

Financial Review

The information contained within the Financial Review is unaudited. This document should be read in conjunction with the Zurich Financial Services Group Half Year Report 2007 and Annual Report 2006. Certain comparatives in the Financial Review have been restated as a result of the adoption of the SoRIE option under IAS 19 Employee Benefits. Comparatives are for the nine months ended September 30, 2006 or as of December 31, 2006, unless otherwise specified. Interim results are not necessarily indicative of full-year results.

Group financial highlights

in USD millions, for the nine months ended September 30, unless otherwise stated	2007	2006	Change ¹
Business operating profit	4,880	4,423	10%
Net income attributable to shareholders	4,157	3,326	25%
General Insurance gross written premiums and policy fees	27,323	26,295	4%
Global Life gross written premiums, policy fees and insurance deposits	15,366	14,772	4%
Farmers Management Services management fees	1,679	1,589	6%
General Insurance business operating profit	2,779	2,781	(0%)
General Insurance combined ratio	96.9%	94.5%	(2.4 pts)
Global Life business operating profit	1,090	853	28%
Global Life new business value, after tax	480	334	44%
Global Life new business annual premium equivalent (APE)	2,002	1,744	15%
Farmers Management Services business operating profit	1,005	936	7%
Farmers Management Services gross operating margin	48.6%	51.8%	(3.2 pts)
Group investments average invested assets	191,506	183,273	4%
Group investments result, net	7,471	6,979	7%
Group investments return (as % of average invested assets)	3.9%	3.8%	0.1 pts
Shareholders' equity ²	28,396	25,587	11%
Diluted earnings per share (in CHF)	34.80	28.58	22%
Return on common shareholders' equity (ROE) ³	21.4%	21.0%	0.4 pts
Business operating profit (after tax) return on common shareholders' equity ³	18.9%	19.9%	(1.0 pts)

¹ Parentheses around numbers represent an adverse variance.

² As of September 30, 2007 and December 31, 2006, respectively.

³ Returns for the nine months ended September are annualized on a compound basis using the results for the nine 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 19.5%, respectively.

Performance overview

Business operating profit increased by 10 percent to USD 4.9 billion demonstrating the strong underlying performance of all our operating segments.

- **General Insurance business operating profit** remained stable at USD 2.8 billion, reflecting the strength of our diversified portfolio to absorb the adverse impacts of Winter storm Kyrill in the amount of USD 182 million and the UK floods in June and July in the amount of USD 579 million.
- **Global Life business operating profit** increased by USD 237 million or 28 percent to USD 1.1 billion, primarily resulting from increases in the UK and Germany, and a one-time benefit in the US. **New business value, after tax**, increased strongly by 44 percent in US dollar terms (37 percent on a local currency basis), reflecting both growth and margin improvement.
- **Farmers Management Services business operating profit** increased by USD 69 million, largely as a result of increased management fees, which more than offset investments in growth initiatives.

Other Businesses business operating profit increased by USD 147 million with strong results contributed by **Farmers Re, Centre** and **Centrally Managed Businesses**. The **Corporate Functions** result improved by USD 8 million.

Net income attributable to shareholders increased by USD 831 million, or 25 percent, to USD 4.2 billion, with the prior year affected by regulatory settlements in the US. The **shareholders' effective tax rate** was 24.8 percent compared with 26.9 percent for the year ended December 31, 2006. The decrease of 2.1 percentage points is a result of the continuous optimization of the tax efficiency of our operating model.

