Financial Review

The information contained within this document is unaudited. This document should be read in conjunction with the Zurich Financial Services Group Annual Report 2005. Interim results are not necessarily indicative of full-year results. Comparatives in this document are for the nine months ended September 30, 2005 or as of December 31, 2005 unless otherwise specified.

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.

- Our **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.
- Our **Global Life** segment 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 our Global Life segment 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.

Our **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.

Reconciliation to business operating profit

in USD millions, for the nine months ended September 30	**2006**	2005
Net income before shareholders' taxes	4,673	3,348
Adjusted for net capital gains on investments and impairments [1]	(5,766)	(9,487)
Policyholder allocation of net capital gains/(losses) on investments and impairments	5,004	8,947
Net income attributable to minority interests	(70)	(74)
Net loss on divestments of businesses	–	9
Restructuring provisions and other	445	120
Business operating profit	4,286	2,863

[1] Excluding capital markets and banking activities and certain securities held for specific economic hedging purposes.

General Insurance highlights

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**

General Insurance – highlights by region

in USD millions, for the nine months ended September 30	**Business operating profit**		**Combined ratio**	
	2006	2005	**2006**	2005
Global Corporate	527	(6)	94.8%	107.9%
North America Commercial	892	261	95.9%	104.9%
Europe General Insurance	1,209	1,060	92.6%	94.3%
International Businesses	100	173	100.4%	94.9%
Group Reinsurance	50	(134)	nm	nm
Total	2,778	1,354	94.8%	100.9%

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 highlights

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.

Global Life – highlights by region

in USD millions, for the nine months ended September 30	Business operating profit		New business profit margin, after tax (as % of APE)	
	2006	2005	**2006**	2005
United States	163	156	55.1%	63.3%
United Kingdom	162	173	12.3%	9.2%
Germany	127	104	17.7%	16.3%
Switzerland	150	180	24.0%	3.8%
Rest of Europe	152	148	20.3%	15.4%
International Businesses	71	69	26.3%	32.1%
Total	825	830	19.3%	16.3%

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 highlights

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 expenses 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 highlights

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 highlights

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%)
of which: net capital gains on investments and impairments attributable to shareholders	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 the General Insurance segment increased due to a growing asset base and higher rates on reinvestment. This increase offset a reduction in the investment income from our Global Life segment, 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%)
of which: net capital gains on investments and impairments attributable to shareholders	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.

Summary of quarterly consolidated financial information

in USD millions, for the three months ended	**09/30/06**	**06/30/06**	03/31/06
Gross written premiums and policy fees	10,593	11,171	13,434
Net earned premiums and policy fees	9,875	9,611	10,292
Net investment result [1]	6,031	(142)	7,613
Other revenues	857	906	870
Total revenues	16,763	10,375	18,775
Insurance benefits and losses, net of reinsurance	7,414	7,183	7,764
Policyholder dividends and participation in profits, net of reinsurance	3,720	(2,101)	5,836
Other expenses	3,776	3,700	3,693
Total benefits, losses and expenses	14,910	8,782	17,293
Net income before income taxes	**1,853**	**1,593**	**1,482**
Net income attributable to shareholders	**1,296**	**1,172**	**785**
Business operating profit	**1,439**	**1,488**	**1,359**

[1] Includes net investment income and net capital gains on investments and impairments.

in USD millions, for the three months ended	12/31/05	09/30/05	06/30/05	03/31/05
Gross written premiums and policy fees	10,570	10,273	12,062	13,892
Net earned premiums and policy fees	10,074	9,693	10,359	10,331
Net investment result [1]	6,061	7,607	5,878	3,601
Other revenues	995	901	869	817
Total revenues	17,130	18,201	17,106	14,749
Insurance benefits and losses, net of reinsurance	8,326	7,868	8,325	7,900
Policyholder dividends and participation in profits, net of reinsurance	3,642	5,556	3,350	1,884
Other expenses	3,641	3,875	3,681	3,672
Total benefits, losses and expenses	15,609	17,299	15,356	13,456
Net income before income taxes	**1,521**	**902**	**1,750**	**1,293**
Net income attributable to shareholders	**958**	**457**	**1,020**	**779**
Business operating profit	**1,084**	**558**	**1,271**	**1,034**

[1] Includes net investment income and net capital gains on investments and impairments.

