

Letter to Shareholders 2006



ZURICH

**Report for the
Nine Months**

to September 30, 2006

Dear Shareholder

We are delighted to report that continued strong operating performances in all of Zurich's business segments generated record results for the nine months to September 30, 2006. Business operating profit rose 50% to USD 4.3 billion, net income increased 44% to USD 3.3 billion, and our annualized return on equity (ROE) of 19.4% positions Zurich in the top tier of its peer group.

The results reflect our dual focus on operational excellence and disciplined underwriting, as evidenced by our ability to achieve profitable growth.

Through disciplined portfolio management our General Insurance segment grew its premium base 3% in local currencies while reducing its combined ratio 6.1 percentage points to 94.8%. Global Life's 14% annual premium equivalent growth firmly met its double-digit growth target over the nine months, and when combined with a new business profit margin of 19.4% resulted in USD 322 million of new business profit, a 33% increase in local currencies. Farmers achieved third quarter premium growth of more than 5% while maintaining a healthy combined ratio, and generated management fees and other related revenues of USD 1.6 billion.

These record results demonstrate the value of our operational improvement program, called The Zurich Way, which is well on track to exceed the previously announced target of USD 500 million in after tax operational improvements for 2006. As the Group develops its new three-year plan it expects a revised target of USD 2 billion of after tax improvements for the three years 2007 to 2009, of which USD 700 million would be generated in 2007.

It is this passion for operational excellence, leveraged through a diverse portfolio, that positions us to maximize marketplace opportunities. With the processes, procedures and skills in place, we are confident that we have the right strategic focus to sustain high performance, the right people to execute our strategy, and the necessary drive to achieve top tier results throughout the business cycle.

The Zurich team continues to evaluate and anticipate change to deliver superior service to our customers. Our culture of ongoing improvement, as well as listening and responding to customer needs, will enable us to achieve our ambition of making Zurich the leading global insurer in its chosen markets.

Thank you for your continued support.



Manfred Gentz
Chairman of the Board



James J. Schiro
Chief Executive Officer

Group performance highlights

Selected consolidated results of the Group

in USD millions, for the nine months ended September 30, unless otherwise stated	2006	2005	Change
Business operating profit	4,286	2,863	50%
Net income attributable to shareholders	3,253	2,256	44%
General Insurance gross written premiums and policy fees	26,329	25,816	2%
Global Life gross written premiums, policy fees and insurance deposits	15,678	14,766	6%
Farmers Management Services management fees	1,589	1,538	3%
General Insurance business operating profit	2,778	1,354	105%
General Insurance combined ratio (in %) ¹	94.8%	100.9%	6.1 pts
Global Life business operating profit	825	830	(1%)
Global Life new business profit, after tax ²	322	264	22%
Global Life gross new business annual premium equivalent (APE)	1,669	1,624	3%
Farmers Management Services business operating profit	919	926	(1%)
Farmers Management Services gross operating margin (in %) ³	50.7%	52.8%	(2.1 pts)
Group investments average invested assets ⁴	183,273	186,728	(2%)
Group investments result, net	6,979	7,606	(8%)
Group investments return (as % of average invested assets, not annualized)	3.8%	4.1%	(0.3 pts)
Shareholders' equity ⁵	24,559	22,426	10%
Diluted earnings per share (in CHF)	27.96	18.75	49%
Return on common shareholders' equity (ROE) ⁶	19.4%	15.5%	3.9 pts
Business operating profit (after tax) return on common shareholders' equity ⁶	18.2%	13.6%	4.6 pts

¹ The General Insurance combined ratio is calculated as the sum of net earned premiums and policy fees less the net underwriting result, divided by net earned premiums and policy fees.

² Global Life new business profit, after tax is calculated as gross new business annual premium equivalent multiplied by new business profit margin (as % of APE).

³ Farmers Management Services gross operating margin is calculated as the sum of Farmers management fees less management expenses, divided by Farmers management fees.

⁴ Excluding cash collateral received for securities lending.