Business volumes in our core operating segments developed as follows:

- **General Insurance** gross written premiums and policy fees increased by 4 percent in US dollar terms, while remaining stable on a local currency basis, reflecting both underwriting discipline in all our divisions in a competitive market environment and our ability to capitalize on attractive growth opportunities.
- **Global Life** insurance deposits increased by 13 percent in US dollar terms, and by 5 percent on a local currency basis, while gross written premiums and policy fees decreased by 5 percent in US dollar terms, and by 11 percent on a local currency basis. These movements reflect the strategic shift in business mix from traditional to unit-linked products. New business annual premium equivalent (APE) increased by 15 percent in US dollar terms, and by 8 percent on a local currency basis, primarily driven by Zurich International Solutions, our international expatriate business based in the Isle of Man, and growth in savings and pensions products in Ireland.
- **Farmers Management Services** management fees and other related revenues increased by 6 percent, reflecting the underlying increase in the gross written premiums of 5 percent in the Farmers Exchanges, which we manage but do not own, as a result of organic and inorganic growth initiatives.

Return on common shareholders' equity increased by 0.4 percentage points to 21.4 percent. Our **business operating profit (after tax) return on common shareholders' equity** decreased by 1.0 percentage point to 18.9 percent.

Diluted earnings per share increased by CHF 6.22, or 22 percent, to CHF 34.80 for the nine months ended September 30, 2007, compared with CHF 28.58 for the same period in 2006.

Basis of current and future presentation and comparability

Effect of new and revised accounting standards in 2007

For 2007 reporting, we have adopted the option under IAS 19 Employee Benefits that permits recognition of all actuarial gains and losses in the period in which they occur in a statement of recognized income and expense, rather than in the income statement (known as the SoRIE approach). The restatement includes both defined benefit pension plans and other defined benefit post-retirement plans. As a consequence the balance sheet liability now represents the net of the fair value of plan assets less defined benefit obligations. In previous years, the net cumulative unrecognized actuarial gains and losses were included in the balance sheet, but to the extent they exceeded 10 percent of the higher of the defined benefit obligation or the fair value of plan assets, they were amortized to the income statement over the expected average remaining working lives of the employees participating in the plan (known as the corridor approach). The 2006 figures have been restated to reflect this change; the 2006 income statement charge for unrecognized actuarial gains and losses has been reversed, and the net cumulative unrecognized actuarial gains and losses previously included in the balance sheet liability have been moved to equity, net of the tax effect.

in USD millions	As reported	Amount of restatement	As restated
as of December 31, 2006			
Total equity	27,056	(951)	26,105
Other liabilities	21,368	1,389	22,757
for the nine months ended September 30, 2006			
Net income attributable to shareholders	3,253	73	3,326
Business operating profit	4,286	137	4,423

Changes in the scope of consolidation

The consolidated financial statements for the nine months ended September 30, 2007, reflect the acquisition of the remaining 55 percent interest in Endsleigh Limited and 100 percent of ACC Seguros y Reaseguros de Daños, S.A., of Best Harmonious Insurance Brokers Company, Ltd. and of OOO Nasta Insurance Company. Nasta has been consolidated one quarter in arrears (IAS 27, paragraph 27 provision) while the infrastructure is brought up to Zurich standards. Goodwill of USD 372 million has been recorded based upon the initial purchase price allocation performed for the third quarter 2007.

On September 5, 2007, we acquired 100 percent of Wrightway Underwriting Limited, an underwriting agency in Ireland. As the results of the acquired company were not material to the Group's financial statements, the initial accounting will be reflected in the financial statements for the fourth quarter 2007.

During the nine months ended September 30, 2007, we sold all of our shares in Truckwriters, Inc., a specialist insurer in the US for the trucking industry, and in Finium Trustee Limited and in the Zurich Master Super Fund, both of which were part of the superannuation business in Australia.

Significant transactions and events

On July 3, 2007, our subsidiary Farmers Group, Inc. (FGI) acquired 100 percent of the equity of Bristol West Holdings, Inc., and sold the underlying insurance business to the Farmers Exchanges, which FGI manages but does not own. The economic benefit of the management services, which remained with FGI, was recorded as goodwill of USD 385 million in the third quarter 2007. This transaction has not changed the Group's scope of consolidation.

