

Growth.
Strength.
Leadership.



Financial Report 2007

Zurich Financial Services Group
Annual Report 2007



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We aspire to become the leading global insurance group in our chosen general and life insurance markets, consistently delivering top-tier results for our shareholders. By so doing, we will create strong relationships with our customers, agents and brokers, and provide rewarding opportunities for our employees.

Operational highlights of 2007

- The Zurich Way operational improvement target of USD 700 million surpassed, setting the foundation for deeper transformation
- Profitable growth achieved in target markets through customer, product and distribution strategies
- Strong risk management culture results in immaterial exposure to sub-prime financial crisis
- Standard & Poor's raises credit rating to AA-
- Seven acquisitions enlarge capabilities in emerging markets, Europe and the US

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Financial Highlights (unaudited)

The following table presents the summarized consolidated results of the Group for the years ended December 31, 2007. The 2006 amounts have been restated for the adoption of the SoRIE option under IAS 19 Employee Benefits.

in USD millions, for the years ended December 31	2007	2006	Change ¹
Business operating profit	6,614	6,035	10%
Net income attributable to shareholders	5,626	4,620	22%
General Insurance gross written premiums and policy fees	35,650	34,123	4%
Global Life gross written premiums, policy fees and insurance deposits	21,703	21,022	3%
Farmers Management Services management fees and other related revenues	2,266	2,133	6%
General Insurance business operating profit	4,024	3,804	6%
General Insurance combined ratio	95.6%	93.9%	(1.7 pts)
Global Life business operating profit	1,443	1,200	20%
Global Life new business annual premium equivalent (APE)	2,947	2,500	18%
Global Life new business margin, after tax (as % of APE)	24.7%	21.6%	3.1 pts
Global Life new business value, after tax	729	539	35%
Farmers Management Services business operating profit	1,271	1,225	4%
Farmers Management Services gross operating margin	46.6%	50.1%	(3.5 pts)
Farmers Management Services managed gross earned premium margin ²	6.8%	7.3%	(0.5 pts)
Group investments average invested assets	191,790	185,371	3%
Group investments result, net	10,089	9,434	7%
Group investments return (as % of average invested assets)	5.3%	5.1%	0.2 pts
Shareholders' equity	28,804	25,587	13%
Diluted earnings per share (in CHF)	46.37	39.52	17%
Return on common shareholders' equity (ROE)	21.0%	20.4%	0.6 pts
Business operating profit (after tax) return on common shareholders' equity	18.7%	19.5%	(0.8 pts)

¹ Parentheses around numbers represent an adverse variance.

² Farmers Management Services managed gross earned premium margin is calculated as gross operating profit of Farmers Management Services divided by the gross earned premiums of the Farmers Exchanges, which we manage, but do not own.

Zurich share performance (indexed) since September 4, 2002



Source: Datastream

Key Performance Indicators

Business operating profit

in USD millions, for the years ended December 31

	Total		General Insurance		Global Life		Farmers Management Services		Other Businesses		Corporate Functions	
	2007	2006 ¹	2007	2006 ¹	2007	2006 ¹	2007	2006 ¹	2007	2006 ¹	2007	2006 ¹
	6,614	6,035	4,024	3,804	1,443	1,200	1,271	1,225	687	577	(810)	(772)
5'000												
4'000												
3'000												
2'000												
1'000												
0												
(1'000)												

¹ Restated because of the change in accounting policy in accordance with IAS 19 Employee Benefits.

General Insurance – combined ratio

in %, for the years ended December 31

	Total ¹		Global Corporate		North America Commercial		Europe General Insurance		International Businesses	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	95.6%	93.9%	96.1%	94.4%	94.5%	95.6%	96.6%	91.5%	98.8%	98.1%
100										
90										
80										

¹ Including Group Reinsurance.

Global Life –¹ new business margin, after tax (as % of APE)

	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
	24.7%	21.6%	90.8%	52.0%	13.1%	12.2%	32.3%	23.7%	31.4%	38.8%	20.3%	21.4%	34.0%	31.6%
35														
30														
25														
20														
15														
10														
5														
0														

¹ In %, for the years ended December 31.

Shareholder letter

We are confident that our strategy will serve us well no matter what financial weather or market conditions exist. That is the strength of our strategy, and it is why Zurich is well on its way to becoming one of the leading insurers in the world.

Dear Shareholder,

We are pleased to report that excellent operating performances across a broad portfolio of general and life insurance risks resulted in both record business operating profit and net income in 2007. The results were driven by our ability to achieve growth in profitable market segments, implement meaningful operational improvements and rigorously deploy sophisticated capital, investment and risk management techniques, notwithstanding challenging financial and market conditions.

Success in this era of tightening credit, fragile equity markets and competitive insurance rates demands a deep commitment to financial discipline and risk management. It requires a profound understanding of the risks one assumes – on both the asset and liability sides of the ledger – and the operational processes to ensure consistency of execution.

These are precisely the core competencies Zurich has developed over the past several years, and our success in embedding those traits into the Zurich culture is what accounts for the Group's solid balance sheet, steadily increasing profitability, and successful execution of its strategy.

We continue to identify and pursue the most promising growth opportunities globally, systematically expanding our customer base, enhancing our product offerings, and broadening our distribution capabilities. Each of these has been pursued through organic means and acquisitions, both in emerging and mature markets, and as we look into 2008 we see promising opportunities to continue this targeted approach to profitable growth.



Manfred Gentz
Chairman of the Board



James J. Schiro
Chief Executive Officer

We also continue to pursue operational transformation, building off of The Zurich Way to further increase our customer orientation, achieve higher efficiency in our operating models, and continuously improve our use of technology, talent and other critical resources.

Finally, in recognition that our strong balance sheet is a tremendous asset in these challenging times, we are also maintaining our focus on all dimensions of capital management, deploying sophisticated risk and investment management strategies to use existing capital in a prudent manner, while streamlining our corporate structures to maximize return on capital.

Each of these profitability levers is applied across our general and life insurance businesses in a differentiated manner, targeting growth where the opportunities are right or margin where market conditions suggest otherwise. This approach underpins our commitment to maximize the value of our diverse portfolio, generating sustained shareholder value and superior financial results.

Looking forward, Zurich will maintain its disciplined approach to the key levers of profitability, while refining our customer orientation, expanding our value propositions and enabling the growth and capabilities of our people.

Clearly, today's market environment poses particular challenges for the financial services sector. But Zurich's operational and strategic focus, built on a foundation of financial and underwriting discipline, delivered significant shareholder value in 2007, and we are convinced that this positions the Group for continued success in 2008 and beyond.

This level of continued success demands a lot from our people, and for this reason we thank the entire Zurich team for its commitment and hard work throughout 2007.

Thank you for your continued support.

Manfred Gentz
Chairman of the Board

James J. Schiro
Chief Executive Officer

Zurich at a glance

Zurich Financial Services (Zurich) is an insurance-based financial services provider with a global network of subsidiaries and offices in North America and Europe as well as in Asia Pacific, Latin America and other markets. Founded in 1872, the Group is headquartered in Zurich, Switzerland. It employs approximately 60,000 people serving customers in more than 170 countries.

What we offer

Our core business is insurance.

We offer a comprehensive range of general and life insurance products and services for individuals, small businesses, mid-sized and large companies, and global corporations seeking domestic or international cover.

Our aim is to help customers manage their risks so that they can protect the present and plan for the future.

General Insurance provides property and casualty products and services for individual and commercial customers through four businesses. Europe General Insurance offers personal and commercial products in its key markets of Germany, Italy, Spain, Switzerland and the United Kingdom, with a significant presence in Austria, Ireland and Portugal, and operations in Israel, Morocco, Russia and Turkey. North America Commercial serves small and mid-sized businesses with standard and specialty lines of business in the United States and Canada. Global Corporate offers risk management services to large corporations and multinational companies. International Businesses embraces five regions – Latin America, Southern Africa, Australia, Japan, and Greater China/Southeast Asia – which position it well to act as a growth engine in the future.

The General Insurance business model is built on global functions (including underwriting, claims management, risk engineering, reinsurance, customer relationship, distribution management and product management) and practices (including global specialties), providing a global platform for local business delivery.

Global Life concentrates on three regions – Europe, the United States and emerging markets. Its global focus is on unit-linked and protection products. It also serves customer segments in family protection, equity-based savings, pension provision, post-retirement, wealth accumulation, wealth protection and inheritance. Propositions are distributed through agents, brokers, independent financial advisers, banks and credit unions. Global Life benefits from strong positions in all key markets, as well as extensive distribution networks in the United Kingdom and United States. In Germany, Italy and Spain, it partners with Deutsche Bank, which positions Zurich as its exclusive supplier of life insurance products. In key emerging markets, Global Life is one of the fastest growing providers of life insurance and savings products, particularly for international investors and global expatriate populations.

Farmers is our Group's main market brand for personal insurance in the United States, providing homeowners, auto and life insurance, with more than 20 million policies. Farmers also provides business insurance, with a focus on the small commercial market. Farmers Management Services consists of the management services provided by Farmers Group, Inc. and its subsidiaries to the Farmers Exchanges, which we manage but do not own.



Where we operate

Our global reach extends across all lines of business, and our customers benefit from our ability to provide service on many fronts. The diversity of our portfolio, both geographically and by line of business, is key to our strategy. It ensures a less volatile risk profile and acts as a bulwark against market cycles.

We take a global approach to our core businesses of general and life insurance. We have a strong presence in the world's most attractive insurance markets, and use our scale and financial strength to deliver international service.

Our key market segments

Zurich holds strong market positions in personal, commercial and corporate insurance on both sides of the Atlantic, and strengthening positions in Asia, Russia, Latin America and key emerging markets.

Global spread

Our international network and execution capabilities give us a significant advantage, backed by global operating platforms that enable us to transfer knowledge and best practice.

Our focus

Profitable growth

We rigorously apply operational and financial discipline throughout our organization, as proven factors in promoting profitable growth.

Operational transformation

We increasingly share knowledge and best practice, continue to develop more global platforms, enhance data quality and improve our expense ratios.

Capital management

We allocate risk-based capital across our businesses and markets in a disciplined and dynamic way that adapts to changing market conditions.

Talent management

We are committed to mentoring and developing our people, to identifying and fostering talent throughout our organization, and to providing a stimulating and rewarding environment for all employees.

Challenge and opportunity

Against a background of increased market volatility and uncertainty, Zurich remains steadfastly committed to following a path of sustainable and profitable growth.

As an innovative insurer, we have looked forward and outward since our earliest days 135 years ago. Over the years we have spread our reach and now have strong positions on both sides of the Atlantic as well as in Asia Pacific, Latin America and other markets.

Emerging markets a priority

While determined to strengthen our leadership in existing markets, we are also adopting a focused approach to the world's emerging markets, with the long-term aim of achieving a significant position in our chosen businesses. These emerging markets are a strategic priority to help us deliver substantial future value and establish Zurich as one of the top global insurers.

We are already present in many of these markets, for example China, where we have been represented since 1993. As the home of an economy that has grown ten percent year on year for two decades, China offers huge potential.

With a general insurance branch in Beijing, a significant share in a major life company, and a recently acquired stake in a national personal lines agency, our greater China operations are well-positioned to take full advantage of growth opportunities, particularly as we draw on the award-winning experience of our operations in Hong Kong and Taiwan to share knowledge throughout the region.

We are also strengthening our presence in eastern Europe and beyond, entering the Russian personal lines market in 2007 and acquiring Turkish general insurer TEB Sigorta A.S. in January 2008.

Microinsurance programs

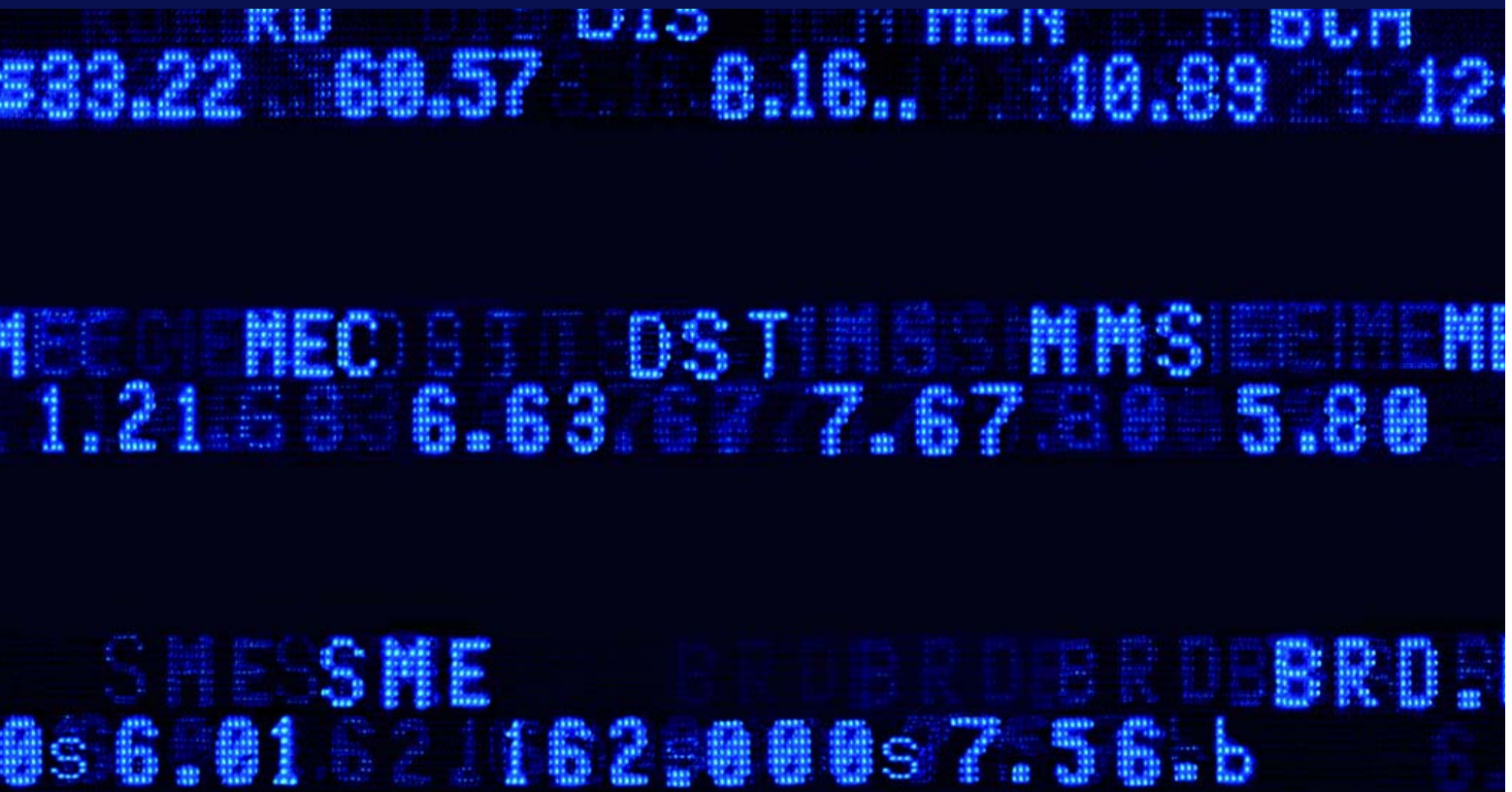
In Latin America, we have operations in Argentina, Bolivia, Brazil, Chile, Mexico and Venezuela, and are now developing micro-insurance programs in these countries to help the less-advantaged sections of the population protect their income and their future.

