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 2007. Comparatives are for the three months ended March 31, 2007, or as of December 31, 2007, unless otherwise specified. Certain comparatives have been restated as a result of a change in accounting policy. We have also changed the computation of return on common shareholders' equity and business operating profit (after tax) return on common shareholders' equity from a compound to a linear basis with comparatives consequently adjusted.

Financial highlights

in USD millions, for the three months ended March 31, unless otherwise stated	2008	2007	Change [1]
Business operating profit	**1,764**	1,741	1%
Net income attributable to shareholders	**1,427**	1,390	3%
General Insurance gross written premiums and policy fees	**11,191**	10,216	10%
Global Life gross written premiums, policy fees and insurance deposits	**5,398**	5,239	3%
Farmers Management Services management fees and other related revenues	**589**	542	9%
General Insurance business operating profit	**1,189**	1,135	5%
General Insurance combined ratio	**94.6%**	93.3%	(1.3 pts)
Global Life business operating profit	**337**	317	6%
Global Life new business annual premium equivalent (APE)	**722**	628	15%
Global Life new business margin, after tax (as % of APE)	**22.2%**	23.2%	(1.0 pts)
Global Life new business value, after tax	**160**	146	10%
Farmers Management Services gross management result	**281**	260	8%
Farmers Management Services business operating profit	**300**	330	(9%)
Farmers Management Services managed gross earned premium margin	**7.0%**	6.9%	0.1 pts
Group investments average invested assets	**196,165**	192,097	2%
Group investments result, net	**2,173**	2,368	(8%)
Group investments return (as % of average invested assets)	**1.1%**	1.2%	(0.1 pts)
Shareholders' equity [2]	**29,378**	28,945	1%
Diluted earnings per share (in USD)	**10.05**	9.43	7%
Diluted earnings per share (in CHF)	**10.75**	11.62	(8%)
Return on common shareholders' equity (ROE)	**19.9%**	21.6%	(1.7 pts)
Business operating profit (after tax) return on common shareholders' equity	**18.6%**	19.9%	(1.3 pts)

[1] Parentheses around numbers represent an adverse variance.
[2] As of March 31, 2008 and December 31, 2007, respectively.

Performance overview

Business operating profit increased by 1 percent to USD 1.8 billion demonstrating the sustainability of the business model of our core operating segments in challenging market conditions.

- **General Insurance business operating profit** increased by USD 54 million, or 5 percent, to USD 1.2 billion. This performance reflects the strength of our diversified portfolio in an environment that continues to be competitive.

- **Global Life business operating profit** increased by USD 20 million, or 6 percent, to USD 337 million, reflecting a strong performance in the current challenging economic environment. **New business value, after tax,** increased by 10 percent, primarily as a result of increased volumes in Germany and in emerging markets.

- **Farmers Management Services business operating profit** decreased by USD 30 million to USD 300 million resulting from lower net other income items, with the underlying business increasing by 8 percent, benefiting from a combination of organic and inorganic growth of the Farmers Exchanges, which we manage but do not own. The decrease in net other income items reflects a reduction in net investment income following dividends paid to the Group and one-time gains of USD 28 million realized on the sale of own-use properties in 2007.

Other Businesses business operating profit decreased by USD 111 million to USD 38 million primarily resulting from the impact of adverse equity markets affecting both Group investments classified as "fair value through profit or loss" and insurance liabilities, and from lower levels of run-off transactions. The **Corporate Functions** result improved by USD 91 million following improved net headquarter revenues and higher gains on foreign currency transactions.

Net income attributable to shareholders increased by USD 37 million, or 3 percent, to USD 1.4 billion. The **shareholders' effective tax rate** was 24.5 percent compared with 24.7 percent previously reported for the year ended December 31, 2007, and 24.4 percent for the year ended December 31, 2007, allowing for the aforementioned restatement.

Business volumes in our core operating segments developed as follows:

- **General Insurance** gross written premiums and policy fees increased by 10 percent in US dollar terms, while increasing by 2 percent on a local currency basis. We maintained underwriting discipline while capitalizing on attractive opportunities in line with our strategy of further diversifying our businesses through growth focused on personal and small business lines, as well as key emerging markets.

- **Global Life** insurance deposits increased by 14 percent in US dollar terms, and by 8 percent on a local currency basis, while gross written premiums and policy fees decreased by 8 percent in US dollar terms, and by 19 percent on a local currency basis. These movements reflect the continued 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, driven by increases in Germany and emerging markets.

