change |
|------------------------------------|--|------------|------------|--------------|
| Other Businesses highlights | in USD millions, for the three months ended March 31 | | | |
| | Net earned premiums and policy fees | 561 | 838 | (33%) |
| | Net investment result | 462 | 256 | 80% |
| | Total benefits, losses and expenses | (962) | (992) | 3% |
| | Business operating profit | 105 | 122 | (14%) |

Business operating profit decreased by USD 17 million, or 14%, from USD 122 million for the three months ended March 31, 2005, to USD 105 million for the same period in 2006, primarily driven by a USD 18 million decrease in Farmers Re's business operating profit due to lower levels of reinsurance ceded by the Farmers Exchanges to Farmers Re in 2006. Positively contributing to the segment's result was **Centre's** continued success with profitable contract commutations and asset sales in the wind-down of that business.

Net investment result increased by 80% to USD 462 million as a result of stronger equity markets, and, as much of this is attributable to policyholders, a corresponding increase in policyholder dividends and participations in profits, net of reinsurance was recorded. Due to the run-off portfolios within the Other Businesses segment, both **net earned premiums and policy fees** and **insurance benefits and losses, net of reinsurance** decreased by 33% and 46%, respectively.

Corporate Functions

Corporate Functions highlights

| in USD millions, for the three months ended March 31 | 2006 | 2005 | Change |
|---|--------------|--------------|--------------|
| Net investment income | 165 | 140 | 18% |
| Interest expense on debt | (273) | (224) | (22%) |
| Business operating loss | (220) | (173) | (27%) |
| Headquarter expenses, net of recharges to operating businesses and foreign currency | (49) | (18) | nm |
| Headquarter foreign currency | 35 | (20) | nm |

Business operating loss increased by USD 47 million, or 27%, from USD 173 million for the three months ended March 31, 2005, to USD 220 million for the same period in 2006, primarily due to an anticipated increase in **interest expense on debt** of USD 49 million, or 22%, to USD 273 million predominately as a result of the issuances of ECAPS in December 2005 and of a EUR 500 million bond under the EMTN Programme in June 2005. **Net investment income** increased by USD 25 million, or 18%, to USD 165 million for the three months ended March 31, 2006, compared with the same period in 2005, largely driven by higher interest earned on intercompany loans.

Headquarter expenses, net of recharges to the operating businesses and foreign currency increased primarily driven by our centrally managed global branding campaign. However, **headquarter foreign currency** hedging and transaction gains increased by USD 55 million from a loss of USD 20 million to a gain of USD 35 million as a result of the US dollar strengthening against the Swiss franc, euro and British pound.

Investment performance

Total investments as shown in the following table 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.

| Investment performance | in USD millions, for the three months ended March 31 | | |
|--|--|--------------|------------------|
| | 2006 | 2005 | Change |
| Net investment income | 2,451 | 2,406 | 2% |
| Group investments | 1,914 | 1,913 | 0% |
| Investments for unit-linked products | 537 | 493 | 9% |
| Net capital gains on investments and impairments | 5,162 | 1,195 | nm |
| Group investments | 300 | 277 | 8% |
| Investments for unit-linked products | 4,862 | 918 | nm |
| Net investment result | 7,613 | 3,601 | nm |
| Group investments | 2,214 | 2,190 | 1% |
| Investments for unit-linked products | 5,399 | 1,411 | nm |
| Movements in net unrealized gains on investments included in total equity (Group investments only) | (1,695) | (723) | nm |
| Total investment result | 5,918 | 2,878 | nm |
| Average investments ¹ | 275,783 | 275,006 | 0% |
| Group investments ¹ | 179,169 | 189,235 | (5%) |
| Investments for unit-linked products | 96,614 | 85,771 | 13% |
| Total return on Group investments ² | 0.3% | 0.8% | (0.5 pts) |
| Total return on investments for unit-linked products ² | 5.7% | 1.7% | 4.0 pts |

¹ Excluding average cash received as collateral for securities lending of USD 4.1 billion and USD 5.2 billion in the three months ended March 31, 2006 and 2005, respectively.