And as globalization encourages mass migration in many regions, our international life business enjoys particular success in Southeast Asia in the international investor and global expatriate business.

As we increase our presence in these markets, we are leveraging our Group-wide assets, capabilities and operating models. We also draw on the invaluable local knowledge and expertise in our business divisions as we evaluate opportunities. Further selected acquisitions may help us in our objectives, provided they meet our rigorous standards.

The Zurich Way, which unifies our approach to business and to our customer, is a vital and basic element in binding our organization together as we develop further.

Our Growth Office has established a prioritization framework for expansion to ensure a coordinated and effective use of resources. In the emerging markets of Asia, Latin America and Eastern Europe, General Insurance will aim to achieve high growth and establish strategic market positions, thereby making a substantial contribution to both top and bottom lines. Global Life, with a growth in emerging markets of 50 percent in 2007, will continue to follow its strategy of leveraging best-in-breed products through innovative distribution channels in targeted market segments, thereby ensuring success in achieving its annual premium equivalent and new business value growth objectives.



Combining this focus on emerging markets with our traditionally strong presence on both sides of the Atlantic helps us to understand many of the key risk issues facing today's world. As the World Economic Forum points out in its Global Risks Report for 2008, of which Zurich is a sponsor, uncertainty about the short- and medium-term future is as high as it has been for a decade.

The report identifies four emerging issues as shaping the global risk landscape: systemic financial risk, food security, supply chains and the role of energy. All four are central to the functioning of the world economy and to the well-being of global society.

Systemic financial risk is seen as the most immediate and, from the point of view of economic cost, the most severe. With so many potential consequences of the 2007 liquidity crunch unresolved, the outlook for the future is more uncertain at the beginning of 2008 than it was a year ago.

Supply chain vulnerability

Food security, at the center of a number of issues from energy security to climate change and water scarcity, may be emerging as one of the major risks of the 21st century. Long- and short-term drivers – population growth, changing lifestyles, climate change and the growing use of food crops for bio fuels – may be shifting the world into a period of more volatile and sustained high prices. The consequences, particularly for the most vulnerable communities, may be harsh.

Extended supply chains, which have allowed global economic integration to flourish in the last two decades, may be concealing increased vulnerability of the global system to disruptive risks. Geographic concentrations of risk in economically efficient zones of production may have improved global welfare, but the question remains whether businesses and governments are prepared for the consequences of a risk event in these areas. Building a culture of supply chain risk management across public and private sectors may be a first step to broader global risk mitigation.

Energy and its long-term future also raise alarms, particularly perceived risks to energy security and risks from global climate change. Energy is a key input to the global economy, but a safe, secure and sustainable supply is increasingly problematic. It is why Zurich has taken action on the climate issue, and why we are committed to working closely with all customer segments to explore the role risk management can play in addressing these important issues.

Progress on understanding and managing global risks is taking place, and with understanding will come collaborative solutions involving all segments of society. Once again, though, on so many of these issues the world's focus returns to emerging markets, where major economies have increasingly demonstrated their impact on the global economy and their willingness to assume a leadership role.

A strategy for profitable growth

Our strategic aspiration is to become the leading global insurance group in our chosen general and life insurance markets, consistently delivering top tier results to our shareholders.

Our objectives include becoming one of the top five global insurers and providing a consistent mid-term ROE of 16 percent. We also aim to strengthen our market leadership positions, expand capital-light and fee income businesses, and position Zurich as the employer of choice. To achieve these objectives, we will focus on operational transformation and profitable growth, coupled with the talent management and capital discipline that have proved the cornerstones of our success in recent years.

Our profitable growth will be driven by achieving customer, product and distribution excellence. These efforts will be supplemented by selective mergers and acquisitions.

Operational transformation embraces our Group's holistic view toward operational development by incorporating The Zurich Way initiatives, efficiency projects, efforts to improve our customer centricity and risk insights, and the development of an optimal Target Operating Model.

Our strategy also draws on other strengths and synergies such as capital and risk management, talent recruitment and management, and the continued building of our global brand.

Our strategy

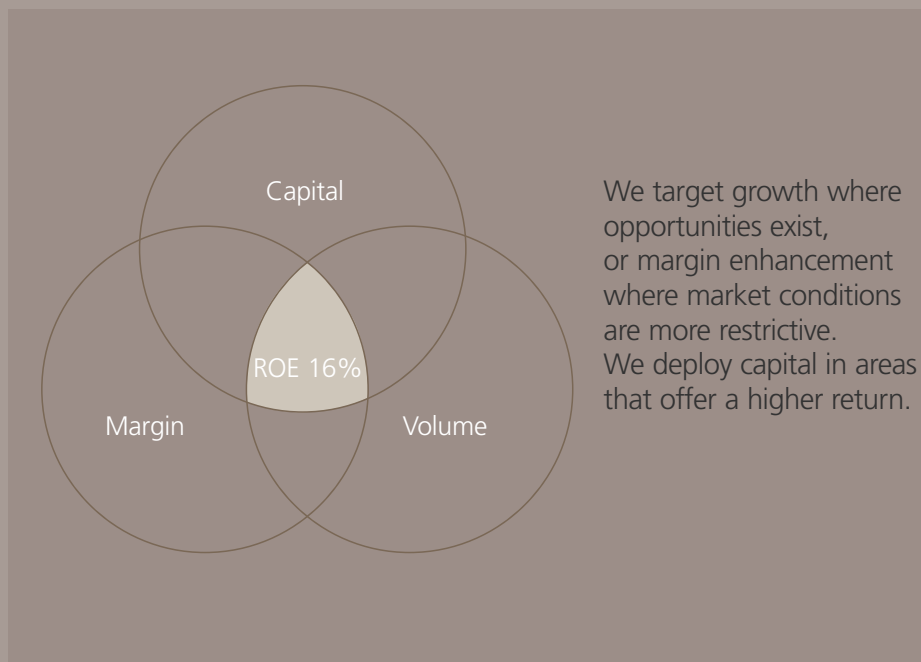
We are committed to maximizing shareholder value through top-tier financial performance and profitable growth. Our financial results over the past five years demonstrate the strength of our strategy and our ability to execute on it across a diversified portfolio of risks in turbulent financial and market conditions. We continue to optimize our balance sheets and further increase capital efficiency.

Across our general and life insurance businesses, we target growth where opportunities exist or margin enhancement where market conditions are more restrictive. This approach maximizes the value of our diverse portfolio, generating sustained shareholder value and superior financial results.

We remain determined to transform efficiency and effectiveness of delivery of services to our customers through operational transformation. We will continue to systematically assess our core processes for ways to drive additional efficiency and capability gains.

Profitable growth is a key objective and is reflected in the decision to appoint a member of our Group Executive Committee as Chief Growth Officer to drive our Group's growth agenda. The Chief Growth Officer also has responsibility for the five regions of International Businesses, including many emerging markets and which will play a major role in identifying and pursuing opportunities for growth. By investing time and resources, we will consolidate our presence in these areas, and will also share our knowledge and expertise.

We are also developing our intellectual capital systematically to support further growth. We seek to be a leader, known for innovative thinking and for developing products and services relevant to a rapidly changing world. As well as concentrating on selected target markets (including emerging markets), we are increasing the number of tied and independent agents, expanding and strengthening our business partnerships, and fostering a culture of cross-selling between our business divisions and segments.



In General Insurance, our business model allows us to respond to the cyclical nature of the insurance industry through four factors:

- Global underwriting discipline, globally-based risk pricing models, and focus on micro-segments
- Diversity of markets with varying cycles
- Improved efficiency through The Zurich Way
- Sophisticated internal measures and advanced portfolio management

Global Life has achieved double-digit growth and expects to sustain growth in the coming years, supported by a deep inventory of profitable growth and operational transformation initiatives along with the appetite for strategic acquisitions if attractive opportunities present themselves. Having established a strong platform for future growth since 2003, it now has a well-diversified portfolio and a growing share in most of its main markets. It has re-balanced distribution, increased exposure to the fast-growing bank and broker channels, and shifted the focus to growing new business volume while maintaining healthy margins.

Global Life's growth momentum has accelerated, driven by product launches, proposition improvements and campaigns.

Farmers' aspiration is to maintain current levels of margin while growing the size of the business and its profitability. Farmers is now positioned as one of the fastest growing personal and small business insurers in the US with a focus on excellence in customer experience, product management and distribution.

The Zurich Way

In following our strategic objectives, we are supported and guided by The Zurich Way, which is designed to create common methodologies, metrics and toolboxes for the core processes within our Group. It transforms the way we do business every day and helps us provide better services to customers in a consistent and recognizably "one Zurich" way.

Since The Zurich Way's introduction in 2004, we have made hundreds of process improvements, delivering quantifiable and sustainable operational benefits. The financial benefits achieved comfortably exceeded the 2007 target of USD 700 million after tax, and further benefits of USD 2.4 billion after tax are expected from more than 500 initiatives over the next three years. All combine to provide a firm foundation for profitable growth.

A strategy for profitable growth

Processes have been designed and rolled out Group-wide for core business activities such as underwriting, claims, sales, distribution, proposition management and reinsurance. These have been complemented by the implementation of a Zurich Way of Finance, of Human Resources, and of Compliance. Benefits captured from the initiatives are monitored and assessed monthly. The Zurich Way of Growth will use this same approach and discipline to focus on profitable growth around customer, product and distribution excellence.

Throughout our organization, employees are embracing an entrepreneurial spirit that encourages them to suggest areas for growth, improvement and innovation. At all times, they follow the precepts of Zurich Basics, our core values from which The Zurich Way was developed. This leads to an immeasurably valuable global exchange of ideas.

Financial discipline

Financial discipline remains paramount. We have diligently and rigorously measured our performance over the past five years, and will continue to do so. Nowhere was our commitment to this principle better demonstrated in 2007 than in the area of investment management, a critical function that manages Zurich's Group investments of more than USD 190 billion. The key to our success is that Zurich manages its assets centrally using a structured and disciplined framework. The fundamental tenet of the strategy is recognizing that assets must be managed relative to liabilities and that any risk in the asset portfolio must be well understood and compensated for through a reasonable return. In this way, we focus on maximizing economic value creation for policyholders and shareholders.

We pursue a similar philosophy throughout all our core functions, and ensure a consistent and prudent approach to risk management. This centralized approach to risk is not possible without state-of-the-art technology solutions. Investment Management has been developing and enhancing its investment information system over the past eight years, bringing together data on shares, bonds and other investments with more than 43,000 positions spread over more than 200 balance sheets globally.

We take similar stringent care in managing all our capital and assets. In the past few years, we have streamlined our structure to make capital available for deployment in areas of the Group that offer a higher return. At the same time, we retain the flexibility to pursue interesting and innovative ideas, such as new distribution channels, new products, or new business opportunities.

In Europe, for example, we are moving from almost 80 capital-consuming legal entities to 34, replacing a complex structure with a much simpler one that allows us to manage our business better and optimize the service to customers. This takes full advantage of the European Union's Freedom of Services and Freedom of Establishment Principles, providing us with much higher flexibility, improved cash management and a single balance sheet.



Customer excellence

Alternative energy is expected to account for 10–20 percent of global energy production within the next decade. Zurich Global Energy is committed to supporting customers and prospects in this market segment. We already underwrite substantial alternative energy premiums, most notably in hydro, wind and biofuels. Now Global Energy has developed a dedicated team to help brokers and customers grow their business.



Product excellence

Zurich Global Corporate has been developing a new insurance product to cover the business impact of a failure in a customer's supply chain. The product will offer cover against loss of revenue and/or increased costs incurred. An innovative claims settlement formula approach will also provide a greater certainty over the amount that can be claimed and reduce the investigation time taken after a loss, thus ensuring a speedier payment.



Distribution excellence

In the US, the integration of Bristol West and its 10,400 agents with Farmers is already showing tangible benefits. Rollout of its products throughout Farmers' distribution platform has been completed in 20 of the 29 tied-agent states. This latest acquisition also mirrors the highly successful integration of specialities line insurer Foremost Insurance Company, which Farmers acquired in 2000 and doubled in premium within three years.

In Group Finance, we have moved from a collection of local units to a global operation with better performance and more effective core processes. Several Treasury Services have been consolidated in Dublin. We have restructured accounting processes from six business units in Europe and the US to one multilingual outsourced shared service platform in Krakow, Poland.

We are also improving efficiency by sharing services in various parts of the organization. In Europe, we aim to make full use of common best practices and common platforms and infrastructure in eight areas: legal, compliance, procurement, communications, risk management, human resources, marketing communications, and corporate real estate and facilities management.

In North America, we reached a new level of cooperation between Zurich and Farmers in 2007 by introducing shared services for IT, accounting, finance, human resources, communications, procurement, real estate and audit. The resulting economies of scale from the combined size, knowledge and technologies are expected to save USD 93 million by 2010. The change will also enhance operational excellence for Farmers and North America Commercial, and help them achieve their business goals in increasingly competitive markets.

Thought leadership

Continuing a tradition that has marked our development over 135 years, we are committed to thought leadership in our industry. One of our priorities is to gather insights into a variety of risks so that we can provide innovative and relevant answers to today's and tomorrow's challenges. Our continued adaptation to change reflects our determination to help our customers better understand and manage their risks and to provide practical help in a fast-changing world.

Equally, we seek to identify the opportunities that inevitably accompany risk, and to help our customers understand and take advantage of them. Not only is risk sharing important for the functioning of today's interlinked businesses and economies, but at a personal level, too, people feel more comfortable and secure when they can manage continual changes to their lives, their businesses and the world around them.

Today's risks may be global or local, geopolitical or economic, financial or commercial. Some are known, some will appear as distant "blips" on the radar screen, others may lie hidden, largely unpredictable, at least through today's eyes. Our challenge is to help foster a better understanding of the issues and interdependencies that evolve into tomorrow's risks.

Effective risk management underpins our own business as well as that of our customers. We see it as a fundamental element of any business strategy, not merely a reaction to external influences.

Board of Directors



Manfred Gentz
Chairman of the Board,
chairman of the Governance
and Nominations Committee,
member of the Remuneration Committee



Philippe O. Pidoux
Vice Chairman of the Board,
member of the Governance
and Nominations Committee,
member of the Remuneration Committee



Don Nicolaisen
Director, chairman of the
Risk Committee, member of the
Audit Committee



Vernon L. Sankey
Director, chairman of the
Remuneration Committee



Thomas K. Escher
Director, member of the
Audit Committee



Fred Kindle
Director, member of the
Remuneration Committee



Armin Meyer
Director, member of the
Governance and Nominations Committee,
member of the Risk Committee



Gerhard H. Schulmeyer
Director, chairman of the
Audit Committee, member of the
Risk Committee



Tom de Swaan
Director, member of the
Risk Committee, member of the
Governance and Nominations Committee



Rolf U. Watter
Director, member of the
Audit Committee

Group Executive Committee



James J. Schiro
Chief Executive Officer



John J. Amore
Chief Executive Officer
General Insurance



Paul N. Hopkins
Chief Executive Officer
Farmers Insurance Group



Axel P. Lehmann
Chief Executive Officer
North America Commercial¹
Group Chief Risk Officer²



Paul van de Geijn
Chief Executive Officer
Global Life



Dieter Wemmer
Chief Financial Officer



Annette Court
Chief Executive Officer
Europe General Insurance



Mike Foley
Chief Executive Officer
North America Commercial²



Mario Greco
Designated Chief Executive Officer
Global Life



Patrick H. O'Sullivan
Chief Growth Officer



Geoff Riddell
Chief Executive Officer
Global Corporate



Martin Senn
Chief Investment Officer

¹ Until December 31, 2007

² As of January 1, 2008



Risk, responsibility and governance

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Risk Management

Effectively managing risks affecting Zurich is essential to our ability to help our customers manage theirs. While risk management has long been the core discipline of insurers, it has become even more critical for us and for our customers as the risk landscape evolves and becomes more complex.