- **Farmers Management Services** management fees and other related revenues increased by 9 percent, reflecting the underlying increase in the gross earned premiums of 6 percent in the Farmers Exchanges, which we manage but do not own, as a result of targeted investments and product enhancements.

As a consequence of the USD 3.1 billion increase in average common shareholders' equity compared with the three months ended March 31, 2007, **return on common shareholders' equity** decreased by 1.7 percentage points to 19.9 percent, and **business operating profit (after tax) return on common shareholders' equity** decreased by 1.3 percentage points to 18.6 percent.

Diluted earnings per share decreased by CHF 0.87, or 8 percent, to CHF 10.75 for the three months ended March 31, 2008, compared with CHF 11.62 for the same period in 2007, reflecting the weakening of the dollar against the Swiss franc. The corresponding diluted earnings per share movement in US dollars was an increase of USD 0.62, or 7 percent, to USD 10.05.

Basis of current and future presentation and comparability

Changes in accounting policies in 2008

We have changed the accounting policy for the three run-off blocks of disability business at Centre, included in Other Businesses, by exercising the option in IFRS 4 to remeasure designated insurance liabilities at current financial and non-financial assumptions. All financial assets related to these insurance liabilities are designated as "at fair value through profit or loss." We consider this to be a better reflection of the way we manage these blocks of business.

As a consequence of this change in accounting policy, prior year figures have been restated to ensure comparability.

in USD millions	As reported	Amount of restatement	As restated
as of December 31, 2007			
Total equity	29,177	141 [1]	29,318
Reserves for insurance contracts	252,886	(146)	252,740
Reinsurers' share of reserves for insurance contracts	26,977	(7)	26,970
Deferred tax assets	1,678	4	1,682
Deferred tax liabilities	4,055	2	4,057
for the three months ended March 31, 2007			
Net income attributable to shareholders	1,387	3	1,390
Business operating profit	1,737	4	1,741

[1] Of the USD 141 million restatement of total equity, USD 85 million relates to 2007, and USD 56 million relates to 2006 and prior years.

Changes in the scope of consolidation

On March 31, 2008, the Group completed the acquisition from TEB Mali Yatirimlar A.Ş. (TEB Mali) of 100 percent of the outstanding share capital of TEB Sigorta A.Ş. (TEB Sigorta), a general insurer based in Turkey, for USD 363 million. TEB Sigorta will maintain distribution arrangements with various TEB Mali subsidiaries for the distribution of general insurance products on an exclusive basis. The Group is currently in the process of preparing the initial accounting and, therefore, as of March 31, 2008, the transaction was recorded as an unconsolidated investment in other assets.

Significant transactions and events

On December, 17, 2007, the Group announced it had signed an agreement to acquire 100 percent of the Italian life insurer DWS Vita SpA for approximately USD 140 million. This transaction is expected to close in the second quarter of 2008, subject to approval by the relevant regulatory authorities.

On March 5, 2008, the Group announced that it had entered into an agreement in principle to convey the rights to access renewals of its North America Commercial Small Business Solutions (SBS) book of business to Truck Insurance Exchange, one of the Farmers Exchanges, which the Group manages but does not own. In addition, the management of the in force SBS book of business will transfer to Farmers Group, Inc. Subject to approval by the relevant insurance regulatory authorities and agreement on final terms and conditions, these transactions are expected to close in the second quarter of 2008.

On March 31, 2008, the Group announced that it had signed an agreement to acquire 50 percent of Can Soluciones Integrales S.A. (Can Soluciones) from Caja de Ahorros y Monte de Piedad de Navarra (Caja Navarra). The initial purchase price will be approximately USD 71 million with an earn-out component of up to approximately USD 63 million depending on the future performance of Can Soluciones, which operates in Spain. As part of the agreement, the jointly-owned company will enter into an exclusive agreement with Caja Navarra for the distribution of general insurance products. The transaction is subject to approval by the relevant regulatory authorities.

