

Restatement of Embedded Value information

2005



ZURICH

**European
Embedded
Value**

Content

1. Management summary	4
2. Zurich's approach to European Embedded Value	5
3. Summary of the European Embedded Value results	6
4. Geographical breakdown of European Embedded Value results	14
5. European Embedded Value methodology	20
6. European Embedded Value assumptions	24
7. Statement of External Review	29
Appendix A – EEV Statistics – Global Life	32
EEV Statistics – Rest of Europe by country	34
Appendix B – Glossary of Terminology	34

1. Management summary

The European Embedded Value (EEV) Principles were published in May 2004 by the CFO Forum, a group representing the Chief Financial Officers of major European insurers. The Principles provide a framework intended to improve comparability and transparency in embedded value reporting across Europe.

Zurich Financial Services Group ("Zurich") has adopted these Principles, for the companies and business reported in its Global Life segment ("the covered business"), in respect of its financial year ended December 31, 2005.

The EEV methodology adopted by Zurich uses a "bottom-up" market consistent approach to allow explicitly for market risk.

This report sets out the restatement of traditional embedded value ("Traditional EV") information under the EEV Principles focusing on:

- EEV results as of December 31, 2005;
- New business profit for the year 2005;
- Analysis of change of EEV from December 31, 2004 to December 31, 2005;
- Sensitivities of both EEV results as of December 31, 2005 and new business profit for the year 2005.

The EEV results are derived from the statutory and IFRS financial statements of Zurich's Global Life entities and are presented net of minority interests.

The overall impact on Zurich's embedded value results arising from the move to the EEV methodology is:

- Life business embedded value has reduced by 1.7% from USD 11,882 million to USD 11,680 million;
- Life new business profit after tax has increased by 22% from USD 333 million to USD 406 million.

The report also includes analyses of equivalent risk discount rates to compare the EEV results to those produced under the Traditional EV methodology.

In future, embedded value information reported by Zurich (including new business profit) will be based on the EEV Principles.

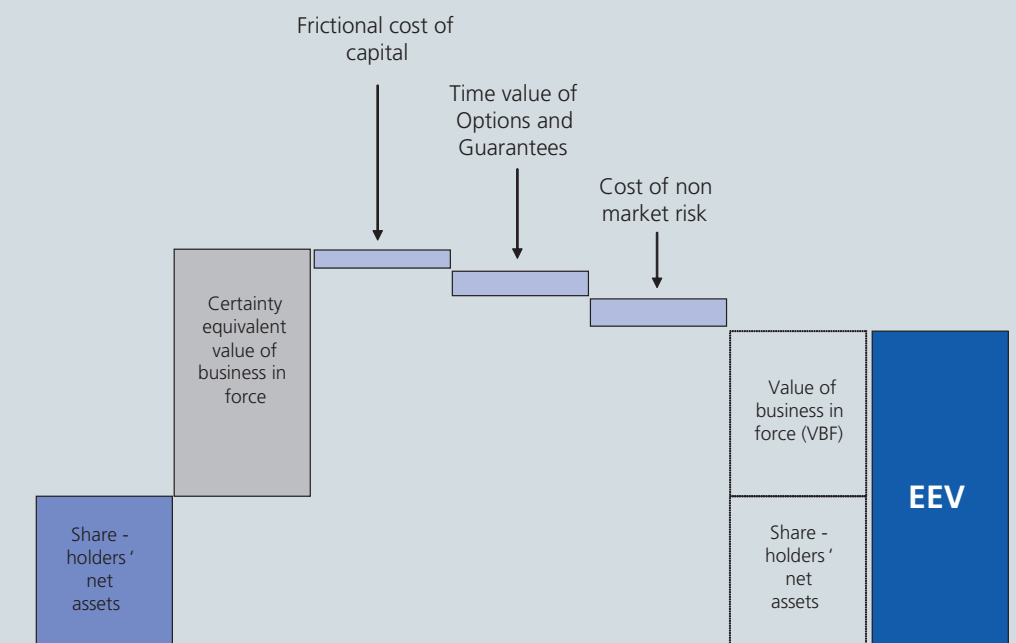
2. Zurich's approach to European Embedded Value

Zurich has carefully considered its approach for implementing the EEV Principles, in particular taking into account the information that will be required for the on-going management of the business. As a result, it has decided to adopt a "bottom-up" market consistent approach to allow explicitly for market risk.

Zurich considers the market consistent approach to be a robust and transparent method to allow for market risk. In particular

- Asset and liability cash flows are valued using risk discount rates consistent with those applied to similar cash flows in the capital markets;
- Options and guarantees are valued using market consistent models calibrated to observable market prices.

Enhanced models to produce market consistent valuations have been developed in our life business units. The components of EEV are illustrated in the diagram below:



In line with the EEV Principles, the EEV can be broken down into the following components:

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

The shareholders' net assets are based on local statutory accounting and are adjusted to reflect shareholders' interest in the market value of net assets.

The value of business in-force is the present value of future projected profits from covered business, and can be broken down into the following components:

- certainty equivalent value of business in-force;

less

- frictional cost of capital ("frictional costs");
- time value of options and guarantees;
- cost of non market risk.

The certainty equivalent value is the value calculated using discount rates consistent with those applied to the underlying cash flows in the capital markets. It includes the intrinsic value but excludes the time value of options and guarantees.

The frictional costs are applied to total shareholders' net assets in respect of the covered business, and relate to tax on future investment income plus investment management costs.

The time value of options and guarantees covers all significant options and guarantees embedded in the covered business. This cost, in excess of the intrinsic value, is related to the variability of investment returns and has been calculated on a market consistent basis using stochastic simulations and dynamic assumptions.

The cost of non market risk is an explicit additional deduction from the value of in-force business, over and above the frictional costs, reflecting an allowance for the impact on shareholder value of variability in insurance, business and operational risks.

Covered business is defined as all business written by companies that are within the Global Life segment, as per the Group's IFRS financial statements. Certain other life businesses are part of the "Other Businesses" segment. These have been excluded from the EEV and further details are set out in section 3.8 below.

The adoption of the EEV Principles will not affect the basis of reporting the statutory results, the regulatory capital position or the dividend paying capacity of Zurich.

The EEV as of December 31, 2005 as well as the new business profit, the analysis of change in EEV over 2005 and the sensitivities have been subject to external review by Deloitte & Touche LLP. Their Statement of External Review is set out in section 7.

3. Summary of the European Embedded Value results

3.1 EEV as of December 31, 2005

The table below shows a comparison of EEV and Traditional EV split between shareholders' net assets and value of business in-force.

in USD millions, as of December 31, 2005		EEV	Traditional EV	% change
EEV and Traditional EV comparison	Shareholders' net assets	6,053	6,010	0.7%
	Value of business in-force	5,627	5,872	(4.2%)
	European Embedded Value (EEV)	11,680	11,882	(1.7%)

Overall, there has been a reduction of 1.7% resulting from the move to EEV compared to the previously published Traditional EV. However, the impact on different life businesses varies, reflecting the different risks in each life business. A breakdown of results by geographical region is set out in section 4 below.

The shareholders' net assets are based on local statutory accounting, with adjustments reflecting the market value of the shareholders' interest in the surplus at the valuation date, excluding any goodwill.

The value of business in-force reflects the present value of future projected profits from covered business, and can be broken down into the following components:

- certainty equivalent value of business in-force;

less

- frictional costs;
- time value of options and guarantees;
- cost of non market risk.

A breakdown of the value of business in-force is shown in the table below.

Value of business in-force	in USD millions, as of December 31	
		2005
	Certainty equivalent value of business in-force	7,701
	Frictional costs	(620)
	Time value of options and guarantees	(917)
	Cost of non market risk	(537)
	Value of business in-force	5,627

Further details of the methodology used in the calculation of these items are given in section 5 below.

3.2 Revised allowance for risk – Bridging analysis from Traditional EV to EEV

The main change arising from the move from Traditional EV to EEV methodology relates to the allowance for risk. Under the Traditional EV, risks were allowed for implicitly in the risk discount rate and the cost of required capital. Under the EEV Principles, aggregate risk is allowed for through an explicit allowance for the cost of financial options and guarantees, the level and cost of required capital, the non market risk adjustment and the risk discount rate.

Zurich considers the market consistent approach to be a robust and transparent method to allow for market risk. This means that:

- Asset and liability cash flows are valued using risk discount rates consistent with those applied to similar cash flows in the capital markets;
- Options and guarantees are valued using market consistent models calibrated to observable market prices.

Explicit allowance is also made for frictional costs and non market risk.

The table below shows a reconciliation between the Traditional EV, calculated using the methodology previously adopted by Zurich, and that using the EEV Principles for the year ended December 31, 2005.

Reconciliation of Traditional EV to EEV	In USD millions, as of December 31, 2005		
		Subtotal	Total
	Traditional EV (as previously reported)		11,882
	Market consistent valuation	1,252	
	Time value of options and guarantees	(917)	
	Cost of non market risk	(537)	
	Total changes		(202)
	EEV		11,680

The following sub-sections describe in more detail what is included in each of the lines in the above table.

3.2.1 Market consistent valuation

The effect of “market consistent valuation” reflects the move from the Traditional EV methodology to the market consistent framework used for the EEV calculations, but before allowance for the time value of options and guarantees and the cost of non market risk.