General Insurance highlights

in USD millions, for the nine months ended September 30	2007	2006	Change
Gross written premiums and policy fees	27,323	26,295	4%
Net earned premiums and policy fees	22,107	21,160	4%
Insurance benefits and losses, net of reinsurance	(15,976)	(14,954)	(7%)
Net underwriting result	696	1,163	(40%)
Net investment income	2,695	2,351	15%
Business operating profit	2,779	2,781	(0%)
Loss ratio	72.3%	70.7%	(1.6 pts)
Expense ratio	24.6%	23.8%	(0.8 pts)
Combined ratio	96.9%	94.5%	(2.4 pts)

in USD millions, for the nine months ended September 30	Business operating profit		Combined ratio	
	2007	2006	2007	2006
Global Corporate	576	529	95.1%	94.5%
North America Commercial	1,087	856	94.6%	95.7%
Europe General Insurance	876	1,249	99.3%	92.2%
International Businesses	115	97	99.2%	100.4%
Group Reinsurance	124	50	nm	nm
Total	2,779	2,781	96.9%	94.5%

Business operating profit remained stable at USD 2.8 billion after absorbing USD 761 million of losses arising from Winter storm Kyrill and the UK floods in June and July, which affected both Global Corporate and Europe General Insurance. Our businesses continued to demonstrate underlying strength and have benefited from our reserving policy with positive development emerging from reserves established for prior years. This positive development, together with higher investment income, which reflected both an increase in the average invested asset base and higher interest rates, has ensured all our business divisions, except Europe General Insurance, where the Kyrill and the UK floods had the most impact, have recorded increases in business operating profit.

Gross written premiums and policy fees increased by USD 1.0 billion, or 4 percent, to USD 27.3 billion, while remaining flat on a local currency basis. The market environment continued to be highly competitive, though with a mixed picture by geography and line of business. In the US and the UK there have been decreases in both property and casualty rates, while in the rest of Europe rates have been broadly flat. In Global Corporate gross written premiums decreased by 3 percent overall on a local currency basis. Our focus has been on retention of existing business where rates are more stable, while overall rates have declined by 7 percent. In North America Commercial a 2 percent overall decrease in gross written premiums, in a market where rates have declined on average at a double digit level across lines of business, has been achieved through our continued use of market segmentation techniques and our focus on retaining existing business. In Europe General Insurance gross written premiums were ahead of last year on a local currency basis by 2 percent (10 percent in US dollar terms) with positive contributions realized from acquisitions. Rate changes varied by country, with decreases in Italy, Ireland and the UK and improvements elsewhere. In International Businesses gross written premiums have increased by 8 percent reflecting volume growth in Latin America and Africa.

The **net underwriting result** decreased by USD 467 million, or 40 percent, to USD 696 million, representing an increase in the combined ratio of 2.4 percentage points to 96.9 percent. This increase resulted from both an increase in the loss ratio of 1.6 percentage points and in the expense ratio of 0.8 percentage points. The main contributor to the higher loss ratio was the impact of Winter storm Kyrill, affecting Global Corporate by USD 18 million and Europe General Insurance by USD 164 million, and the UK floods amounting to USD 56 million in Global Corporate and USD 523 million in Europe General Insurance. Together these events

would have increased the overall loss ratio and combined ratio by 3.4 percentage points. However, the impact of these storms was partially reduced by our improved underlying technical performance with lower attritional losses in Global Corporate, resulting in the same level of loss ratio as in the same period in 2006, and in North America Commercial where the loss ratio improved by 1.9 percentage points. In Europe General Insurance the storms increased the loss ratio by 7.1 percentage points to 75.5 percent. In International Businesses the loss ratio increased slightly by 0.4 percentage points after absorbing weather-related losses in Indonesia and Australia. Net technical expenses increased by USD 392 million, or 8 percent, increasing the expense ratio by 0.8 percentage points primarily as a result of higher commission rates and of our continued investments in initiatives to improve our operating model.