On April 24, 2008, the Group announced that it had signed agreements with Caixa d'Estalvis de Sabadell (Caixa Sabadell) to acquire 50 percent of its life and general insurance companies, CaixaSabadell Vida, S.A. de Seguros y Reaseguros (CSV), and CaixaSabadell Companyia d'Assegurances Generals, S.A. (CSG). The initial purchase price will be approximately USD 360 million with an earn-out component of up to approximately USD 150 million depending on the future performance of CSV and CSG, which operate in Spain. As part of the agreement, CSV and CSG will enter into banc-assurance agreements with Caixa Sabadell group companies to sell life insurance, pension and general insurance products through Caixa Sabadell's branch network on an exclusive basis. The transaction is subject to approval by the relevant regulatory authorities.

Shareholder distributions and share buybacks

On April 3, 2008, the Annual General Meeting approved a gross dividend of CHF 15.00 per share, representing a 36 percent increase over the 2007 total gross dividend to shareholders of CHF 11.00. The net dividend of CHF 9.75 per share was paid from April 8, 2008. The dividend will be recognized through shareholders' equity in the second quarter of 2008.

On February 14, 2008, the Board of Zurich Financial Services authorized a share buyback program for the repurchase of CHF 2.2 billion worth of shares over the course of 2008. As of March 31, 2008, 1,000,000 shares had been repurchased, reducing total equity by USD 319 million. A proposal to cancel the shares repurchased under the 2008 buyback program is expected to be submitted to the shareholders at the Annual General Meeting in 2009.

On April 3, 2008, the cancellation of the 3,432,500 shares with a nominal value of CHF 0.10 repurchased through our share buyback program in 2007, was approved by the Annual General Meeting.

General Insurance

in USD millions, for the three months ended March 31	2008	2007	Change
Gross written premiums and policy fees	11,191	10,216	10%
Net earned premiums and policy fees	7,926	7,153	11%
Insurance benefits and losses, net of reinsurance	(5,542)	(4,966)	(12%)
Net underwriting result	427	476	(10%)
Net investment income	931	854	9%
Business operating profit	**1,189**	**1,135**	**5%**
Loss ratio	69.9%	69.4%	(0.5 pts)
Expense ratio	24.7%	23.9%	(0.8 pts)
Combined ratio	**94.6%**	**93.3%**	**(1.3 pts)**

in USD millions, for the three months ended March 31	Business operating profit		Combined ratio	
	2008	2007	2008	2007
Global Corporate	202	210	97.5%	92.8%
North America Commercial	338	386	95.8%	91.9%
Europe General Insurance	567	478	92.7%	93.5%
International Businesses	19	26	100.7%	100.6%
Group Reinsurance	63	36	nm	nm
Total	1,189	1,135	94.6%	93.3%

Business operating profit increased by 5 percent in US dollar terms to USD 1.2 billion, and decreased by 1 percent on a local currency basis for the three months ended March 31, 2008. A decrease in the net underwriting result was compensated by an improvement in the net investment income as a result of a higher average invested asset base.

Gross written premiums and policy fees increased by USD 975 million, or 10 percent in US dollar terms, and by 2 percent on a local currency basis. This growth was achieved in line with our strategy to target organic and inorganic profitable growth focusing on personal and small business lines, as well as on key emerging markets. Of the 2 percent increase, 1.5 percent was driven by acquisitions executed in 2007, mainly in Europe General Insurance.

Excluding this impact, we saw organic growth of 0.5 percent. In Europe General Insurance, improved renewal rates and higher new business in selected markets drove an increase in gross written premium levels. In North America Commercial, rates declined, and the environment remained highly competitive; however, North America Commercial managed to keep prior year levels by successfully applying their market segmentation techniques to identify profitable growth opportunities while proactively reducing their exposure to segments with lower profitability. Global Corporate remained relatively stable as a result of overall strong retention levels and improved new business levels in Europe, where rates were more stable, both compensating for decreasing rates in the US and lower volumes. International Businesses gross written premiums and policy fees increased driven by a positive rate environment in South Africa and continued growth in Latin America.

The **net underwriting result** decreased by USD 49 million, or 10 percent, to USD 427 million, reflected in the 1.3 percentage point increase in the combined ratio to 94.6 percent. Net earned premiums and policy fees increased following higher gross written premiums and policy fees, as well as reduced levels of cessions to reinsurers implemented since 2007, in the light of the strength our balance sheet. We saw comparatively higher levels of larger and weather-related losses, as well as higher commission levels, both driving the increase in our combined ratio.