A breakdown of the items included in the “market consistent valuation” line is shown in the following table, with additional explanation provided below:

Market consistent valuation

In USD millions, as of December 31	2005
Certainty equivalent models and assumptions	685
Remove cost of capital under Traditional EV	1,187
Allowance for frictional costs under EEV	(620)
Market consistent valuation	1,252

- The certainty equivalent models and assumptions item in the table above quantifies the change from the Traditional EV models and assumptions for investment returns and risk discount rates to a certainty equivalent framework. The certainty equivalent value of business in-force derived in this step allows for the intrinsic value of the financial options and guarantees, but has no allowance for the time value of the same financial options and guarantees (see section 3.2.2 below).
- The allowance for cost of required capital under the Traditional EV methodology is reversed out and replaced by the frictional costs on total required capital. This represents principally tax on investment returns and investment management costs in respect of that capital.

3.2.2 Time value of options and guarantees

The certainty equivalent value of business in-force includes an allowance for the intrinsic value of options and guarantees. Additional costs, in excess of the intrinsic value, related to the variability of investment returns (the time value) need to be allowed for explicitly according to the EEV Principles. The time value has been calculated on a market consistent basis using stochastic modeling techniques, and making allowance for expected management and policyholder behavior.

Further information on the methodology used to calculate the time value of options and guarantees is set out in section 5 below.

3.2.3 Cost of non market risk

The cost of non market risk is an explicit additional deduction from the value of in-force business, over and above the frictional costs, reflecting an allowance for the impact on shareholder value of variability in insurance, business and operational risks.

Further details on the methodology applied are set out in section 5 below.

3.3 Equivalent risk discount rates

Zurich has calculated an equivalent single risk discount rate, for each business unit, which would apply under a Traditional EV (a deterministic projection using best estimate assumptions) and that would result in the same value as the EEV.

In addition, Zurich has expressed the reduction in EEV due to the market risk, time value of options and guarantees and the cost of non market risk in terms of an increase in the risk discount rate over the risk free rate.

The table below shows these equivalent risk discount rates as of December 31, 2005, together with the risk discount rate used in the Traditional EV previously published by Zurich:

Equivalent Risk Discount Rate

as of December 31	2005
Risk free rate	4.3%
Market risk	1.4%
Time value of options and guarantees	1.1%
Cost of non market risk	0.9%
Equivalent risk discount rate (EEV)	7.7%
Risk discount rate (Traditional EV)	7.5%

It should be noted that the equivalent risk discount rate depends on the best estimate assumptions used as of December 31, 2005, in particular with reference to investment return assumptions. Changes to those assumptions would alter the Traditional EV and the equivalent risk discount rates but the EEV would remain unaffected.

3.4 New business

3.4.1 Summary of results

New business profit is the value added by new business written in the period of twelve months to December 31, 2005, and is calculated consistently with Zurich's EEV methodology and assumptions as explained for the value of business in-force.

In particular, the definitions given above for frictional costs, time value of options and guarantees and cost of non market risk for the value of business in-force are also applicable for the new business profit.

For new business, frictional costs are applied to the minimum solvency margin required to be held in respect of that business.

New business profit is valued at the point of sale, and does not include any value from future new business sales.

The following table sets out the premium volumes on both annual premium equivalent (APE) and present value of new business premiums (PVNBP) bases, and the new business profit on an EEV basis.

APE is defined as new annual premiums plus 10% of single premiums, and PVNBP is equal to new single premiums plus the present value of annual premiums which is calculated on the same assumptions as the new business profit.

For additional information, Zurich has also calculated new business profit before tax, as shown in the table below.

New business volumes	in USD millions, for the year ended December 31	
		2005
Annual premiums		1,440
Single premiums		8,630
Annual premium equivalent (APE)		2,303
Present value of new business premiums (PVNBP)		18,816

New business margins	in USD millions, for the year ended December 31, 2005		
		After tax	Before tax ¹
New business profit		406	594
New business profit margins as % APE		17.7%	25.8%
New business profit margins as % PVNBP		2.2%	3.2%

¹ In certain territories, particularly the United Kingdom, where life insurance companies pay tax in respect of both policyholders and shareholders, the results shown in the above table are before shareholders' tax and after allowing for policyholders' tax.

The following table splits out the new business profit after tax into its component parts.

New business profit, after tax	in USD millions, for the year ended December 31	
		2005
Certainty equivalent new business profit, after tax		563
Frictional costs		(33)
Time value of options and guarantees		(75)
Cost of non market risk		(49)
New business profit, after tax		406

3.4.2 Comparison of traditional and European new business profits

The table below shows a reconciliation between new business profits calculated using the Traditional EV methodology previously adopted by Zurich, and that using the EEV Principles for the year ended December 31, 2005.

Reconciliation of traditional to European new business profit	In USD millions, for the year ended December 31, 2005	
	Subtotal	Total
New business profit (as previously reported)		333
Market consistent valuation	197	
Time value of options and guarantees	(75)	
Cost of non market risk	(49)	
Total changes		73
New business profit (EEV basis)		406

The new business profit under EEV is higher than traditional new business profit. This is because EEV recognizes and values appropriately actions taken by Management of the life businesses to control risks and improve profitability in respect of new business sold. A regional breakdown of these results is provided in section 4 below.

3.4.3 Equivalent risk discount rates for new business

As for the value of business in-force, Zurich has calculated an equivalent single risk discount rate, broken down into its component parts, which results in the same new business profit under a Traditional EV methodology as under the EEV Principles.

The table below shows these equivalent risk discount rates for new business written in the twelve months to December 31, 2005.

Equivalent Risk Discount Rate for new business profit	for the year ended December 31	
		2005
Risk free rate		4.3%
Market risk		0.9%
Time value of options and guarantees		0.8%
Cost of non market risk		0.6%
Equivalent risk discount rate (EEV)		6.6%
Risk discount rate (Traditional EV)		7.5%

The equivalent risk discount rate for new business is lower than the equivalent risk discount rate for in-force business. This is mainly due to a lower cost of options and guarantees in the new business products, compared to in-force business.

The equivalent risk discount rate for new business is also lower than the Traditional EV discount rate. Unlike in the Traditional EV, the bottom-up approach to EEV used by Zurich values cash flows by applying the appropriate risk discount rates to allow for market risk.

3.5 Analysis of change of EEV from December 31, 2004 to December 31, 2005

The following table provides an analysis of the movement in EEV for the life covered business from December 31, 2004 (opening EEV) to December 31, 2005 (closing EEV). The analysis is shown separately for shareholders' net assets and the value of business in-force, and includes amounts transferred between these components.

Analysis of EEV profit

in USD millions, for the year ended December 31, 2005

	Shareholders' net assets	Value of business in-force	Total
Opening EEV	7,030	5,515	12,545
Expected return on business in-force and net assets, after tax	291	524	815
Expected transfer from value of business in-force to net assets, after tax	907	(907)	0
New business profit, after tax	(662)	1,068	406
Operating variance, after tax	281	55	336
Total operating profit, after tax	817	740	1,557
Economic variance, after tax	468	(275)	193
EEV profit/(loss), after tax	1,285	465	1,750
Dividends and capital movements	(1,630)	114	(1,516)
Closing EEV before foreign currency translation effects	6,685	6,094	12,779
Foreign currency translation effects	(632)	(467)	(1,099)
Closing EEV after foreign currency translation effects	6,053	5,627	11,680

The EEV profit is broken down into the following main elements:

- Total operating profit; and
- Economic variance.

The total operating profit consists of the following:

- Expected return on in-force business and shareholders' net assets;
- Expected transfer from value of business in-force to shareholders' net assets;
- New business profit; and
- Operating Variance.

The expected return on in-force business and shareholders' net assets is calculated as the expected change in EEV resulting from a projection of the assets and liabilities over the period based on expected "real world" returns. Further details are given in section 6.1.6 below.

The expected transfer from value of business in-force to shareholders' net assets shows the profits expected to emerge during the period in respect of business that was in-force at the beginning of the period. The net effect is zero, as the reduction in value of business in-force is offset by the increase in shareholders' net assets. The expected profits do not include changes in solvency margin over the period.

New business profit reflects the value added by new business written during the period. This item is valued at the point of sale. The reduction in shareholders' net assets shown in respect of new business (i.e. new business strain) excludes the solvency margin set up in respect of the new business. Including solvency margin, the new business strain is USD 0.9 billion.

The operating variance is the difference between actual experience during the period and that expected based on the operating assumptions. It also includes the impact of changes in assumptions in respect of future operating experience.

The economic variance arises from the differences between the actual investment returns in the period and the expected investment returns based on economic assumptions as at the start of year, and allows for the change in future economic assumptions between the start and end of the period.

Dividend and capital movements reflect dividends paid from the covered business to the Group and capital received from the Group. Capital movements can relate to value of business in-force in respect of acquisitions and disposals, or corporate restructuring.

Currency translation effects represent the impact of currency movements over the year.

3.6 Sensitivities

A number of sensitivities have been produced on alternative assumption sets to indicate the sensitivity of the EEV and new business profit to changes in certain assumptions. These are in line with the CFO Forum's Additional Guidance on European Embedded Value Disclosures issued in October 2005. A summary table is set out below.