² Total return is not annualized.

For the three months ended March 31, 2006, **net investment income** on total investments increased by 2% to USD 2.5 billion compared with the same period in 2005, primarily due to a higher average invested asset base (on a constant exchange rate basis) invested at higher interest rates, particularly in the United States, in addition to increased dividend income on our equity securities. Net investment income on Group investments remained stable at USD 1.9 billion; higher short-term interest rates on cash balances and short-term debt securities mitigated negative foreign currency effects resulting from the strengthening of the US dollar against the main currencies in which the Group carries out its business.

Net capital gains on investments and impairments on total investments increased by USD 4.0 billion, from USD 1.2 billion for the three months ended March 31, 2005, to USD 5.2 billion for the same period in 2006. Of this, USD 3.9 billion related to the increase in unit-linked investments primarily due to active gains realization and strengthening equity markets in the United Kingdom. The remaining increase was provided by Group investments. The shareholders' portion of net capital gains on investments and impairments arising from Group investments was USD 170 million, an increase of USD 16 million for the three months ended March 31, 2006.

The year on year **movement in net unrealized gains on investments** included in common shareholders' equity decreased by USD 972 million. This development was largely interest rate driven, causing a reduction to the market value of our debt securities that are held to match our insurance liabilities.

Balance sheet highlights

| Balance sheet highlights | in USD millions, as of | | |
|--|------------------------|----------------|-------------|
| | 03/31/06 | 12/31/05 | Change |
| Group investments | 183,162 | 183,455 | 0% |
| Investments for unit-linked products | 99,389 | 93,838 | 6% |
| Total investments | 282,551 | 277,293 | 2% |
| Gross reserves for losses and loss adjustment expenses | 61,200 | 60,425 | 1% |
| Gross other reserves for insurance contracts, excluding unit-linked products | 105,070 | 103,808 | 1% |
| Gross reserves for unit-linked insurance products | 58,326 | 55,691 | 5% |
| Total gross reserves for insurance contracts | 224,596 | 219,924 | 2% |
| Liabilities for investment contracts (primarily unit-linked) | 43,862 | 40,999 | 7% |
| Financial debt | 7,597 | 7,540 | 1% |
| Total equity | 22,871 | 23,240 | (2%) |
| Total financial debt and equity | 30,468 | 30,780 | (1%) |

Total investments increased by USD 5.3 billion, or 2%, from USD 277.3 billion as of December 31, 2005, to USD 282.6 billion as of March 31, 2006. Group investments remained stable as of March 31, 2006, while investments for unit-linked products increased by 6%, which is in line with the improvement of the equity markets, especially in the United Kingdom, in addition to increased sales of these products.

Gross reserves for insurance contracts increased by USD 4.7 billion, or 2% to USD 224.6 billion as of March 31, 2006 compared with December 31, 2005.

Reserves for losses and loss adjustment expenses

| Development of reserves for losses and loss adjustment expenses | in USD millions | | |
|---|-----------------|---------------|------------|
| | 2006 | 2005 | Change |
| As of January 1 (opening balance) | | | |
| Gross reserves for losses and loss adjustment expenses | 60,425 | 57,765 | 5% |
| Reinsurers' share | (14,231) | (14,278) | 0% |
| Net reserves for losses and loss adjustment expenses | 46,194 | 43,487 | 6% |
| Net losses and loss adjustment expenses incurred | | | |
| Current period | 5,204 | 5,378 | (3%) |
| Prior years | 12 | 10 | 20% |
| Total | 5,216 | 5,388 | (3%) |
| Total net losses and loss adjustment expenses paid | (4,601) | (4,394) | 5% |
| Divestments of companies and businesses, including transfer to liabilities held for sale ¹ | – | (1,053) | (100%) |
| Currency translation effects | 190 | (773) | nm |
| As of March 31 (closing balance) | | | |
| Net reserves for losses and loss adjustment expenses | 46,999 | 42,655 | 10% |
| Reinsurers' share | (14,201) | (14,129) | 1% |
| Gross reserves for losses and loss adjustment expenses | 61,200 | 56,784 | 8% |

¹ The assets and liabilities of Universal Underwriters Group were categorized as held for sale as of March 31, 2005, in accordance with IFRS 5.