The **loss ratio** increased by 0.5 percentage points to 69.9 percent as a result of increased large loss levels, lower levels of externally reported catastrophes and an overall positive development emerging from reserves established in prior years. In Europe General Insurance, there was an improvement of 2.7 percentage points primarily as a result of the absence of significant weather losses in 2008 compared with the losses arising from Winter storm Kyrill in 2007. This improvement was counterbalanced by the higher incidence of large losses affecting the loss ratio, some of which were weather-related, in Global Corporate, up 3.7 percentage points mostly in North

America, in North America Commercial, up 3.5 percentage points, and in International Businesses, up 2.4 percentage points, compared with the relatively benign experience in all of these businesses in the first three months of 2007. The **expense ratio** increased overall by 0.8 percentage points to 24.7 percent. This increase results from higher commissions as we maintain our focus on profitable lines of business and from our continued investment in growth and operational transformation.

Global Life

in USD millions, for the three months ended March 31	**2008**	2007	Change
Insurance deposits	3,027	2,656	14%
Gross written premiums and policy fees	2,371	2,583	(8%)
Net investment income on Group investments	1,082	1,061	2%
Insurance benefits and losses, net of reinsurance	(2,205)	(2,096)	(5%)
Underwriting and policy acquisition costs, net of reinsurance	(482)	(410)	(18%)
Administrative and other operating expenses	(446)	(405)	(10%)
Business operating profit	**337**	**317**	**6%**
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts [1]	191,606	191,117	–
Embedded value – highlights			
New business annual premium equivalent (APE)	**722**	**628**	**15%**
Present value of new business premiums (PVNBP)	5,857	5,078	15%
New business margin, after tax (as % of APE)	**22.2%**	**23.2%**	**(1.0 pts)**
New business margin, after tax (as % of PVNBP)	2.7%	2.9%	(0.2 pts)
New business value, after tax	**160**	**146**	**10%**

[1] As of March 31, 2008 and December 31, 2007, respectively, the details of which are shown on page 13.

During the three months ended March 31, 2008, Global Life faced challenging market conditions in its core markets from falling and volatile equity markets and from consumer uncertainties resulting from the global credit squeeze.

Business operating profit increased by USD 20 million to USD 337 million, an increase of 6 percent in US dollar terms, but a decrease of 2 percent on a local currency basis. Falling asset values, particularly in the UK, reduced asset-based fees and accelerated amortization of deferred acquisition costs. This negative impact was partially offset by growth in Germany.

Insurance deposits increased by 14 percent in US dollar terms, and by 8 percent on a local currency basis, while **gross written premiums and policy fees** decreased by 8 percent in US dollar terms, and by 19 percent on a local currency basis. This development reflects our continued focus on unit-linked products that provide choices for customers based on their needs and risk attitudes.

Net reserves remained flat in US dollar terms, but after excluding the impact of foreign currency translation, decreased by 4 percent since December 31, 2007. The decrease is primarily due to the reduction in the value of policyholders' unit-linked insurance and investment contracts as a result of equity market decreases during the three months ended March 31, 2008.

in USD millions, for the three months ended March 31	New business annual premium equivalent (APE)		New business value, after tax		New business margin, after tax (as % of APE)		Business operating profit	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
United States	24	29	19	28	82.6%	96.9%	53	51
United Kingdom	183	194	16	20	8.9%	10.1%	85	89
Germany	183	104	53	28	28.7%	26.5%	66	54
Switzerland	34	29	14	11	40.8%	38.5%	57	49
Ireland	75	69	15	17	20.4%	23.8%	6	15
Emerging markets	166	140	37	32	22.3%	23.0%	25	22
Rest of the world	58	62	6	10	10.6%	16.8%	45	38
Total	722	628	160	146	22.2%	23.2%	337	317

New business annual premium equivalent (APE) increased by USD 94 million, or 15 percent in US dollar terms, and by 8 percent on a local currency basis despite challenging market conditions. This increase was primarily driven by pension business in Germany and continued growth in emerging markets.

New business value, after tax, increased by USD 14 million to USD 160 million primarily as a result of the increased pension business volumes in Germany and growth in emerging markets, partially offset by lower volumes and reduced margins in the US and the UK, reflected in the overall decrease in **new business margin, after tax,** of 1.0 percentage points to 22.2 percent.