Sensitivities – Summary

In USD millions	Change in EEV	Change in New Business Profit
Central Value	11,680	406
Economic sensitivities		
100 basis points increase in risk free yield curve	32	57
100 basis points decrease in risk free yield curve	(749)	(118)
10% fall in equity and property market values	(559)	n/a
100 basis points increase in risk discount rate	(612)	(50)
10% increase in implied volatilities for equities and properties	(215)	(60)
10% increase in implied volatilities for risk free yields	(854)	(39)
Operating sensitivities		
10% decrease in voluntary discontinuance rates	247	45
10% decrease in maintenance expenses	261	33
10% decrease in initial expenses and commissions	n/a	108
5% improvement in mortality and morbidity for assurances	178	18
5% improvement in mortality for annuities	(177)	(2)
Frictional costs applied to 150% of minimal solvency margin	194	(16)

The key assumption changes represented by each of these sensitivities are as follows:

Economic sensitivities

- 100 basis point increase and decrease in the risk free yield curve across all durations;
- 10% fall in equity and property market values (EEV only, this is not applicable for new business);
- 100 basis point increase in the discount rates (e.g. a discount rate of 6% p.a. would increase to 7% p.a.);
- 10% increase in implied equity and property volatilities (e.g. a volatility of 15% p.a. would increase to 25% p.a.);
- 10% increase in implied risk free volatilities (e.g. a volatility of 15% p.a. would increase to 25% p.a.);

Operating sensitivities

- 10% decrease in voluntary discontinuance rates (e.g. a base assumption of 5% p.a. would decrease to 4.5% p.a.);
- 10% decrease in maintenance expenses (e.g. a base assumption of USD 30 p.a. would decrease to USD 27 p.a.);
- 10% decrease in initial expenses and commissions (new business profits only);
- 5% improvement in mortality and morbidity assumptions for assurances (e.g. if the base mortality assumption for assurances was 90% of a particular table this would decrease to 85.5%);
- 5% improvement in mortality assumptions for annuities (e.g. if the base mortality assumption for annuities was 90% of a particular table this would decrease to 85.5%);
- Frictional costs applied to 150% of minimum solvency margin, rather than to total capital for in-force business or minimum solvency margin for new business.

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised conditions. The results include any impact of the assumption change on the time value of options and guarantees.

The 100 bps increase in risk free yield curve reduces the value of some products, such as term assurance, with fixed cash flows and higher discount rates. This reduction is offset by the increase in the value of other products, such as those with profit sharing, due to the higher assumed investment returns on investment of net cash flows. The former effect is particularly apparent in the US where this sensitivity leads to a decrease in value of USD 205m. This is offset by positive effects of USD 237m of lower cost of options and guarantees elsewhere, particularly in Germany and Switzerland.

A decrease in yield curve creates a significant increase in the cost of options and guarantees which heavily outweighs the improvement in value of products with fixed cash flows.

The sensitivity to a 1% p.a. increase in discount rates represents an increase in the discount rates used to discount projected shareholder profits, with no change to the assumed investment returns. This moves away from market consistent methodology and hence is not strictly pertinent under a market consistent approach. For stochastic modeling, the increase in discount rates applies to each year in each projected simulation.

3.7 Reconciliation of IFRS net assets to EEV shareholders' net assets for covered life business

A reconciliation of IFRS net assets to EEV for covered life business is shown in the table below.

Reconciliation of Global Life IFRS net assets to EEV	in USD billions, as of December 31, 2005	Subtotal	Total
	Goodwill	0.4	
	Net DAC/DOC and other intangible assets	2.3	
	Tangible assets	7.3	
	Global Life IFRS net assets		10.0
	Adjustments:		
	Reserves and investments valuation differences	(1.2)	
	Net DAC/DOC and other intangible assets	(2.3)	
	Goodwill and other	(0.5)	
	Subtotal adjustments		(4.0)
	Certainty equivalent value of business in-force		7.7
	Frictional costs		(0.6)
	Time value of options and guarantees		(0.9)
	Cost of non market risk		(0.5)
	EEV		11.7
	Shareholders' net assets	6.1	
	Value of business in-force	5.6	

3.8 Life business outside the Global Life segment

Zurich has life business written by its Kemper Investors Life Insurance Company and Centre operations. These businesses are not managed by the Global Life team but are centrally managed, and are reported in the "Other Businesses" segment.

The main products written by these businesses are:

- Variable annuity contracts that provide annuitants with guarantees related to minimum death and income benefits;
- Disability business;
- Bank owned life insurance business.

The EEV of these businesses is not included in the overall results of the Global Life segment shown in sections 3.1 to 3.7 above. However, Zurich has estimated the EEV of the above businesses based on the same principles as the covered business, including a deduction for the time value of options and guarantees, frictional costs and cost of non market risks, but using more approximate models. The results are as set out in the table below:

Estimated EEV of life businesses outside the Global Life segment	in USD billions, as of December 31	
		2005
Shareholders' net assets		1.2
Value of business in-force		0.1
Time value of options and guarantees		(0.3)
Cost of non market risk		(0.3)
Total EEV		0.7

4. Geographical breakdown of European Embedded Value results

4.1 Geographical analysis of the EEV

The table below shows a geographical analysis of EEV split between shareholders' net assets and value of business in-force for the year ended December 31, 2005.

Geographical Analysis of European Embedded Value	In USD millions, as of December 31, 2005		
	Shareholders' net assets	Value of business in-force	Total
USA	623	1,544	2,167
United Kingdom	2,344	2,780	5,124
Germany	743	103	846
Switzerland	861	184	1,045
Rest of Europe	824	680	1,504
International Businesses	658	336	994
Global Life segment	6,053	5,627	11,680

4.2 Bridging Analysis from Traditional EV to EEV

The table below shows a geographical breakdown of the reconciliation between the Traditional EV, calculated using the methodology previously adopted by Zurich, and the EEV as of December 31, 2005.

Reconciliation of Traditional EV to EEV	In USD millions, as of December 31, 2005						
	USA	United Kingdom	Germany	Switzerland	Rest of Europe	International Businesses	Total
Traditional EV (as previously reported)	2,020	4,957	1,114	1,293	1,529	969	11,882
Market consistent valuation	408	471	16	151	122	84	1,252
Time value of options and guarantees	(157)	(69)	(229)	(355)	(98)	(9)	(917)
Cost of non market risk	(104)	(235)	(55)	(44)	(49)	(50)	(537)
Total changes	147	167	(268)	(248)	(25)	25	(202)
EEV	2,167	5,124	846	1,045	1,504	994	11,680

4.2.1 Market consistent valuation

The market consistent valuation represents the value derived from applying market consistent models and discount rates and the revised costs of capital. The table shows that this increases value for the entire geographical breakdown. For some products, like the significant volumes of long duration term assurance written in the US for which the projected profits are relatively independent of future investment return, the impact is large. There is also a significant improvement for unit linked products, particularly those with fixed fees or mortality deductions. The impact on profit sharing products is generally lower, due to the non linear dependence of the liability cash flows on investment return assumptions.

4.2.2 Time value of options and guarantees

The time value of options and guarantees relates primarily to the following:

- In the US the time value of options and guarantees relates to interest and surrender guarantees from general account universal life and interest sensitive deferred annuity business.
- In the United Kingdom the portfolio comprises unit linked, non profit and with profits business. The unit linked business has no financial options and guarantees (other than for payments on death). For with profits business, management has put in place an investment matching strategy which includes the use of derivative hedging and this leads to a reduction in the time value of options and guarantees.
- In Germany the results are impacted by the historically low level of interest rates and high interest rate volatility in the Euro zone at the end of 2005. The average interest guarantee in respect of the conventional business is 3.5% compared to 3.6% for the ten year risk free rate. The time value of options in relation to guaranteed surrender values and guaranteed annuity options is also high. The time value of options and guarantees reflects an allowance for dynamic policyholder behavior.
- In Switzerland individual business is impacted by high guaranteed interest rates (from 2.0% to 3.5%) compared to the current low level of interest rates. At the end of 2005 the ten year risk free rate was equal to 2.5%. There is also a significant time value of options and guarantees in relation to guaranteed surrender values for individual business which has been valued taking into account dynamic policyholder behavior. Moving group business off balance sheet has reduced the sensitivity of this business to interest rate movements and thus the time value of options and guarantees has decreased substantially. It has also substantially reduced the exposure of group business to political risks.
- In Rest of Europe, most of the countries have profit sharing rules with guarantees on maturity and surrender similar to those in Germany, or in the case of Ireland, similar to those in the United Kingdom.
- In International Businesses, there is a wide variety of products, many of which, such as unit linked and protection products have no significant time value of options and guarantees. The bulk of the time value of options and guarantees in this region relates to business in Hong Kong that provides minimum interest rate guarantees at maturity.

4.2.3 Cost of non market risk

Our allowance for non market risk covers insurance, business and operational risks. Common non-insurance risks for most of our covered business are lapse, administration expense and operational risk.

Insurance risk varies between businesses, depending on the type of business written and the arrangements for profit sharing. We provide below some comments on the main insurance risks covered by our allowance for the cost of non market risks.

