

2007

Zurich Financial Services Group



ZURICH®

Embedded Value

Global Life
New Business Report
for the Nine Months
ended September 30,
2007

Embedded Value

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Global Life New Business Report

Overview

Zurich Financial Services Group (the Group) has adopted the European Embedded Value Principles issued by the CFO Forum, for its new business value reporting for the companies and business reported in its Global Life segment (the covered business) for the nine months ended September 30, 2007 and the comparative period. The methodology adopted uses a “bottom-up” market consistent approach to allow explicitly for market risk.

New business results are derived from the statutory financial statements of entities representing the covered business. New business value is presented by region and gross of minority interests on a before and after tax basis.

The new business information in this report includes:

- New business value
- New business information by region
- New business assumptions

New Business Value

New business is valued on a point of sale basis. Explicit allowance is made for frictional costs, the time value of options and guarantees and the cost of non-market risk. The table below shows new business value in its component parts.

New business value, after tax	in USD millions, for the nine months ended September 30	
	2007	2006
Certainty equivalent new business value	569	424
Frictional costs	(34)	(19)
Time value of options and guarantees	(6)	(31)
Cost of non market risk	(49)	(39)
New business value, after tax	480	334

New business information is presented gross of minority interests. After deducting minority interests, mostly in the German business, the covered business reported APE of USD 1 950 million, new business value, after tax of USD 471 million and a new business margin, after tax of 24.1%.

A regional breakdown of the new business information can be found on page 3 of this report.

New business information by region

in USD millions, for the nine months ended September 30

	Europe												Total	
	United States		United Kingdom		Germany		Switzerland		Rest of Europe		International Businesses			
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
New business premiums including deposits, of which:	138	135	4,552	4,413	590	536	260	218	3,027	2,873	385	278	8,952	8,452
Annual premiums	81	75	216	191	323	303	49	44	419	285	142	102	1,230	999
Single premiums	57	60	4,337	4,223	267	233	210	174	2,607	2,588	243	176	7,722	7,453
New business annual premium equivalent (APE)	87	81	649	613	350	326	70	61	680	544	166	120	2,002	1,744
Present value of new business premiums (PVNBP)	772	742	5,661	5,523	2,942	2,511	698	531	4,869	4,163	894	616	15,835	14,087
New business value, before tax ¹	136	83	126	108	176	96	27	20	158	130	59	39	681	476
New business margin, before tax (as % of APE)	157.3%	102.8%	19.3%	17.6%	50.4%	29.4%	38.4%	32.0%	23.2%	24.0%	35.6%	32.5%	34.0%	27.3%
New business margin, before tax (as % of PVNBP)	17.6%	11.2%	2.2%	2.0%	6.0%	3.8%	3.9%	3.7%	3.2%	3.1%	6.6%	6.3%	4.3%	3.4%
New business value, after tax	80	45	87	76	106	58	21	15	138	110	48	32	480	334
New business margin, after tax (as % of APE)	92.2%	55.1%	13.5%	12.3%	30.3%	17.7%	29.2%	24.0%	20.3%	20.3%	29.2%	26.4%	24.0%	19.2%
New business margin, after tax (as % of PVNBP)	10.3%	6.0%	1.5%	1.4%	3.6%	2.3%	2.9%	2.8%	2.8%	2.6%	5.4%	5.1%	3.0%	2.4%

¹ In certain countries, particularly in the UK, where life insurance companies pay tax in respect of both policyholders and shareholders, the new business value, before tax is before shareholders' tax but after allowing for policyholders' tax.

New business information – Rest of Europe

in USD millions, for the nine months ended September 30

	Italy		Spain		Ireland		Isle of Man		Other European Countries		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
New business premiums including deposits, of which:	537	698	301	530	1,049	745	1,048	805	91	94	3,027	2,873
Annual premiums	18	11	10	12	119	78	253	165	19	18	419	285
Single premiums	519	687	291	518	930	667	795	640	72	76	2,607	2,588
New business annual premium equivalent (APE)	70	80	40	64	212	145	333	229	26	26	680	544
Present value of new business premiums (PVNBP)	614	739	371	602	1,587	1,103	2,085	1,499	212	220	4,869	4,163
New business value, before tax ¹	20	21	15	21	54	37	68	45	1	5	158	130
New business margin, before tax (as % of APE)	29.2%	26.6%	37.2%	33.0%	25.3%	25.7%	20.4%	19.8%	3.7%	20.5%	23.2%	24.0%
New business margin, before tax (as % of PVNBP)	3.3%	2.9%	4.0%	3.5%	3.4%	3.4%	3.3%	3.0%	0.5%	2.4%	3.2%	3.1%
New business value, after tax	14	14	9	13	47	33	68	45	0	5	138	110
New business margin, after tax (as % of APE)	19.5%	17.7%	22.8%	20.6%	22.2%	22.6%	20.4%	19.8%	1.4%	18.3%	20.3%	20.3%
New business margin, after tax (as % of PVNBP)	2.2%	1.9%	2.4%	2.2%	3.0%	3.0%	3.3%	3.0%	0.2%	2.2%	2.8%	2.6%

¹ In certain countries, particularly in the UK, where life insurance companies pay tax in respect of both policyholders and shareholders, the new business value, before tax is before shareholders' tax but after allowing for policyholders' tax.

