

Financial Review

The information contained within the Financial Review is unaudited. This document should be read in conjunction with the Zurich Financial Services Group Annual Report 2006. Interim results are not necessarily indicative of full-year results. Comparatives in the Financial Review have been restated and are for the three months ended March 31, 2006 or as of December 31, 2006, unless otherwise specified.

Group financial highlights

in USD millions, for the three months ended March 31, unless otherwise stated	2007	2006 ¹	Change ²
Business operating profit	1,734	1,392	25%
Net income attributable to shareholders	1,387	810	71%
General Insurance gross written premiums and policy fees	10,216	9,861	4%
Global Life gross written premiums, policy fees and insurance deposits	5,239	5,357	(2%)
Farmers Management Services management fees	542	522	4%
General Insurance business operating profit	1,135	883	29%
General Insurance combined ratio (in %) ³	93.3%	94.8%	1.5 pts
Global Life business operating profit	317	285	11%
Global Life new business value, after tax ⁴	146	102	43%
Global Life gross new business annual premium equivalent (APE)	628	579	8%
Farmers Management Services business operating profit	330	319	3%
Farmers Management Services gross operating margin (in %) ⁵	47.9%	53.3%	(5.4 pts)
Group investments average invested assets ⁶	192,097	179,169	7%
Group investments result, net	2,370	2,214	7%
Group investments return (as % of average invested assets)	1.2%	1.2%	–
Shareholders' equity ⁷	26,515	25,587	4%
Diluted earnings per share (in CHF)	11.60	7.11	63%
Return on common shareholders' equity (ROE) ⁸	23.5%	16.6%	6.9 pts
Business operating profit (after tax) return on common shareholders' equity ⁸	21.4%	19.8%	1.6 pts

¹ Restated as a result of the adoption of the SoRIE option under IAS 19 Employee Benefits.

² Positive / (negative) change.

³ 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.

⁴ Global Life new business value is the present value of the projected after tax profit from life insurance contracts sold in the year.

⁵ Farmers Management Services gross operating margin is calculated as the sum of Farmers management fees less management expenses, divided by Farmers management fees.

⁶ Excluding cash collateral received for securities lending.

⁷ As of March 31, 2007 and December 31, 2006, respectively.

⁸ Returns for the three months ended March are annualized on a compound basis using the results for the three months. ROE (based on net income attributable to common shareholders) and business operating profit (after tax) return on common shareholders' equity for the year ended December 31, 2006 were 20.4% and 19.4%, respectively.

Performance overview

Business operating profit for Zurich Financial Services Group (the Group) increased by 25 percent to USD 1.7 billion demonstrating the strong underlying performance of our operating segments.

- **General Insurance business operating profit** increased by USD 252 million to USD 1.1 billion, largely due to a 1.5 percentage point improvement in the combined ratio, reflecting our disciplined underwriting and claims management and demonstrating our ability to absorb catastrophes such as Winter storm Kyrill.
- **Global Life business operating profit** increased by USD 32 million or 11 percent to USD 317 million, primarily due to increases in the UK and Germany. **New business value, after tax**, increased by 43 percent in USD terms, and by 36 percent on a local currency basis, reflecting benefits from changes to the operating model, as well as growth in emerging markets.
- **Farmers Management Services business operating profit** increased by USD 11 million as a result of an increased management fees, more than offsetting expenses related to growth initiatives.
- **Other Businesses business operating profit** increased by USD 35 million with positive results contributed from **Farmers Re, Centre** and **Centrally Managed Businesses**.
- **Corporate Functions business operating loss** decreased by USD 12 million primarily due to a decrease in headquarter expenses, which more than offset an increase in funding expenses.

Net income attributable to shareholders increased by USD 577 million, or 71 percent, to USD 1.4 billion for the three months ended March 31, 2007, with prior year comparatives affected by regulatory settlements in the amount of USD 262 million, net of tax.

- The shareholders' **effective tax rate** was 26.7 percent compared with 26.9 percent for the year ended December 31, 2006. The Group's overall effective income tax rate of 29.7 percent, which includes the impact of tax expense attributable to policyholders in certain jurisdictions, decreased by 1.6 percentage points from 31.3 percent for the year ended December 31, 2006, primarily due to lower levels of policyholder net capital gains on investments.