We define enterprise risk management as the structured, Group-wide way of identifying, measuring, managing, reporting and responding to risks that affect the achievement of our strategic and financial objectives. We look at the risks and the opportunities on both sides of the balance sheet.

Our risk management goals are to protect the capital base, enhance value creation, support decision-making and protect our reputation and brand by building a culture of risk awareness.

Our main categories of risk include:

- Insurance – risk transferred to us from customers through the underwriting process
- Operational – risk associated with the people, processes and systems of the company, and external events
- Reputation – risk that an act or omission by the company or any of our employees could result in damage to our reputation or loss of trust among our stakeholders
- Strategic – the unintended risks that can result as a byproduct of planning or executing the strategy
- Credit – risk associated with a loss or potential loss from a counterparty failing to fulfill its financial obligations
- Market – risk associated with the Group's balance sheet positions where the value depends on investments in financial markets

For details regarding credit and market risks, and additional aspects of insurance risk, please see the Consolidated Financial Statements, note 26 Risk Management.

Risk governance

The Board of Directors establishes the Group's corporate risk management framework. The Risk Committee of the Board serves as a focal point for oversight regarding risk management. It reviews the Group's enterprise-wide risk governance framework including risk management methodologies, policies, models and reporting and risk strategy. This committee met six times in 2007. To facilitate information exchange between the Audit Committee of the Board and the Risk Committee of the Board, the chairperson of the Audit Committee is a member of the Risk Committee and vice-versa.

The Risk Committee of the Board assesses whether management is addressing risk and control issues in a timely and appropriate manner. The Risk Committee of the Board receives regular reports regarding the Group's risk profile and mitigation actions.

The Group has additional audit or risk committees at all levels of the organization that regularly and systematically review risks in the Group's various businesses and ensure appropriate management attention.

The Chief Executive Officer, together with the Group Executive Committee, oversees the Group's performance with regard to its risk management policies as well as the further development of these policies when required. At the end of 2007, the Group appointed a member of the Group Executive Committee as our Group Chief Risk Officer, reflecting the enhanced role for risk management in today's complex environment, and the strategic significance we place on risk management.

We manage risks throughout the organization, from the Chief Executive Officer to our businesses and functional areas, in alignment with our matrix organization. We have centers of expertise at the Corporate Center for some risk types, such as credit and market, with decentralized management of risks that occur mainly at the local level.

The Group also benefits from the cooperation of its network of risk management and functional specialists within each business as well as at Corporate Center, where we have dedicated managers for various types of risk.

Group-wide risk management policies specify risk limits and authorities, reporting requirements and procedures for referring risk issues to senior management. We

regularly monitor our risks through various analyses and reports, as well as through relevant risk modeling. We assess risks systematically and strategically through our proprietary Total Risk Profiling® process, which allows us to identify and then evaluate the probability of a risk scenario occurring, and the severity of the consequences should it occur. We then develop, monitor and implement appropriate improvement actions. The risk profiling process is integral to how we deal with change, and is particularly suited to evaluating strategic risks and risks to our reputation.

External perspectives

Various external stakeholders, among them rating agencies and accounting bodies, are placing increasing emphasis on the importance of sound risk management in our industry.

Rating agencies are increasingly interested in risk management as a factor in evaluating companies. Standard & Poor's is the only rating agency with a separate rating for enterprise risk management. Standard & Poor's upgraded our rating for enterprise risk management from "adequate" in 2006 to "strong" in 2007. Only 13 percent of European insurers were rated "strong."

New International Financial Reporting Standards require that certain risk management information be subjected to audit in the annual Consolidated Financial Statements. For information related to our credit and market risks, and additional aspects of insurance risk, please see the Consolidated Financial Statements, note 26 Risk Management.

We also seek external expertise to better understand and assess our risks, particularly regarding areas of complex change. For discussion of our International Advisory Council, Natural Catastrophe Advisory Council and Climate Change Advisory Council, please see the Business Review. In addition, the Investment Management Advisory Council provides feedback to our management on achieving superior risk-adjusted returns versus liabilities for the Group's invested assets.

Also, we are intensively involved in the CRO Forum (an organization composed of the chief risk officers of major European insurance companies and financial conglomerates), which focuses on developing and promoting industry best practices in risk management. We were particularly involved in 2007 in the Forum's efforts to help shape European solvency requirements.

Risk Management

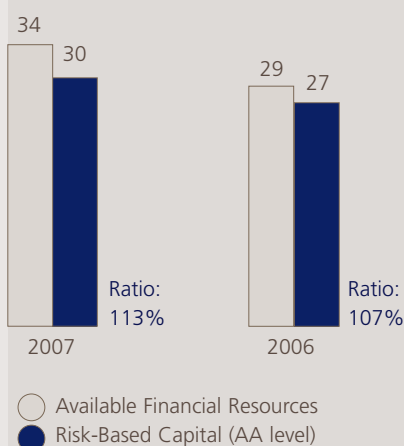
Capital management

We work to ensure that all of our regulated subsidiaries meet local regulatory capital requirements at all times. Our primary capital management tool is our internal risk-based capital model (RBC). We use RBC to assess the economic capital consumption of our business on a one-balance sheet approach. We define risk-based capital as the capital needed to protect the Group's policyholders against the worst-case loss (which we calibrate according to our financial strength target of AA, as an event with a one-in-2000 probability of occurring over a one year time horizon; this translates to a 99.95 percent confidence level). The RBC framework is an integral part of how we manage the Group. It continues to be embedded into our organization and decision-making, such as capital allocation, business performance management, pricing, reinsurance purchasing, transaction evaluation, risk optimization, and regulatory and rating agency communication.

The chart summarizes the RBC consumption of our business compared to the Available Financial Resources (AFR). Zurich's AFR calculation translates the IFRS balance sheet into an economic view consistent with the RBC methodology. AFR reflects financial resources protecting policyholders in a worst case loss event. It is derived by adjusting the IFRS shareholders' equity to remove intangible assets and liabilities and to deduct proposed dividends/buybacks. It adds back the value of future profits from in-force business, senior and subordinated debt with a maturity greater than one year and makes adjustments related to the scope of RBC (e.g. minority holdings) to determine the financial resources available to protect policyholders during the observation period. The numbers in the chart show the AFR at the beginning of the respective year (based on the IFRS balance sheet at December 31 of the prior year) to cover the risks with potential to appear during the year indicated.

Available Financial Resources compared to Risk-Based Capital

(USD billions as of January 1)



We also maintain a dialog with rating agencies regarding the assessment of our capital adequacy.

The financial strength ratings of the Group's main operating entities are an important element of our competitive position. Moreover, the Group's credit ratings derived from the financial strength ratings affect the cost of capital. In June 2007 Standard & Poor's upgraded the financial strength rating of Zurich Insurance Company and other key operating entities of the Group to 'AA-'. In October and December 2007 Fitch and A.M. Best, respectively, changed the outlook on their 'A+' and 'A (excellent)' financial strength rating on Zurich Insurance Company from 'stable' to 'positive.'

For more information about our capital management and solvency, please see the Consolidated Financial Statements, note 27 Capital Management.

Managing Life Insurance risks

In the Life Insurance business, we have established formal local product development committees and a Group-level product approval committee for potential new products that could significantly increase or change our risks. Such review allows us to take planned risks as we develop our business. We regularly review the continued suitability and the potential risks of existing products.

Our use of the European Embedded Value reporting principles allows us to further understand and report on the risk profile of our Life products and how risks would change in differing market conditions. Embedded value is the measure markets use to value life businesses; we are using a market-consistent approach, which is considered industry best practice. For more information, please see the Embedded Value Report.

For discussion of our Emerging Risks Group, please see the Business Review 2007. Management of emerging risks affects both Life and General Insurance.

Managing General Insurance risks

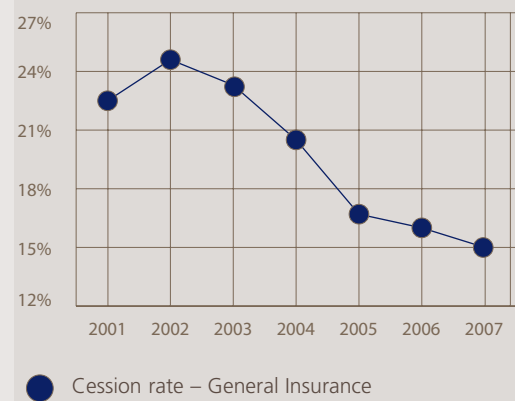
A fundamental component of managing our risks is underwriting discipline. We set limits on underwriting capacity, and cascade authority to individuals based on their specific expertise. Through The Zurich Way, we set appropriate pricing guidelines with a focus on consistent technical price across the organization. Technical reviews confirm whether underwriters perform within authorities and adhere to our underwriting philosophies and policies. Our global line of business networks share best practices across the globe, providing additional guidance and governance. As with life insurance products, we have governance procedures to review potential new products to evaluate whether the risks are well understood and justified by the rewards.

Another foundation is appropriate reinsurance, which mitigates insurance risk. Our primary objectives for purchasing reinsurance are to provide market-leading capacity for our customers while protecting the balance sheet and optimizing the Group's capital efficiency. We maintain a centralized purchasing strategy for General Insurance – and as of September 2007, Life Insurance also – and continue to bundle programs where appropriate to benefit from diversification and economies of scale. We continue to review and use traditional reinsurance markets and other alternatives,

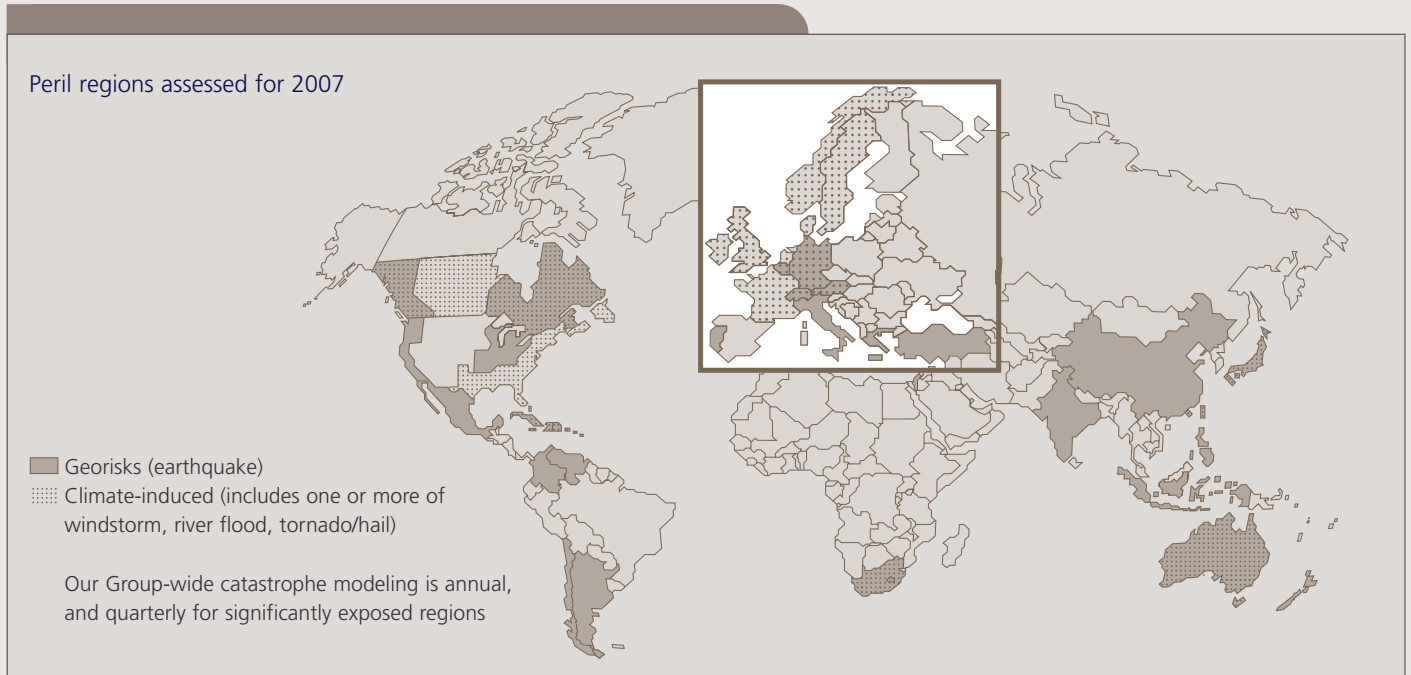
such as catastrophe bonds, to protect Zurich against extreme single events and increased frequency of events falling within our retention. Our Corporate Reinsurance Security Committee manages the credit quality of our cessions and reinsurance assets. Due to our improved underwriting processes, and the flexibility afforded by our increased shareholders' equity position, we have been able to restructure and realign our reinsurance programs to achieve a better risk/reward ratio.

Ceded premium – trend

(% of General Insurance premium ceded to reinsurers)



Risk Management



Modeling natural catastrophes

Understanding the potential effects of natural catastrophes is a critical component of our risk management for General Insurance. While specific catastrophes are unpredictable, modeling helps us determine potential losses should catastrophes occur. We use a combination of third-party and in-house models to help manage our underwriting and accumulations in modeled areas so that we stay within intended exposure limits and to help guide the reinsurance we buy.

We model at the local and Group level to assess and aggregate our exposures. We centrally oversee our modeling for consistency in approach and for a global perspective on our accumulations. We have technical centers embedded within the business, which helps improve the overall quality of our data. We constantly seek to improve our modeling and increase the granularity of our data collection in order to increase the accuracy and utility of our information. In 2007, for example, we undertook a special effort to add details for municipal policies in the United Kingdom, resulting in an increase in the number of location details from 700,000 to three million. We also added georisk peril regions (Germany, Switzerland, Austria, Belgium, Turkey, Greece, China, India, New Zealand, Guam and Colombia) and climate-induced peril regions (Norway and Guam).

Managing risks from man-made catastrophes

Zurich's experience in monitoring potential exposures from natural catastrophes is also applicable to threats posed by man-made catastrophes, particularly terrorism. Due to the high degree of uncertainty about what events might actually occur, our accumulation monitoring and analyses contain a number of assumptions about the potential characteristics of the threat. We review and aggregate workers' injury and property exposures to identify areas of significant concentration. The resulting data allows our underwriters, particularly in North America, to evaluate how insuring a particular customer's risk might affect Zurich's overall exposure. For other areas, our analysis has shown that our exposures are significantly lower, due in large part to government-provided pools. We periodically monitor accumulation limits for those areas.

Managing operational risk

Generally, all risks contain some aspect of operational risk. The Zurich Way initiatives help us manage operational risks through standardization of processes. In addition, we have been working to more precisely identify key operational risks, by applying a common approach across the Group, and by leveraging information from other sources of risk information such as internal controls and Total Risk Profiling®. We are conducting operational risk assessments, which are a qualitative evaluation of such risks, and we are building a loss-event data base. Analyzing such losses helps us make changes where needed.

In 2007, we rolled out our operational risk framework to major business units. We also piloted a scenario-based approach to quantifying operational risk early in the year and then used the methodology for our risk-based capital calculations.