Our general insurance net reserves for losses and loss adjustment expenses were USD 47.0 billion, an increase of 10% compared with March 31, 2005. After adjusting for the impact of the held for sale classification of Universal Underwriters Group in 2005, the increase was 8%, partly as a result of our decision to retain more risk. This balance includes the Group's loss reserves, not only those included within the General Insurance segment.

Capitalization and indebtedness

| Capitalization and indebtedness | in USD millions, as of | | |
|--|------------------------|---------------|-------------|
| | 03/31/06 | 12/31/05 | Change |
| Collateralized loans | 3,109 | 3,056 | 2% |
| Debt related to capital markets and banking activities | 2,068 | 2,139 | (3%) |
| Obligation to repurchase securities | 4,929 | 5,295 | (7%) |
| Total operational debt | 10,106 | 10,490 | (4%) |
| Senior debt | 2,988 | 2,933 | 2% |
| Subordinated debt | 4,609 | 4,607 | 0% |
| Total financial debt | 7,597 | 7,540 | 1% |
| Minority interests | 470 | 814 | (42%) |
| Shareholders' equity | 22,401 | 22,426 | 0% |
| Total equity | 22,871 | 23,240 | (2%) |
| Total financial debt and equity | 30,468 | 30,780 | (1%) |

As of March 31, 2006 **total operational debt** was USD 10.1 billion, a decrease of USD 384 million, or 4%, since December 31, 2005. Our obligation to repurchase securities decreased by USD 366 million in the first three months of 2006 to USD 4.9 billion. This 7% change was primarily attributable to a decrease in short-term activities in the repo market in our United Kingdom Life business. **Total financial debt** slightly increased by USD 57 million due to foreign currency impacts on our Swiss franc, euro and British pound debt.

Total Equity

| Total equity | in USD millions | Shareholders' equity | Minority interests | Total equity |
|---|-----------------|----------------------|--------------------|---------------|
| As of December 31, 2005, as previously reported | | 22,426 | 814 | 23,240 |
| Change in net unrealized gains on investments excluding translation adjustments | | (712) | (6) | (718) |
| Currency translation adjustments | | 110 | 16 | 126 |
| Issuance of share capital | | 51 | – | 51 |
| Redemption of preferred securities | | (200) | (355) | (555) |
| Share based payment transactions | | (33) | – | (33) |
| Treasury share transactions | | (12) | – | (12) |
| Net income after taxes | | 785 | 19 | 804 |
| Dividends | | (14) | (3) | (17) |
| Net changes in capitalization and minority interests | | – | (15) | (15) |
| As of March 31, 2006 | | 22,401 | 470 | 22,871 |

As of March 31, 2006, **total equity** was USD 22.9 billion, a decrease of USD 369 million, or 2%, compared with December 31, 2005, partly due to the redemption of preferred securities. On March 30, 2006, we redeemed the Series I of Trust Capital Securities (Zurich RegCaPS) with a liquidation amount of USD 1,000 each for a total of USD 200 million.

On March 16, 2006, we redeemed 12,000,000 Series A Preference Shares issued by Zurich Financial Services (Jersey) Ltd. with a par value of EUR 25 for a total of USD 355 million, reducing minority interests.

Net unrealized gains included in shareholders' equity decreased by USD 712 million as a result of increasing long-term interest rates resulting in a reduction in the value of our debt securities.