- In the US, our business is a leading writer of term assurance and has corresponding mortality risk.
- In the UK, our business has a large, closed block of annuity business with the longevity risk this entails. The majority of our other UK business is unit linked for which mortality risk is less onerous.
- In Germany, the profit sharing arrangements lead to all risks, including non market risks, being profit shared with policyholders. In current circumstances with interest rates having small margins relative to guarantees, there is a significant proportion of simulations in which there is a "burn-through". Variance in expenses, and to a lesser extent variance in longevity under annuity policies, can lead to an increase in the proportion of cases in which "burn-through" occurs.
- In Switzerland, non market risk principally arises in the individual business. Increases in expenses, and to a lesser extent improvements in annuitant longevity, are the main drivers. Given the limited scope for profit

sharing due to the current low interest rates compared to the high level of guaranteed rates, these risks cannot be profit shared in all cases and can lead to a reduction of the planned shareholder margin.

- In Rest of Europe, many different types of policy have been written. As an example, we have a block of immediate annuity business in our Spanish business, with its associated longevity risk.
- In International Businesses, our Japanese business writes mainly cancer and critical illness protection products and our Chilean business is a significant writer of immediate annuities.

4.3 Equivalent risk discount rates

The table below shows the equivalent risk discount rates as of December 31, 2005, together with the risk discount rate used in the Traditional EV previously published by Zurich:

Equivalent Risk Discount Rate	as of December 31, 2005						
	USA	United Kingdom	Germany	Switzerland	Rest of Europe	International Businesses	Total
Risk free rate	4.9%	4.5%	3.6%	2.5%	3.5%	5.3%	4.3%
Market risk	1.1%	1.0%	2.8%	3.5%	1.2%	2.2%	1.4%
Time value of options and guarantees	0.7%	0.3%	4.0%	4.7%	1.5%	0.2%	1.1%
Cost of non market risk	0.5%	0.9%	1.4%	0.9%	0.8%	1.5%	0.9%
Equivalent risk discount rate (EEV methodology)	7.2%	6.7%	11.8%	11.6%	7.0%	9.2%	7.7%
Risk discount rate (Traditional EV)	8.0%	7.4%	7.0%	7.5%	6.6%	9.2%	7.5%

The lower equivalent risk discount rates for the US and United Kingdom compared with Traditional EV reflect the high proportion of lower risk term assurance and unit linked business written by these companies.

The German and Swiss businesses, on the other hand, have large blocks of business with interest rate and surrender value guarantees. The equivalent risk discount rates for these companies exceed the Traditional EV risk discount rates.

4.4 New business

4.4.1 Summary of new business results

The following table sets out the premium volumes from new business on an EEV basis.

New business volumes	In USD millions, for the year ended December 31, 2005			
	Annual premiums	Single premiums	APE	PVNB
USA	102	90	111	1,070
United Kingdom	489	5,284	1,017	8,438
Germany	493	322	525	4,045
Switzerland	73	322	105	1,058
Italy	14	892	103	959
Spain	20	842	104	987
Ireland	111	557	167	1,190
Other European Countries	23	99	33	284
International Businesses	115	222	138	785
Global Life segment	1,440	8,630	2,303	18,816

The following table sets out the new business profits and profit margins from new business on an EEV basis.

New business profit, after tax

In USD millions, for the year ended December 31, 2005

	New business profit (after tax)	New business profit margins	
		as % APE (after tax)	as % PVNBP (after tax)
USA	71	64.4%	6.7%
United Kingdom	116	11.4%	1.4%
Germany	86	16.5%	2.1%
Switzerland	6	5.8%	0.6%
Italy	18	17.3%	1.9%
Spain	24	22.8%	2.4%
Ireland	38	22.9%	3.2%
Other European Countries	5	14.9%	1.7%
International Businesses	42	30.7%	5.3%
Global Life segment	406	17.7%	2.2%

For additional information, Zurich has also calculated new business profit before tax on an EEV basis as shown in the table below.

New business profit, before tax ¹

In USD millions, for the year ended December 31, 2005

	New business profit (before tax)	New business profit margins	
		as % APE (before tax)	as % PVNBP (before tax)
USA	123	111.1%	11.5%
United Kingdom	147	14.4%	1.7%
Germany	144	27.4%	3.6%
Switzerland	9	8.9%	0.9%
Italy	28	27.0%	2.9%
Spain	38	36.2%	3.8%
Ireland	43	25.6%	3.6%
Other European Countries	6	16.7%	1.9%
International Businesses	56	40.8%	7.2%
Global Life segment	594	25.8%	3.2%

¹ In certain territories, particularly the United Kingdom, where life insurance companies pay tax in respect of both policyholders and shareholders, the results shown in the above table are before shareholders' tax and after allowing for policyholders' tax.

4.4.2 Comparison of traditional and European new business profits

The table below shows a reconciliation between new business profits calculated using the Traditional EV methodology previously adopted by Zurich, and that using the EEV Principles for the year ended December 31, 2005.

Reconciliation of traditional to European new business profit

In USD millions, for the year ended December 31, 2005

	USA	United Kingdom	Germany	Switzerland	Rest of Europe	International Businesses	Total
New business profit (as previously reported)	47	90	87	16	70	23	333
Market consistent valuation	40	69	18	12	32	26	197
Time value of options and guarantees	(6)	(31)	(11)	(18)	(9)	(0)	(75)
Cost of non market risk	(10)	(12)	(8)	(4)	(8)	(7)	(49)
Total changes	24	26	(1)	(10)	15	19	73
New business profit (EEV basis)	71	116	86	6	85	42	406

- In the US, there was a 51% increase in new business profit, largely due to term assurance business, the lower market risk nature of which is properly reflected under a market consistent framework. In addition, the proportion of interest sensitive business in the new business is lower than for the existing business portfolio, and hence the time value of options and guarantees is small.
- In the United Kingdom there was a 29% increase in new business profit, driven by recognition of the lower risk nature of unit linked and term assurance business. This is partially offset by the time value of options and guarantees arising from death guarantees on certain investment contracts sold in 2005.
- In Germany there was a 1% reduction in new business profit, driven by offsetting effects of time value of options and guarantees and the cost of non market risk on the one hand, and the move to market consistent valuation on the other. In common with the rest of the market, conventional business with profit sharing continues to be an important part of the new business written and the new business profit includes a contribution to value arising from the reduction in the average guarantee on the in-force portfolio. The life companies in Germany are also selling unit linked products, which benefit from the move to market consistent valuation.
- In Switzerland there was a 63% reduction in new business profit, driven by the current historically low interest rate environment and high guaranteed interest rates. New business with profit sharing and surrender value guarantees constitutes a significant part of the new business written, as for other companies in the Swiss market, and the time value of options and guarantees on these products has a large impact. The traditional approach to insuring Swiss group business creates substantial ALM and political risks, as well as high costs of options and guarantees. Zurich decided to use an innovative approach and move the savings element of the group business off-balance sheet. This reduced the cost of options and guarantees and cost of non market risk substantially and reduced the ALM and political risk significantly.
- In Rest of Europe, there is a 21% increase in value because of the explicit allowance for risk. New business profit increases in Ireland where new business is primarily unit linked and in Spain where term assurance business is sold.
- In International Businesses, there is an 83% increase in value. The value benefits as a result of market consistent valuation on unit linked business and on risk business such as the cancer insurance cover written in Japan. This business has very limited financial options and guarantees.

4.4.3 Equivalent risk discount rates for new business

The table below shows the equivalent risk discount rates for new business as of December 31, 2005.

Equivalent Risk Discount Rate for new business profit	for the year ended December 31, 2005						
	USA	United Kingdom	Germany	Switzerland	Rest of Europe	International Businesses	Total
Risk free rate	4.9%	4.5%	3.6%	2.5%	3.5%	4.7%	4.3%
Market risk	0.9%	0.7%	1.6%	2.7%	0.7%	1.1%	0.9%
Time value of options and guarantees	0.3%	0.9%	1.0%	3.3%	0.5%	0.0%	0.8%
Cost of non market risk	0.4%	0.4%	0.8%	1.4%	0.5%	1.0%	0.6%
Equivalent risk discount rate (EEV methodology)	6.5%	6.5%	7.0%	9.9%	5.2%	6.8%	6.6%
Risk discount rate (Traditional EV)	8.0%	7.4%	7.0%	7.5%	6.6%	9.2%	7.5%

Allowance for risk under Zurich's EEV methodology is more explicit than under Traditional EV. This is shown in the table above. The equivalent risk discount rate for new business is lower than the Traditional EV discount rates for all geographies, except for Switzerland where low interest rates create a significant time value of options and guarantees.

Lower than Traditional EV equivalent risk discount rates reflect actions taken by Management to control risks in respect of new business sold. Country specific reasons are as described in section 4.4.2 above.

4.5 Analysis of change of EEV from December 31, 2004 to December 31, 2005

An analysis of change of EEV from 31 December 2004 to 31 December 2005 is shown in section 3.5 above and a geographical breakdown is shown in Appendix A.