As we develop an integrated operational risk management framework, we continue to focus on high priority operational matters such as outsourcing, information technology and managing business continuity. A key task is keeping our business continuity plans up-to-date, with an emphasis on recovery from unexpected events such as natural catastrophes and the possibility of a pandemic. In 2007, we continued our pandemic preparedness and focused on crisis management training.

Our multi-year initiative to strengthen the consistency, documentation and assessment of our internal controls continued for significant controls and locations. Although primarily focused on important controls for financial reporting, this initiative also applies to related operational controls. For more details, please see the Internal Control Statement in the Corporate Governance Report.

Managing reputation and strategic risks

As with operational risk, every risk type has potential consequences for Zurich's reputation. Therefore, effectively managing each type of risk also helps us reduce threats to our reputation. Additionally, we endeavor to preserve our reputation by adhering to applicable laws and regulations, and by following the core values and principles of Zurich *Basics*, which include integrity and good business practice. We centrally manage certain aspects of reputation risk, for example, communications, through functions with the appropriate expertise.

Strategic business decisions by nature involve risks. We work to reduce the unintended risks of those decisions through our risk assessment tools, including the Total Risk Profiling® process. The Group Executive Committee regularly assesses key strategic risk scenarios for the Group as a whole, and we evaluate the risks in specific merger & acquisition transactions. The Group further manages such risks by assigning clear responsibilities, authorities and limits for review and approval of strategic decisions.

Corporate Responsibility

It is our belief that a responsible company is one which takes measures to create value for both the company and society by proactively addressing material social, environmental and governance issues.

To further improve our corporate responsibility performance, we will continue to better integrate pertinent issues and related stakeholder expectations into Zurich's core business and to leverage best practices throughout the Group.

Oversight of corporate responsibility activities and performance, as well as advice on the formulation of strategy and priorities, will be provided by the Corporate Responsibility Council, which includes top management and key functions.

We will prioritize issues based on the potential impact on the business, level of societal concern and our ability to make a difference. Focus areas for 2008 include: improved performance in the DJSI and FTSE4Good; microinsurance; climate change; corporate giving and employee engagement.

Corporate responsibility is about how we do business. Therefore, you will find relevant information, including information about our commitment to excellence in serving our customers and employees, two key stakeholders, throughout the Business Review 2007.

DJSI and FTSE4Good

Zurich has continuously met its ongoing corporate responsibility objective of inclusion in the Dow Jones Sustainability Indexes (DJSI) and FTSE4Good Index Series since their inception in 1999 and 2001, respectively. Not only have the DJSI and FTSE4Good become influential benchmarks for the growing number of investors considering good corporate responsibility performance essential to the long-term success of their investments, but they are an indicator of our success in managing significant environmental, social and governance issues.

Zurich continues to demonstrate year on year improvements in overall performance, and scores remain above average in the social, environmental and economic dimensions of the DJSI. Room for improvement exists, however, in the social and environmental dimensions, particularly with respect to social reporting, addressing environmental risks and opportunities, and stakeholder engagement. We take the results and lessons learned from such ratings into account in the development of Group activities, and we will continue to use them to build on our strengths and overcome our weaknesses.

Microinsurance

For hundreds of millions of low-income families, insurance and other financial services are too often unknown, not appropriate or beyond reach.

Microinsurance combines the core skills and sophistication of insurance and risk management with new learning, research and innovation in order to appropriately and expediently serve low-income populations. Its aim is sustainability; the products and services must provide benefits to the customer in a commercially viable way for the provider.

In early 2007, Zurich established a Global Microinsurance team marshalling Zurich's insurance expertise and global reach to more rapidly develop microinsurance and microinsurance skills.

In February 2007, Zurich signed a Public Private Partnership with the Swiss Agency for Development and Cooperation and the International Labour Organization. This arrangement directly provided technical assistance to ongoing projects in Bolivia, South Africa and Venezuela, as well as strategic planning support for other business units exploring opportunities to develop microinsurance. Noteworthy projects include product development and distribution projects in the Royal Bafokeng Nation in South Africa, demand research in South Africa and Venezuela, and a review of key learnings in Bolivia.

We partnered this year with governmental and nongovernmental agencies, multilateral organizations and academic institutions, identifying the best and most promising developments in the field. We began active participation in the joint working group on microinsurance established by the Consultative Group to Assist the Poor and the International Association of Insurance Supervisors. We also began a financial education pilot with Microfinance Opportunities in South Africa, education being a critical component of microinsurance success.

In business units in Latin America, Africa and Greater China, the business of growing microinsurance continued in 2007. New coverage and distribution experiments were launched: property & casualty, health as well as life insurance covers, distribution through remittances as well as sold directly. Some of these were incremental innovations and others were bolder. Zurich recognizes that constant improvement and learning are fundamental elements of this initiative and that through these disciplines, the chances to make quantum leaps improve.

For a full description of Zurich's microinsurance initiative, please see the Business Review 2007.

Corporate Responsibility

Climate Change

As a global leader in risk management, we have established an initiative to develop products and services that address the evolving risks associated with climate change. At the same time, we are taking steps to manage our own carbon footprint.

Although our businesses around the world have already been addressing customer needs and expectations in the area of climate-related risk, the new initiative enables us to take a consistent and more focused approach. It has three elements:

- An internal Climate Office that will energize our 60,000 employees and will help to develop risk products and solutions. It will be embedded in our underwriting infrastructure
- A Climate Change Advisory Council, consisting of internal functional leaders and external experts, to advise Zurich's management on strategic and operational issues associated with climate change
- An applied research program with organizations and institutions to examine the critical economic, finance and policy issues associated with climate change.

As the first partnership in this third element, Zurich will fund a distinguished visitors program at the Donald Bren School of Environmental Science and Management at the University of California. The school will assess our carbon footprint to help us manage carbon emissions in a meaningful and sustainable manner.

This fresh impetus builds on initiatives already established in our organization. Europe, the US and Australia all have products that address elements of climate-related risk. Canada, the US and Europe have linked with experts on these issues. Individual business units, including Switzerland, have taken it upon themselves to develop and implement carbon management strategies. Farmers in the US offers discounts to drivers of hybrid vehicles.

As an example of our employees' engagement in the climate change issue at a practical and personal level, six of them visited Sri Lanka in 2007 to help restore mangrove forests destroyed in the disastrous tsunami of December 2004. More than 100 people from 16 countries applied to join the project, organized by Earthwatch Institute of Europe. The successful six came from Australia, Canada, Spain, Switzerland, the United Kingdom and the United States. More volunteers have been sought for 2008, and on returning to their home countries, each of them will become a champion for corporate responsibility.

For a full description of Zurich's climate change initiative, please see the Business Review 2007.

Corporate Giving

We take great pride in giving back and in making an effort to equip people with the knowledge and resources to better manage change and risk in their lives and in the world around them. Zurich makes significant financial and in-kind contributions to the communities in which it operates around the globe. In response to local needs and priorities, our commitments cover a wide range of activities.

To increase the positive impact to society, we plan to bring greater focus and consistency to our Group corporate giving and foundation work. This will also ensure that our Group corporate giving is in line with and supportive of our overall corporate responsibility strategy. An important element of corporate giving will be the active engagement and involvement of employees.



For further information, please visit our Web site at www.zurich.com.

Corporate Governance Report

Zurich Financial Services is committed to effective governance for the benefit of its shareholders, customers, employees and other stakeholders based on the principles of fairness, transparency and accountability. Structures, rules and processes are designed to provide for proper organization and conduct of the business within the Group and to define the powers and responsibilities of its corporate bodies and employees.

This report describes the Group's approach to corporate governance and illustrates the main elements of corporate governance within the Zurich Financial Services Group. It includes the information required by the Directive on Information Relating to Corporate Governance of the SWX Swiss Exchange (effective January 1, 2007). It also explains how, in 2007, the Group complied with the Swiss Code of Best Practice for Corporate Governance, issued in 2002 by the Swiss Business Federation, as amended in October 2007. Furthermore, the Group continues to publish an Internal Control Statement (see page 51) in accordance with the UK Turnbull Guidance.

The principles of corporate governance and the standards described above have been incorporated and are reflected in a number of documents, in particular in the Articles of Incorporation, the Organizational Rules and the Charters and Rules of the Board Committees. The Board's Governance and Nominations Committee, which oversees the Group's governance, regularly measures the governance against best practice standards and ensures compliance with corporate governance requirements.

An effective structure is in place providing for cooperation between the Board of Directors, Management and internal control functions. This structure establishes checks and balances and is designed to provide for institutional independence of the Board of Directors from the Group Chief Executive Officer (CEO) and the Group Executive Committee (GEC), responsible for managing the Group on a day-to-day basis. The Board of Directors of Zurich Financial Services is composed entirely of non-executive members. The roles of Chairman of the Board of Directors and CEO are separated, thus providing for separation of powers between the functions and ensuring the autonomy of the Board.

This report follows the recommended structure outlined by the Directive of the SWX Swiss Exchange. The chapter on compensation, shareholdings and loans of the Directors and the members of the GEC is the subject of a separate report, the Remuneration Report (see pages 54 to 67), which complements this Corporate Governance Report.

Group structure and shareholders

Operational Group structure

Zurich Financial Services, the Group's holding company, is a Swiss corporation, organized in accordance with the laws of Switzerland.

The Group is managed on a matrix basis, reflecting both lines of business and geography, and this is mirrored in the areas of responsibilities assigned to the members of the GEC. The GEC is headed by the CEO and includes the Chief Financial Officer, the Chief Investment Officer, the Chief Growth Officer, the Group Chief Risk Officer, the heads of the business segments – General Insurance, Global Life and Farmers Management Services – and the heads of the business divisions North America Commercial, Global Corporate and Europe General Insurance. For further information on the GEC please refer to pages 41 to 47.

This management structure leads to the reporting of the Group based on the following primary business segments:

- General Insurance serves the property-casualty needs of a wide range of customers, from individuals to small and medium-size businesses, commercial insurance enterprises and major multinational corporations.
- Global Life pursues a customer-focused strategy with market-leading propositions in unit-linked and protection products and multi-channel distribution to develop leadership positions in our chosen segments and superior returns for our shareholders.
- Farmers Management Services which through Farmers Group, Inc. and its subsidiaries (FGI) provides non-claims related management services to the Farmers Exchanges, prominent writers of personal lines and small commercial lines business in the United States. FGI receives fee income for the provision of services to the Exchanges, which we manage, but do not own, and to their customers.
- Other Businesses includes Farmers Re which provides reinsurance to the Farmers Exchanges, Centre and capital markets and banking activities. This segment also includes certain businesses which are centrally managed and are not considered to be core businesses.
- Corporate Functions includes Group holding and financing companies, Corporate Center operations and certain alternative investments.

The Group's secondary format for segment information continued to be geographic in 2007 and is as follows: North America, Europe, International Businesses and Central Region.

A detailed review of the respective business segment and division results during 2007 can be found in the Financial Review starting on page 70. Furthermore, an overview of the Group's business strength and activities is contained in the Business Review, available on Zurich's Web site www.zurich.com (http://zdownload.zurich.com/main/reports/business_review_2007_en.pdf).

Zurich Financial Services is listed on the SWX Swiss Exchange. Certain Group companies have listed debt issues under the Euro Medium Term Note Programme and other financial instruments.

A list of the Group's significant subsidiaries including additional information on significant subsidiaries that are listed can be found in this Financial Report on pages 204 to 207. For further information on the share listings of Zurich Financial Services, see shareholder information on pages 259 to 261.

Significant shareholders

As of December 1, 2007 the rules regarding disclosure of significant shareholdings in Swiss companies listed in Switzerland have been amended. As of that date, disclosure has to be made at a threshold of 3%, rather than at 5% as was previously the case. Furthermore, since July 1, 2007, call options and other financial instruments are to be added to any position in shares, even if they allow for cash settlement only. Under the new regime, disclosure must be made separately for purchase positions (including shares, long call options and short put options) and sale positions (including long put options and short call options). The percentage thresholds are calculated on the basis of the total amount of voting rights according to the entry in the commercial register.

Zurich Financial Services is not aware of any person who, directly or indirectly, had an interest as beneficial owner in shares, option rights and/or conversion rights relating to shares of Zurich Financial Services representing 5% or more of its issued shares as of November 30, 2007. As of December 1, 2007, Barclays Plc, 1 Churchill Place, London, E14 5HP, UK, along with its subsidiaries, had a purchase position of 4.25% of registered Zurich Financial Services shares. Besides Barclays Plc, Zurich Financial Services is not aware of any person who, directly or indirectly, had an interest as beneficial owner in shares, option rights and/or conversion rights relating to shares of Zurich Financial Services representing 3% or more of its issued shares as of December 31, 2007. Zurich Financial Services is also not aware of any persons who, as of November 30, 2007, or December 31, 2007, respectively, directly or indirectly, alone or with others, exercised or were a party to any arrangements to exercise control over Zurich Financial Services.

In 2007 Zurich Financial Services did not receive any notifications under the old disclosure regime.

Corporate Governance

In addition, the following notifications have been made after December 1, 2007:

- JPMorgan Chase & Co, 270 Park Avenue, New York, NY 100017, USA, along with its subsidiaries, reported as per December 1, 2007, a purchase position of 3.62% and a sale position of 1.43% of registered Zurich Financial Services shares. As of December 28, 2007 it reported that both purchase and sale positions had fallen below the threshold of 3%.
- Credit Suisse Group, Paradeplatz 8, P.O. Box, 8070 Zurich, Switzerland, along with its subsidiaries, reported as of December 1, 2007, a purchase position of 3.32% and a sale position of 3.4% of registered Zurich Financial Services shares. Subsequently, it reported that its purchase and sale positions had fallen below the threshold of 3% as of December 21, 2007 and December 27, 2007, respectively.

Cross-shareholdings

Zurich Financial Services has no interest in any other company exceeding 5% of the voting rights of that other company, where that other company has an interest in Zurich Financial Services exceeding 5% of the voting rights in Zurich Financial Services.

Capital structure

Share capital

As of December 31, 2007, the ordinary share capital of Zurich Financial Services amounted to CHF 14,554,682.00 divided into 145,546,820 fully paid registered shares with a nominal value of CHF 0.10 each. The Board of Directors will propose to the shareholders at the Annual General Meeting on April 3, 2008 a regular dividend of CHF 15.00 per share before tax.

On February 15, 2007, it was announced that a repurchase of CHF 1.25 billion worth of shares of Zurich Financial Services over the course of 2007 was authorized by the Board of Directors; this share buyback program was completed on July 2, 2007. At the Annual General Meeting on April 3, 2008, shareholders will be asked to approve the cancellation of 3,432,500 Zurich Financial Services shares repurchased under this program and to reduce the ordinary share capital accordingly.

Authorized and contingent share capital

As of December 31, 2007, the Board of Directors of Zurich Financial Services has authority to increase the share capital by CHF 600,000, representing 6,000,000 registered shares with a nominal value of CHF 0.10 each by no later than June 1, 2008. Zurich Financial Services also has a contingent share capital of CHF 548,182.80 representing 5,481,828 registered shares with a nominal value of CHF 0.10 each to increase its share capital by exercising conversion and/or option rights which are granted in connection with the issuance of bonds or similar debt instruments by Zurich Financial Services or one of its Group companies in national or international capital markets; and/or option rights which are granted to the shareholders. Moreover, there is an additional contingent share capital of CHF 320,257.90, representing 3,202,579 registered shares with a nominal value of CHF 0.10 each, which may be issued to employees of the Group.

For further information on the capital structure and the authorized and contingent share capital, see the consolidated financial statements, note 21 on pages 160 to 162.