Currency translation impact

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

Selected balance sheet items

variance over December 31, 2005, as of September 30, 2006	in USD millions	in %
Total investments	14,992	5%
Reserves for insurance contracts	10,695	5%
Cumulative translation adjustment in total equity	555	2%

The weakening of the US dollar from December 31, 2005 to September 30, 2006 had a positive effect on balance sheet items in US dollar terms, which are translated at closing exchange rates.

For the nine months ended September 30, 2006 the impact of foreign currency translation on the consolidated operating statements was not significant.

Balance sheet highlights

Balance sheet highlights

in USD millions, as of	09/30/06	12/31/05	Change
Group investments	191,820	183,455	5%
Investments for unit-linked products	104,083	93,838	11%
Total investments	295,903	277,293	7%
Reserves for losses and loss adjustment expenses	63,123	60,425	4%
Reserves for unearned premiums	15,293	13,531	13%
Other reserves for insurance contracts, excluding unit-linked products	93,164	90,277	3%
Reserves for unit-linked contracts	61,295	55,691	10%
Reserves for insurance contracts	232,875	219,924	6%
Liabilities for investment contracts (primarily unit-linked)	45,969	40,999	12%
Financial debt	7,565	7,540	0%
Total equity	25,070	23,240	8%
Total financial debt and equity	32,635	30,780	6%

Total investments increased by USD 18.6 billion, while on a local currency basis they increased by USD 3.6 billion, or 1%. Similarly, total reserves for insurance contracts increased by 6%, but on a local currency basis by 1%. Liabilities for investment contracts have also increased on a local currency basis by 4%, mainly due to equity market increases. As of September 30, 2006, financial debt remained stable compared with December 31, 2005, while total equity increased by 8% primarily due to the contribution of net income after taxes.

Investments

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

Breakdown of Investments

in USD millions, as of	09/30/06		12/31/05	
	Group investments	**Unit-linked investments**	Group investments	Unit-linked investments
Cash and cash equivalents	16,621	4,914	18,723	4,759
Equity securities:	17,371	82,457	15,550	74,764
Common stocks, including equity unit trusts	10,459	77,314	9,413	69,898
Unit trusts (debt securities, real estate and short-term investments)	3,081	5,143	2,420	4,866
Common stock portfolios backing participating with-profit policyholder contracts	1,591	–	1,691	–
Trading equity portfolios in capital markets and banking activities	2,240	–	2,026	–
Debt securities	124,303	8,092	118,011	7,286
Real estate held for investment	6,815	8,064	6,314	6,388
Mortgage loans	10,283	–	9,307	–
Policyholders' collateral and other loans	12,768	2	11,984	3
Investments in associates	519	–	580	–
Other investments	3,140	554	2,986	638
Subtotal	191,820	104,083	183,455	93,838
Total investments	**295,903**		**277,293**	

Total investments increased by USD 18.6 billion, or 7%, to USD 295.9 billion as of September 30, 2006. After adjusting for foreign currency translation effects, total investments increased by USD 3.6 billion as a result of increased inflows of funds into investments and positive revaluations of equities and real estate held for investment, which were partially offset by negative revaluations on our debt securities due to higher interest rates compared with 2005.

Net purchases of debt securities of USD 3.6 billion for the nine months ended September 30, 2006, were mostly offset by negative revaluations resulting in a net increase of USD 1.2 billion after adjusting for foreign currency movements.