Business volumes of our operating segments developed as follows:

- **General Insurance** gross written premiums and policy fees increased by 4 percent in US dollar terms, and decreased by 1 percent on a local currency basis, reflecting the underwriting strength and discipline of all our divisions in the competitive market environment.
- **Global Life** insurance deposits increased in US dollar terms and on a local currency basis, while gross written premiums and policy fees decreased in US dollar terms and on a local currency basis, reflecting the strategic shift in business mix from traditional to unit-linked products. New business annual premium equivalent (APE) increased by 8 percent in US dollar terms, and by 2 percent on a local currency basis.
- **Farmers Management Services** management fees and other related revenues increased by 4 percent, reflecting the underlying increase in the gross written premiums of 5 percent in the Farmers Exchanges, which we manage but do not own.

Diluted earnings per share increased by CHF 4.49, or 63 percent, to CHF 11.60 for the three months ended March 31, 2007, compared with CHF 7.11 for the same period in 2006.

Our **business operating profit (after tax) return on common shareholders' equity** increased by 1.6 percentage points to 21.4 percent. **Return on common shareholders' equity** increased by 6.9 percentage points to 23.5 percent, compared with the same period in 2006, which included the impact of regulatory settlements.

Measuring business performance

We manage our business units on their underlying performance using the measure of business operating profit. Business operating profit eliminates the impact of financial market volatility and other non-operational variables enabling us to assess the underlying insurance performance of each business.

Business operating profit reflects adjustments for net capital gains on investments and impairments (except for the capital markets and banking operations included in Other Businesses), policyholders' share of investment results for the life business, non-operational foreign exchange movements, and significant items arising from special circumstances including gains and losses on divestments of businesses. Business operating profit is not a substitute for net income as determined in accordance with International Financial Reporting Standards (IFRS).

Reconciliation to business operating profit

in USD millions, for the three months ended March 31		2007	2006
Net income before shareholders' taxes ¹		1,904	1,221
Adjusted for net capital gains on investments and impairments ²		(1,695)	(5,150)
Policyholder allocation of net capital gains on investments and impairments		1,559	4,992
Net income attributable to minority interests		(8)	(19)
Net gain on divestments of businesses		(4)	–
Restructuring provisions and other ³		(22)	348
Business operating profit ¹		1,734	1,392

¹ Amounts for 2006 have been restated as a result of the adoption of the SoRiE option under IAS 19 Employee Benefits.

² Excluding capital markets and banking activities and certain securities held for specific economic hedging purposes.

³ In 2006 legal settlements of USD 325 million were included.

Basis of current and future presentation and comparability

Effect of new and revised accounting standards in 2007

For 2007 reporting, we have adopted the Statement of Recognized Income and Expense (SoRIE) option under IAS 19 Employee Benefits to recognize actuarial gains and losses arising from defined benefit pension and other defined benefit post-retirement plans as a liability with a corresponding adjustment to shareholders' equity after allowing for deferred tax assets. As a result, we have reversed the charge recorded in the 2006 income statement for the unrecognized actuarial gains and losses. In previous years, the net cumulative unrecognized actuarial gains and losses exceeding ten percent of the higher of the defined benefit obligation and the fair value of plan assets were not recognized on the balance sheet, but rather through the income statement over the expected average remaining working lives of the employees participating in the plan (corridor approach). Therefore, 2006 figures have been restated to reflect this change.

in USD millions	As reported	Amount of restatement	As restated
as of December 31, 2006			
Total equity	27,056	(952)	26,104
Other liabilities	21,368	1,389	22,757
for the three months ended March 31, 2006			
Net income attributable to shareholders	785	25	810
Business operating profit	1,359	33	1,392

Changes in consolidation

In 2006, we agreed to purchase the remaining 55 percent interest in the UK insurance intermediary Endsleigh Limited. The acquisition date was January 2, 2007, with the initial accounting reflected in the financial statements for the first quarter of 2007.

In 2006, we agreed to purchase the Spanish surety writer ACC Seguros y Reaseguros de Daños, S.A. The acquisition date was March 5, 2007. As the completion of the transaction fell late in the quarter, and the results of the acquired company were not material to the Group's financial statements for the first quarter 2007, the initial accounting will be included in the second quarter of 2007.

Significant transactions and events

In February 2007, we announced that we had signed an agreement for the purchase of a 66 percent stake in OOO Nasta Insurance Company, a personal lines insurer in Russia with an agreed path to 100 percent ownership by 2010. The acquisition date was April 4, 2007.

In March 2007, we announced that our subsidiary Farmers Group, Inc. had entered into an agreement under which it will acquire 100 percent of the equity of Bristol West Holdings, Inc. As part of the transaction, Farmers Group, Inc. will sell the underlying insurance business to the Farmers Exchanges, which Farmers Group, Inc. manages but does not own. The transaction is expected to close in the third quarter of 2007.