Global Life highlights

in USD millions, for the nine months ended September 30	2007	2006	Change
Insurance deposits	8,424	7,460 ¹	13%
Gross written premiums and policy fees	6,942	7,312	(5%)
Net investment income on Group investments	3,163	3,078	3%
Insurance benefits and losses, net of reinsurance	1,553 ²	(6,336)	nm
Underwriting and policy acquisition costs, net of reinsurance	(1,115)	(1,086)	(3%)
Administrative and other operating expenses	(1,279)	(1,109)	(15%)
Business operating profit	1,090	853	28%
Embedded value – highlights			
New business annual premium equivalent (APE)	2,002	1,744	15%
Present value of new business premiums (PVNBP)	15,835	14,087	12%
New business margin, after tax (as % of APE)	24.0%	19.2%	4.8 pts
New business margin, after tax (as % of PVNBP)	3.0%	2.4%	0.6 pts
New business value, after tax	480	334	44%

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

² Includes a USD 7.0 billion initial impact from the transfer of the UK annuity business.

in USD millions, for the nine months ended September 30	Business operating profit		New business value, after tax	
	2007	2006	2007	2006
United States	253	164	80	45
United Kingdom	296	188	87	76
Germany	159	128	106	58
Switzerland	153	150	21	15
Rest of Europe	155	153	138	110
<i>of which: Ireland</i>	52	42	47	33
<i>of which: Isle of Man</i>	23	31	68	45
International Businesses	74	70	48	32
Total	1,090	853	480	334

Business operating profit increased by USD 237 million, or 28 percent, to USD 1.1 billion for the nine months ended September 30, 2007, with increases across most regions. The main drivers were the US with a benefit of USD 106 million related to the amortization of deferred policy acquisition costs recorded at the half year, the UK with a combination of lower insurance benefits and losses, improved performance in the Openwork distribution

channel and higher investment related income, and Germany with the continued realization of benefits from the optimization of the business model.

New business annual premium equivalent (APE) increased by USD 258 million, or 15 percent in US dollar terms, and 8 percent on a local currency basis. The growth in new business was driven by higher sales from Zurich International Solutions, our international expatriate business based in the Isle of Man, growth in Hong Kong and continued savings and pensions growth in Ireland.

New business value, after tax, increased by USD 146 million, or 44 percent in US dollar terms (37 percent on a local currency basis), which led to a 4.8 percentage point increase in new business margin, after tax, to 24.0 percent. The increase in new business value reflected the growth in new business sales in the Isle of Man, Hong Kong and Ireland, as well as margin improvements from the restructuring of our reinsurance program in the US, synergies following the merger of our life entities in Germany and the redesign of certain UK product features.

Farmers Management Services highlights

in USD millions, for the nine months ended September 30	2007	2006	Change
Management fees and other related revenues	1,679	1,589	6%
Net investment income and other income	197	113	74%
Management and other related expenses	(864)	(767)	(13%)
Business operating profit	1,005	936	7%
Gross operating margin	48.6%	51.8%	(3.2 pts)

Business operating profit increased by USD 69 million, or 7 percent, to USD 1.0 billion for the nine months ended September 30, 2007. Management fees and other related revenues increased by USD 90 million, or 6 percent, following a 5 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 97 million as a result of the increased volumes generated by the Exchanges, as well as continued investments in growth and IT-related initiatives. As a result, the gross operating margin decreased to 48.6 percent. The result benefited from increased net investment income and from an increase in other income, which was driven by gains on the sale of properties vacated as a result of the concentration of customer service into two ServicePoints.

Farmers Exchanges – highlights

in USD millions, for the nine months ended September 30	2007	2006	Change
Gross earned premiums	11,541	10,985	5%
Combined ratio	98.5%	96.0%	(2.5 pts)

Gross written premiums at the Farmers Exchanges, which we manage but do not own, increased by 5 percent, leading to a 5 percent increase in gross earned premiums, with all major lines of business contributing to the increase.