Farmers Management Services

in USD millions, for the three months ended March 31	2008	2007	Change
Management fees and other related revenues	589	542	9%
Management and other related expenses	(308)	(282)	(9%)
Gross management result	281	260	8%
Other net income	19	70	(73%)
Business operating profit	**300**	**330**	**(9%)**
Managed gross earned premium margin	7.0%	6.9%	0.1 pts

Business operating profit decreased by USD 30 million to USD 300 million. An increased contribution from the underlying operations was more than offset by a decrease in other net income as gains of USD 28 million on the sale of property related to the concentration of customer service activities into two ServicePoints were recognized in 2007, but not repeated in 2008. Additionally, net investment income decreased by USD 19 million as a result of a lower average invested asset base following dividends and cash transfers paid to the Group in November 2007, and the sale of debt securities for the acquisition of Bristol West.

Management fees and other related revenues increased by USD 47 million, primarily driven by the 6 percent increase in gross earned premiums at the Farmers Exchanges, which we manage but do not own. Bristol West, which was acquired in July 2007, contributed USD 35 million to the increase in management fees and other related revenues. Management and other related expenses increased by USD 26 million, including USD 23 million related to Bristol West. The overall improvement in the gross management result of USD 21 million is reflected in the increase of 0.1 percentage points to 7.0 percent in the managed gross earned premium margin.

Farmers Exchanges

in USD millions, for the three months ended March 31	2008	2007	Change
Gross written premiums	4,027	3,811	6%
Gross earned premiums	3,987	3,745	6%

Gross earned premiums in the Farmers Exchanges increased by USD 242 million, of which USD 168 million related to Bristol West.

Other Businesses

in USD millions, for the three months ended March 31	2008	2007	Change
Business operating profit:			
Farmers Re	31	44	(30%)
Centre	(12)	35	nm
Centrally Managed Businesses	(18)	65	nm
Rest of Other Businesses	36	5	nm
Total business operating profit	**38**	**149**	**(74%)**

Farmers Re business operating profit decreased by USD 13 million to USD 31 million reflecting lower cession levels from the Farmers Exchanges and an increase in weather-related losses. The result in **Centre** decreased by USD 47 million to a business operating loss of USD 12 million due to comparatively high levels of profitable run-off transactions in the prior year. **Centrally Managed Businesses**, which largely comprise portfolios that we proactively manage to achieve a profitable run-off over time, decreased by USD 83 million to a business operating loss of USD 18 million, primarily driven by the impact of adverse equity market movements on Group investments and certain insurance liabilities which are sensitive to equity market developments. The **Rest of Other Businesses** increased by USD 31 million following an improved result in Banking and certain run-off positions carried at Group-level.

Corporate Functions

in USD millions, for the three months ended March 31	2008	2007	Change
Net investment income	154	167	(8%)
Interest expense on debt	(291)	(300)	3%
Business operating loss	**(100)**	**(191)**	**48%**
Headquarter revenues/(expenses), after allocations to operating businesses and excluding foreign currency impacts	37	(4)	nm

Business operating loss improved by USD 91 million to a loss of USD 100 million for the three months ended March 31, 2008, primarily driven by a USD 60 million increase in gains on foreign currency transactions, and increased net headquarter revenues.

Net headquarter revenues improved by USD 41 million to USD 37 million primarily driven by higher allocations to the operating businesses.

Investment position and performance

Reflecting our outlook for the economy and capital markets, our equity allocation during the first quarter of 2008 was close to neutral, and we continued our underweight stance to debt security 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	
	03/31/08	12/31/07	**03/31/08**	12/31/07
Cash and cash equivalents	15,678	13,943	4,348	2,993
Equity securities:	18,907	18,589	91,817	100,178
Common stocks, including equity unit trusts	12,215	12,418	82,371	90,593
Unit trusts (debt securities, real estate and short-term investments)	4,027	3,291	9,446	9,585
Common stock portfolios backing participating with-profit policyholder contracts	1,153	1,274	–	–
Trading equity portfolios in capital markets and banking activities	1,511	1,606	–	–
Debt securities	127,974	123,762	10,305	10,112
Real estate held for investment	8,416	7,563	7,242	7,823
Mortgage loans	13,991	12,718	–	–
Policyholders' collateral and other loans	13,701	12,936	2	2
Investments in associates	234	238	–	–
Other investments	3,686	3,851	1,209	985
Total	202,586	193,600	114,922	122,092

Group investments have increased by USD 9.0 billion to USD 202.6 billion since December 31, 2007. After excluding the effect of foreign currency translation, Group investments decreased by 1 percent. This was primarily driven by Global Life and was consistent with the development of other life insurance liabilities.