⁵ As of September 30, 2006 and December 31, 2005, respectively.

⁶ As of September 30, 2006 and December 31, 2005, respectively. ROE (based on net income attributable to common shareholders) and business operating profit (after tax) return on common shareholders' equity for the nine months ended September 30, 2005 were 15.0% and 13.2%, respectively. Returns for the nine months ended September are annualized on a compound basis using the results for the nine months. Returns for the year ended December 31, 2005 are based on the results for the twelve months.

Performance overview

Business operating profit for Zurich Financial Services Group (the Group) increased by 50% to USD 4.3 billion demonstrating the strong underlying performance of our operating segments.

- **General Insurance business operating profit** increased by USD 1.4 billion to USD 2.8 billion driven by the 6.1 percentage point improvement in the **combined ratio**, resulting from our disciplined portfolio management but also reflecting the benign catastrophe experience in 2006 relative to 2005.
- **Global Life** contributed USD 825 million to the Group's **business operating profit**. Sales initiatives in Global Life and changes in the operating model have resulted in an increase of 22% (33% on a local currency basis) to our **new business profit, after tax**.
- **Farmers Management Services** contributed USD 919 million to the Group's **business operating profit** after increased management fees and expenses related to growth initiatives.
- **Other Businesses' business operating profit** increased by USD 127 million with solid contributions from **Centre** and **Farmers Re**.
- Within **Corporate Functions** increased interest expense on debt largely driven by issuances of debt in the second and third quarters of 2005 led to an increase of USD 116 million to the **business operating loss**.

Net income before income taxes increased by USD 983 million, or 25%, to USD 4.9 billion for the nine months ended September 30, 2006.

- As reported in the first quarter of 2006, 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.
- The USD 3.9 billion decrease in **net capital gains on investments and impairments** was primarily attributable to Global Life where the net gains on unit-linked equities were lower than 2005.

Net income attributable to shareholders increased by USD 997 million, or 44%, to USD 3.3 billion for the nine months ended September 30, 2006.

- The shareholders' **effective tax rate** was 28.9% compared with 30.4% for the nine months ended September 30, 2005. The Group's overall effective income tax rate of 32.6% includes the impact of tax expense attributable to policyholders in certain jurisdictions. This rate decreased by 8.3 percentage points from 40.9% for the nine months ended September 30, 2005 primarily due to lower levels of policyholder net capital gains on investments.

Gross written premiums and policy fees increased by 3% in General Insurance on a local currency basis reflecting our diversified portfolio, while maintaining our underwriting discipline. Global Life experienced an 8% increase in **gross written premiums, policy fees and insurance deposits** on a local currency basis primarily due to growth initiatives in the unit-linked business. **Management fees** increased by 3% in Farmers Management Services on a local currency basis reflecting an increase in gross premiums earned of 2% in the Farmers Exchanges, which we manage but do not own.

Diluted earnings per share increased by CHF 9.21 per share, or 49%, to CHF 27.96 per share for the nine months ended September 30, 2006, compared with CHF 18.75 per share for the same period in 2005.

Business operating profit (after tax) return on common shareholders' equity increased by 4.6 percentage points to 18.2% compared with the 2005 year-end despite growth in shareholders' equity of 10%. **Return on common shareholders' equity** increased by 3.9 percentage points, a lower percentage, primarily due to the aforementioned regulatory settlements.

Total **distributions to common shareholders** of USD 701 million (or CHF 7.00 per share) comprised a dividend of CHF 4.60 per share and a reduction of CHF 2.40 per share in the nominal value of each registered share.