- In the United States, operating profit includes a significant contribution from new business profit and the benefit of a reduction in frictional costs following the transfer of surplus notes to Farmers Management Services. Economic variance reflects a change in the shape of the risk free yield curve. The significant capital transfer is primarily the transfer out of surplus notes.
- In the United Kingdom, operating profit includes a significant contribution from new business profit and the benefit of moving to a market consistent valuation. Economic variance reflects strong equity performance partly offset by a lowering of the risk free yield curve. The substantial dividend was facilitated by the corporate restructuring that has taken place over 2004 and 2005.
- In Germany, the significant new business profit was partly offset by negative operating variance. Economic variance reflects the strong reduction in risk free yield curve over 2005 and the consequential impact from the interest rate guarantees underlying traditional profit sharing business.
- In Switzerland, economic variance reflects a strong increase in unrealized gains on equity and property partly offset by a lowering of the risk free yield curve.
- In Rest of Europe, principally Ireland, Italy and Spain, operating profits include a strong contribution from new business profit. Economic variance reflects strong equity performance partly offset by a lowering of the risk free yield curve. The capital injection relates primarily to corporate restructuring in Ireland.
- In International Businesses, operating profit includes a strong contribution from new business profit.

5. European Embedded Value methodology

The EEV represents the shareholders' interest in the entities included in the Global Life segment as per the Group's consolidated IFRS financial statements. EEV excludes any value from future new business. Zurich has adopted a "bottom-up" market consistent approach for the calculation of EEV.

5.1 Covered business

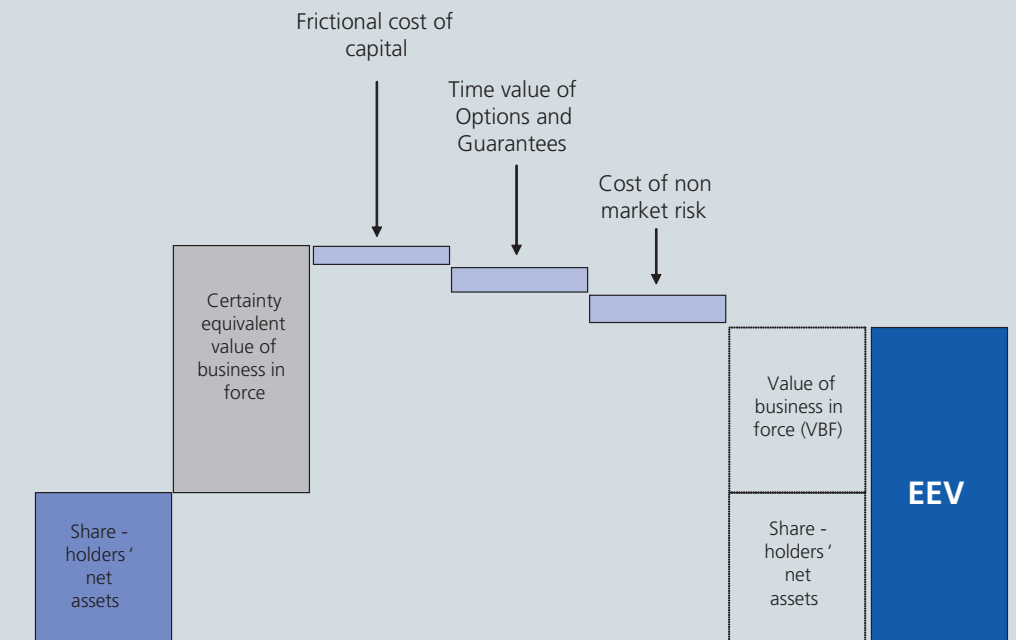
Covered business is defined as all business written by companies that are within Zurich's Global Life segment. This includes:

- life and critical illness insurance;
- savings business (with profit, non profit and unit linked);
- pensions and annuity business; and
- long-term health and accident insurance.

For certain smaller companies, no EEV has been calculated but these companies have been included in the EEV at their shareholders' equity value, as calculated in accordance with IFRS. The contribution from these companies to the EEV is approximately 2%.

5.2 Calculation of European Embedded Value

Calculations are performed separately for each business unit. Enhanced models to produce market consistent valuations have been developed in our life business units. The components of EEV are illustrated in the diagram below:



5.3 Reporting of EEV

In line with the EEV Principles, the EEV can be broken down into the following components:

- shareholders' net assets, including free surplus and required capital; and
- the value of business in-force.

The results are disclosed in a format Zurich considers to be appropriate for the market consistent methodology that has been adopted.

5.4 Shareholders' net assets

The shareholders' net assets represent the market value of net assets held in respect of the covered business, and consist of the required capital and free surplus. The level of required capital reflects the amount of capital considered by the Directors to be appropriate to manage the business. The free surplus comprises the market value of shareholders' net assets allocated to the covered business in excess of the assets backing the required capital.

The shareholders' net assets are based on local statutory accounting. Adjustments are made to shareholders' net assets where appropriate, for example in respect of any unrealized gains attributable to shareholders. Any such adjustments are made consistently with the calculation of the value of business in-force.

5.5 Value of business in-force

The value of business in-force is the present value of future projected profits from covered business, and can be broken down into the following components:

- certainty equivalent value of business in-force;

less

- frictional cost of capital ("frictional costs");
- time value of options and guarantees;
- cost of non market risk.

Further details on each of these items are set out in the following paragraphs.

5.5.1 Certainty equivalent value

The certainty equivalent value is the value calculated using discount rates consistent with those applied to the underlying cash flows in the capital markets. It includes the intrinsic value but excludes the time value of options and guarantees which is allowed for separately, as described in 5.5.3 below.

5.5.2 Frictional costs

Frictional costs reflect a deduction for the cost of holding shareholder capital.

Under Zurich's market consistent framework, these frictional costs represent tax in respect of future investment income on total available capital plus investment management costs. In Germany, they also include the policyholders' share of investment income on the capital.

Frictional costs are applied to the total capital held by the covered business. As of December 31, 2005 total capital is the sum of:

- USD 3.1 billion of minimum solvency margin required by regulation;
- USD 1.1 billion of any additional solvency margin that life business units consider is in practice required;
- USD 1.9 billion of free surplus.

The sum of the first two items above is referred to as "required capital" elsewhere in this document. Total capital represents approximately 200% of minimum solvency margin.

The application of frictional costs to the total capital of each life business is in line with Zurich's holistic approach to EEV. The tax and costs in respect of total capital will in practice have to be met, and it is appropriate therefore that this is allowed for in the EEV. For the purpose of these calculations, required capital is assumed to run down in line with existing business. Free surplus is also assumed to run down in line with existing business except where there are specific plans for the earlier distribution of the free surplus.

For any life business where part of the capital requirements can be met by free assets other than shareholders' net assets, the frictional costs allow only for the amount of capital supported by shareholders.

The allowance for frictional costs is included in the value of business in-force, as well as in the new business profit. For new business, frictional costs are applied to the minimum solvency margin required to be held in respect of that business.

No allowance is made for “agency costs” as these are considered to be subjective and depend on the view of each shareholder.

5.5.3 Time value of options and guarantees

The time value has been calculated on a market consistent basis by deducting the average present value of shareholder cash flows using 1,000 stochastic economic simulations from the certainty equivalent value (both for the value of business in-force and new business profit). For most products, the average value has been calculated using Monte Carlo simulations. For a small number of products, the time value of options and guarantees has been derived directly using closed form formulae.

Where appropriate, the calculation of the time value of options and guarantees makes allowance for:

- dynamic actions that would be taken by Management under different economic simulations, for example to implement a life business’ investment strategy; and
- dynamic policyholder behavior, for example changes in surrender behavior as interest rates rise or fall, or of take-up rates of guaranteed annuity options.

5.5.4 Cost of non market risk

Zurich’s approach to the cost of non market risk is based on a valuation of the potential impacts on shareholder value of variance in certain best estimate assumptions to explicitly allow, at product level, for insurance (mortality, longevity and morbidity), business and operational risk.

The potential impacts have been considered by applying stresses for insurance and business risks which are consistent with those used as the basis for deriving the Swiss Solvency Test capital. An additional stress is made to reflect operational risk.

The mortality, morbidity and expense assumptions used to calculate the value of business in-force and new business profit are best estimates based on recent past experience. To the extent that the impact on shareholder value of variations in experience around the best estimate is symmetrical (for example, where the loss on a 10% increase in expenses is equal and opposite to the profit on a 10% reduction), and not correlated with investment markets, no further allowance for non market risk would be required. In such circumstances, the risk is considered to be diversifiable, and financial markets do not charge a risk premium for diversifiable risks.

However, in certain cases this symmetry does not hold, and Zurich considers that it is appropriate to make explicit allowance for this within the EEV. Examples where this occurs are given in section 4.2.3 above.

Currently, no consensus exists in the market as to the best way to allow for non market risk, and this issue will be kept under review as best practice begins to emerge. In the meantime, the allowance made in the EEV represents Management’s view on an appropriate adjustment for the costs of non market risk taking into account the different risk profiles in its life businesses.

5.6 New business

New business covers new contracts sold during the reporting period.

New business also includes new premiums written during the period on existing contracts and variations to premiums on existing contracts where these premiums and variations have not previously been assumed as part of business in-force. In this respect, the definition of new business has been chosen consistently with the definition of renewals for business in-force so that new business values are counted once and only once.

The new business is valued on a point of sale basis. Explicit allowance is made for frictional costs, the time value of options and guarantees and the cost of non market risk.