Unit-linked investments decreased by USD 7.2 billion to USD 114.9 billion since December 31, 2007. After excluding the effect of foreign currency translation, unit-linked investments decreased by 7 percent, primarily as a result of lower equity valuations following adverse market movements.

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 0.1 percent of Group investments, with 78 percent of these securities rated AAA, and only USD 1 million of impairments recognized in the current period.

Performance of Group investments

in USD millions, for the three months ended March 31	2008	2007	Change
Net investment income	2,163	2,062	5%
Net capital gains on investments and impairments	10	305	(97%)
of which: net capital gains on investments and impairments attributable to shareholders	14	149	(91%)
Net investment result	2,173	2,368	(8%)
Net investment return on Group investments [1]	**1.1%**	**1.2%**	**(0.1 pts)**
Movements in net unrealized gains/(losses) on investments included in total equity	(1,579)	(541)	(192%)
Total investment result, net of investment expenses [2]	**594**	**1,827**	**(67%)**
Average investments [3]	196,165	192,097	2%
Total return on Group investments [1]	**0.3%**	**1.0%**	**(0.7 pts)**

[1] Net investment and total return are not annualized.
[2] After deducting investment expenses of USD 64 million and USD 65 million for the three months ended March 31, 2008 and 2007, respectively.
[3] Excluding average cash received as collateral for securities lending of USD 1.9 billion and USD 3.9 billion in the three months ended March 31, 2008 and 2007, respectively.

Total return (net of investment expenses) was 0.3 percent on average Group investments. Debt securities, which are invested to match our liability profiles, returned 1.1 percent while other investments returned 2.0 percent. Equity securities had a negative return of 9.2 percent, largely as a result of the change in unrealized capital gains as all major markets declined.

Total **net investment income** was USD 2.2 billion, with a return of 1.1 percent, an increase of 3 basis points compared with 2007. This increase in return arose mainly from debt securities, with an increase of 4 basis points to 1.2 percent. Overall, net investment income increased by USD 101 million in US dollar terms, but decreased by USD 44 million on a local currency basis, driven by a lower average invested asset base as a result of the transfer of investments relating to our UK Life annuity business, which was reinsured in June 2007, and the continued shift in our life business to unit-linked products and the related unit-linked investments.

Total **net capital gains on investments and impairments** were USD 10 million, which included gains of USD 18 million arising from the sale of investments and impairments of USD 235 million, mainly USD 144 million attributable to debt securities and USD 86 million attributable to equity securities, as well as positive market revaluations of USD 227 million, primarily related to derivatives hedging equity positions in certain with-profits businesses.

Net unrealized losses included in total equity have increased by USD 1.6 billion since December 31, 2007, due to the USD 1.6 billion decrease in net unrealized gains on equity securities as a result of declines in major global equity markets. Net unrealized losses on debt securities were broadly flat as decreases in interest rates in all major markets were offset by the widening credit spreads.

Performance of unit-linked investments

in USD millions, for the three months ended March 31	2008	2007	Change
Net investment income	1,144	794	44%
Net capital (losses)/gains on investments and impairments	(10,152)	1,403	(824%)
Net investment result, net of investment expenses [1]	(9,008)	2,198	(510%)
Average investments	118,507	115,447	3%
Total return on unit-linked investments [2]	**(7.6%)**	**1.9%**	**(9.5 pts)**

[1] After deducting investment expenses of USD 149 million and USD 109 million for the ended March 31, 2008 and 2007, respectively.
[2] Total return is not annualized.

Net investment income on **unit-linked investments** increased by USD 350 million, or 44 percent, primarily attributable to dividend income on equity securities in the US. Net capital gains on investments decreased by USD 11.6 billion to net losses of USD 10.2 billion, as a result of adverse market conditions primarily affecting the UK and Ireland.