General Insurance

General Insurance – highlights

in USD millions, for the nine months ended September 30	2006	2005	Change
Gross written premiums and policy fees	26,329	25,816	2%
Net earned premiums and policy fees	21,200	20,768	2%
Insurance benefits and losses, net of reinsurance	(14,970)	(15,991)	6%
Net underwriting result	1,104	(176)	nm
Net investment income	2,361	1,990	19%
Business operating profit	2,778	1,354	105%
Loss ratio	70.6%	77.0%	6.4 pts
Expense ratio	24.2%	23.9%	(0.3 pts)
Combined ratio	94.8%	100.9%	6.1 pts

Business operating profit increased by USD 1.4 billion, to USD 2.8 billion for the nine months ended September 30, 2006 due to the underlying improvement in our net underwriting result, which increased across all divisions except International Businesses. For the nine months ended September 30, 2005, the net impact of natural catastrophes to our underwriting result was USD 1.0 billion, net of reinsurance (before tax). After removing the effects of the 2005 catastrophes, our net underwriting result improved by USD 269 million. In 2006 net investment income increased by USD 371 million primarily driven by North America Commercial largely as a result of a higher invested asset base combined with higher yields on debt securities.

Gross written premiums and policy fees increased by USD 513 million, or 2%, and on a local currency basis by 3% for the first nine months of 2006. Increases have occurred across all divisions except Europe General Insurance, partly as a result of changes to our business mix. Despite the continued competitive market conditions, we achieved an increase in gross written premiums and policy fees in Global Corporate primarily due to higher new business volumes, while maintaining our strategy to retain profitable business at renewal. In North America Commercial the increase stemmed primarily from an increase in higher levels of insured values and increased customer retentions. Additionally, by using our customer segmentation techniques we achieved rate increases in North America. In Europe General Insurance gross written premiums and policy fees remained stable in 2006 compared with the prior year. In the first half of 2006 rate pressures led to a decrease in our gross written premiums and policy fees in the UK, which were offset by growth in Italy and Spain. Although gross written premiums and policy fees in the UK were down 5% in local currency for the year to date compared with the prior year, discrete third quarter premiums were close to prior year levels changing the downward trend of the first half of 2006.

A 6.4 percentage point improvement to a loss ratio of 70.6% contributed to the increase in our **net underwriting result** of USD 1.3 billion. We experienced underlying improvements in our underwriting result across most regions. Favorable prior year loss development of USD 80 million was recorded after a charge for the strengthening of asbestos reserves in the UK of approximately USD 500 million. We experienced lower natural catastrophe losses, which had a 4.9 percentage point impact in 2005. We also incurred fewer large losses in Global Corporate and Group Reinsurance in 2006, while International Businesses experienced increases in motor and weather related losses. The expense ratio increased by 0.3 percentage points to 24.2% primarily due to lower pension curtailment gains in Switzerland, as well as assessments for involuntary pools and increased commissions paid in North America Commercial.

Global Life

Global Life – highlights

in USD millions, for the nine months ended September 30	2006	2005	Change
Insurance deposits	8,366	6,948	20%
Gross written premiums and policy fees	7,312	7,818	(6%)
Net investment income	4,899	4,941	(1%)
Insurance benefits and losses, net of reinsurance	(6,335)	(6,339)	0%
Underwriting and policy acquisition costs, net of reinsurance	(1,086)	(1,241)	12%
Administrative and other operating expenses	(1,137)	(1,050)	(8%)
Business operating profit	825	830	(1%)
Embedded value – highlights			
Gross new business annual premium equivalent (APE) ¹	1,669	1,624	3%
Present value of new business premiums (PVNBP)	13,456	13,157	2%
New business profit margin, after tax (as % of APE)	19.3%	16.3%	3.0 pts
New business profit margin, after tax (as % of PVNBP)	2.4%	2.0%	0.4 pts
New business profit, after tax	322	264	22%

¹ APE is taken as annual premiums plus 10% of single premiums.

Business operating profit decreased by 1% to USD 825 million, however on a local currency basis it increased by 1% for the nine months ended September 30, 2006. Germany increased by USD 23 million primarily due to the impact of lower acquisition costs and cost efficiencies. In Switzerland we experienced a decrease of USD 30 million due to the restructuring of Zurich's corporate pension scheme and the continuing transfer of group life business to independent foundations. Business operating profit decreased in the UK from the effect of lower investment income as USD 1.1 billion of capital was repatriated at the end of 2005.