The profit generated by new business written during the period is the present value of the projected stream of after tax distributable profits from that business. It has been calculated on the same market consistent approach as used for in-force business, using the same economic and operating assumptions as used to determine the EEV as of the end of the year, and is valued at the point of sale.

In certain profit sharing funds, the new business written can affect the time value of options and guarantees for business written in prior years, and this effect is taken into account in the new business profit.

5.7 Market consistent discounting

Zurich has adopted a “bottom-up” market consistent approach for the projection and discounting of future cash flows in the calculation of the EEV. As a result, the risks inherent in the cash flows are allowed for in a way that is consistent with the way the market is expected to allow for such risks.

In principle, this method values each cash flow using a discount rate consistent with that applied to such a cash flow in the capital markets. For example, an equity cash flow is valued using an equity risk discount rate, and a bond cash flow is valued using a bond discount rate. If a higher return is assumed for equities, the equity cash flow is discounted at this higher rate.

In practice, Zurich has applied a computational method known as a “risk neutral” approach. This involves projecting the assets and liabilities using a distribution of asset returns where all asset types, on average, earn the same risk free rate.

The risk free yield curve assumptions are based on the swap curve in each major currency (US dollars, Euros, British pounds sterling and Swiss francs).

For liabilities where payouts are either independent or move linearly with markets, deterministic techniques (defined as “certainty equivalent”) have been used. In such cases, the projection and discounting are based on the same risk free yield curve.

5.8 Economic scenario generator

The Economic Scenario Generator (“ESG”) output (“simulations”) has been provided by Barrie & Hibbert using a proprietary ESG to conform to the required economic calibration specified by Zurich. Zurich has requested Barrie & Hibbert to calibrate these simulations to observable market data, without any manual adjustments aimed to either reduce the volatilities or increase the expected returns of these simulations. Further details are set out under “Economic assumptions” in section 6 below.

Zurich has been provided with simulations for the following economies:

- Switzerland;
- Euro-Zone;
- USA;
- United Kingdom.

Hong Kong and Argentina use US dollar interest rates as their principal liabilities are US dollar denominated.

In each economy, risk free nominal interest rates are modeled using a LIBOR market model. The excess return relative to the total returns on other asset classes are then modeled using a multi-factor lognormal model.

5.9 Corporate Center costs

Corporate Center costs that relate to covered business have been allocated to the relevant companies and included in the projected expenses. These are fully taken into account in the EEV.

5.10 Holding companies

Holding companies that belong to the Global Life segment have been consolidated in the EEV results at their local statutory net asset value. Related expenses are small and so have been excluded from the projection assumptions.

Holding companies outside of the Global Life segment are not included in the EEV results of the covered business.

5.11 Consolidation adjustments

Where a reinsurance arrangement exists between two life companies in the Global Life segment, the value of the reinsurance is shown in the EEV of the ceding company. This has no material impact on the reported results.

EEV is shown net of minority holdings. Where Zurich has a majority interest in a subsidiary company, the new business profit and the premium information are shown gross of minority holdings. The minorities’ share of new business profit is eliminated through “operating variance, after tax”.

The minorities' share of new business profit mostly relates to subsidiaries in Germany. For covered business, the new business profit after tax, the annual premium equivalent and present value of new business premiums net of minority holdings for 2005 are shown in the following table:

New business net of minorities	in USD millions, for the year ended December 31	2005
	New business profit, after tax	388
	Annual premium equivalent (APE)	2,198
	Present value of new business premiums (PVNBP)	18,017

5.12 Debt

Where a loan exists between a company in the Global Life segment and a Group company outside this segment, the loan is valued for EEV purposes consistently with the value shown in the Group's IFRS financial statements for the company outside the Life Insurance segment.

5.13 "Look through" principle – Service companies

There are some companies within the Global Life segment that provide administration and distribution services. These are valued on a "look through" basis.

The results do not include any Group service companies outside the Global Life segment.

In the United Kingdom, a newly launched multi-tie distribution company called Openwork has replaced the former tied distribution network. This is included in the EEV on a "look through" basis. After allowance for certain one-off expenses, profits and losses are attributed to new business profit. Certain future revenue streams, mainly renewal commissions on business sold, are discounted and contribute to the European new business profit and to the value of business in-force.

In Germany, the majority of distribution and administration is provided by service companies. These are valued on a "look through" basis. These companies also provide limited services to companies outside the Global Life segment, and the present value of the profits and losses on these services are included in the EEV and the new business profit.

5.14 Employee pension schemes

No allowance has been made in the EEV for any past service surplus or deficit in the Group's employee pension schemes. Details of surplus/deficit are disclosed in the Group's annual financial statements on an IAS 19 basis.

An adjustment has been made to the expense assumptions for each life business to include expected pension scheme costs in respect of future service entitlements. These costs have been estimated either on an IAS 19 basis or on a basis that approximates to a market consistent basis.

5.15 Employee share options

The costs of share options granted to employees are not included in the EEV, other than to the extent that they are allowed for in the local statutory accounts upon which the shareholders' net assets are based. Further information on the costs of share options is given in the Group's IFRS financial statements.

5.16 Change in legislation or solvency regime.

Changes in legislation or solvency regime are generally included in economic variance for the purpose of the analysis of change.

6. European Embedded Value assumptions

Projections of future shareholder cash flows expected to emerge from covered business are determined using best estimate operating assumptions. These assumptions, including mortality, morbidity, persistency and expenses, reflect recent experience and are actively reviewed. Allowance is made for future improvements in annuitant mortality based on experience and externally published data. Favorable changes in operating experience are not anticipated until the improvement has been observed – in particular for expenses.

Future economic assumptions, for example, investment returns and inflation, are based on period end conditions and assumed risk discount rates are consistent with these.

6.1 Economic assumptions

6.1.1 Market consistent framework

Zurich has adopted a market consistent approach for the calculation of EEV. In principle, this method values each cash flow using a discount rate consistent with that applied to such a cash flow in the capital markets. For example, an equity cash flow is valued using an equity risk discount rate, and a bond cash flow is valued using a bond discount rate. If a higher return is assumed for equities, the equity cash flow is discounted at this higher yield.

In practice, Zurich has adopted a computational method known as "risk neutral". With this method the key economic assumptions are:

- the risk free rates;
- the implied volatilities of different assets, and;
- the way that different assets are correlated with each other.

Unlike Traditional EV, expected asset returns in excess of the risk free rate have no bearing on the calculated EEV.

6.1.2 Choice of "risk free yield curve"

The risk free yield curve is derived from mid-market swap rates applicable to each economy as of December 31, 2005. This curve was used to extract forward reinvestment yields that are used for all asset classes.

These yield curves are consistent with the assumptions used by investment banks to derive their option prices, and hence their use ensures consistency with the derivation of implied volatilities. They also have the advantage that they are available for most of the markets in which Zurich operates.

The following table shows the risk free yield curve, expressed as annualized spot rates, used at various terms for economies covered by the EEV. These have been derived from interest rate swaps, and extrapolated where necessary.

Risk free yield curves – Annualised spot rates	as of December 31, 2005	1 Year	2 Year	5 Year	10 Year	20 Year	40 Year
	Economy						
	USA	4.8%	4.8%	4.8%	4.9%	5.1%	5.3%
	United Kingdom	4.7%	4.6%	4.6%	4.5%	4.4%	4.1%
	Euro Zone	2.9%	3.0%	3.3%	3.5%	3.8%	3.9%
	Switzerland	1.5%	1.7%	2.1%	2.5%	2.7%	2.8%
	Australia	5.6%	5.6%	5.7%	5.7%	5.6%	5.3%
	Japan	0.1%	0.4%	1.0%	1.7%	2.3%	2.6%
	Chile	3.6%	3.5%	3.7%	4.0%	4.3%	4.3%

Note: Hong Kong and Argentina use US dollar rates as their principal liabilities are US dollar denominated.

6.1.3 Implied asset volatility

The volatility statistics shown below are based on analysis of the ESG output data, and hence show the economic projection assumptions produced by the ESG for the four main currencies.

Interest volatility can be described by the implied volatility of interest rate swaptions. Swaption implied volatilities vary both by the term of the option and also the term of the underlying swap contract. The following tables show swaption implied volatilities, based on the simulations used for the EEV calculation:

Implied volatility of at-the-money-forward interest rate swaptions

as of December 31, 2005	1 year option	2 year option	5 year option	10 year option	20 year option	40 year option
US dollar						
1 year swap	19.9%	19.8%	19.6%	18.9%	16.4%	11.8%
2 year swap	20.1%	20.0%	19.6%	18.7%	16.2%	11.6%
5 year swap	20.3%	19.9%	19.1%	17.9%	15.3%	10.9%
10 year swap	19.3%	18.8%	17.7%	16.4%	13.8%	9.7%
20 year swap	16.5%	16.0%	14.8%	13.6%	11.4%	8.0%
British pound sterling						
1 year swap	16.7%	16.6%	14.9%	14.4%	13.5%	12.8%
2 year swap	16.4%	16.3%	14.7%	14.3%	13.4%	12.7%
5 year swap	15.8%	15.6%	14.2%	13.9%	13.1%	12.5%
10 year swap	15.0%	14.8%	13.5%	13.5%	12.8%	12.2%
20 year swap	14.2%	13.8%	12.9%	13.0%	12.3%	11.7%
Euro						
1 year swap	20.9%	19.8%	18.8%	18.6%	16.3%	14.3%
2 year swap	20.6%	19.4%	18.5%	18.3%	16.1%	14.1%
5 year swap	19.6%	18.4%	17.6%	17.5%	15.5%	13.8%
10 year swap	18.2%	17.0%	16.4%	16.4%	14.6%	13.3%
20 year swap	16.2%	15.0%	14.6%	14.6%	13.1%	12.6%
Swiss Franc						
1 year swap	28.8%	28.9%	26.9%	25.1%	21.4%	20.7%
2 year swap	28.3%	28.4%	26.4%	24.6%	21.1%	20.6%
5 year swap	26.6%	26.7%	25.0%	23.3%	20.1%	20.3%
10 year swap	24.2%	24.2%	22.8%	21.5%	18.6%	20.0%
20 year swap	20.7%	20.6%	19.6%	18.8%	17.3%	20.2%

Corporate bonds and government bonds have been modeled using the risk free yield curves and swaption volatilities shown above.