Changes of share capital during 2006

On February 15, 2006, the Board of Directors approved the issuance of a maximum of 1,000,000 out of the 1,500,000 dividend-paying shares from the contingent share capital to employees and subsequently has submitted an application to list 1,000,000 registered shares out of the contingent capital to the SWX Swiss Exchange.

At the Annual General Meeting on April 20, 2006, shareholders approved a share capital reduction in the form of a nominal value reduction of each share from CHF 2.50 to CHF 0.10. At the effective date of the nominal value reduction on July 3, 2006, Zurich Financial Services had 144,565,255 issued and fully paid shares, including 558,300 shares issued out of the contingent capital. As a result of this reduction, the share capital was reduced by CHF 346,956,612 from CHF 361,413,137.50 to a new total of CHF 14,456,525.50. The authorized share capital was reduced to CHF 600,000, and the contingent share capital was reduced to CHF 548,182.80 and CHF 94,170, respectively.

As of December 31, 2006, in total 742,444 shares out of the contingent share capital had been issued to employees. As a result the share capital amounted to CHF 14,474,939.90 and the contingent share capital amounted to CHF 548,182.80 and CHF 75,755.60, respectively, on December 31, 2006.

Changes of share capital during 2007

Based on a proposal of the Board of Directors of Zurich Financial Services dated February 14, 2007, the shareholders at the Annual General Meeting of April 3, 2007 approved the increase of the contingent share capital for the issuance of new registered shares to employees of the Group from CHF 75,755.60 by CHF 324,244.40 to a new maximum of CHF 400,000 by issuing up to 4,000,000 registered shares payable in full with a nominal value of CHF 0.10 each. On March 5 and May 7, 2007, 500,000 and 3,242,444 new registered shares with a nominal value of CHF 0.10 each out of the contingent share capital were listed on the SWX Swiss Exchange. The shares were allocated to be issued over time to meet the Group's obligations on the various employee share and option plans as they arise.

During the year 2007, 797,421 shares were issued to employees. As a result, on December 31, 2007, the share capital amounted to CHF 14,554,682.00 (145,546,820 shares) and the contingent share capital amounted to CHF 548,182.80 (5,481,828 shares) and CHF 320,257.90 (3,202,579 shares), respectively.

Summary of changes in the ordinary share capital over the last two years	Share Capital in CHF	Number of Shares	Nominal Value in CHF
As of December 31, 2005	360,017,387.50	144,006,955	2.50
Newly issued shares from contingent capital	1,395,750.00	558,300	2.50
Nominal value reduction of each share from CHF 2.50 to CHF 0.10 on July 3, 2006	(346,956,612.00)	144,565,255	–
Newly issued shares from contingent capital	18,414.40	184,144	0.10
As of December 31, 2006	14,474,939.90	144,749,399	0.10
Newly issued shares from contingent capital	79,742.10	797,421	0.10
As of December 31, 2007	14,554,682.00	145,546,820	0.10

For information on changes of share capital during 2005, see the Annual Report 2006 of Zurich Financial Services, Financial Report, pages 32 to 33, and page 151.

Corporate Governance

Shares and participation certificates

Zurich Financial Services shares are registered shares with a nominal value of CHF 0.10 each. The shares are fully paid. Pursuant to Article 14 of the Articles of Incorporation, each share carries one vote at shareholders' meetings and entitles the registered holder to exercise all other membership rights in respect of that share, provided registration in the share register has been effected.

Some interests in shares are held by investors in the form of CREST Depository Interests (CDIs)¹ or American Depositary Receipts (ADRs)². As of December 31, 2007, investors held 639,596 CDIs (representing 639,596 Zurich Financial Services shares) and 24,212,600 ADRs (representing 2,421,260 Zurich Financial Services shares).

Zurich Financial Services has not issued participation certificates.

Profit sharing certificates

Zurich Financial Services has not issued profit sharing certificates.

Limitations on transferability and nominee registrations

The Articles of Incorporation do not provide for any limitations on transferability except for formalities for the transfer of undocumented shares.

Registration as a shareholder requires a declaration that the shareholder has acquired the shares in his or her own name and for his or her own account. Nominees holding Zurich Financial Services' shares may for the benefit of, or as nominee for, another person be registered for up to 200,000 shares with voting rights notwithstanding that the nominee does not disclose the identity of the beneficial owner. A nominee is, however, entitled to be registered as shareholder with voting rights of more than 200,000 shares if the nominee undertakes to disclose the identity of each beneficial owner and to inform the beneficial owners about corporate actions, to consult as to the exercise of voting rights and pre-emptive rights, to transfer dividends and to act in the interests and in accordance with the instructions of the beneficial owner.

There are special provisions relating to the registration of, and exercise of rights attaching to, shares by CREST International Nominees Ltd. on behalf of CDI holders and by the Bank of New York Mellon in connection with the Zurich Financial Services' ADR program. After the de-listing of its shares from the London Stock Exchange (LSE), effective October 2, 2006, Zurich Financial Services withdrew its sponsorship of its Corporate Nominee Service administered by Lloyds TSB Registrars as of the end of 2007.

Convertible bonds and options

Zurich Financial Services had no public convertibles or options outstanding as of December 31, 2007. For information on employee share option plans, refer to the consolidated financial statements, note 23 on pages 168 to 171.

¹ As part of the unification of the holding structure in 2000, former holders of Allied Zurich p.l.c. ordinary shares received Zurich Financial Services shares, delivered in the form of CREST Depository Interests, or CDIs. CREST is the system for the paperless settlement of trades in securities and the holding of uncertificated securities in the United Kingdom. CREST holds the shares in trust and issued dematerialized depository interests representing entitlements to Zurich Financial Services shares known as CDIs. As CDI holders are not the legal owners of the shares represented by the CDIs, they are not able to directly enforce or exercise rights that a holder of shares can. CDI holders will, however, have a beneficial interest in the shares represented by the CDIs and be allowed as such to give instructions to CREST Depository on the exercise of certain non-economic rights attached to the shares. Each CDI represents one Zurich Financial Services share.

² Zurich Financial Services has established an American Depositary Share, or ADS, level 1 program in the United States. Under the program, The Bank of New York Mellon issues the ADSs. Each ADS represents the right to receive one-tenth of one Zurich Financial Services share. Each ADS also represents securities, cash or other property deposited with The Bank of New York Mellon but not distributed to ADS holders. ADSs are traded over the counter (OTC) and evidenced by American Depositary Receipts, or ADRs. ADS holders are not treated as shareholders of Zurich Financial Services and are not able to directly enforce or exercise shareholder rights. Only the Bank of New York Mellon as depository may exercise voting rights with respect to instructions received from beneficial owners of ADRs.

Board of Directors

Members of the Board of Directors, as of December 31, 2007

Name	Nationality	Age	Position held	Year of initial appointment	Expiration of current term of office
Manfred Gentz	German	65	Chairman of the Board Chairman of the Governance and Nominations Committee Member of the Remuneration Committee	2005	2008
Philippe Pidoux	Swiss	64	Vice Chairman of the Board Member of the Governance and Nominations Committee Member of the Remuneration Committee	1997 ¹	2009
Thomas Escher	Swiss	58	Director Member of the Audit Committee	2004	2009
Fred Kindle	Swiss	48	Director Member of the Remuneration Committee	2006	2008
Armin Meyer	Swiss	58	Director Member of the Governance and Nominations Committee Member of the Risk Committee	2001	2010
Don Nicolaisen	American	63	Director Chairman of the Risk Committee Member of the Audit Committee	2006	2009
Vernon Sankey	British	58	Director Chairman of the Remuneration Committee	1998 ¹	2009
Gerhard Schulmeyer	German/ American	69	Director Chairman of the Audit Committee Member of the Risk Committee	1998 ¹	2008
Tom de Swaan	Dutch	61	Director Member of the Governance and Nominations Committee Member of the Risk Committee	2006	2008
Rolf Watter	Swiss	49	Director Member of the Audit Committee	2002	2010

¹ Mr. Pidoux has served on the board of Zurich Insurance Company since 1997. In 1998, after the merger between B.A.T. Financial Services and Zurich Insurance Company (the "Merger"), he assumed office as a member of one or more boards of the then Group holding structure consisting of Zurich Group Holding (then called Zurich Financial Services), Allied Zurich p.l.c. and Zurich Allied AG. The Group structure was reorganized in October 2000 ("Unification"). Mr. Sankey and Mr. Schulmeyer were also members of one or several boards of the Group holding structure that was established with the Merger. Since Unification they have all served on the Board of Zurich Financial Services.

All of the current Directors have served on the Board throughout the year 2007. Mrs. Gilmore and Mr. Mead retired from the Board of Directors with effect from the Annual General Meeting held on April 3, 2007.

All Directors of Zurich Financial Services are also members of the board of directors of Zurich Insurance Company. Mr. Manfred Gentz also serves as chairman of that board.

Fritz Gerber is the Honorary Chairman of Zurich Financial Services. He was chairman of Zurich Insurance Company between 1977 and 1995 and its chief executive officer between 1977 and 1991. In recognition of his leadership and services to that company, he was appointed Honorary Chairman. Such designation does not confer board membership or any director duties or rights, nor does it entitle him to any director's fees.

Biographies

Manfred Gentz studied law at the universities of Berlin and Lausanne and graduated with a doctorate in law from the Berlin Free University. In 1970 he joined Daimler-Benz AG where he held various positions. In 1983, he was appointed member of the board of management of Daimler-Benz AG, responsible at first for human resources. From 1990 to 1995 he was chief executive officer of Daimler-Benz Interservices (debis) in Berlin and subsequently became chief financial officer of Daimler-Benz AG in 1995. In December 1998, Mr. Gentz was appointed to the board of management of DaimlerChrysler AG, where he was in charge of Finance and Controlling until December 2004. From 1987 to 1995 he served on the board of supervisors of

Corporate Governance

Agrippina Versicherung AG and from 1996 to 2005 he was a member of the board of supervisors of Zürich Beteiligungs-Aktiengesellschaft (Deutschland). From 1985 to 2005 Mr Gentz was on the board of supervisors of Hannoversche Lebensversicherung AG (from 1990 as its proxy chairman). From May 2005 until March 2006, he was chairman of the supervisory board of Eurohypo AG. In addition to serving on the board of supervisors of adidas AG, the German Stock Exchange (Deutsche Börse AG) and DWS Investment GmbH, he is chairman of ICC (International Chamber of Commerce), Germany. He is active in a number of scientific and cultural institutions, among others, he chairs the curatorship of the Technische Universität Berlin.

Philippe Olivier Pidoux graduated from the University of Lausanne, Switzerland, with a doctorate in law and also holds a master's degree in comparative jurisprudence from the University of Texas. He is a partner in the law firm BMP Associés in Lausanne, Switzerland. Mr. Pidoux was a member of the Government of the Canton of Vaud from 1986 until 1994 and a member of the Swiss Parliament between 1983 and 1999. From 1991 until 2003, he was a member of the board and as of 1999 vice chairman of the Swiss National Bank. He is also chairman of Publigroupe AG.

Thomas Konrad Escher graduated in electrical engineering and in business administration from the Swiss Federal Institute of Technology (ETH) and joined IBM in 1974. In subsequent years, his career led him through various managerial line functions with responsibilities for markets and client relationships overseas, in different European countries and in Switzerland. In 1996, Mr. Escher joined Swiss Bank Corporation and was – as a member of the executive board – CEO for the major market region in Switzerland and for the information technology organization. Since the merger of Swiss Bank Corporation and Union Bank of Switzerland to form UBS AG in 1998, he headed the IT business area of the wealth management and business banking division through mid-2005 as a member of the group managing board. As of July 1, 2005, Mr. Escher assumed the function of vice chairman wealth management UBS.

Fred Kindle graduated from the Swiss Federal Institute of Technology (ETH) in Zurich with a master's degree in engineering. He joined Hilti AG in Liechtenstein in 1984 as a marketing projects manager, and two years later enrolled at Northwestern University, Evanston, in the United States, where he earned an MBA. From 1988 until 1992 he was an associate and engagement manager with McKinsey & Company in New York and Zurich. He then joined Sulzer Chemtech AG in Switzerland as the head of the Mass Transfer Department and in 1996 became the head of the Product Division. In 1999 he was appointed CEO of Sulzer Industries, one of the two operating groups of Sulzer AG. Two years later he became CEO of Sulzer. After joining ABB Ltd. in fall 2004, Mr. Kindle was appointed CEO of ABB Group worldwide in January 2005, a position he held until February 2008. He is a director of the Swiss American Chamber of Commerce and also serves on the board of VZ Holding Ltd., Zurich.

Armin Meyer graduated with a PhD in electrical engineering from the Swiss Federal Institute of Technology (ETH) and joined BBC Brown Boveri Ltd. in 1976 as a development engineer. In 1980, he became head of research and development for industrial motors, and in 1984, he took over as head of the international business unit for electrical power generators. In 1988, he became president of ABB Drives Ltd. and in 1992, president of ABB Power Generation Ltd. From 1995 until 2000, he was executive vice president of ABB Ltd. and a member of that group's executive committee. In 1997, he became a member of the board of directors of Ciba Specialty Chemicals at the time of its spin-off from Novartis. He became chairman of the board of Ciba Specialty Chemicals in autumn 2000. From January 1, 2001 until December 31, 2007 he in addition acted as chief executive officer. He is a member of the foundation board of the International Institute for Management Development, IMD, in Lausanne, Switzerland, and of the board of the European Chemical Industry Council (Cefic) in Brussels, Belgium.

Don Nicolaisen graduated from the University of Wisconsin-Whitewater with a BBA degree and joined Price Waterhouse (which subsequently became PricewaterhouseCoopers), where he was admitted to partnership in 1978. He served in various capacities, including as auditor and as chairman of PricewaterhouseCoopers' financial services practice. He led that company's national office for accounting and Securities and Exchange Commission services from 1988 to 1994 and served on both the US and global boards from 1994 to 2001. From September 2003 to November 2005, he was chief accountant of the US Securities and Exchange Commission and was principal adviser to the Commission on accounting and auditing matters. He is a member of the board of directors of Verizon Communications Inc., Morgan Stanley and MGIC Investment Corporation. In addition, he is on the board of advisors for the University of Southern California Leventhal School of Accounting.

Vernon Louis Sankey graduated with a MA degree from Oriel College, Oxford and joined Reckitt and Colman in the UK in 1971, subsequently working in France, Denmark, the UK and the US. He was appointed to the board of directors in 1989 and was chief executive officer of that company from 1991 to 1999. From 2000 until September 2007 he was chairman of Photo-Me International plc. From 2001 until June 2007 he was a director of Cofra AG, Switzerland, and from 2004 until July 2007 of Taylor Woodrow plc. He has been a director of Vividas Group plc since 2005. As of January 1, 2006, he has been a member of the supervisory board of Atos Origin SA, Paris, and since October 10, 2006 of Firmenich SA, Geneva. He was chairman of Thomson Travel Group plc until August 2000, of Gala Group Holdings plc until February 2003 and of The Really Effective Development Company Ltd until March 2006. He also was a director of Pearson plc until April 2006 and is a former board member of the UK's Food Standards Agency. In addition to his board roles, he is an advisor to a number of other companies.

Gerhard Hans Schulmeyer graduated from Frankfurt Technical College with a BSc in electronic engineering and from the University of Frankfurt with a BSc in international business. He also holds an MSc in management science from the Massachusetts Institute of Technology. After holding various management positions with Braun, Sony Wega and Motorola, in 1989 he became president and chief executive officer of ABB USA and a member of the executive board of ABB Ltd. From 1994 until 1998, he was president and CEO of Siemens Nixdorf in Germany, and between 1999 and December 2001, he was president and CEO of Siemens Corporation in the US. From January 2002 until March 2006, he was Professor of Practice at the Sloan School of Management of the Massachusetts Institute of Technology and until October 2007, he was a non-executive director on the public boards of Alcan Inc. He is a non-executive director of Ingram Micro Inc. and Korn/Ferry International. He is also a board member of Invest In Germany and a member of the foundation board of the US National Chamber Foundation.