Insurance and investment contract liabilities

Reserves for losses and loss adjustment expenses

in USD millions	2008	2007
As of January 1		
Gross reserves for losses and loss adjustment expenses	67,890	64,535
Reinsurers' share	(13,179)	(13,722)
Net reserves for losses and loss adjustment expenses	54,712	50,814
Net losses and loss adjustment expenses incurred	5,818	5,278
Current year	6,123	5,438
Prior years	(305)	(160)
Total net losses and loss adjustment expenses paid	(5,398)	(4,825)
Foreign currency translation effects	1,521	239
As of March 31		
Net reserves for losses and loss adjustment expenses	**56,652**	**51,505**
Reinsurers' share	12,990	13,398
Gross reserves for losses and loss adjustment expenses	69,642	64,904

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

As of March 31, 2008, net reserves for losses and loss adjustment expenses increased by USD 1.9 billion to USD 56.7 billion compared with USD 54.7 billion as of December 31, 2007. The primary driver of this increase was foreign currency translation effects of USD 1.5 billion. Excluding these effects, the increase of net reserves was USD 420 million, in line with the growth in our business.

Reserves for life insurance contracts and liabilities for investment contracts

The majority of the Group's reserves for life insurance contracts and liabilities for investment contracts are attributable to Global Life. Life insurance reserves in other segments relate predominately to companies that are in run-off or are centrally managed, and are only included in this first table.

Group reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts

in USD millions	Global Life	Other segments	Total Group
Net reserves as of January 1, 2008	191,117	20,043	211,160
Movements in net reserves	489	(503)	(14)
Net reserves as of March 31, 2008	191,606	19,540	211,146

The following provides further detail on the development and composition of reserves and liabilities in our **Global Life** business.

Global Life – Development of reserves and liabilities

in USD millions	Unit-linked insurance and investment contracts [1]		Other life insurance liabilities [2]		Total reserves and liabilites	
	2008	2007	**2008**	2007	**2008**	2007
As of January 1						
Gross reserves	109,072	101,330	91,596	87,949	200,668	189,278
Reinsurers' share	–	–	(9,551)	(1,753)	(9,551)	(1,753)
Net reserves	109,072	101,330	82,044	86,196	191,117	187,525
Premiums and claims	(403)	(450)	(1,080)	(3,341)	(1,483)	(3,792)
Interest and bonuses credited to policyholders	(7,604)	2,040	1,032	1,197	(6,572)	3,237
Change in assumptions	–	(26)	(15)	21	(15)	(5)
Divestments	–	(1)	–	–	–	(1)
Decreases recorded in shareholders' equity	5	(5)	(403)	(393)	(398)	(398)
Foreign currency translation effects	2,257	689	6,700	668	8,956	1,357
As of March 31						
Net reserves	**103,328**	**103,576**	**88,278**	**84,347**	**191,606**	**187,923**
Reinsurers' share	–	–	9,716	1,762	9,716	1,762
Gross reserves	103,328	103,576	97,994	86,109	201,322	189,685

[1] Includes reserves for unit-linked contracts and liabilities for investment contracts, the net amounts of which were USD 51.3 billion and USD 51.5 billion, and USD 52.0 billion and USD 52.0 billion as of March 31, 2008 and 2007, respectively.
[2] Includes reserves for future life policyholders' benefits and policyholders' contract deposits and other funds, the net amounts of which were USD 73.6 billion and USD 70.3 billion, and USD 14.7 billion and USD 14.1 billion as of March 31, 2008 and 2007, respectively.

Since December 31, 2007, **unit-linked insurance and investment contract liabilities**, net of reinsurance, have decreased by 5 percent, and by 7 percent after excluding foreign currency translation effects. The decrease includes the reduction in the value of policyholders' investments as a result of decreases in equity markets during the three months ended March 31, 2008, which was included in interest and bonuses credited to policyholders of negative USD 7.6 billion. The excess of claims over premiums of USD 403 million, in line with 2007, was driven by the maturing UK pension portfolio, partially offset by growth in Germany, Ireland and emerging markets.

Since December 31, 2007, **other life insurance liabilities**, net of reinsurance, increased by 8 percent, and decreased by 1 percent after excluding foreign currency translation effects. The decrease was mainly due to the excess of claims over premiums driven by maturities of traditional life policies in Germany and Switzerland and lower premiums as we focus on unit-linked business.