The following table shows the annualized implied volatilities of equity indices used in the EEV calculation, derived from the simulations used in the calculation. These figures are based on at-the-money-forward European options on capital indices, consistently with traded options in the market.

At-the-money-forward equity implied volatility (capital index)

as of December 31, 2005	1 Year	2 Year	5 Year	10 Year	20 Year	40 Year
Index						
USA (S&P 500)	15.1%	16.5%	21.0%	25.1%	28.5%	35.2%
United Kingdom (FTSE 100)	13.0%	13.8%	17.4%	21.6%	24.6%	28.3%
Euro Zone (Eurostoxx)	16.7%	17.4%	20.6%	24.7%	28.8%	32.5%
Switzerland (SMI)	14.1%	14.9%	18.7%	20.6%	24.0%	27.1%

The model also makes assumptions regarding the volatility of property investments, estimated from relevant historic return data. Based on the actual simulations used, the following implied volatilities arise:

At-the-money-forward property implied volatility (capital index)

as of December 31, 2005	1 Year	2 Year	5 Year	10 Year	20 Year	40 Year
Economy						
USA	16.0%	16.3%	17.1%	18.1%	19.9%	22.5%
United Kingdom	15.8%	16.0%	16.6%	16.0%	17.4%	20.5%
Euro Zone	14.6%	15.2%	16.4%	17.0%	17.8%	22.9%
Switzerland	16.2%	16.1%	17.0%	16.9%	18.6%	22.6%

6.1.4 Inflation

Inflation assumptions have been derived from the yields on index linked bonds relative to the risk free yield curve, where index linked bonds exist. Elsewhere, a statistical approach based on past inflation has been used.

Appropriate allowance has been made for expense inflation to exceed the assumed level of price inflation as life company expenses include a large element of salary related expenses.

The following table shows inflation assumptions for the stochastically modeled economies, derived from the simulations used in the EEV:

Inflation assumptions (annualised forward inflation)

as of December 31, 2005	1 Year	2 Year	5 Year	10 Year	20 Year	40 Year
Economy						
USA	2.3%	2.5%	2.7%	2.8%	3.0%	3.1%
United Kingdom	2.9%	2.9%	3.0%	3.1%	3.2%	3.2%
Euro Zone	1.9%	2.0%	2.1%	2.3%	2.4%	2.3%
Switzerland	1.4%	1.5%	1.7%	1.8%	1.9%	2.0%

6.1.5 Risk discount rate

Under the "risk neutral" approach, risk discount rates are based on the same risk free yield curves as those used to project the investment return.

For stochastic modeling, the risk discount rates are simulation specific and also vary by calendar year consistently with the projected risk free yields in each simulation.

The "equivalent risk discount rates" shown in Sections 3 and 4 above provide additional information in respect of the results and are not used in the calculation of EEV.

6.1.6 "Expected return" for the analysis of change – Investment return assumptions

The expected return for the analysis of change is based on a projection from beginning of period to end of period. This requires assumptions regarding the investment returns expected to be achieved over the period on different asset classes. The investment return assumptions (for this purpose only) are based on the "real world" returns expected by Zurich. The use of real world investment assumptions gives a more realistic basis for the expected return calculation.

For fixed interest assets, the "real world" investment return assumptions are based on the gross redemption yield on the assets, less an allowance for defaults where appropriate, together with an adjustment to reflect the change in yield curve assumptions used to value the liabilities where this is appropriate for consistency.

For equity and property assets, the investment return assumptions are based on the 10 year swap rate at the beginning of period plus a margin to reflect the additional risk associated with investment in these asset classes.

These assumptions have been set by asset class and separately for each sub-fund in each life business in order to best reflect the actual assets held. As of December 31, 2005, real world risk premia have been set in line with those used and published for Traditional EV in Zurich's Annual Report.

6.1.7 Participating business

Rates of future bonus or crediting rates have been set at levels consistent with the investment return assumptions and current bonus plans. In the United Kingdom, bonus rates have been set so as to exhaust any remaining assets in the relevant long-term funds. In other European life businesses and in the US, bonuses have been set to be consistent with the investment return assumptions and with the book value approach used by these life businesses in practice.

6.1.8 Taxation

Current tax legislation and rates have been assumed to continue unaltered, except where changes in future tax rates or practices have been announced.

6.1.9 Exchange rates

The principal exchange rates used for currency translation to US dollars are as follows:

Principal exchange rates	US dollars per foreign currency unit, for the years ended December 31		
		2005	2004
	Euro	1.18490	1.35545
	Swiss franc	0.76138	0.87692
	British pound sterling	1.72285	1.91830

6.2 Operating assumptions

6.2.1 Demographic assumptions

The assumed future mortality, morbidity and lapse rates have been derived from recent operating experience. Where appropriate, surrender and option take-up rate assumptions that vary according to the investment simulation under consideration have been used, based on our assessment of likely policyholder behavior.

6.2.2 Expense assumptions

Management expenses have been analyzed between expenses related to acquisition of new business, the maintenance of in-force business and, where appropriate, one-off project costs. Future expense assumptions allow for expected levels of maintenance expenses. In addition, Corporate Center expenses relating to covered business have been allocated to business units and are reflected in assumed future expenses.

The maintenance expense assumptions allow for the expected cost of providing future service benefits in respect of the Group staff pension schemes. Consistent with the treatment of not including any past service pension scheme surpluses within the EEV, no allowance is made in the expense assumptions for any contributions as a result of past service benefits.

No allowance has been made for future productivity improvements in the expense assumptions.

None of the life companies included in the EEV is considered to be in a "start-up" situation and so no allowance has been made for future development expenses.

Where service companies have been valued on a look through basis, the value of profits or losses arising from these services have been included in the EEV and new business profits.

6.3 Dynamic decisions

To more realistically reflect the outcome in stochastic simulations, the assumptions for each simulation make allowance for the actions that policyholders and management are expected to take in response to the investment conditions modeled.

In many life businesses, policyholders can exercise an option against the life company in certain circumstances, such as to surrender a policy. This then leads to an increase in the assumed lapse rates (or a corresponding reduction when interest rates fall). This dynamic effect in relation to lapse rates has been allowed for in the stochastic models. As limited data exists from which to derive these dynamic assumptions, Zurich has taken a prudent approach in setting the assumptions.

As investment conditions change, where a business unit's investment policy indicates that Management would expect to alter the investment portfolio (e.g. the mix between equities and fixed interest for profit sharing sub-funds), this expected action has been included in the stochastic models.

7. Statement of External Review

Deloitte Public Report

1 July 2006

Zurich Financial Services
Mythenquai 2
CH-8002
Zurich
Switzerland

Review of European Embedded Value for the year ended December 31, 2005 of the Global Life segment of Zurich Financial Services

Dear Sirs,

We have reviewed the European Embedded Value for the Global Life segment of Zurich Financial Services ("Zurich") as set out in Zurich's disclosure document entitled "Restatement of European Embedded Value information – 2005" ("the Disclosure"). The Disclosure comprises the European Embedded Values of the Global Life segment as at December, 31 2005 together with the value of new business generated and the analysis of change in the embedded value during the year 2005 (together "the European Embedded Value Results"). It also includes a bridging analysis between the previously published Embedded Value results as at 31 December 2005 and the European Embedded Value results. The scope of our review covered Zurich's major life insurance companies and considered the methodology adopted together with the assumptions and calculations made by Zurich in its European Embedded Value. It also covered Zurich's estimation of the EEV of life business held outside the Global Life segment, as described in section 3.8 of the Disclosure. Certain smaller companies in the Zurich Group have been excluded from the scope of our review. These companies together comprise 2% of Zurich's European Embedded Value.

The European Embedded Value Results, the assumptions underlying them and the information contained in the Disclosure are the sole responsibility of the Board of Directors of Zurich. They have been prepared by Zurich on the basis of Zurich's methodology as described in the Disclosure.

Our review was conducted in accordance with generally accepted actuarial practices and processes. It comprised a combination of such reasonableness checks, analytical review and checks of clerical accuracy as we considered necessary to provide reasonable assurance that the European Embedded Value Results have been compiled free of significant error. However, we have relied without verification upon the completeness and accuracy of data and information supplied by Zurich, including the shareholders' net assets as disclosed in the audited local statutory accounts and the IFRS accounts of the companies in the Global Life segment.