Other Businesses highlights

in USD millions, for the nine months ended September 30	2007	2006	Change
Business operating profit:			
Farmers Re	124	135	(8%)
Centre	191	164	16%
Centrally Managed Businesses	208	133	56%
Rest of Other Businesses	61	6	nm
Total business operating profit	585	438	34%

Farmers Re contributed USD 124 million to business operating profit reflecting the development of business with the Farmers Exchanges, which we manage but do not own. **Centre** business operating profit increased by USD 27 million due to continued profitable commutations and other run-off activity. **Centrally Managed Businesses**, which comprise portfolios that we proactively manage to achieve a profitable run-off, increased by USD 75 million, primarily as a result of gains on commutations and increases in net investment income. The rest of Other Businesses experienced lower insurance benefits and losses.

Corporate Functions highlights

in USD millions, for the nine months ended September 30	2007	2006	Change
Net investment income	533	481	11%
Interest expense on debt	(997)	(857)	(16%)
Business operating loss	(577)	(585)	1%
Headquarter expenses, after allocations to operating businesses and excluding foreign currency impacts	(79)	(119)	34%

Business operating loss improved by USD 8 million to USD 577 million for the nine months ended September 30, 2007. An increase of USD 52 million in net investment income partially offset an increase in interest expense on debt of USD 140 million due to increased net intercompany funding levels and the one-time costs associated with the early redemption of subordinated debt, which was replaced with lower cost hybrid debt.

Headquarter expenses decreased by USD 40 million as a result of lower gross expenses and higher allocations to the operating businesses.

Investment position and performance

Reflecting our outlook for the economy and the capital markets, our investment asset allocation changed to be slightly overweight in equity markets and continued its underweight stance to debt security credit exposure relative to our long-term strategic benchmark. Fixed maturity debt securities are invested in accordance with the profile of the liabilities to limit the overall economic interest rate exposure of the Group. Derivative instruments are primarily used to improve the management of interest rate risk and to provide equity downside protection in Life with-profit funds.

Breakdown of investments

in USD millions, as of

	Group investments		Unit-linked investments	
	09/30/07	12/31/06	09/30/07	12/31/06
Cash and cash equivalents	17,035	17,438	6,274	5,685
Equity securities:	19,421	18,339	98,427	90,666
Common stocks, including equity unit trusts	12,311	11,461	93,342	84,823
Unit trusts (debt securities, real estate and short-term investments)	3,763	3,014	5,085	5,842
Common stock portfolios backing participating with-profit policyholder contracts	1,382	1,604	–	–
Trading equity portfolios in capital markets and banking activities	1,966	2,260	–	–
Debt securities	121,042	126,435	9,435	8,922
Real estate held for investment	7,345	6,921	8,795	8,360
Mortgage loans	12,220	10,806	–	–
Policyholders' collateral and other loans	13,074	12,634	2	2
Investments in associates	154	153	–	–
Other investments	2,769	2,951	930	693
Total	193,060	195,676	123,862	114,327

Group investments have decreased by USD 2.6 billion to USD 193.1 billion since December 31, 2006, primarily driven by a decrease in debt securities following the sale of investments relating to our UK Life annuity business, which was reinsured in June 2007. This decrease in Group investments was largely mitigated by positive foreign currency effects.

Our investment policy remains conservative; investment grade securities comprise 99 percent of our debt securities, of which 63 percent are rated AAA. US sub-prime mortgage-backed securities comprise approximately 0.2 percent of Group investments, with the majority of the position being rated AAA. Movements on these securities and collateralized debt obligations, reflecting changes in market value, were negligible in the nine months ended September 30, 2007.

Performance of Group investments

in USD millions, for the nine months ended September 30	2007	2006	Change
Net investment income	6,383	5,849	9%
Net capital gains on investments and impairments	1,088	1,130	(4%)
Net investment result	7,471	6,979	7%
Net investment return on Group investments¹	3.9%	3.8%	0.1 pts
Movements in net unrealized gains/(losses) on investments included in total equity	(2,353)	(1,390)	(69%)
Total investment result, net of investment expenses²	5,119	5,589	(8%)
Average investments ³	191,506	183,273	4%
Total return on Group investments¹	2.7%	3.0%	(0.3 pts)

¹ Net investment and total return are not annualized.