Indebtedness and capitalization

in USD millions, as of	03/31/08	12/31/07	Change
Total operational debt	8,773	8,578	2%
Total financial debt	8,691	8,999	(3%)
Total debt	17,464	17,576	(1%)

Total debt decreased by 1 percent. Operational debt increased by USD 195 million, in line with the activities in the banking business. Financial debt decreased by USD 308 million. On March 27, 2008, we repurchased USD 81 million of Series III Floating Rate USD 400 million ECAPS included in financial debt due December 2065, recognizing a pre-tax gain of USD 18 million. Debt related to capital markets included in financial debt decreased as we took advantage of our strong liquidity to repay loans and reduce our financing costs.

in USD millions	Shareholders' equity	Minority interests	Total equity
As of December 31, 2007, as previously reported	28,804	374	29,177
Adjustment arising from a change in accounting policy	141	–	141
As of December 31, 2007, as restated	**28,945**	**374**	**29,318**
Issuance of share capital [1]	1	–	1
Dividends	(11)	(7)	(17)
Share-based payment transactions	29	–	29
Treasury share transactions	(299)	–	(299)
Total recognized income, net of tax	713	13	725
Net income after taxes	*1,427*	*9*	*1,436*
Net other recognized income and expenses	*(714)*	*4*	*(710)*
As of March 31	**29,378**	**380**	**29,758**

[1] The number of common shares issued, including those held as treasury shares, was 145,553,526 and 145,546,820 as of March 31, 2008, and December 31, 2007, respectively.

Total equity increased by 2 percent to USD 29.8 billion as of March 31, 2008, as total recognized income and expense, net of tax, more than offset the impact of treasury share transactions, primarily related to our share buyback program. Total recognized income and expense included in total equity was USD 725 million. The major drivers were net income after taxes of USD 1.4 billion and an increase in cumulative translation adjustments of USD 190 million, which more than offset a reduction in net unrealized losses of USD 772 million on available-for-sale investments and an increase in actuarial losses on pension plans of USD 127 million.

Cash flows

Summary of cash flows

in USD millions, for the three months ended March 31	**2008**	2007
Net cash provided by operating activities	3,074	1,960
Net cash (used in)/provided by investing activities	(384)	38
Net cash used in financing activities	(393)	(663)
Foreign currency translation effects on cash and cash equivalents	690	73
Change in cash and cash equivalents excluding change in cash received as collateral for securities lending	2,987	1,408
Cash and cash equivalents as of January 1 [1]	15,059	19,302
Cash and cash equivalents as of March 31 [1]	18,046	20,709
Change in cash received as collateral for securities lending	103	176
Cash and cash equivalents as of January 1 [2]	16,936	23,122
Cash and cash equivalents as of March 31 [2]	**20,026**	**24,706**

[1] Excluding cash received as collateral for securities lending
[2] Including cash received as collateral for securities lending

Net cash used in investing activities was USD 384 million, largely resulting from the acquisition of TEB Sigorta, details of which are given in changes in the scope of consolidation. Net cash used in financing activities was USD 393 million, which was predominantly related to treasury share transactions, largely attributable to the repurchase of shares through our share buyback program and the repurchase of USD 81 million of Series III Floating Rate USD 400 million ECAPS due December 2065.

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 Group income statement line items

variance over the prior period, for the three months ended March 31	in USD millions	in %
Gross written premiums and policy fees	1,070	8%
Insurance benefits and losses, gross of reinsurance	(636)	(8%)
Net income attributable to shareholders	90	6%
Business operating profit	121	7%

Selected Group balance sheet line items

variance over December 31, 2007, as of March 31, 2008	in USD millions	in %
Total investments	12,069	4%
Reserves for insurance contracts, gross	10,700	4%
Cumulative translation adjustment in total equity	282	1%

The income statements are translated at average exchange rates where the continued weakening of the US dollar during the three months ended March 31, 2008, compared with the same period in 2007, resulted in an increase in US dollar terms in most line items.

The balance sheets are translated at end-of-period rates. The weakness of the US dollar as of March 31, 2008, compared with December 31, 2007, resulted in an increase in US dollar terms in most balance sheet line items.

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 settled 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. Furthermore, Zurich Financial Services is a defendant in putative class-action securities lawsuits relating to its divestiture of its interest in Converium (now Scor Holding (Switzerland) 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 gave preliminary approval to the proposed settlement on September 4, 2007. The court is expected to hold a final hearing on the proposed settlement in the second half of 2008.

The Group believes that it is not a party to, nor are any of its subsidiaries the subject of, any unresolved current legal proceedings, claims, litigation and investigations that would have a material adverse effect on the Group's consolidated financial condition. However, it is possible that the outcome of any proceedings could have a material impact on results of operations in the particular reporting period in which it is resolved.

Disclaimer and cautionary statement