Tom de Swaan graduated from the University of Amsterdam with a master's degree in economics. He joined De Nederlandsche Bank N.V. in 1972, and from 1986 until 1998 was a member of the governing board there. In January 1999, he became a member of the managing board and chief financial officer of ABN AMRO Bank. He retired from ABN AMRO on May 1, 2006, but continued as an advisor to the managing board until June 2007. Mr de Swaan is a non-executive member of the board of GlaxoSmithKline Plc and chairman of its audit committee. He is a member of the supervisory board of Royal DSM, a Netherlands-based chemical group, and Corporate Express, a Netherlands-based distributor of office products. Since May 3, 2007, he has been vice-chairman of the supervisory board of Royal Ahold, a global retail chain, and since May 10, 2007, vice-chairman of the supervisory board of Van Lanschot NV, the holding company of F. van Lanschot Bankiers, an independent Dutch bank. From 1987 to 1988, he was chairman of the Amsterdam Financial Center, and from 1995 to 1997 chairman of the banking supervisory sub-committee of the European Monetary Institute. He was also a member of the Basel Committee on Banking Supervision from 1991 to 1996, its chairman from 1997 to 1998, and a non-executive director on the board of the UK's Financial Services Authority from January 2001 until the end of 2006. Mr de Swaan is also a director of a number of non-profit organizations. Among others he is treasurer of the board of the Royal Concertgebouw Orchestra, the Netherlands Cancer Institute and the International Franz Liszt Piano Competition. Moreover, he chairs the advisory board of the Rotterdam School of Management.

Rolf Urs Watter graduated from the University of Zurich with a doctorate in law and holds a master of laws degree from Georgetown University in the US. He is admitted to the bar of the Canton of Zurich. Since 1994, he has been a partner in the law firm Bär & Karrer in Zurich and became a member of its executive board in 2000 and an executive director upon the incorporation of Bär & Karrer AG in 2007. Since 2004 he has been a non-executive chairman of Cablecom Holding AG and since April 2007 a non-executive director of Nobel Biocare Holding AG. He is further a member of the boards of directors of Syngenta AG (since 2000), UBS Alternative Portfolio AG (since 2000) and A.W. Faber-Castell (Holding) AG (since 1997). He formerly was a director of Centerpulse AG (2002 – 2003), of Forbo Holding AG (1999 – 2005) and of Feldschlösschen Getränke AG (2001 – 2004). He is a part-time professor at the Law School of the University of Zurich. In addition, he is a member of the SWX Admission Board and of its Disclosure Commission of Experts. He also serves as chairman of two charity institutions.

The business address for each Board member is Mythenquai 2, 8002 Zurich, Switzerland.

Corporate Governance

Elections and terms of office

The Articles of Incorporation require that the Board shall consist of not fewer than seven and not more than 13 members. The ordinary term of office is three years. On the expiration of their terms of office, Directors may be re-elected immediately. The Articles of Incorporation require elections to be organized in such a way as to ensure that no more than four Directors complete their term of office at any one general shareholders' meeting. The election of a member of the Board is effected on an individual basis. Directors are elected by a majority of the votes cast. Zurich Financial Services' Organizational Rules provide that no individual of 70 years of age or older shall be nominated as a Director, though exceptions may be made under special circumstances.

At the Annual General Meeting to be held on April 3, 2008, the terms of office of Messrs. Gentz, Kindle, Schulmeyer and de Swaan will expire. While Mr. Schulmeyer will retire from the Board, Messrs. Gentz, Kindle and de Swaan have been proposed for re-election by the Board. They will stand for re-election for a term of three years each.

Susan Bies and Victor Chu have been nominated as additional members of the Board of Directors of Zurich Financial Services for a term of two years each.

Susan Bies, 60, American, graduated with a BS degree from the State University College at Buffalo, New York, and with a MA degree from Northwestern University, Evanston, where she later gained a PhD. She began her career in 1970 as regional and banking structure economist with the Federal Reserve Bank of St. Louis, Missouri, and two years later became assistant professor of economics at Wayne State University, Detroit, Michigan. In 1977 she moved to Rhodes College, Memphis, Tennessee in a similar role, and in 1979 joined First Tennessee National Corporation in Memphis, where she remained until 2001. During the early years, her areas of responsibility included tactical planning and corporate development. In 1984 she became chief financial officer and chairman of the asset/liability committee. In 1995, she became executive vice president of risk management, and auditor and chairman of the executive risk management committee, as well as continuing her duties with the asset/liability committee. From 2001 until 2007, she was a member of the Board of Governors of the Federal Reserve System. Between 1996 and 2001, Ms Bies was a member of the Emerging Issues Task Force of the Financial Accounting Standards Board. She is currently a member of the Securities and Exchange Commission's advisory committee on improving financial reporting, and chairman of its substantive complexity sub-committee.

Victor L.L. Chu, 50, British, graduated with a LL.B from the University College London in 1979. He is admitted to practise law in England and Hong Kong. Since 1982 he has practised in the field of corporate, commercial and securities laws, with special emphasis on China and regional investment transactions. From 1995 to 2000, Mr Chu was deputy secretary-general of the International Bar Association. Since 1988 he has served as chairman of First Eastern Investment Group, a leading direct investment firm focusing on China. He is also chairman of First Eastern Investment Bank Limited and FE Securities Limited. Over the past 20 years he has served at various times as director and council member of the Hong Kong Stock Exchange, a member of the Hong Kong Takeovers and Mergers Panel, a member of the Hong Kong Securities and Futures Commission's advisory committee and a part-time member of the Hong Kong Government's Central Policy Unit. He is currently a foundation board member of the World Economic Forum and co-chairs the Forum's International Business Council. He is also an executive board member of the International Chamber of Commerce, for which he chairs the Commission on Financial Services and Insurance. Mr Chu is a trustee of the International Crisis Group in Brussels and the WWF in Hong Kong. He is a member of the governing council of University College, London, the dean's council of the Kennedy School at Harvard, and the board of the Foreign Affairs University of China. Mr. Chu's other civic associations include service on the advisory bodies of Asia House, Asia Foundation, Beijing Music Festival Foundation, the East Asia Institute of Cambridge University and the Atlantic Council of the USA.

Internal organizational structure

The **Board** is chaired by the Chairman, or in his absence the Vice Chairman. It has a program of topics that is presented at its meetings throughout the year. It is regularly informed of developments regarding the Group and is provided with timely information in a form and of a quality appropriate for it to discharge its duties in accordance with the standards of care set out in Article 717 of the Swiss Code of Obligations.

The Board consists entirely of directors who are non-executive, independent of management, and who have never held an executive position in the Group. The Governance and Nominations Committee annually reviews the independence of the Board members and reports its findings to the Board for final determination. Board members are also subject to rules and regulations to avoid conflicts of interest and the use of inside information. A self-assessment of the full Board is carried out once a year. In 2007, the Board's self-assessment was carried out on the basis of a comprehensive questionnaire. A detailed report was produced for and considered by the Board.

Given the separation of roles of the Chairman and the CEO and the fact that the Board of Directors is wholly non-executive, there is no requirement for a lead director to be appointed under the Swiss Code of Best Practice.

The CEO attends the Board meetings ex officio. By invitation, Board meetings are attended by the members of the GEC on a regular basis. Other executives attend these meetings from time to time. The majority of Board meetings include private sessions of the Board, without the participation of Management.

The Board elects from its members the Chairman and the Vice Chairman, and appoints the Secretary.

The Board is required to meet at least six times each year; during 2007 it held 11 meetings (of which four were partly attended by phone and two were held over two days). On the occasion of two of the 11 meetings the Board conducted separate visits to businesses in the US and Spain; one meeting was fully dedicated to the discussion of strategic topics. Five meetings lasted between five and nine hours per day, and the remaining six meetings took about two hours. In addition, the Board unanimously approved three circular resolutions.

In 2007, up until the Annual General Meeting held on April 3, 2007, on average, 83% of the members of the Board attended Board meetings. After the Annual General Meeting the number of Board members decreased from 12 to ten and average attendance at Board meetings was 94%. The members of the Board spend additional time to participate in Board Committee meetings, to prepare for meetings and to discharge their responsibilities.

The Board may appoint committees for specific areas from among its members and establish terms of reference and rules with respect to delegated authority and to reporting to the Board. The committees assist the Board in performing its duties. To the extent that the committees are not authorized to take resolutions, they discuss and propose matters to the Board for taking the appropriate actions and passing resolutions before such matters are brought to the Board. The Board has the following standing committees, which regularly report to the Board and submit proposals for resolutions to the Board. On average, committee meetings lasted between two and three hours.

The **Governance and Nominations Committee** is composed of four Board members. It oversees the Group's governance and measures it against best practice with a view to ensure that the rights of the shareholders are fully protected. It also develops and proposes to the Board corporate governance guidelines and reviews them from time to time. The Governance and Nominations Committee is further entrusted with succession planning with respect to the Board, the CEO and the members of the GEC and Group Management Board (GMB). In this regard, it proposes the principles for the nomination and ongoing qualification of members of the Board and makes proposals to the Board on the composition of the Board, as well as the appointment of the Chairman, the Vice Chairman, the CEO and the other members of the GEC and GMB. The Committee reviews the system for management development and supervises progress made in respect to succession planning. Final decisions for nominations and appointments are made by the Board, subject to shareholder approval, where so required. During 2007, the Governance and Nominations Committee met five times (of which one was a joint meeting with the Remuneration Committee) and particularly addressed the nomination and ongoing qualifications of the members of the Board of Directors and the succession planning for members of senior management. On average attendance at meetings of the Governance and Nominations Committee was 90%.

The **Remuneration Committee** comprises four members of the Board. The Remuneration Committee evaluates and proposes to the Board the principles for remuneration for the Group and the Board. It also proposes the directors' remuneration to the Board for approval. Based on the remuneration principles, it negotiates the terms and conditions of employment of the CEO and reviews those of the members of the GEC – as negotiated by the CEO – before submitting them to the Board for approval. The Remuneration Committee approves the employment arrangements for additional members of the GMB as negotiated by the CEO and liaises with him on other important employment, salary and benefit matters. It also reviews the

Corporate Governance

performance relating to the senior management's short-term and long-term incentive plans. To assist in the review of the compensation structures and practices, the Remuneration Committee has retained its own independent advisor, Hewitt Associates. The Remuneration Committee met six times (once together with the Governance and Nominations Committee) in 2007, with an average attendance of 97%. Details of the Group's remuneration principles are given in the Remuneration Report on pages 54 to 56.

The **Audit Committee** has four members, all of whom meet relevant requirements with respect to independence and qualification. The Audit Committee charter provides that the Audit Committee as a whole should have (i) an understanding of IFRS and financial statements, (ii) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves, (iii) experience in preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to those of Zurich Financial Services and the Group or experience in actively supervising one or more persons engaged in these activities, (iv) an understanding of internal controls and procedures for financial reporting, and (v) an understanding of audit committee functions. The Audit Committee met seven times in 2007. Average attendance at meetings was 89%.

The Audit Committee serves as a focal point for communication and oversight regarding financial accounting and reporting, internal control, actuarial, and compliance among the Management. It is responsible for reviewing the Group's auditing process (including establishing the basic principles relating to and making proposals with respect to the audit of Zurich Financial Services and the Group) and reviews the internal control systems. The external auditors, the internal auditors and appropriate members of the GEC, the GMB and other executives attend its meetings in order to, among other things, discuss the auditors' reports, to review and assess the auditing concept and the examination process and to assess the activities of internal and external auditors. For more information on the supervision and control over the external audit process, see page 50. The Audit Committee, at least annually, reviews the standards of internal control, including the activities, plans, organization and the quality of internal audit and Group compliance.

The Audit Committee also reviews the annual, half-year and quarterly financial results of the Group before submission to the Board. Private sessions with external auditors and internal audit as well as the head of actuarial are scheduled at most of the Audit Committee meetings to enable discussions without Management present.

Statements regarding internal control and the procedures in place regarding internal control according to the UK Turnbull Guidance are given on page 51.

The **Risk Committee** has four members. In 2007 it met six times; attendance on average was 83%. The Risk Committee oversees the Group's risk management, in particular the Group's risk capacity, including agreed limits by category of risk which the Board regards as acceptable for Zurich to bear, the aggregation of agreed limits across the Group, the measurement of adherence to agreed risk capacities, and the Group's risk capacity in relation to anticipated capital levels. It further oversees the enterprise-wide risk governance framework, including risk management, risk policies and their implementation as well as the risk strategy, and the monitoring of operational risks. The Risk Committee also reviews the methodologies for risk measurement and the Group's adherence to its risk profile and reviews the performance of the Group's risk management function. It further reviews, with Management and the Group risk management function, the Group's general policies and procedures, and satisfies itself that effective systems of risk management are established and maintained. The Group Chief Risk Officer reports on a semi-annual basis on the Group's risk profile and mitigation actions.

To ensure an on-going exchange of information between the Risk Committee and the Audit Committee and to avoid potential communication gaps that could impact the Group's financial results and risk management, the Chairman of the Audit Committee is a member of the Risk Committee and the Chairman of the Risk Committee is a member of the Audit Committee.

Areas of responsibility of the Board and Management

In addition to determining the overall strategy of the Group and the supervision of senior management, the Board addresses key matters in the area of strategy, finance, structure and organization and business development. The Board approves the Group strategic plan and the annual financial plans developed by Management and reviews and approves the annual, half-year and quarterly financial statements of Zurich Financial Services and the Group. It establishes guidelines for overall business policies and capital allocation and approves major changes in the Group's business activities, including major lending and borrowing transactions and major business developments, such as acquisitions or disposals of businesses or assets, investments or new businesses, mergers, joint ventures and cooperations. The Board also considers other matters of strategic importance to the Group.

Subject to the powers reserved to the Board as set out above, the Board has delegated the management of the Group to the CEO. The CEO and, under his leadership, the GEC are responsible for the development and execution of the strategic and financial plans approved by the Board. The CEO has specific powers and duties relating to strategic, financial and other matters as well as to the structure and organization of the Group and manages, supervises and coordinates the activities of the members of the GEC. The CEO ensures that appropriate management tools for the Group are developed and implemented and represents the overall interests of the Group against third parties. The CEO holds delegated authority to approve certain acquisitions and divestments of businesses and assets, investments and the establishment of new businesses, mergers, joint ventures or cooperations.

Information and control instruments vis-à-vis the Group Executive Committee and Group Management Board

The Board supervises Management and monitors its performance through reporting and controlling processes. Regular reporting by the CEO and other executives to the Board comprises appropriate information and updates, including key data for the core businesses, financial information, existing and upcoming risks and updates on developments in important markets and with regard to major competitors as well as other significant events. The Chairman of the Board regularly meets with the CEO. He and other members of the Board also meet with the Chief Financial Officer and other executives outside regular Board meetings. In 2007, the Chairman attended Zurich's leadership meeting, which focused on numerous growth strategies and projects and their alignment within the Group.

The Group has an information and financial reporting system in place. The annual plan for the Group, which includes a summary of financial and operational metrics, is reviewed by the GEC in detail and approved by the Board. Monthly plan updates are prepared to compare actual performance to the plan. Full-year forecasts are revised if necessary to reflect changes in sensitivities and risks that may impact the results of the Group. Action is taken, where appropriate, when variances arise. This information is reviewed by the GEC on a monthly basis and by the Board on a quarterly basis.