² After deducting investment expenses of USD 178 million and USD 180 million for the nine months ended September 30, 2007 and 2006, respectively.

³ Excluding average cash received as collateral for securities lending of USD 2.9 billion and USD 4.4 billion in the nine months ended September 30, 2007 and 2006, respectively.

Total return (net of investment expenses) was 2.7 percent of average investments, driven by equity securities, which had a return of 6.2 percent. Debt securities, which are invested to match our liability profiles, returned 1.6 percent.

Total **net investment income** was USD 6.4 billion, arising mainly from debt securities, with a return of 3.5 percent. The total investment income return was 3.3 percent, an increase of 14 basis points compared with the same period in 2006. Rising interest rates and higher dividend income drove the USD 534 million increase, which was largely attributable to General Insurance.

Total **net capital gains on investments and impairments** were USD 1.1 billion, a decrease of USD 42 million compared with the prior year. Realized gains on sales of securities of USD 698 million were USD 50 million higher than prior year as a USD 309 million increase in gains on equity securities offset an increase of USD 268 million losses in debt securities. Net gains from market revaluations were USD 390 million, a decrease of USD 92 million over the prior year. Hedge funds, private equity investments and real estate were the main drivers, contributing USD 607 million. These increases offset losses on debt securities of USD 187 million due to higher interest rates. Impairments of USD 38 million for the nine months ended September 30, 2007, were primarily related to equity securities.

Net unrealized gains on debt securities decreased by USD 1.8 billion to a net loss of USD 1.7 billion as interest rates rose across major markets except in the US. Net unrealized gains on equity securities decreased by USD 531 million mainly due to the realization of USD 990 million of gains following sales in positive markets to maintain the desired asset allocation to equities.

Performance of unit-linked investments

in USD millions, for the nine months ended September 30	2007	2006	Change
Net investment income	2,518	1,836	37%
Net capital gains on investments	4,606	4,687	(2%)
Net investment result, net of investment expenses ¹	7,124	6,523	9%
Average investments	119,095	98,961	20%
Total return on unit-linked investments²	6.0%	6.6%	(0.6 pts)

¹ After deducting investment expenses of USD 377 million and USD 313 million for the nine months ended September 30, 2007 and 2006, respectively.

² Total return is not annualized.

Net investment income on **unit-linked investments** increased by 37 percent, primarily attributable to dividends on equity securities, including unit trusts, and a higher average invested asset base. Net capital gains on investments decreased by 2 percent as negative market revaluations on real estate held for investment in the UK and on debt securities offset gains on the sale of equity security unit trusts.

Insurance and investment contract liabilities

Reserves for losses and loss adjustment expenses

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	50,814	46,194	
Net losses and loss adjustment expenses incurred:			
Current period	17,454	15,927	10%
Prior years	(648)	(78)	nm
Total	16,807	15,849	6%
Total net losses and loss adjustment expenses paid	(14,347)	(14,012)	2%
Acquisitions/(divestments)	57	–	nm
Foreign currency translation effects	1,632	1,378	18%
As of September 30			
Net reserves for losses and loss adjustment expenses	54,963	49,409	
Reinsurers' share	13,512	13,714	
Gross reserves for losses and loss adjustment expenses	68,475	63,123	

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

As of September 30, 2007, net reserves for losses and loss adjustment expenses have increased by USD 4.1 billion, or 8 percent, to USD 55.0 billion since December 31, 2006. Net loss and loss adjustment expenses incurred in the current period increased due to foreign currency movements and higher catastrophe losses in 2007 compared with 2006. Favorable prior year development arose primarily from our General Insurance segment (USD 558 million) across a number of countries and lines of business.