New Business calculation enhancement

The methodology for the new business value calculation has been enhanced so that each quarter's new business is valued on a discrete basis. From 2007 new business value is calculated separately for each quarter using assumptions, both operating and economic, as of the start of the relevant quarter. Once calculated, the new business value will not change in local currency terms. Comparative results for 2006 have not been restated for this change.

As a further enhancement, to align embedded value reporting with the IFRS accounts, from 2007 relevant results have been converted to Group presentation currency, US dollar, using average exchange rates for the period. This applies to new business value, new business volumes (APE and PVNBP) and comparative figures for 2006. Previously these results have been converted to Group presentation currency, US dollar, using start of year exchange rates.

New Business assumptions

From 2007 new business value is calculated separately for each quarter using assumptions, both operating and economic, as of the start of the relevant quarter.

Projections of future shareholder cash flows expected to emerge from new business are determined using best estimate operating assumptions. These assumptions, including mortality, morbidity, persistency and expenses, reflect recent experience and are actively reviewed. Favorable changes in operating experience, such as expenses, are not anticipated until the improvement has been observed.

From 2007 future economic assumptions used to calculate new business value, such as investment returns and inflation, are based on start of quarter conditions and risk discount rates are consistent with these.

Choice of "risk free yield curve"

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

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

The following table shows, for the main economies, the risk free yield curves used for the two reporting periods, expressed as annualized spot rates. These have been derived from interest rate swaps, and extrapolated where necessary.

Risk free yield curves – annualized spot rates	as of	06/30/2007						09/30/2006					
		1 Year	2 Year	5 Year	10 Year	20 Year	40 Year	1 Year	2 Year	5 Year	10 Year	20 Year	40 Year
Economy													
United States		5.4%	5.4%	5.5%	5.7%	5.9%	5.9%	5.3%	5.1%	5.1%	5.2%	5.3%	5.3%
United Kingdom		6.3%	6.3%	6.2%	5.9%	5.3%	4.8%	5.3%	5.2%	5.1%	4.9%	4.5%	4.2%
Euro Zone		4.5%	4.7%	4.8%	4.9%	5.0%	4.9%	3.7%	3.8%	3.8%	4.0%	4.2%	4.2%
Switzerland		3.1%	3.3%	3.4%	3.6%	3.8%	3.8%	2.1%	2.3%	2.6%	2.8%	2.9%	2.9%

Domestic yield curves are also used for businesses in other countries, except Hong Kong and Argentina which use the US dollar, as their liabilities are principally US dollar denominated.

Implied asset volatility

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

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

As of	06/30/2007						09/30/2006						
	1 Year	2 Year	5 Year	10 Year	20 Year	40 Year	1 Year	2 Year	5 Year	10 Year	20 Year	40 Year	
At-the-money-forward equity implied volatility (capital index)													
Index													
United States (S&P 500)	15.6%	16.1%	18.1%	22.1%	26.8%	31.0%	15.5%	15.9%	17.3%	21.1%	26.1%	30.8%	
United Kingdom (FTSE 100)	14.8%	16.1%	19.2%	23.0%	24.9%	27.8%	14.4%	16.0%	19.6%	23.4%	25.1%	27.6%	
Euro Zone (Eurostoxx)	18.5%	19.7%	22.1%	24.4%	27.5%	30.6%	17.5%	19.1%	22.5%	25.3%	28.2%	30.8%	
Switzerland (SMI)	15.6%	16.3%	18.2%	20.7%	22.7%	24.5%	15.5%	16.0%	18.0%	20.7%	24.6%	28.8%	

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

As of	06/30/2007						09/30/2006						
	1 Year	2 Year	5 Year	10 Year	20 Year	40 Year	1 Year	2 Year	5 Year	10 Year	20 Year	40 Year	
At-the-money-forward property implied volatility (capital index)													
Economy													
United States	15.5%	15.5%	15.4%	16.8%	18.3%	21.3%	15.5%	15.5%	15.4%	16.8%	18.5%	21.5%	
United Kingdom	16.2%	16.3%	17.7%	17.3%	17.7%	18.9%	16.2%	16.3%	17.7%	17.3%	17.8%	18.9%	
Euro Zone	15.0%	14.8%	15.4%	15.9%	17.5%	20.9%	15.0%	14.8%	15.4%	16.0%	17.7%	21.0%	
Switzerland	15.7%	15.6%	16.0%	16.9%	18.1%	19.4%	16.0%	16.1%	16.3%	17.1%	17.6%	19.1%	

Interest volatility can be described by the implied volatility of interest rate swaptions. Swaption implied volatilities vary both by the term of the option and also by the term of the underlying swap contract. The following table shows swaption implied volatilities, based on the simulations used for the EV calculation. Corporate and government bonds have been modeled using the risk free yield curves shown on page 4 and swaption volatilities shown below.