On February 15, 2007, the Board of Zurich Financial Services authorized a share buyback of up to CHF 1.25 billion over the course of 2007. As of March 31, 2007, 1,535,000 fully paid shares had been bought back at an average price of CHF 346.58 per share. The total cost of USD 438 million, has been deducted from shareholders' equity.

On April 3, 2007 the Annual General Meeting approved a gross dividend of CHF 11.00 per share, representing a 57 percent increase over the 2006 total gross payout to shareholders CHF of 7.00. The net dividend of CHF 7.15 per share was paid on April 10, 2007, and as such, will be recognized through shareholders' equity in the second quarter of 2007.

On April 3, 2007, at the Annual General Meeting, an increase of contingent share capital for the issuance of newly registered shares to employees of Zurich Financial Services and its subsidiaries was approved. According to this approval, the authority to issue contingent shares was increased to a new maximum of 4 million registered shares with a nominal value of CHF 0.10 each. The pre-emptive right of the shareholders of Zurich Financial Services, as well as the right for advance subscription, are excluded. On May 7, 2007, 3,242,444 shares were listed.

On May 9, 2007, we completed a two-tranche private placement of USD 1.5 billion hybrid securities treated as debt under IFRS. The issuance is comprised of a 5.875% USD 500 million tranche maturing in 2062, callable from 2012, and a 6.5% USD 1 billion tranche maturing in 2067, callable from 2017. On the call date the coupons on both tranches convert from fixed to floating rate and step up by 100 basis points. Part of the proceeds will be used to refinance our 8.376% USD 1 billion Zurich Capital Securities, which were called to be redeemed on June 1, 2007.

General Insurance highlights

in USD millions, for the three months ended March 31	2007	2006	Change
Gross written premiums and policy fees	10,216	9,861	4%
Net earned premiums and policy fees	7,152	6,816	5%
Insurance benefits and losses, net of reinsurance	(4,966)	(4,900)	(1%)
Net underwriting result ¹	475	355	34%
Net investment income	854	746	14%
Business operating profit ¹	1,135	883	29%
Loss ratio	69.4%	71.9%	2.5 pts
Expense ratio ¹	23.9%	22.9%	(1.0 pts)
Combined ratio ¹	93.3%	94.8%	1.5 pts

¹ Amounts for 2006 have been restated as a result of the adoption of the SoRIE option under IAS 19 Employee Benefits.

Highlights by division

in USD millions, for the three months ended March 31	Business operating profit ¹		Combined ratio	
	2007	2006	2007	2006
Global Corporate	209	202	92.8%	92.6%
North America Commercial	386	303	91.9%	95.1%
Europe General Insurance	479	365	93.5%	93.3%
International Businesses	25	18	100.6%	102.6%
Group Reinsurance	36	(5)	nm	nm
Total	1,135	883	93.3%	94.8%

¹ Amounts for 2006 have been restated as a result of the adoption of the SoRIE option under IAS 19 Employee Benefits.

Business operating profit increased by USD 252 million, or 29 percent, to USD 1.1 billion for the three months ended March 31, 2007, with increases across all divisions. An improvement in net underwriting result, most significantly in North America Commercial, drove part of the increase. Additionally, net investment income increased by USD 108 million as a result of rising interest rates in Europe and the US, as well as a higher invested asset base.

Gross written premiums and policy fees increased by USD 355 million, or 4 percent, to USD 10.2 billion, while on a local currency basis decreasing by 1 percent. The market environment continued to be highly competitive, with pressure on rates occurring in North America and Europe. Global Corporate experienced higher retention levels while rate decreases adversely impacted premium volumes. In North America Commercial our market segmentation approach enabled us to effectively manage our underwriting margin while new business volumes declined. Europe General Insurance experienced an increase of USD 318 million in US dollar terms, while remaining relatively flat on a local currency basis; pressures remained on new business rates, especially in motor, while retention and rates on renewals are stable. International Businesses increased by USD 61 million, experiencing rate increases and improved business volumes and retentions, most significantly in Latin America.

The **net underwriting result** increased by USD 120 million, or 34 percent, to USD 475 million, mainly driven by the 2.5 percentage point improvement in the loss ratio. This was achieved after absorbing the impact of losses from Winter storm Kyrill (Global Corporate USD 16 million and Europe General Insurance USD 136 million), demonstrating the strength and discipline of our underwriting. Global Corporate benefited from favorable current year loss experience other than Kyrill. North America Commercial contributed USD 73 million to the increase as current year loss experience and prior year loss development improved. Europe General Insurance increased by USD 13 million as a result of improvements in both current year loss experience, particularly in the Italian motor book, and prior year loss development, primarily in the UK; these improvements more than offset the costs of Kyrill. The USD 11 million improvement in International Businesses was primarily attributable to a reduction in the frequency and severity of large losses and improvements in the motor books in

Latin America. The continued absence of large losses led to the USD 39 million improvement in Group Reinsurance. The expense ratio increased by 1.0 percentage point to 23.9 percent, primarily due to business mix driven increases of our underwriting and policy acquisition costs.