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	18,984	66,008	55,691
Reinsurers' share	(1,485)	(1,305)	(3,258)	(3,504)	–	–
Net reserves	75,018	69,987	15,676	15,480	66,008	55,691
Premiums and claims	(12,142)	(3,540)	(672)	(710)	(1,147)	(446)
Interest and bonuses credited to policyholders	2,149	2,096	967	653	4,316	3,400
Change in assumptions	130	266	–	(1)	–	–
Acquisitions/(divestments)	–	(47)	–	–	–	–
Decreases recorded in shareholders' equity	(487)	(307)	(829)	(557)	–	–
Foreign currency translation effects	4,961	4,336	775	740	2,527	2,649
As of September 30						
Net reserves	69,631	72,792	15,917	15,605	71,704	61,295
Reinsurers' share	9,266	1,448	3,044	3,320	–	–
Gross reserves	78,897	74,239	18,961	18,925	71,704	61,295

Net future life policyholders' benefits have decreased by 7 percent, and by 13 percent after excluding the impact of currency translation, since December 31, 2006, primarily in the UK as a result of the reinsurance of a significant portion of our annuities business. The continued transfer of group life contracts to independent foundations in Switzerland also contributed to the decrease.

Net reserves for policyholders' contract deposits and other funds have increased by 2 percent since December 31, 2006. After excluding the impact of currency translation, the reserves decreased by 3 percent, reflecting outflows related to maturity of endowments in Germany.

Reserves for unit-linked contracts have increased by 9 percent, and by 4 percent after excluding the impact of currency translation, since December 31, 2006, primarily due to investment return credited to policyholders as a result of equity market appreciation, particularly in the UK and Germany.

Liabilities for investment contracts

in USD millions	2007	2006
As of January 1	50,705	40,999
Premiums and claims	(1,731)	(1,001)
Interest and bonuses credited to policyholders	3,119	2,802
Acquisitions/(divestments)	–	(3)
Decreases recorded in shareholders' equity	(24)	(26)
Foreign currency translation effects	2,957	3,197
As of September 30	55,027	45,969

Liabilities for investment contracts, with and without discretionary participation features, increased by 9 percent, and by 3 percent after excluding the impact of currency translation, primarily due to investment return credited to policyholders following equity market appreciation in the UK.

Capitalization and indebtedness

in USD millions, as of	09/30/07	12/31/06	Change
Collateralized loans	2,344	2,426	(3%)
Debt related to capital markets and banking activities	1,416	1,889	(25%)
Obligation to repurchase securities	5,802	6,144	(6%)
Total operational debt	9,562	10,459	(9%)
Senior debt	2,810	2,906	(3%)
Subordinated debt	5,465	4,808	14%
Total financial debt ¹	8,275	7,713	7%
Shareholders' equity	28,396	25,587	11%
Minority interests	380	517	(26%)
Total equity	28,777	26,105	10%
Total financial debt and equity	37,052	33,818	10%

¹ Financial debt includes USD 100 million of non-recourse borrowings, as of September 30, 2007, and December 31, 2006, directly related to leveraged real estate held for investment.

Total operational debt decreased by 9 percent from December 31, 2006 to September 30, 2007. The 3 percent decrease in our collateralized loans balance resulted from maturities of the mortgage loans securing them. Debt related to capital markets and banking activities decreased by 25 percent as a result of the maturity of a number of loans. Our obligation to repurchase securities decreased by 6 percent due to reduced repo activities in our UK Life business.

On May 9, 2007, ZFS Finance (USA) Trust IV and ZFS Finance (USA) Trust V issued 5.875% USD 500 million of Series IV and 6.5% USD 1 billion of Series V Fixed / Floating Rate Trust Preferred Securities. Part of the proceeds was used to redeem USD 1 billion of 8.376% Capital Securities early at a redemption price of 104.188%, resulting in a pre-tax charge to income of USD 52 million.

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 3.9 billion had been issued as of September 30, 2007.

The Group has access to a syndicated revolving credit facility of USD 3 billion that terminates in 2012. 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, 2007.