Net sales of equity securities amounted to USD 140 million for the nine months ended September 30, 2006. Foreign exchange changes contributed a positive effect of USD 5.7 billion to our equity securities balance for the period. These effects together with positive revaluations resulted in a net increase of USD 3.8 billion after adjusting for foreign currency movements.

In addition to net purchases of real estate of USD 379 million, our real estate appreciated in value for the period.

The increase in mortgage and policyholders' collateral and other loans is due to net purchases.

Reserves for Losses and Loss Adjustment Expenses

We establish reserves for losses and loss adjustment expenses, which are estimates of future payments of reported and unreported claims for losses and related expenses, with respect to insured events that have occurred. These estimates are based on assumptions regarding the development of reserved claims, which may be different from the actual development of claims over time. Any changes in estimates are reflected in the operating statement in the period in which estimates are changed.

Development of reserves for losses and loss adjustment expenses

in USD millions	**2006**	2005	Change
As of January 1 (opening balance)			
Gross reserves for losses and loss adjustment expenses	60,425	57,765	
Reinsurers' share	(14,231)	(14,278)	
Net reserves for losses and loss adjustment expenses	46,194	43,487	
Net losses and loss adjustment expenses incurred			
Current period	15,926	16,982	(6%)
Prior years	(78)	161	nm
Total	15,848	17,143	(8%)
Total net losses and loss adjustment expenses paid	(14,012)	(13,023)	8%
Divestments of companies and businesses, including transfer to liabilities held for sale [1]	–	(1,108)	(100%)
Currency translation effects	1,379	(2,230)	nm
As of September 30 (closing balance)			
Net reserves for losses and loss adjustment expenses	**49,409**	**44,269**	
Reinsurers' share	(13,714)	(15,657)	
Gross reserves for losses and loss adjustment expenses	63,123	59,926	

[1] The assets and liabilities of Universal Underwriters Group were categorized as held for sale as of September 30, 2005, in accordance with IFRS 5.

The gross reserves for losses and loss adjustment expenses balance includes the Group's loss reserves, not only those included within the General Insurance segment.

Gross reserves for losses and loss adjustment expenses increased by 4%, or 1% on a local currency basis from January 1, 2006, to September 30, 2006. This was consistent with the growth in our General Insurance segment that was partially offset by reductions in our Other Businesses segment.

Net losses and loss adjustment expenses incurred in the current period have declined due to lower catastrophe losses in 2006 compared with 2005. Favorable prior year loss development of USD 78 million was recorded after a charge for the strengthening of asbestos reserves in the UK of approximately USD 500 million. Payments, in 2006, for the hurricanes of 2005 continued to affect net losses and loss adjustments paid.

Development of Reserves for Life Insurance Contracts

Life insurance reserves rollforward

in USD millions	Future life policyholders' benefits		Policyholders' contract deposits and other funds		Reserves for unit-linked contracts	
	2006	2005	**2006**	2005	**2006**	2005
As of January 1 (opening balance)						
Gross reserves	71,292	81,350	18,985	22,763	55,691	51,920
Reinsurers' share	(1,305)	(1,418)	(3,504)	(3,594)	–	–
Net reserves	69,987	79,932	15,481	19,169	55,691	51,920
Premiums and claims	(3,540)	(2,509)	(710)	(3,741)	(446)	587
Interest and bonuses credited to policyholders	2,096	2,114	653	1,518	3,400	5,127
Change in assumptions	266	(77)	(1)	(8)	–	2
Acquisitions/(divestments)	(46)	(168)	–	(49)	–	44
Increase/(decrease) charged to shareholders' equity	(307)	263	(557)	318	–	–
Foreign currency translation effects	4,335	(8,379)	739	(1,117)	2,650	(3,419)
As of September 30 (closing balance)						
Net reserves	**72,791**	**71,176**	**15,605**	**16,090**	**61,295**	**54,261**
Reinsurers' share	1,448	1,341	3,320	3,645	–	–
Gross reserves	74,239	72,517	18,925	19,735	61,295	54,261

Net future life policyholders' benefits increased by 4% from January 1, 2006, primarily due to foreign currency translation; however, after removing this effect, we experienced a decrease due to the transfer of group life contracts to independent foundations, in addition to the shift in our business mix to unit-linked products and investment contracts.