Global Life highlights

We measure the embedded value of our life insurance business in addition to the measurements in accordance with IFRS. Embedded value information takes into account the value of new business measured from the point of sale of the contract, a value which is not fully recognized under IFRS. Our methodology, developed in accordance with the European Embedded Value Principles, uses a "bottom-up" market consistent approach allowing explicitly 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, and options and guarantees are valued using market consistent models calibrated to observable market prices.

in USD millions, for the three months ended March 31	2007	2006	Change
Insurance deposits ¹	2,656	2,295	16%
Gross written premiums and policy fees	2,583	3,062	(16%)
Net investment income	1,691	1,544	10%
Insurance benefits and losses, net of reinsurance	(2,095)	(2,550)	18%
Underwriting and policy acquisition costs, net of reinsurance	(410)	(290)	(41%)
Administrative and other operating expenses ²	(406)	(376)	(8%)
Business operating profit ²	317	285	11%
Embedded value – highlights			
New business annual premium equivalent (APE) ³	628	579	8%
Present value of new business premiums (PVNBP)	5,078	4,678	9%
New business margin, after tax (as % of APE)	23.2%	17.7%	5.5 pts
New business margin, after tax (as % of PVNBP)	2.9%	2.2%	0.7 pts
New business value, after tax	146	102	43%

¹ Insurance deposits in International Businesses for 2006 have been presented to exclude deposits received as funds under management.

² Amounts for 2006 have been restated as a result of the adoption of the SoRiE option under IAS 19 Employee Benefits.

³ APE is taken as annual premiums plus 10% of single premiums.

Highlights by region

in USD millions, for the three months ended March 31	Business operating profit ¹		New business value, after tax	
	2007	2006	2007	2006
United States	50	53	28	14
United Kingdom	89	71	20	16
Germany	54	37	28	21
Switzerland	49	53	11	2
Rest of Europe	50	47	46	40
<i>of which: Ireland</i>	<i>15</i>	<i>14</i>	<i>16</i>	<i>13</i>
<i>of which: Isle of Man</i>	<i>10</i>	<i>7</i>	<i>19</i>	<i>13</i>
International Businesses	25	24	13	9
Total	317	285	146	102

¹ Amounts for 2006 have been restated as a result of the adoption of the SoRiE option under IAS 19 Employee Benefits.

Business operating profit increased by 32 million, or 11 percent (5 percent on a local currency basis), to USD 317 million for the three months ended March 31, 2007. In the UK, the USD 18 million increase was primarily attributable to higher fees received from investment policies as the customer asset base grew. Germany increased by USD 17 million as we continued to realize benefits from the optimization of the business model, in addition to an increase in net investment income. In other regions, business operating profit was relatively flat, except for Switzerland, where the continued transfer of group life contracts to independent foundations resulted in a decrease of USD 4 million.

New business annual premium equivalent (APE) increased by 8 percent in US dollar terms, or 2 percent on a local currency basis. The increase primarily arose in Ireland, where savings and pension business increased, in Hong Kong, due to our focus on unit-linked sales, and in the Isle of Man, as a result of increased sales in Asia and the Middle East. As a result of the continuous optimization of our operating model, as well as the strategic shift in business mix, **new business margin**, after tax (as a percentage of APE) increased by 5.5 percentage points to 23.2 percent, while **new business value**, after tax increased by USD 44 million, or 43 percent, to USD 146 million. On a local currency basis the increase was 36 percent, with most regions contributing to the increase. We realized benefits from the restructuring of our reinsurance program in the US and from refinements to the business model in Switzerland. Synergies following the merger of our life entities in Germany and volume growth in the Isle of Man also contributed to the increase.

Farmers Management Services highlights

in USD millions, for the three months ended March 31	2007	2006	Change
Management fees and other related revenues	542	522	4%
Management and other related expenses ¹	(282)	(244)	(16%)
Business operating profit ¹	330	319	3%
Gross operating margin ¹	47.9%	53.3%	(5.4 pts)

¹ Amounts for 2006 have been restated as a result of the adoption of the SoRIE option under IAS 19 Employee Benefits.

Business operating profit increased by USD 11 million, or 3 percent, to USD 330 million for the three months ended March 31, 2007. Management fees and other related revenues increased by USD 20 million, or 4 percent, following a 3 percent increase in the gross earned premiums of the Farmers Exchanges, which we manage but do not own. Management and other related expenses increased by USD 38 million, partly arising from the increased volumes generated by the Exchanges, but also from costs associated with investments in growth initiatives, transitioning expenses related to the recently established ServicePoints.