New business profit, after tax increased by 33% on a local currency basis. The growth was driven by 14% increase in gross new business annual premium equivalent (APE) in local currencies and improved new business profit margins, after tax (as % of APE). Continued significant growth in a number of businesses, especially Ireland, Zurich International Solutions (based in the Isle of Man) and the UK, reflect our focus on product and distribution management. The new business profit margin, after tax, improved significantly, especially in Switzerland, Zurich International Solutions and the UK, due to higher volumes, changes in product mix and the disciplined execution of The Zurich Way initiatives.

Farmers Management Services

Farmers Management Services – highlights

in USD millions, for the nine months ended September 30	2006	2005	Change
Management fees and other related revenues	1,589	1,538	3%
Management and other related expenses	(783)	(726)	(8%)
Business operating profit	919	926	(1%)
Gross operating margin	50.7%	52.8%	(2.1 pts)

Business operating profit decreased by USD 7 million, or 1%, to USD 919 million during the first nine months of 2006 primarily due to growth initiatives as well as reduced investment income resulting from dividends paid up to the Group at the end of 2005. Farmers management fees and other related revenues increased by 3%, driven primarily by increased gross premiums earned at the Farmers Exchanges, which we manage but do not own. Management and other related expenses increased by 8% primarily due to growth initiatives. Despite the increased expenses for growth initiatives, the gross operating margin was 50.7%.

Other Businesses

Other Businesses – highlights	in USD millions, for the nine months ended September 30		
	2006	2005	Change
Net earned premiums and policy fees	1,665	2,337	(29%)
Net investment result	1,188	1,559	(24%)
Total benefits, losses and expenses	(2,555)	(3,766)	32%
Business operating profit	432	305	42%

Business operating profit increased by USD 127 million with solid contributions from Farmers Re and Centre due to improved net underwriting results.

Farmers Re business operating profit increased by USD 6 million, or 5%, to USD 135 million. The improved net underwriting result was primarily due to the absence of catastrophes which more than offset the effect of lower levels of reinsurance ceded by the Exchanges to Farmers Re in 2006. **Centre** primarily benefited from improved experience on its general insurance portfolios, in addition to reduced administrative and other operating expenses as a result of lower legal expenses and past commutations.

Corporate Functions

Corporate Functions – highlights	in USD millions, for the nine months ended September 30		
	2006	2005	Change
Net investment income	481	469	3%
Interest expense on debt	(857)	(717)	(20%)
Business operating loss	(668)	(552)	(21%)
Headquarter expenses, after recharges to operating businesses and excluding foreign currency	(119)	(105)	(13%)

Business operating loss increased by USD 116 million to USD 668 million for the nine months ended September 30, 2006, largely driven by an increase of USD 140 million in interest expense on debt issued during 2005. Positive foreign currency effects partially offset the increase in interest expense.

Headquarter expenses, after recharges to operating businesses and excluding foreign currency increased by USD 14 million to USD 119 million, primarily as a result of expenses for our global branding campaign.

Investment performance

Total investments as shown in the consolidated balance sheet include Group investments, where we bear part or all of the investment risk, and investments for unit-linked products, where policyholders bear the investment risk.

We manage our diversified Group investments portfolio to optimize benefits for both shareholders and policyholders while ensuring compliance with local regulatory and business requirements under the guidance of our Asset/Liability Management and Investment Committee. Investments for unit-linked products are managed in accordance with the investment objectives of each unit-linked fund.

Group investments performance	in USD millions, for the nine months ended September 30		
	2006	2005	Change
Net investment income	5,849	5,886	(1%)
Net capital gains on investments and impairments	1,130	1,720	(34%)
<i>of which: net capital gains on investments and impairments attributable to shareholders</i>	813	745	9%
Net investment result	6,979	7,606	(8%)
Net investment return on Group investments ¹	3.8%	4.1%	(0.3 pts)
Movements in net unrealized gains on investments included in total equity	(1,390)	816	nm
Total investment result, net of investment expenses ²	5,589	8,422	(34%)
Average investments ³	183,273	186,728	(2%)
Total return on Group investments ¹	3.0%	4.5%	(1.5 pts)

¹ Return is not annualized.