After adjusting for foreign currency translation effects, net reserves for policyholders' contract deposits and other funds decreased as a result of net claims being paid, in addition to a decrease in net unrealized gains on investments charged to shareholders' equity.

After adjusting for foreign currency translation effects, the increase in our unit-linked contracts reserves is primarily due to gains on unit-linked investments being credited to policyholders.

Capitalization and Indebtedness

Capitalization and indebtedness

in USD millions, as of	**09/30/06**	12/31/05	Change
Collateralized loans	2,560	3,056	(16%)
Debt related to capital markets and banking activities	1,809	2,139	(15%)
Obligation to repurchase securities	6,050	5,295	14%
Total operational debt	10,419	10,490	(1%)
Senior debt	2,838	2,933	(3%)
Subordinated debt	4,727	4,607	3%
Total financial debt	7,565	7,540	0%
Shareholders' equity	24,559	22,426	10%
Minority interests	511	814	(37%)
Total equity	25,070	23,240	8%
Total financial debt and equity	**32,635**	**30,780**	**6%**

Total operational debt decreased by 1%, or USD 71 million. The decrease in our collateralized loans balance resulted from maturities of the mortgage loans securing them. In addition, debt related to capital markets and banking activities decreased by USD 330 million as we reduced our external funding. These decreases more than offset the USD 755 million increase in our obligation to repurchase securities related to investment management activities in our UK businesses.

The size of the Group's Euro Medium Term Note (EMTN) Programme allows for the potential issuance of senior and subordinated notes; the maximum under the program is USD 6 billion, of which USD 3.6 billion was issued as of September 30, 2006.

The Group has access to a syndicated revolving credit facility which was put into place in April 2004. This credit facility, which originally consisted of two equal tranches maturing in 2007 and 2009, respectively, was refinanced in September 2006. The new credit facility allows for drawings of up to USD 3 billion until 2011. Zurich Group Holding, together with Zurich Insurance Company and Farmers Group, Inc., are guarantors of the facility and can draw up to USD 1.25 billion, USD 1.5 billion and USD 250 million, respectively. No borrowings were outstanding under this facility as of September 30, 2006.

Dunbar Bank has access to various committed credit facilities totaling GBP 445 million. No borrowings were outstanding under these facilities as of September 30, 2006.

Total Equity

Total equity

in USD millions	Shareholders' equity	Minority interests	Total equity
As of December 31, 2005	**22,426**	**814**	**23,240**
Change in net unrealized gains on investments excluding translation adjustments	(553)	(14)	(567)
Change in currency translation adjustments	511	44	555
Issuance of share capital	89	–	89
Distributions to shareholders	(735)	(8)	(743)
Nominal value reduction of share capital	(177)	–	(177)
Dividends	(558)	(8)	(566)
Redemption of preferred securities	(425)	(355)	(780)
Share-based payment transactions	(8)	–	(8)
Treasury share transactions	1	–	1
Net income after taxes	3,253	70	3,323
Net changes in capitalization and minority interests	–	(40)	(40)
As of September 30, 2006	**24,559**	**511**	**25,070**

Total equity increased primarily as a result of net income after taxes, which more than offset redemptions of preferred securities, distributions to shareholders and net reductions of unrealized gains caused by higher interest rates.

Distributions to shareholders totaled USD 735 million, of which USD 701 million was distributed to common shareholders and USD 34 million to preferred shareholders. The distributions to common shareholders of CHF 7.00 per share comprised a dividend of CHF 4.60 per share and a payout of CHF 2.40 per share in the form of the nominal value reduction of each registered share. The total payout of CHF 7.00 per share was approved at the Annual General Meeting on April 20, 2006, and was paid to shareholders on July 4, 2006. The nominal value reduction was subject to the fulfillment of the necessary requirements and the registration of the share capital reduction in the Commercial Registrar of the Canton of Zurich. The nominal value of each registered share reduced from CHF 2.50 to CHF 0.10.