Other Businesses highlights

in USD millions, for the three months ended March 31	2007	2006	Change
Business operating profit:			
Farmers Re	44	42	5%
Centre	29	71	(59%)
Centrally Managed Businesses ¹	65	10	nm
Other	5	(15)	nm
Total ¹	143	108	32%

¹ Amounts for 2006 have been restated as a result of the adoption of the SoRIE option under IAS 19 Employee Benefits.

Farmers Re business operating profit slightly increased by USD 2 million in line with the business development of the Farmers Exchanges, which we manage but do not own. **Centre's** business operating profit decreased by USD 42 million due to lower commutation levels compared with the three months ended March 31, 2006. **Centrally Managed Businesses** comprise portfolios which we proactively manage to achieve a profitable run-

off with a business operating profit increase of USD 55 million compared with the three months ended March 31, 2006.

Corporate Functions highlights

in USD millions, for the three months ended March 31	2007	2006	Change
Net investment income	167	165	1%
Interest expense on debt	(301)	(273)	(10%)
Business operating loss	(191)	(203)	6%
Headquarter expenses, after allocations to operating businesses and excluding foreign currency impacts	(9)	(49)	82%

Business operating loss decreased by USD 12 million to USD 191 million for the three months ended March 31, 2007. **Headquarter expenses** decreased by USD 40 million, as a result of higher allocations to the operating businesses. Interest expense on debt increased by USD 28 million due to increased in net intercompany funding levels and a higher yield on the floating rate issuance of Enhanced Capital Advantaged Preferred Securities (ECAPS). The impact of foreign currency transactions within Corporate Functions was negligible.

Investment performance

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.

The total investment result comprises both Group investments and investments for unit-linked products. The investment result for unit-linked products is passed to policyholders through a charge to policyholder dividends and participation in profits, and as such, is not included in the result for Group investments.

Performance of Group investments

in USD millions, for the three months ended March 31	2007	2006	Change
Net investment income	2,062	1,914	8%
Net capital gains on investments and impairments	308	300	3%
of which: net capital gains on investments and impairments attributable to shareholders	152	170	(11%)
Net investment result	2,370	2,214	7%
Net investment return on Group investments ¹	1.2%	1.2%	(0.0 pts)
Movements in net unrealized gains on investments included in total equity	(543)	(1,695)	(68%)
Total investment result, net of investment expenses ²	1,827	519	252%
Average investments ³	192,097	179,169	7%
Total return on Group investments ¹	1.0%	0.3%	0.7 pts

¹ Total return is not annualized.

² After deducting investment expenses of USD 65 million and USD 58 million for the three months ended March 31, 2007 and 2006, respectively.

³ Excluding average cash received as collateral for securities lending of USD 3.9 billion and USD 4.1 billion in the three months ended March 31, 2007 and 2006, respectively.

Net investment income from Group investments increased by USD 148 million, or 8 percent to USD 2.1 billion, primarily attributable to the General Insurance segment due to higher rates on reinvestment and a growing asset base. This increase offset a reduction in the investment income from our Global Life segment, which declined due to the continuing strategic shift of assets to unit-linked products.

Net capital gains on investments and impairments remained relatively flat compared with the three months ended March 31, 2006. We benefited from stable mid-term interest rates in the US during the first quarter of 2007, compared with increasing rates for the same period in the prior year. However, in Europe interest rates continued to rise, resulting in losses on debt securities, primarily in our UK life business, where we also had fewer positive revaluations as equity markets grew at a lower rate during the three months ended March 31, 2007. Sales of equity securities associated with the continued transfer of group life contracts from our Swiss life business to independent foundations generated realized gains.

The net investment return on Group investments was flat year-over-year at 1.2 percent.

Net unrealized gains in total equity decreased by USD 543 million for the three months ended March 31, 2007, compared with USD 1.7 billion for the same period in 2006. As a result of an overall increase in interest rates, the value of our debt securities decreased, while the lower growth rate in equity markets led to fewer positive revaluations of equity securities.

Performance of unit-linked investments

in USD millions, for the three months ended March 31	2007	2006	Change
Net investment income	795	537	48%
Net capital gains on investments and impairments	1,403	4,862	(71%)
Net investment result, net of investment expenses ¹	2,198	5,399	(59%)
Average investments	115,447	96,614	19%
Total return on unit-linked investments ²	1.9%	5.6%	(3.7 pts)

¹ After deducting investment expenses of USD 109 million and USD 150 million for the three months ended March 31, 2007 and 2006, respectively.