Dunbar Bank has access to various committed credit facilities totaling GBP 425 million. No borrowings were outstanding under these facilities as of September 30, 2007.

Zurich Bank has access to various committed credit facilities totaling GBP 255 million. No borrowings were outstanding under these facilities as of September 30, 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	26,105
Issuance of share capital	141	–	141
Dividends	(1,325)	(8)	(1,334)
Share-based payment transactions	3	–	3
Treasury share transactions	51	–	51
Share buyback program	(1,025)	–	(1,025)
Total recognized income and expense, net of tax	4,965	69	5,034
Net changes in capitalization and minority interests	–	(197)	(197)
As of September 30, 2007	28,396	380	28,777

Total equity increased by USD 2.7 billion compared with December 31, 2006. Total recognized income and expense, net of tax, contributed USD 5.0 billion to total equity, which was partially offset by the dividends paid to shareholders in April and by the impact of our share buyback program completed during the first half of 2007.

In May 2007 we listed 3,242,444 shares of contingent capital on the SWX Swiss Exchange to fulfill obligations under employee share and option plans.

Proceeds from shares issued as of September 30, 2007 totaled USD 141 million.

In the Half Year Report 2007, we announced that we had completed the share buyback program. A proposal to cancel these repurchased shares will be submitted to shareholders at the Annual General Meeting in 2008. As of September 30, 2007, the number of treasury shares deducted from equity was 3,468,338, which comprised shares repurchased under the buyback program and shares held to cover employee share and option plans.

The total recognized income and expense included net income of USD 4.2 billion and changes in net unrealized gains/losses on investments (negative USD 715 million), actuarial gains/losses (positive USD 784 million) and the cumulative translation adjustments (positive USD 719 million).

Cash flows

Summary of cash flows

in USD millions, for the nine months ended September 30	2007	2006
Net cash provided by/(used in) operating activities	5,155	(637)
Net cash used in investing activities	(526)	(39)
Net cash used in financing activities	(3,265)	(1,898)
Foreign currency translation effects on cash and cash equivalents	738	1,039
Cash and cash equivalents as of September 30 excluding cash received as collateral for securities lending	21,404	17,376
Change in cash received as collateral for securities lending	(1,915)	(412)
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 September 30, including cash received as collateral for securities lending	23,308	21,535

All segments contributed to the USD 5.2 billion net cash provided by operating activities for the nine months ended September 30, 2007. Net cash used in investing activities was USD 526 million, an increase compared with the same period in 2006 due to the acquisitions in 2007. Net cash used in financing activities of USD 3.3 billion compared with USD 1.9 billion in the previous year predominantly arose from dividend payments and our share buyback program in the first half of 2007. A net positive contribution resulted from the issuance of hybrid debt in May 2007 as it exceeded the impact of the early redemption of subordinated debt.

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 nine months ended September 30, 2007	
	in USD millions	in %
Gross written premiums and policy fees	1,339	4%
Insurance benefits and losses, gross of reinsurance	(1,130)	(4%)
Net income attributable to shareholders	118	4%

Selected balance sheet items	variance over December 31, 2006, as of September 30, 2007	
	in USD millions	in %
Total investments	13,733	4%
Reserves for insurance contracts, gross	10,767	4%
Cumulative translation adjustment in total equity	719	2%

The income statements are translated at average exchange rates where the weakening of the US dollar during the nine months ended September 30, 2007, compared with the same period in the prior year, resulted in an increase to most line items.

The balance sheets are translated at end-of-period rates. The weakness of the US dollar as of September 30, 2007, compared with December 31, 2006, resulted in an increase in most balance sheet positions.

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 US state attorneys general and state insurance regulators in connection with investigations in the US 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 US, 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. Zurich Financial Services and the class-action plaintiffs have entered into an agreement to settle all claims against the company for USD 30 million, subject to court approval. The US federal court presiding over the litigation preliminarily approved the proposed settlement on September 4, 2007. The court will hold a final hearing on the proposed settlement in 2008.

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.