Furthermore, the Group has adopted and implemented a coordinated, formalized and consistent approach to risk management and control. Information concerning the Group's risk management processes is included in the Risk Management section starting on page 20 and in note 26 of the consolidated financial statements on page 176.

The process and the results of this approach are further described on page 51 under the Internal Control Statement.

The internal audit function and the external auditors as well as the compliance function also assist the Board in exercising its controlling and supervisory duties. Information on major areas of activities of these functions is set out on pages 49 to 51.

Management Board

Group Executive Committee

To the extent not reserved to the Board, management is delegated to the CEO. The CEO, and under his supervision the GEC, are responsible for dealing with strategic, financial and business policy issues of Group-wide relevance, including consolidated performance, capital allocation and mergers and acquisitions.

Corporate Governance

The GEC is headed by the CEO. As of December 31, 2007 members of the GEC included the Chief Financial Officer, the Chief Investment Officer, the Chief Growth Officer and the heads of the business segments – General Insurance, Global Life and Farmers Management Services. In addition, the heads of the following businesses are members of the GEC: North America Commercial, Global Corporate and Europe General Insurance. As per March 1, 2007, the newly created function of Chief Growth Officer became part of the GEC. Following the retirement of the Chief Operating Officer at the end of February 2007, this function is no longer represented in the GEC. Furthermore, as from October 1, 2007, the Designated CEO Global Life also became a member of the GEC.

For key areas specific committees have been established to facilitate the coordination and alignment of recommendations to the CEO for approval on specific subject matters that are often of cross-divisional and cross-functional nature.

A standing committee of the GEC is the Group Balance Sheet Committee, chaired by the CEO. This committee reviews key financial matters resulting from implementation of strategy, developments in the financial environment and the financial condition of the Group. It deals with capital management and allocation and considers specific transactions or business changes not reflected in the Group financial plan that impact the Group's balance sheet under delegation approved by the Board of Directors. Furthermore, it monitors the risk appetite of the Group and discusses topics that may have an impact on the Group's balance sheet. A further GEC committee is the Group Finance and Risk Committee (formerly Group Finance Committee) chaired by the Chief Financial Officer. The Group Finance and Risk Committee monitors the implementation of finance-related matters decided by the Board, the CEO and/or the GEC and gives recommendations for future courses of action with respect to potential M&A transactions and topics relating to finance, risk management and reinsurance.

More technical committees include the Asset/Liability Management (ALM), chaired by the Chief Investment Officer, the Group Reinsurance Committee, chaired by the Head of Group Reinsurance and the Group Pension Committee, chaired by the CEO Global Life.

In addition, to enhance its understanding and assessment of the challenges and risks Zurich may face, the Group increasingly seeks external expertise and perspective. As of the end of 2007 the Group had three panels of leading academics, business and industry experts to provide feedback and insights. They are not corporate bodies of the Group and have no decision making powers. They provide expertise and advice to the management or certain functions of the Group. In particular, the International Advisory Council is mandated to provide an external perspective and expertise to the CEO and to members of the GEC and GMB on the Group's growth and public policy strategies. The Investment Management Advisory Council offers feedback on Zurich's investment results and strategy and on achieving superior risk-adjusted returns relative to the liabilities for the Group's invested assets. The Natural Catastrophe Advisory Council provides insight into the patterns of occurrence, predictability and destructiveness of catastrophes, and feedback about Zurich's approach to such catastrophes in order to help improve the effectiveness of its underwriting and reinsurance purchasing.

In January 2008 a further panel of leading academics and experts has been established, the Climate Change Advisory Council, which advises management on issues associated with climate change.

Members of the GEC, as of December 31, 2007	Name	Nationality	Age	Position held
		James J. Schiro	American	61
	John Amore	American	59	Chief Executive Officer General Insurance
	Annette Court	British	45	Chief Executive Officer Europe General Insurance
	Mario Greco	Italian	48	Designated Chief Executive Officer Global Life
	Paul Hopkins	American	51	Chief Executive Officer Famers Group, Inc.
	Axel Lehmann	Swiss	48	Chief Executive Officer North America Commercial
	Patrick O'Sullivan	Irish	58	Chief Growth Officer
	Geoff Riddell	British	51	Chief Executive Officer Global Corporate
	Martin Senn	Swiss	50	Chief Investment Officer
	Paul van de Geijn	Dutch	61	Chief Executive Officer Global Life
	Dieter Wemmer	German	50	Chief Financial Officer

With the exception of Annette Court and Mario Greco, who joined the GEC on March 1, 2007 and October 1, 2007, respectively, all current members of the GEC served throughout the year 2007.

On February 28, 2007 Peter Eckert, the Chief Operating Officer stepped down from all his functions, as he reached retirement age. Effective March 1, 2007, Patrick O'Sullivan, the former Group Finance Director, assumed the new positions of Vice-Chairman of the Group Management Board and Chief Growth Officer. In his function as Chief Growth Officer he remained a member of the GEC. Dieter Wemmer, the former CEO of Europe General Insurance, succeeded Patrick O'Sullivan as the Group's Chief Financial Officer as from March 1, 2007. As from the same date, Annette Court took over as CEO of Europe General Insurance and became a member of the GEC. Mario Greco joined the Group and the GEC on October 1, 2007 as Designated CEO Global Life and will eventually succeed Paul van de Geijn as the CEO Global Life in 2008, when Paul van de Geijn reaches his planned retirement date.

For information on contractual termination benefits, see page 49.

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Biographies

James J. Schiro graduated from St. John's University, New York, with a bachelor's degree in business administration. He holds an honorary Doctor of Commercial Science degree from the same university. After qualifying as a certified public accountant, he joined Price Waterhouse in 1967 and held various management positions before becoming chairman and senior partner of the US firm in 1994. After the merger of Price Waterhouse and Coopers & Lybrand in 1998, he became global chief executive officer of PricewaterhouseCoopers. He joined Zurich in March 2002 as Chief Operating Officer – Group Finance and was appointed Chief Executive Officer of the Group two months later. He is a member of the board of directors of PepsiCo. and the supervisory board of Royal Philips Electronics. He is also chairman of the Swiss American Chamber of Commerce, a member of the board of The Geneva Association, a member of the European Financial Services Round Table, a member of the Business Council of the World Economic Forum and since February 2008 a member of the board of directors of the Institute of International Finance (IIF). Additionally, he serves as vice chairman of the American Friends of the Lucerne Festival and is a member of the board of trustees of the Lucerne Festival. Furthermore, he is a member of the boards of trustees of St John's University, New York, and the Institute of Advanced Study in Princeton, New Jersey, as well as various other boards.

John J. Amore graduated with a degree in management from Embry-Riddle Aeronautical University, Daytona Beach (US), and with an MBA in finance from New York University. Before joining Zurich, he was vice chairman of the Commerce and Industry Insurance Company, a member company of American International Group (AIG). He later became Chief Executive Officer of the Zurich US Specialties business unit and was appointed Chief Executive Officer of Zurich US in December 2000. He was CEO of Zurich's North America Corporate business division until end of August 2004. In April 2004 he was appointed CEO of the General Insurance business segment, and since September 2004 he has been concentrating on this global leadership role. Mr. Amore is the immediate past chairman of the American Insurance Association and has served on its board since 2001. He serves as director on the board of overseers for the School of Risk Management, Insurance and Actuarial Science at St. John's University in New York. He is an elected partner for the Partnership for New York City, an organization dedicated to maintaining the city's position as a global center of commerce and innovation and serves on the U.S. Chamber of Commerce's board of directors.

Annette Court graduated from Oxford with an honors degree in engineering science. She joined IBM UK Ltd. in 1983, working in various positions in systems engineering and client management in the banking and insurance sectors. In 1994, she joined Direct Line Group as central planning manager, and three years later became managing director of motor insurance. She was appointed managing director of Direct Line Insurance in 2000 and chief executive officer of Direct Line Group the following year, responsible for all retail, partnerships and international businesses. In 2003, Annette Court became chief executive officer of Royal Bank of Scotland Insurance following the acquisition and successful integration of Churchill Group with Direct Line. She joined Zurich on January 15, 2007 and assumed the function of CEO of Europe General Insurance and member of the GEC as of March 1, 2007. She is a member of the board of the Association of British Insurers.

Mario Greco earned an undergraduate degree in Economics from the University of Rome and completed a Master in International Economics and Monetary Theory at Rochester University, New York (USA). Mario Greco started his professional career in management consulting, working with McKinsey & Company's Milan office from 1986 until 1994, becoming a partner in 1992 and a partner leader in the insurance segment. In 1995, he joined RAS (Allianz Group) in Milan as head of Claims Division. He became general manager in charge of the insurance business the following year, and in 1998 was appointed managing director. In 2000, he became the company's chief executive officer, remaining in the position for four years. He was appointed head of Allianz's Life Sustainability business in Munich in 2004, and later that year he was appointed to Allianz AG's executive board, with responsibility for France, Italy, Spain, Portugal, Greece and Turkey. In April 2005, he joined the Sanpaolo IMI Group in Milan as the chief executive officer of EurizonVita, formerly named Aip, as part of a project to build up the Group's insurance and asset management businesses. In October 2005, he was appointed chief executive officer of EFG, the company holding the Sanpaolo IMI Group's investments in Eurizon Vita and Banca Fideuram, and Eurizon Capital. He joined Zurich on October 1, 2007 as the designated CEO Global Life and became a member of the GEC. He is also a member of the Board of Directors of Editoriale l'Espresso Group, Indesit, Saras and Bocconi University, Milan.

Paul N. Hopkins holds a Bachelor of Science degree in business from the Eastern Illinois University and completed the Advanced Executive Education program of the Wharton Business School. He joined the Farmers organization in 1978 as an agent and subsequently became a Farmers employee, where he held positions of increasing responsibility in the sales and marketing area. In 1992 he transferred to the Los Angeles Regional Office as Assistant Vice President, Regional Operations. He became Vice President Agencies in 1995, and Senior Vice President Agencies two years later. In 1998, he was made Senior Vice President and Chief Marketing Officer, a position he held until January 1, 2000, when he was appointed Senior Vice President of State Operations. His next assignment, as Senior Vice President of Strategic Alliances, became effective in April 2001. In August 2002 he was promoted to Executive Vice President, Market Management, and two years later became President of Farmers Group, Inc. Mr. Hopkins was appointed a member of Zurich's Group Management Board in December 2004. Since April 2005, he has been Chief Executive Officer of Farmers Group, Inc. and a member of Zurich's Group Executive Committee. He also serves on the Board of Farmers Group, Inc. and is Chairman of the Board of Farmers New World Life Insurance Company. In 2006, Mr. Hopkins was named as Chairman of the Board of ZFUS Services, LLC, Zurich's North American shared services platform. Mr. Hopkins also serves as a member of the Board of Trustees for the American Institute for Chartered Property Casualty Underwriters, as well as a member of the Board of the Insurance Information Institute.

Axel P. Lehmann graduated with an MBA and PhD from the University of St Gallen in Switzerland. After several US research studies, he wrote a post-doctorate certification at the University of St Gallen and subsequently completed the Wharton Advanced Management Program. He was a lecturer at several universities and institutes and became vice president of the Institute of Insurance Economics at the University of St Gallen and the European Center responsible for Consulting and Management Development. He was head of Corporate Planning and Corporate Controlling for Swiss Life before he joined Zurich in 1996 and held various executive management and corporate development positions within Zurich Switzerland. He became a member of the Group Management Board responsible for Group-wide Business Development functions in November 2000. In September 2001, he was appointed Chief Executive Officer of the former Northern European region and subsequently Chief Executive Officer of the Zurich Group, Germany. In March 2002, he became CEO of the Continental Europe business division and a member of the GEC. In 2004, he was in charge of the consolidation of the United Kingdom and Ireland division with the Continental Europe division and assumed responsibility as CEO for the creation of the integrated Europe General Insurance business division. In September 2004, he became CEO of Zurich North America Commercial in Schaumburg/Chicago. In January 2008 he assumed his current role as Group Chief Risk Officer with additional responsibility for Group IT. Mr. Lehmann is an honorary professor for business administration and service management and chairman of the board of the Institute for Insurance Economics at the University of St Gallen in Switzerland.

Patrick H. O'Sullivan graduated from Trinity College, Dublin, with a degree in business studies. He qualified with Arthur Andersen as a chartered accountant, followed by a masters of science degree in accounting and finance from the London School of Economics. After qualifying, he joined the Bank of America, working in London, Miami, Los Angeles and Frankfurt. In 1988 he joined Goldman Sachs as financial controller for Europe, and in 1990 moved to Financial Guaranty Insurance Company (FGIC), a wholly-owned subsidiary of GE Capital. He was appointed to the FGIC board in 1993. The following year, he joined Barclays/BZW as head of International Banking & Structured Finance, and in September 1996 he became BZW's chief operating officer. In 1997, he joined Eagle Star Insurance Company as chief executive, and, the following year, was appointed Chief Executive Officer of Zurich's general insurance business in the United Kingdom. In December 2002, he became Group Finance Director of Zurich Financial Services and a member of the GEC. In March 2007, he was appointed to his current position as Vice Chairman of the Group Management Board and Chief Growth Officer. He is responsible, in addition, for the Group's International and Centrally Managed Businesses as well as Banking.

Geoff Riddell holds a MA degree in natural sciences (chemistry) from Oxford University (The Queen's College) and later qualified as a chartered accountant. He started his career with Price Waterhouse in 1978 and four years later moved to AIG, where he held various roles, including country manager for Hong Kong, Belgium and France. He joined Zurich in 2000, initially as managing director of Zurich Commercial in the UK, and then became managing director of the UK Corporate and Government businesses. In November 2002, he became CEO of the General Insurance business in the UK, Ireland and South Africa. In 2004, he became CEO Global Corporate and was appointed to the Group Executive Committee. Mr. Riddell is a former member of the General Insurance Council of the Association of British Insurers and for three years chaired its

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liability committee. From 1990 to 1995, he was a member of the Hong Kong Federation of Insurers Council. He became a director of Pool Re in February 2005 and of the Forum for Global Health Protection in 2007. He is a member of the Foundation Board of IMD, Lausanne. He is also a member of the Confederation of the British Industry International Advisory Board, a member of the City EU Advisory Committee and of the Lord Mayor of London's Advisory Committee.

Martin Senn received his commercial and banking diploma from the Business School in Basel, Switzerland and graduated from the International Executive Program at INSEAD in Fontainebleau and the Advanced Management Program at Harvard Business School. He is a trained banker and worked at the former Swiss Bank Corporation from 1976 to 1994 where his international career steps included treasurer in Hong Kong and regional treasurer for Asia and the Pacific region in Singapore before ultimately managing the company's Tokyo office. In 1994 he joined Credit Suisse where his executive roles included that of treasurer for the Head Office and Europe, chairman and turnaround manager of Credit Suisse Group Japan with a mandate to restructure and reposition all legal entities of the Group in Japan. In 2001, he became a member of the Credit Suisse executive board and was appointed head of its Trading and Investment Services Division. From 2003 until 2006 he served as a member of the corporate executive board and as chief investment officer of the Swiss Life Group. Mr. Senn joined Zurich on April 1, 2006 as Chief Investment Officer and became a member of the Group Executive Committee as per the same date. He is a member of the Technopark Zurich Foundation. Since January 2007 he is also a member of the governing board of Avenir Suisse and since April 2007 treasurer of the Zurich Association of Economics. In addition he serves as Honorary Consul of the Republic of Korea in Zurich. He previously was a member of the board of directors of various banks and financial services institutions.