² Total return is not annualized.

Unit-linked investments are primarily invested in equity securities. During the first three months of 2007, the rate of appreciation in many equity markets was lower compared with that of the three months ended March 31, 2006. This led to a lower increase in the value of equity securities, resulting in a 71 percent decrease in net capital gains on investments and impairments on unit-linked investments.

Performance of total investments

in USD millions, for the three months ended March 31	2007	2006	Change
Net investment income	2,857	2,451	17%
Net capital gains on investments and impairments	1,711	5,162	(67%)
of which: net capital gains on investments and impairments attributable to shareholders	152	170	(11%)
Net investment result	4,568	7,613	(40%)
Net investment return ¹	1.5%	2.8%	(1.3 pts)
Movements in net unrealized gains on investments included in total equity	(543)	(1,695)	(68%)
Total investment result, net of investment expenses ²	4,025	5,918	(32%)
Average investments ³	307,544	275,783	12%
Total return on investments ¹	1.3%	2.1%	(0.8 pts)

¹ Total return is not annualized.

² After deducting investment expenses of USD 174 million and USD 208 million for the three months ended March 31, 2007 and 2006, respectively.

³ Excluding average cash received as collateral for securities lending of USD 3.9 billion and USD 4.1 billion in the three months ended March 31, 2007 and 2006, respectively.

Performance of our total investments is the sum of the performance of our Group investments and unit-linked investments.

Balance sheet highlights

Investments

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. Investments for unit-linked products include those 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	03/31/07		12/31/06	
	Group investments	Unit-linked investments	Group investments	Unit-linked investments
Cash and cash equivalents	19,110	5,596	17,438	5,684
Equity securities:	18,599	92,470	18,339	90,666
Common stocks, including equity unit trusts	11,823	86,349	11,461	84,824
Unit trusts (debt securities, real estate and short-term investments)	3,279	6,121	3,014	5,842
Common stock portfolios backing participating with-profit policyholder contracts	1,536	–	1,604	–
Trading equity portfolios in capital markets and banking activities	1,961	–	2,260	–
Debt securities	125,415	9,212	126,435	8,922
Real estate held for investment	7,003	8,528	6,921	8,360
Mortgage loans	11,080	–	10,806	–
Policyholders' collateral and other loans	12,499	2	12,634	2
Investments in associates	149	–	153	–
Other investments	2,479	759	2,950	693
Subtotal	196,334	116,567	195,676	114,327
Total investments	312,901		310,003	

Total investments increased by USD 2.9 billion, or 1 percent, to USD 312.9 billion compared with December 31, 2006. After adjusting for foreign currency translation effects, total investments increased by USD 1.2 billion.

Cash and cash equivalents as part of our total investments increased by USD 1.6 billion, attributable to Group investments, predominantly related to Farmers Group, Inc. in conjunction with the acquisition of Bristol West (refer to Significant transactions and events).

Net sales of debt securities of USD 821 million for the three months ended March 31, 2007, were primarily attributable to sales associated with the continued transfer of group life contracts from our Swiss life business to independent foundations, in addition to sales from Farmers Group, Inc. Negative revaluations also contributed, resulting in a net decrease of USD 1.4 billion after adjusting for foreign currency movements.

Positive revaluations, primarily on unit-linked equity securities, resulted in an overall net increase of equity securities of USD 1.4 billion after adjusting for foreign currency movements of USD 645 million.

Development of 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.

in USD millions	2007	2006	Change
As of January 1			
Gross reserves for losses and loss adjustment expenses	64,535	60,425	
Reinsurers' share	(13,722)	(14,231)	
Net reserves for losses and loss adjustment expenses	50,813	46,194	
Net losses and loss adjustment expenses incurred:			
Current period	5,438	5,204	4%
Prior years	(160)	12	nm
Total	5,278	5,216	1%
Total net losses and loss adjustment expenses paid	(4,824)	(4,601)	5%
Currency translation effects	239	190	26%
As of March 31			
Net reserves for losses and loss adjustment expenses	51,506	46,999	
Reinsurers' share	13,398	14,201	
Gross reserves for losses and loss adjustment expenses	64,904	61,200	

The majority of the Group's gross reserves for losses and loss adjustment expenses are attributable to the General Insurance segment.

Gross reserves for losses and loss adjustment expenses remained relatively flat from January 1, 2007, to March 31, 2007. Net losses and loss adjustment expenses paid and incurred in the current period have increased, primarily due to the impact of Winter storm Kyrill. The favorable prior year development was the net effect of many movements including recoveries under reinsurance contracts.