Cash flows

Summary of cash flows

| in USD millions, for the three months ended March 31 | 2006 | 2005 |
|---|---------------|---------------|
| Net income attributable to shareholders | 785 | 779 |
| Adjustments for: | | |
| Net capital gains on investments and impairments | (5,162) | (1,195) |
| Net loss/(gain) on divestments of businesses | – | 18 |
| Equity in income of investments in associates | (18) | (33) |
| Depreciation, amortization and impairments of fixed and intangible assets | 100 | 114 |
| Other non-cash items | (7) | 20 |
| Changes in operational assets and liabilities ¹ | 5,512 | 2,904 |
| Net cash provided by operating activities | 1,210 | 2,607 |
| Net cash used in investing activities | (2,633) | (1,484) |
| Net cash provided by/(used in) financing activities | (959) | 74 |
| Foreign currency translation effects on cash and cash equivalents | 159 | (454) |
| Change in cash and cash equivalents ² | (2,223) | 743 |
| Change in cash received as collateral for securities lending | (862) | 23 |
| Cash and cash equivalents as of January 1, including cash received as collateral for securities lending | 23,482 | 22,457 |
| Cash and cash equivalents as of March 31, including cash received as collateral for securities lending | 20,397 | 23,223 |

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

² Excluding the change in cash received as collateral for securities lending.

The continued wind-down of certain operations within the Other Businesses segment resulted in a reduction to **net cash provided by operating activities**. Additionally, net cash provided by operations decreased due to net loss and loss adjustment expenses paid as a result of the hurricanes which occurred in 2005.

With the financial markets providing greater returns, we reduced our cash and cash equivalents in favor of other investments.

The increase in net cash used in financing activities was largely driven by the redemption of preferred securities in the amount of USD 555 million, and lower repo activity in our United Kingdom life business.

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 have been and, where not yet settled, are also involved in a number of industry-wide civil and criminal investigations by various authorities in the United States including the United States Attorney's Office for the Southern District of New York and the United States Securities and Exchange Commission regarding certain business practices involving insurance brokers and insurance companies, the purchase and sale of "non-traditional" products, and certain reinsurance transactions engaged in by the Group and its subsidiaries. The Group and its subsidiaries are also involved in industry wide legal proceedings regarding financing hedge funds engaged in mutual-fund market-timing activities. Various Group subsidiaries are also defendants in corporate class action litigation, and they intend to defend such actions vigorously, including class action lawsuits brought on behalf of the holders of securities issued by Converium Holding AG against Zurich Financial Services.

Certain of these putative class actions consolidated before a US District Court were brought by private parties ("plaintiffs") 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, the Group and certain of its United States subsidiaries created a platform to negotiate a settlement. On March 20, 2006, Zurich American Insurance Company ("ZAIC") and its subsidiaries reached settlement agreements relating to broker compensation and insurance placement practices with a group of state attorneys general and state insurance departments that have since grown to ten attorneys general and 11 departments of insurance, which other authorities may join ("Multi-State Agreement"). On March 27, 2006, Zurich Holding Company of America ("Zurich Holding") and ZAIC reached a settlement with the attorneys general of the State of New York, Connecticut and Illinois. In addition, ZAIC and Zurich Holding and its subsidiaries and affiliates authorized to transact insurance business in New York, reached a parallel settlement with the Superintendent of Insurance of the State of New York. These two agreements (collectively the "Three-State Agreement"), relate to industry-wide investigations into broker compensation, insurance placement practices and "non-traditional" products. None of the Zurich parties to the "Multi-State Agreement" or the "Three-State Agreement" admit to any violation of US federal or state laws as part of the settlement. The total cost to the Group for settling under these settlements will be approximately USD 325 million, plus attorneys' fees and payments to class action counsel in an amount to be determined by the court. The Group continues to cooperate with all remaining regulatory investigations.

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 the Group is 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 the Group's business, results of operations and financial condition. Management is, however, not aware that these matters would materially affect the Group's consolidated financial position.