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

as of	06/30/2007						09/30/2006					
	1 year option	2 year option	5 year option	10 year option	20 year option	40 year option	1 year option	2 year option	5 year option	10 year option	20 year option	40 year option
US dollar												
1 year swap	14.9%	14.8%	14.5%	13.7%	11.7%	10.3%	17.8%	17.7%	17.2%	16.0%	13.3%	11.5%
2 year swap	14.7%	14.6%	14.3%	13.5%	11.5%	10.2%	17.5%	17.4%	16.9%	15.8%	13.1%	11.4%
5 year swap	14.1%	14.0%	13.8%	13.0%	11.1%	9.8%	16.7%	16.6%	16.1%	15.0%	12.5%	10.9%
10 year swap	13.3%	13.2%	13.0%	12.3%	10.5%	9.3%	15.6%	15.4%	15.0%	14.0%	11.7%	10.2%
20 year swap	12.2%	12.1%	11.9%	11.3%	9.6%	8.4%	13.9%	13.7%	13.4%	12.6%	10.5%	9.1%
British pound sterling												
1 year swap	13.5%	12.3%	11.9%	11.7%	11.9%	12.9%	15.0%	13.9%	13.8%	13.7%	13.5%	13.3%
2 year swap	13.1%	12.0%	11.7%	11.5%	11.9%	13.0%	14.7%	13.7%	13.7%	13.6%	13.4%	13.3%
5 year swap	12.1%	11.4%	11.3%	11.3%	12.0%	13.0%	14.0%	13.2%	13.4%	13.3%	13.4%	13.2%
10 year swap	11.3%	10.9%	11.0%	11.3%	12.3%	13.0%	13.4%	13.0%	13.2%	13.2%	13.3%	13.1%
20 year swap	11.2%	11.0%	11.4%	11.8%	12.5%	12.7%	13.3%	13.0%	13.3%	13.1%	13.2%	12.6%
Euro												
1 year swap	13.2%	12.8%	12.3%	12.0%	10.9%	9.0%	17.4%	16.7%	16.0%	15.4%	13.3%	10.8%
2 year swap	13.0%	12.6%	12.2%	11.9%	10.7%	8.9%	17.1%	16.5%	15.7%	15.2%	13.1%	10.6%
5 year swap	12.6%	12.2%	11.8%	11.5%	10.4%	8.6%	16.4%	15.8%	15.0%	14.5%	12.6%	10.1%
10 year swap	12.0%	11.6%	11.2%	11.0%	9.9%	8.1%	15.2%	14.6%	14.0%	13.6%	11.8%	9.4%
20 year swap	11.1%	10.7%	10.4%	10.2%	9.1%	7.4%	13.5%	13.0%	12.5%	12.2%	10.5%	8.2%
Swiss Franc												
1 year swap	16.3%	16.1%	15.5%	14.3%	12.4%	10.0%	24.8%	23.7%	21.2%	18.1%	14.9%	11.1%
2 year swap	16.0%	15.9%	15.3%	14.1%	12.2%	9.8%	23.7%	22.7%	20.4%	17.4%	14.4%	10.7%
5 year swap	15.2%	15.1%	14.5%	13.4%	11.6%	9.4%	21.0%	20.2%	18.5%	15.9%	13.2%	9.8%
10 year swap	14.0%	13.9%	13.4%	12.5%	10.8%	8.7%	17.8%	17.2%	16.0%	13.9%	11.6%	8.7%
20 year swap	12.3%	12.2%	11.9%	11.1%	9.4%	7.6%	14.1%	13.7%	13.0%	11.4%	9.5%	7.0%

Inflation

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

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

The following table shows price inflation assumptions for the main economic areas, derived from the simulations used in the new business value.

Inflation assumptions (annualized forward inflation)	as of	06/30/2007						09/30/2006					
		1 Year	2 Year	5 Year	10 Year	20 Year	40 Year	1 Year	2 Year	5 Year	10 Year	20 Year	40 Year
Economy													
United States		2.2%	2.1%	2.2%	2.4%	2.5%	2.7%	2.4%	2.4%	2.6%	2.9%	3.0%	2.9%
United Kingdom		2.7%	2.7%	2.9%	3.0%	3.2%	3.8%	3.1%	3.2%	3.3%	3.3%	3.3%	3.5%
Euro Zone		1.7%	1.9%	2.0%	2.1%	2.2%	2.1%	2.1%	2.2%	2.2%	2.3%	2.4%	2.4%
Switzerland		0.7%	0.9%	1.0%	1.1%	1.5%	1.9%	1.4%	1.6%	1.7%	1.8%	1.9%	2.0%

Risk discount rate

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

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

Taxation

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

Exchange rates

New business for the nine months ended September 30, 2007 and September 30, 2006, have been converted to the Group presentation currency, US dollar, using average exchange rates for the respective periods. The rates can be found on page 11 of the Financial Supplement.