Development of reserves for life insurance contracts

in USD millions	Future life policyholders' benefits		Policyholders' contract deposits and other funds		Reserves for unit-linked contracts	
	2007	2006	2007	2006	2007	2006
As of January 1						
Gross reserves	76,503	71,292	18,934	18,985	66,008	55,691
Reinsurers' share	(1,485)	(1,305)	(3,258)	(3,504)	–	–
Net reserves	75,018	69,987	15,676	15,481	66,008	55,691
Premiums and claims	(3,098)	(1,668)	(281)	(335)	(245)	(813)
Interest and bonuses credited to policyholders	739	656	505	288	1,235	2,981
Change in assumptions	7	(46)	(1)	(2)	(5)	–
Acquisitions/(divestments)	–	(31)	–	–	–	–
Decreases recorded in shareholders' equity	(151)	(224)	(242)	(469)	–	–
Foreign currency translation effects	555	1,096	101	112	217	467
As of March 31						
Net reserves	73,070	69,770	15,758	15,075	67,210	58,326
Reinsurers' share	1,514	1,331	3,177	3,433	–	–
Gross reserves	74,584	71,101	18,935	18,508	67,210	58,326

Net future life policyholders' benefits decreased by 3 percent from January 1, 2007, primarily due to the transfer of group life contracts to independent foundations and to the shift in our business mix to unit-linked products and investment contracts.

Net reserves for policyholders' contract deposits and other funds remained relatively flat reflecting the continued decline of endowments in Germany, as well as higher interest and bonuses credited to policyholders.

Reserves for unit-linked contracts increased by 2 percent, predominantly related to interest and bonuses credited to policyholders in conjunction with equity market appreciation.

Development of liabilities for investment contracts

in USD millions	2007	2006
As of January 1	50,705	40,999
Premiums and claims	(370)	171
Interest and bonuses credited to policyholders	1,019	2,451
Change in assumptions	(21)	–
Acquisitions/(divestments)	(1)	(2)
Decreases recorded in shareholders' equity	(5)	(23)
Foreign currency translation effects	473	266
As of March 31	51,800	43,862

Liabilities for investment contracts have increased by 2 percent compared with December 31, 2006, predominantly related to interest and bonuses credited to policyholders in conjunction with equity market appreciation.

Capitalization and indebtedness

in USD millions, as of	03/31/07	12/31/06	Change
Collateralized loans	2,381	2,427	(2%)
Debt related to capital markets and banking activities	1,531	1,889	(19%)
Obligation to repurchase securities	6,381	6,144	4%
Total operational debt	10,293	10,460	(2%)
Senior debt	2,704	2,905	(7%)
Subordinated debt	4,850	4,808	1%
Total financial debt ¹	7,554	7,713	(2%)
Shareholders' equity	26,515	25,587	4%
Minority interests	530	517	3%
Total equity ²	27,045	26,104	4%
Total financial debt and equity ²	34,599	33,817	2%

¹ Financial debt includes USD 100 million of non-recourse borrowings, as of March 31, 2007, and December 31, 2006, directly related to leveraged real estate held for investment.

² Amounts for 2006 have been restated as a result of the adoption of the SoRIE option under IAS 19 Employee Benefits.

Total operational debt decreased by 2 percent from December 31, 2006 to March 31, 2007. 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 358 million. These decreases offset the USD 237 million increase in our obligation to repurchase securities primarily related to investment management activities in our UK General Insurance business.

The Group's Euro Medium Term Note (EMTN) Programme allows for the potential issuance of up to USD 6 billion of senior and subordinated notes, of which USD 3.7 billion was issued as of March 31, 2007.

The Group has access to a syndicated revolving credit facility of USD 3 billion that terminates in 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 March 31, 2007.

Dunbar Bank has access to various committed credit facilities totaling GBP 430 million. No borrowings were outstanding under these facilities as of March 31, 2007.

Total equity

in USD millions	Shareholders' equity	Minority interests	Total equity
As of December 31, 2006, as previously reported	26,531	525	27,056
Adjustment arising from change in accounting policy related to IAS 19	(944)	(8)	(952)
As of December 31, 2006, as restated	25,587	517	26,104
Change in net unrealized gains on investments excluding translation adjustments	(75)	(5)	(80)
Change in net losses on cash flow hedges	(48)	–	(48)
Change in currency translation adjustments	88	7	95
Issuance of share capital	17	–	17
Dividends	(13)	(3)	(16)
Share-based payment transactions	11	–	11
Treasury share transactions	2	–	2
Share buyback program	(438)	–	(438)
Actuarial losses on pension schemes	(3)	–	(3)
Net income after taxes	1,387	8	1,395
Net changes in capitalization and minority interests	–	6	6
As of March 31, 2007	26,515	530	27,045

Total equity increased primarily as a result of net income after taxes. This increase more than offset outflows related to our share buyback program and net reductions of unrealized gains. As a result of an overall increase in interest rates, the value of our debt securities decreased, while equity market appreciation led to positive revaluations of equity securities.