² After deducting investment expenses of USD 180 million and USD 184 million for the nine months ended September 30, 2006 and 2005, respectively.

³ Excluding average cash received as collateral for securities lending of USD 4.4 billion and USD 4.9 billion in the nine months ended September 30, 2006 and 2005, respectively.

Net investment income from our Group investments remained stable on a local currency basis for the nine months ended September 30, 2006. Investment income from General Insurance increased due to a growing asset base and higher rates on reinvestment. This increase offset a reduction in the investment income from Global Life, which declined due to a strategic shift of assets to unit-linked products. The net investment income return remained unchanged at 3.2%.

Net capital gains on investments and impairments decreased by 34% to USD 1.1 billion for the nine months ended September 30, 2006 compared with the prior year. The value of our debt securities, particularly in our UK Life with-profits business, declined due to higher interest rates in 2006 compared with 2005. The net losses on debt securities were partially offset by gains on equity securities due to the continued strengthening of equity markets. The net capital gains on investments and impairments return on Group investments was 0.6% for the nine months ended September 30, 2006, compared with 0.9% for the same period in 2005.

Net unrealized gains in total equity decreased by USD 1.4 billion for the nine months ended September 30, 2006 compared with a net increase of USD 816 million for the same period in 2005. As mentioned above, higher interest rates caused declines in the value of our debt securities which were partially offset by higher equity securities values.

Unit-linked investments performance

in USD millions, for the nine months ended September 30	2006	2005	Change
Net investment income	1,836	1,508	22%
Net capital gains on investments and impairments	4,687	7,972	(41%)
Net investment result, net of investment expenses ¹	6,523	9,480	(31%)
Average investments	98,961	87,863	13%
Total return on unit-linked investments ²	6.6%	10.8%	(4.2 pts)

¹ After deducting investment expenses of USD 313 million and USD 323 million for the nine months ended September 30, 2006 and 2005, respectively.

² Total return is not annualized.

Unit-linked investments are primarily invested in equity securities. Equity markets continued to rise throughout the nine months ended September 30, 2006; however, the rate of appreciation, particularly in the UK markets, was stronger in 2005 compared with 2006. As a result, net capital gains on investments and impairments on unit-linked investments decreased by 41%.

Total investments performance

in USD millions, for the nine months ended September 30	2006	2005	Change
Net investment income	7,685	7,394	4%
Net capital gains on investments and impairments	5,817	9,692	(40%)
<i>of which: net capital gains on investments and impairments attributable to shareholders</i>	813	745	9%
Net investment result	13,502	17,086	(21%)
Net investment return ¹	4.8%	6.2%	(1.4 pts)
Movements in net unrealized gains on investments included in total equity	(1,390)	816	nm
Total investment result, net of investment expenses ²	12,112	17,902	(32%)
Average investments ³	282,234	274,591	3%
Total return on investments ¹	4.3%	6.5%	(2.2 pts)

¹ Return is not annualized.

² After deducting investment expenses of USD 493 million and USD 507 million for the nine months ended September 30, 2006 and 2005, respectively.

³ Excluding average cash received as collateral for securities lending of USD 4.4 billion and USD 4.9 billion in the nine months ended September 30, 2006 and 2005, respectively.

Our total investments performance is the sum of our Group investments and unit-linked investments performances, and amounts shown agree to our consolidated financial statements.

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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 Nine Months to September 30, 2006 including the Financial Review and Financial Supplement is available on our Web site www.zurich.com

The Report for the Nine Months to September 30, 2006 is published in English, German and French. In the case of inconsistencies in the German and French translations, the English version shall prevail.

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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 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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