Letter to Shareholders 2006

ZURICH

Report for the Three Months

to March 31, 2006

Zurich Financial Services Group

Dear Shareholders

We are pleased to report that in the first quarter 2006 Zurich Financial Services Group has achieved a strong operating performance from all segments of our diversified business portfolio. Business operating profit rose by 31% to USD 1,359 million, net income after tax increased 1% to USD 785 million, and our annualized return on equity of 15.2% exceeded our profitability target of 12%.

These results were achieved while incurring USD 262 million in after tax charges for our settlements with a number of attorneys general and insurance commissioners in the US regarding broker and insurance carrier business practices. Zurich is the first insurer to have achieved settlements with so many authorities on this issue, and believes that this proactive approach provides clarity for its US operations going forward.

The results continue Zurich's trend of consistent financial performance, and reflect three fundamental aspects of the Group's strategy. First, they provide real evidence of the sustainability of our ongoing operational improvement program. The Zurich Way has become firmly embedded in our culture with best practice implementation, and our steady results are a testament to the power of leveraging our scale through operational excellence.

Second, they demonstrate the resilience created by our diversified portfolio. General Insurance's strong underwriting and financial discipline achieved lower expense and loss ratios; Global Life's growth and new business profit margins attest to the effectiveness of our restructured operating model and market strategy; and Farmers Management Services continued to manage the Farmers Exchanges for growth and profitability.

Lastly, our people – 55,000 strong – continue to become increasingly excited about the Group's brand and evolving marketplace position. Ultimately, it is our employees who will deliver a distinctive level of service to our customers, and the Group is implementing the talent management programs necessary to ensure they continue to embrace our ambition of making Zurich the leading global insurer in its chosen markets.

We hope you share our pride in this performance.

Manfred Gentz

Chairman of the Board

James J. Schiro

Chief Executive Officer

Performance highlights

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

Farmers Management Services highlights

in USD millions, for the three months ended March 31	**2006**	2005	Change
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

Other Businesses highlights

in USD millions, for the three months ended March 31	2006	2005	Change
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.

The information contained within this document is unaudited. The information should be read in conjunction with the Zurich Financial Services Group Annual Report 2005. The complete Report for the Three Months to March 31, 2006 including the Financial Review and Financial Supplement is available on our Web site www.zurich.com

Disclaimer and cautionary statement

Certain statements in this document are forward-looking statements, including, but not limited to, statements that are predications of or indicate future events, trends, plans or objectives. Forward-looking statements include statements regarding our targeted profit improvement, return on equity targets, expense reductions, pricing conditions, dividend policy and underwriting claims improvements. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results and Zurich Financial Services' plans and objectives to differ materially from those expressed or implied in the forward looking statements (or from past results). Factors such as (i) general economic conditions and competitive factors, particularly in our key markets; (ii) performance of financial markets; (iii) levels of interest rates and currency exchange rates; (iv) frequency, severity and development of insured claims events; (v) mortality and morbidity experience; (vi) policy renewal and lapse rates; and (vii) changes in laws and regulations and in the policies of regulators may have a direct bearing on Zurich Financial Services' results of operations and on whether Zurich Financial Services will achieve its targets. Zurich Financial Services undertakes no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information, future events or circumstances or otherwise.

It should be noted that past performance is not a guide to future performance. Please also note that interim results are not indicative of the full year results.

Persons requiring advice should consult an independent adviser.

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