The calculation of European Embedded Value Results necessarily makes numerous assumptions with respect to economic conditions, operating conditions, taxes, and other matters, many of which are beyond Zurich's control. Although the assumptions used represent estimates which the Directors believe are together reasonable, actual experience in future may vary from that assumed in the calculation of the embedded value results and any such variations may be material. Deviations from assumed experience are normal and are to be expected. European Embedded Value does not purport to be a market valuation and should not be interpreted in that manner since it does not encompass all of the many factors that may bear upon a market value.

In our opinion,

- the methodology and assumptions used are appropriate and save as noted in the Disclosure are compliant with the European Embedded Value Principles set out by the CFO Forum in May 2004 (the "CFO Forum Principles");
- the assumptions taken together made by Zurich are reasonable; and
- Zurich's European Embedded Value and the Value of New Business have been properly compiled on the basis of the methodology and assumptions chosen by Zurich and are compliant with the CFO Forum Principles.

Our opinion is made solely to Zurich's Directors as a body. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than Zurich's Directors as a body for our work in respect of this opinion or for the conclusions that we have reached.

Yours faithfully,

Deloitte & Touche LLP

Disclaimer and cautionary statement

Certain statements in this document are forward-looking statements, including, but not limited to, statements that are predicated on or indicate future events, trends, plans or objectives. Forward-looking statements include statements regarding future economic performance or prospects; the potential effect on future performance of certain contingencies, and assumptions underlying any such statements. 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.

This communication is directed only at persons who (i) have professional experience in matters relating to investments or (ii) are persons falling within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc) of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (as amended) or to whom it may otherwise lawfully be communicated (all such persons together being referred to as relevant persons). This communication must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this communication relates is available only to relevant persons and will be engaged in only with relevant persons.

It should be noted, that past performance is not a guide to future performance. Persons requiring advice should consult an independent adviser.

Appendix A – EEV Statistics – Global Life

European
Embedded Value
Results –
Global Life

in USD millions, for the year ended December 31, 2005

	USA	
Gross new business premiums including deposits, of which:	192	
Annual premiums	102	
Single premiums	90	
Gross new business annual premium equivalent (APE)	111	
Present value of new business premiums (PVNBP)	1,070	
European embedded value information:		
Opening EEV	2,505	
Operating profit expected from in-force business and net assets, after tax	176	
New business profit, after tax	71	
Operating variance, after tax	94	
Total operating profit, after tax	341	
Economic variance	(57)	
EEV profit/(loss), after tax	284	
Dividends and capital movements	(622)	
Closing EEV before foreign currency translation effects	2,167	
Foreign currency translation effects	0	
Closing EEV after foreign currency translation effects, of which:	2,167	
Shareholders' net assets	623	
Value of business in-force	1,544	
After-tax operating return before foreign currency translation effects	16.9%	
After-tax return on opening EEV before foreign currency translation effects	14.1%	
Operating return expected from in-force business and net assets, after tax	8.8%	
New business profit margin, after tax (in % of APE)	64.4%	
New business profit margin, after tax (in % of PVNBP)	6.7%	

	Europe				International Businesses	Total
	United Kingdom	Germany	Switzerland	Rest of Europe		
	5,773	815	395	2,558	337	10,070
	489	493	73	168	115	1,440
	5,284	322	322	2,390	222	8,630
	1,017	525	105	407	138	2,303
	8,438	4,045	1,058	3,420	785	18,816
	6,196	1,030	779	1,111	924	12,545
	413	46	60	66	54	815
	116	86	6	85	42	406
	72	(51)	184	14	23	336
	601	81	250	165	119	1,557
	163	(169)	167	95	(6)	193
	764	(88)	417	260	113	1,750
	(1,254)	25	8	350	(23)	(1,516)
	5,706	967	1,204	1,721	1,014	12,779
	(582)	(121)	(159)	(217)	(20)	(1,099)
	5,124	846	1,045	1,504	994	11,680
	2,344	743	861	824	658	6,053
	2,780	103	184	680	336	5,627
	11.1%	8.0%	35.5%	15.6%	12.5%	14.0%
	14.1%	(8.6%)	59.3%	24.6%	11.9%	15.7%
	7.6%	4.6%	8.6%	6.3%	5.7%	7.3%
	11.4%	16.5%	5.8%	20.7%	30.7%	17.7%
	1.4%	2.1%	0.6%	2.5%	5.3%	2.2%

EEV Statistics – Rest of Europe by country

European Embedded Value Results – Rest of Europe	in USD millions, for the year ended December 31, 2005				
	Italy	Spain	Ireland	Other European Countries	Rest of Europe
Gross new business premiums including deposits, of which:	906	862	668	122	2,558
Annual premiums	14	20	111	23	168
Single premiums	892	842	557	99	2,390
Gross new business annual premium equivalent (APE)	103	104	167	33	407
Present value of new business premiums (PVNBP)	959	987	1,190	284	3,420
European Embedded Value information:					
New business profit, after tax	18	24	38	5	85
Total operating profit, after tax	44	58	53	10	165
After-tax operating return before foreign currency translation effects	12.7%	34.4%	13.1%	7.4%	15.6%
New business profit margin, after tax (in % of APE)	17.3%	22.8%	22.9%	14.9%	20.7%
New business profit margin, after tax (in % of PVNBP)	1.9%	2.4%	3.2%	1.7%	2.5%

Appendix B – Glossary of Terminology

Agency costs	The term agency costs is used to reflect the impact on value to shareholders of the company arising from others (as opposed to themselves) running the business. No allowance has been made for agency costs due to the subjective nature of any such allowance.
APE	Annual Premium Equivalent is defined as new annualized regular premiums plus 10% of single premiums.
Bottom-up	A “bottom-up” valuation uses appropriate scenario dependent and market consistent risk discount rates to value each scenario dependant cash flow in a company.
Burn-through	When an adverse event occurs in a with profit fund that exhausts available assets and leads to shareholders having to support 100% of the cost (as opposed to sharing the costs with policyholders through the profit sharing mechanism) this is referred to as “burn-through”.
Certainty equivalent value	The certainty equivalent value of in-force is the value of business in-force calculated using discount rates consistent with those applied to the underlying cash flows in the capital markets.
Cost of non market risk	The cost of non market risk is an explicit additional deduction from shareholder value to reflect asymmetry in shareholder value related to insurance business and operational risks.
Covered business	Covered business is defined as all business written by companies that are within the Global Life segment, as per the Group’s consolidated IFRS financial statements.
Dynamic decisions	To reflect more realistically the outcome in stochastic simulations, the assumptions for each simulation make allowance for the actions that policyholders and management are expected to take in response to the investment conditions modeled.
EEV	The European Embedded Value Principles were published in May 2004 by the CFO Forum, a group representing the Chief Financial Officers of major European insurers. The Principles provide a framework intended to improve comparability and transparency in embedded value reporting across Europe.
Equivalent risk discount rate	A single risk discount rate, which would apply under a Traditional EV (a deterministic projection using best estimate assumptions) and that would result in the same value as the EEV.
Frictional costs	The frictional costs of capital are applied to all available capital in the covered business. These costs include the taxation of investment income and investment expenses on total capital.

Look through basis	There are some companies within the Global Life segment that provide administration and distribution services. To the extent that these services relate to the covered business, the results also include a valuation of these companies.
Market consistent approach	Under a market consistent approach asset and liability cash flows are valued using a risk discount rates consistent with those applied to similar cash flows in the capital markets, and the time value of options and guarantees are valued using market consistent models calibrated to observable market prices.
New business profit	New business profit is the present value of future projected profits added by new covered business written in the period, calculated using Zurich's EEV methodology and assumptions. It is valued at the point of sale.
PVNB	Present Value of New Business Premiums is the sum of new business single premiums and the present value of new business annualized regular premiums calculated on the same assumptions as the new business profit.
Required capital	Required capital is a term that is used in Traditional EV to indicate the minimum solvency margin required by legislation plus any additional solvency margin that life business units consider is in practice required.
Risk free yield curve	The risk free yield curve is derived from mid-market swap rates applicable to each of the economies where Zurich has its major businesses.
Risk neutral	The term "Risk neutral" is used to signify that assets and liabilities are projected using a distribution of asset returns where all asset types on average, earn the same rate. It is a computational methodology that produces the same value as if each cash flow were valued using a discount rate consistent with that applied to such a cash flow in the capital markets.
Shareholders' net assets	The shareholders' net assets of the covered business reflect the market value of shareholders' assets held in respect of the covered business, and consist of the required capital and free surplus.
Time value of options and guarantees	The time value of options and guarantees has been calculated on a market consistent basis by deducting the average value of shareholder cash flows under 1,000 stochastic economic simulations from the shareholder value calculated using deterministic best estimate assumptions. For most products, the average value has been calculated using Monte Carlo simulations. For a small number of products, the time value of options and guarantees has been derived directly using closed form formulae.
Traditional EV	The life business embedded value published in the Group's Annual Report.
Value of business in-force	The value of business in-force is the present value of the statutory distributable profits to shareholders projected to arise from the in-force business on a best estimate basis, less deductions in respect of frictional costs, the time value of options and guarantees and the cost of non market risk.