On March 30, 2006, and April 11, 2006, we redeemed the Series I and Series III of Trust Capital Securities (Zurich RegCaPS), respectively. The liquidation amounts totaled USD 425 million in aggregate.

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

In March 2006 we listed one million shares of contingent capital on the SWX Swiss Exchange (not all of which has been issued as of September 30, 2006) to fulfill obligations under employee share and option plans. Proceeds from shares issued as of September 30, 2006 totaled USD 89 million.

For the nine months ended September 30, 2006, we recorded net unrealized losses on investments, excluding translation adjustments, in total equity reflecting lower values of debt securities due to an overall increase in interest rates compared with the same period in 2005. However, as interest rates have decreased in the three months since June 30, 2006, the effect of these net unrealized losses on investments was lower compared to the first six months of 2006.

Cash flows

Summary of cash flows

in USD millions, for the nine months ended September 30	**2006**	2005
Net income attributable to shareholders	3,253	2,256
Adjustments for:		
Share of equity in income from investments in associates	(51)	(107)
Depreciation, amortization and impairments of fixed and intangible assets	328	323
Other non-cash items	1,057	(2)
Net capital gains on investments and impairments	(5,817)	(9,692)
Net purchases of total investments	(4,390)	(4,022)
Changes in operational assets and liabilities	4,854	12,722
Net cash (used in)/provided by operating activities	(766)	1,478
Net cash provided by investing activities	90	91
Net cash (used in) financing activities	(1,898)	(99)
Foreign currency translation effects on cash and cash equivalents	1,039	(1,310)
Change in cash and cash equivalents excluding change in cash received as collateral for securities lending	(1,535)	160
Change in cash received as collateral for securities lending	(412)	(340)
Cash and cash equivalents reclassified to assets held for sale	–	(509)
Cash and cash equivalents as of January 1, including cash received as collateral for securities lending	23,482	22,457
Cash and cash equivalents as of September 30, including cash received as collateral for securities lending	**21,535**	**21,768**

Net cash used in operating activities was USD 766 million for the nine months ended September 30, 2006 mostly due to net losses and loss adjustment expenses paid as a result of the hurricanes which occurred in the second half of 2005 but have largely been paid out in 2006. Additionally, net cash used in investing activities increased in line with our investment strategy.

Net cash flow used in financing activities increased due to the increase in distributions to shareholders, redemptions of preferred securities and lower cash provided by repo activities.

Litigation and regulatory investigations

The Group and its subsidiaries are continuously involved in legal proceedings, claims and litigation arising, for the most part, in the ordinary course of their business operations.

The Group has entered into previously announced regulatory settlements (Multi-State and Three-State Agreements) in connection with investigations in the United States concerning certain business practices involving insurance brokers and insurance companies. In July 2006, the Group also entered into a settlement agreement to resolve consolidated class-action litigation concerning those matters. The class-action settlement agreement, including plaintiffs' attorney fees, is subject to approval by the court. In addition, the Group and its subsidiaries are involved in investigations in the United States regarding certain reinsurance transactions engaged in by the Group and its subsidiaries. Other Group subsidiaries are also involved in industry-wide legal proceedings regarding financing hedge funds engaged in mutual-fund market-timing activities. The Group continues to cooperate with all remaining regulatory investigations. Furthermore, Zurich Financial Services is a defendant in private class-action securities litigation relating to its divestiture of its interest in Converium Holding AG. Zurich Financial Services intends to defend this litigation vigorously.

The outcome of unresolved current legal proceedings, claims, litigation and investigations could have a material effect on operating results and/or cash flows when resolved in a future period. Management is, however, not aware that these matters would materially affect the Group's consolidated financial position.