On February 15, 2007, the Board of Zurich Financial Services authorized a share buyback of up to CHF 1.25 billion over the course of 2007. A proposal to cancel all repurchased shares will be submitted to shareholders at the Annual General Meeting in 2008. As of March 31, 2007, 1,535,000 fully paid shares, with a nominal value CHF 0.10, have been bought back at an average price of CHF 346.58 per share. The total cost of USD 438 million was deducted from shareholders' equity.

As of March 31, 2007, the number of treasury shares deducted from equity was 1,700,769, which comprises shares repurchased under the buyback program and shares held to cover employee share and option plans.

Cash flows

Summary of cash flows

in USD millions, for the three months ended March 31	2007	2006
Net cash provided by/(used in) operating activities	2,171	(1,352)
Net cash provided by/(used in) investing activities	38	(71)
Net cash used in financing activities	(874)	(959)
Foreign currency translation effects on cash and cash equivalents	73	159
Change in cash and cash equivalents as of March 31 excluding cash received as collateral for securities lending	1,408	(2,223)
Change in cash received as collateral for securities lending	176	(862)
Cash and cash equivalents as of January 1, including cash received as collateral for securities lending	23,122	23,482
Cash and cash equivalents as of March 31, including cash received as collateral for securities lending	24,706	20,397

Net cash provided by operating activities was USD 2.2 billion, compared with cash used of USD 1.4 billion for the same period in the prior year, predominantly related to a shift in the proportion of cash in our Group investments.

Net cash used in financing activities decreased by USD 85 million for the three months ended March 31, 2007. In 2007, net cash used in financing activities was predominantly affected by the share buyback program, while the 2006 balance was driven by preferred security redemptions.

Currency translation impact

We operate worldwide in multiple currencies and seek to match our foreign exchange exposures on an economic basis. As we have chosen the US dollar as our presentation currency, differences arise when functional currencies are translated into our presentation currency. The table below shows the effect of foreign currency rates on the translation of selected line items.

Selected income statement items	variance over the prior period, for the three months ended March 31, 2007	
	in USD millions	in %
Gross written premiums and policy fees	578	4%
Insurance benefits and losses, net of reinsurance	(339)	(4%)
Net income attributable to shareholders	50	6%

The income statements are translated at average exchange rates where the weakening of the US dollar during the three months ended March 31, 2007, compared with the same period in the prior year, had a positive effect on gross written premiums and policy fees and net income attributable to shareholders, and caused a decrease to insurance benefits and losses, net of reinsurance. As of March 31, 2007, the impact of foreign currency translation on balance sheet positions was not significant compared with December 31, 2006.

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.

In 2006, the Group entered into previously announced settlements with various U.S. state attorneys general and state insurance regulators 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. Final judgment has been entered approving the settlement, but appeals are pending. A number of individual claims not covered by the class action settlement remain pending against the Group. In addition, the Group and its subsidiaries are involved in regulatory investigations in the United States, including by the Securities and Exchange Commission (SEC), regarding certain reinsurance transactions engaged in by the Group and its subsidiaries. The SEC Staff is currently formulating its recommendation for action to the SEC commissioners. The Group continues to cooperate with all remaining regulatory investigations. Other Group subsidiaries were also involved in industry-wide legal proceedings regarding financing hedge funds engaged in mutual-fund market-timing activities. In this connection, Zurich Capital Markets, in wind-down since 2003, entered into a settlement with the SEC on May 7, 2007. Furthermore, Zurich Financial Services is a defendant in putative class-action securities lawsuits relating to its divestiture of its interest in Converium Holding AG. On December 28, 2006, the Court granted Zurich Financial Services' motion to dismiss all claims filed against it in that litigation. Plaintiffs moved for reconsideration on January 12, 2007, and on April 9, 2007, the Court granted the motion in part and denied it in part. The Court reinstated claims under the Securities Exchange Act of 1934 brought on behalf of persons who bought Converium stock after the initial public offering, but it declined to reconsider its dismissal of claims under the Securities Act of 1933. The court also denied plaintiffs' motion for leave to amend the complaint. 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. Amounts recognized as provisions related to these legal proceedings, claims, litigation and investigations are based on management's best estimate of the required settlement expenditure at the balance sheet date.