Paul van de Geijn graduated in business law from Leiden University in the Netherlands in 1971 and joined one of the predecessors of AEGON. He started as legal counsel and then worked in the non-life sector before moving to a senior management position in 1978. After the merger which created AEGON in 1983, he was appointed a member of the management board of AEGON the Netherlands, becoming its chairman in 1991. The following year, he joined the executive board of AEGON N.V., with responsibilities for the Dutch and later Spanish and Hungarian operations. In 2002, he handed over responsibility for the Dutch operations and assumed responsibilities for AEGON USA and the AEGON corporate responsibility program. From 2000 to 2002 he was chairman of the Dutch Association of Insurers. In November 2003 he joined Zurich as CEO Global Life and became a member of the GEC. He held positions in a public/private partnership in the business community and on the executive committee of the Dutch Employers' Association.

Dieter Wemmer holds a PhD and a master's degree in mathematics from the University of Cologne. From 1983 until 1986, he worked in pure mathematics at the universities of Cologne and Oxford. In 1986, he joined Zurich Re (Cologne), at that time a reinsurance subsidiary of Zurich's German operation Agrippina, as a pricing actuary for life reinsurance. He became Head of Life Reinsurance and Chief Actuary five years later. From 1992 until 1996, Mr. Wemmer held various positions with Agrippina, joining the management board in 1995 responsible for Controlling/Planning, Communication and Real Estate management. He was seconded to Zurich's Corporate Center in 1996 as project manager for the implementation of International Accounting Standards (IAS) and US Generally Accepted Accounting Principles (US GAAP). One year later, he became Head of Financial Controlling. From 1999 until May 2003, he was Head of Mergers and Acquisitions, with additional responsibility for capital management and General and Life Actuarial from 2002. He became Chief Operating Officer of the Europe General Insurance business division in May 2003. In November 2004, he was appointed CEO Europe General Insurance and became a member of the Group Executive Committee. Since March 2007, he has assumed his current role as Chief Financial Officer of Zurich Financial Services Group. Mr Wemmer is a member of the board of "economiesuisse".

Changes to the GEC after January 1, 2008

As from January 1, 2008, Axel Lehmann assumed the role of Chief Risk Officer, a role which has been elevated to Group Executive Committee status as of the same date, reflecting the enhanced importance of Risk Management within the Group. He also assumed responsibility for Group IT. In his new role as Chief Risk Officer Axel Lehmann remains a member of the GEC. As from the same date, Mike Foley took over as CEO of Zurich's North America Commercial business division, and became a member of the GEC.

Mike Foley, 45, American, graduated in math and economics from Fairfield University, Connecticut. He joined the financial management training program of Armtek Corporation, Connecticut, in 1984, and later gained an MBA in marketing/finance from the J.L. Kellogg Graduate School of Management at Northwestern University in Evanston, Illinois. In 1989 he joined the Deepath Group investment banking firm in Lake Forest, Illinois, as an associate and became vice president responsible for managing the portfolio of equity investments in various acquired businesses. In 1993 he joined Electrocal, Inc in Connecticut as president, and three years later moved to McKinsey & Company in Chicago as a principal, becoming leader of its North American property/casualty insurance practice. He joined Zurich in 2006 as Chief Operating Officer of its North America Commercial business division, and in January 2008 was appointed CEO of that division and a member of the Group Executive Committee.

Members of the GEC are also part of the Group Management Board (GMB), which includes the heads of certain business units and Group functions. The GMB primarily focuses on communication, capability building and development of the Group, represents the businesses and functions and serves to foster horizontal collaboration throughout the Group.

Additional members of the GMB, as of December 31, 2007

Name	Nationality	Age	Position held
Thomas Buess	Swiss	50	Chief Operating Officer, Global Life
Peter Goerke	Swiss	45	Group Head Human Resources
Richard Kearns	American	57	Chief Administrative Officer
Michael Paravicini	Swiss	46	Chief Information Technology Officer
Reto Schiltknecht	Swiss	47	Group General Counsel
Franz Wipfli	Swiss	56	Head of Organizational Transformation Management

John Lynch, Head of US Small Business retired from the Group and the GMB effective June 30, 2007

As from January 1, 2008, Inga Beale joined the Group as Head of Mergers & Acquisitions and Organizational Transformation Management. In her new position Inga Beale became a member of the GMB as of the same date. Mr Wipfli will retire in May 2008.

Management contracts

Zurich Financial Services has not transferred key parts of management by contract to other companies (or individuals) not belonging to (or employed by) the Group.

Shareholders' participation rights

Voting rights restrictions and representation

Each share entered into the share register provides for one vote. There are no voting right restrictions.

A shareholder with voting rights can attend shareholders' meetings of Zurich Financial Services in person. He or she may also authorize, in writing, another shareholder with voting rights or any person permitted under the Articles of Incorporation and a more detailed directive of the Board to represent him or her at the shareholders' meeting. Based on the Articles of Incorporation, minors or wards may be represented by their legal representatives, married persons by their spouses and a legal entity may be represented by a person authorized to bind it by his or her signature, even if such persons are not shareholders. Furthermore, authority of representation may be given to the Independent Representative of Shareholders, to a statutory representative or to representatives of bank accounts who do not need to be shareholders themselves. Zurich Financial Services may under certain circumstances authorize the beneficial owners of the shares that are held by professional persons as nominees (such as a trust company, bank, professional asset manager, clearing organization, investment fund or other entity recognized by Zurich Financial Services) to attend the shareholders' meetings and exercise votes as proxy of the relevant nominee. For further details, see page 34.

Zurich Financial Services used electronic voting for all the resolutions taken at last year's Annual General Meeting. In accordance with Swiss practice, Zurich Financial Services informs all shareholders at the beginning of the general meeting of the aggregate number of proxy votes received.

Statutory quorums

Pursuant to the Articles of Incorporation, the general meeting constitutes a quorum irrespective of the number of shareholders present and shares represented. Resolutions and elections generally require the approval of a simple majority of the votes cast, excluding abstentions, blank and invalid votes, unless respective provisions in the Articles of Incorporation (of which there are none) or mandatory legal provisions stipulate otherwise. Article 704 of the Swiss Code of Obligations provides for a two-thirds majority of votes cast representing an absolute majority of nominal values of shares represented for certain important matters, such as the change of the company purpose and domicile, the dissolution of the company, and matters relating to capital increases. In the event of the votes being equally divided, the decision rests with the Chairman.

Convocation of the general meeting of shareholders

General meetings of shareholders are convened by the Board of Directors or, if necessary, by the auditors and other bodies in accordance with the provisions set out in Articles 699 and 700 of the Swiss Code of Obligations. Shareholders with voting rights representing at least 10% of the share capital may call a shareholders' meeting, indicating the matters to be discussed and the corresponding proposals. The convocation period consists of at least 20 calendar days, whereby Zurich Financial Services usually posts the invitation to shareholders at least 20 working days before the meeting and publishes the invitation in the Swiss Official Gazette of Commerce and in several newspapers.

Agenda

The Board of Directors is responsible for developing the agenda and sending it to the shareholders. Shareholders with voting rights who together represent shares with a nominal value of at least CHF 10,000 may request in writing, no later than 45 days before the day of the meeting, that specific proposals be included on the agenda.

Registrations in the share register

With a view to ensure an orderly process, shortly before the shareholders' meeting the Board determines the record date at which a shareholder needs to be registered in the share register in order to exercise his or her participation rights by attending the shareholders' meeting. Such record date is published, together with the invitation to the shareholders' meeting, in the Swiss Official Gazette of Commerce and in several newspapers.

Changes of control and defense measures

Duty to make an offer

The Articles of Incorporation of Zurich Financial Services do not provide for an opting out or opting up in the meaning of Articles 22 and 32 of the Federal Act on Stock Exchanges and Securities Trading. Therefore, mandatory offers have to be submitted when a shareholder or a group of shareholders acting in concert exceed 33 1/3% of the issued and outstanding share capital.

Clauses on changes of control

Employment agreements have been entered into with the members of the GEC, setting out the terms and conditions on which they are employed. With regard to termination benefits, the longest period of severance for members of the GEC is two years, including the notice period, and no additional severance benefits are provided in the case of a change of control.

For the CEO, termination benefits are linked to the term of his employment contract, which will expire on December 31, 2009. As at December 31, 2007, the period of severance for the CEO was therefore two years (including the notice period). The period of severance will reduce linearly over time. In the case of a termination of his employment following a change of control, an additional payment of up to two times his annual base salary and annual target cash incentive, depending on the remaining length of employment, will be paid. Further, the CEO will be entitled to an additional gross-up payment if the total termination benefits paid following a change of control become subject to US Excise Tax.

The Group's share-based compensation programs include regulations regarding the impact of a change of control. These regulations provide that in the case of a change of control, the Plan Administrator has the right to have the existing share obligations rolled over into new share rights or to provide consideration for such obligations that are not rolled over. Participants who lose their employment as a result of a change of control have an automatic right to the vesting of share obligations. No other benefits are provided to the members of the Group's senior management in case of a change of control.

For the members of the Board of Directors no benefits are provided in case of a change of control.

External Auditors

Duration of the mandate and term of office of the lead auditor

PricewaterhouseCoopers AG, Birchstrasse 160, in 8050 Zurich (PwC), is Zurich Financial Services' external statutory auditor and Group auditor of its consolidated accounts. PwC assumes all auditing functions, which are required by law and by the Articles of Incorporation of Zurich Financial Services. They are elected by the shareholders of Zurich Financial Services on an annual basis. At the Annual General Meeting of shareholders on April 3, 2007, PwC was re-elected by the shareholders of Zurich Financial Services. The Board of Directors proposes that PwC be re-elected at the upcoming Annual General Meeting as statutory auditors and Group auditors for the business year 2008. PwC fulfills all necessary requirements under the new Swiss Federal Act on the Admission and Oversight of Auditors and has been admitted as a registered auditing company by the Federal Audit Oversight Authority under this Act.

PwC and its predecessor organizations, Coopers & Lybrand and Schweizerische Treuhandgesellschaft AG, have served as external auditors of Zurich Financial Services and its predecessor organizations since May 11, 1983. As in 2000, the Group in 2007 again conducted a tender process, inviting all major auditing firms to submit their work programs and tender offers for 2008 and subsequent years. After a thorough review, the Group came to the conclusion that PwC's work program and offer prevailed and as a result the Board proposes PwC for re-election for the next business year.

Roger Marshall of PricewaterhouseCoopers AG is the lead auditor, responsible since January 1, 2003 and to the end of the business year 2007. The Group requires rotation every five years for the lead auditor. Accordingly, Patrick Shoumlin of PricewaterhouseCoopers AG will become the new lead auditor for the next business year starting as of January 1, 2008.

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OBT AG has been elected as a special auditor to perform special audits for increases in share capital required under Articles 652f, 653f and 653i of the Swiss Code of Obligations. At the Annual General Meeting of shareholders on April 19, 2005, OBT was re-elected by the shareholders for a three-year term. OBT AG originally assumed this mandate in October 2000. The Board proposes to the Annual General Meeting to be held on April 3, 2008, that OBT be re-elected as special auditor for a further three-year term.

Auditing fees

Total auditing fees (including expenses and value added taxes) charged by the Group auditors in the year 2007 amounted to USD 45.1 million (USD 42.9 million in 2006).

Additional fees

Total fees (including expenses and value added taxes) in the year 2007 for additional services (e.g., tax services or special audits required by local law or regulatory bodies) performed by the Group auditors and parties associated with them for Zurich Financial Services or one of the Group's companies amounted to USD 3.7 million (USD 3.5 million in 2006).

Supervision and control over the external audit process

The Audit Committee regularly meets with the external auditors, at least four times a year. During 2007, the Audit Committee met with the external auditors six times. The external auditors regularly have private sessions with the Audit Committee, without Management present. Based on written reports, the Audit Committee discusses with the external auditors the quality of the Group's financial and accounting function and any recommendations that the external auditors may have. Topics considered during such discussions include strengthening of internal financial controls, applicable accounting principles and management reporting systems. In connection with the audit, the Audit Committee obtains from the external auditors a timely report relating to the audited financial statements of Zurich Financial Services and the Group.

The Audit Committee oversees the work of the external auditor. It reviews, at least annually, the qualification, performance and independence of the external auditors and reviews any matters that may impair their objectivity and independence based on a written report by the external auditors describing the firm's internal quality-control procedures, any material issues raised and all relationships between the external auditors and the Group and/or its employees that could be considered to bear on the external auditors' independence. The Audit Committee evaluates the cooperation received by the external auditors during their audit examination. It elicits the comments of management regarding the performance and responsiveness of the external auditors to the needs of Zurich Financial Services and the Group. The Audit Committee reviews, prior to the commencement of the annual audit, the scope and general extent of the external audit and suggests areas requiring special emphasis.

The Audit Committee proposes to the Board the external auditors for election by shareholders and is responsible for approving the audit fees. A proposal for fees for audit services is submitted by PwC to and validated by Management at the beginning of each year, before it is submitted to the Audit Committee for approval. Such a proposal is mainly based on an analysis of existing reporting units and expected changes to the legal and operational structure during the year.

The Audit Committee has approved a written policy on the use of external auditors for non-audit services, which sets forth the rules for providing such services and related matters. Allowable non-audit services may include tax advice and services, comfort and consent letters, certifications and attestations, due diligence and audit support in proposed transactions, to the extent that such work complies with applicable legal and regulatory requirements and does not compromise their independence or objectivity as external auditors. All allowable non-audit services need pre-approval from the Audit Committee (Chairman), the Group Chief Financial Officer or the local CFO, depending on the level of expected fee. They further require, among other things, an engagement letter specifying the services to be provided and making reference to the external auditors' obligation to comply with this policy.

Group Audit

The internal audit function of the Group ("Group Audit") is tasked with providing independent and objective assurance to the Board, Audit Committee, the CEO and management. It does this by developing an annual audit plan, using a risk-based methodology, which is updated quarterly to reflect changes in risk and priority. The plan is based on the full spectrum of business risks. Group Audit executes the plan by bringing a systematic and disciplined approach to evaluate, comment upon and improve risk management, control and governance processes. It assesses the suitability, reliability and functioning of the business organization with regard to technical and personnel matters and reviews the efficiency and effectiveness of the Group's control systems. In addition, the internal audit function reviews the financial reporting processes and regulations and reviews compliance with the Group's business and statutory requirements and regulations. Key issues raised by Group Audit are communicated to the responsible management function, the CEO and the Audit Committee using a suite of reporting tools.

The Audit Committee and the CEO are regularly informed of important findings, including ineffective opinions, mitigation actions and attention provided by Management. Group Audit has unrestricted access to all accounts, records and documents and must be provided with all data and information needed in order to fulfil its duties. Group Audit works in close-cooperation with external audit, sharing risk assessments, work plans, audit reports and updates on audit actions. Group Audit and external audit meet regularly at all levels of the organization to optimize assurance provision and efficiency.

The Audit Committee assesses the independence of Group Audit, and reviews its activities, plans, organization and quality as well as its mutual co-operation with the external auditors. In 2007, the Group commissioned an independent party to perform a review of Group Audit's effectiveness. The results confirmed Group Audit's practices meet or exceed the professional requirements of the Institute of Internal Audit (IIA), and in a high proportion of cases are consistent with global internal audit leading practices. Notwithstanding this positive result, Group Audit will continue to constantly challenge its operation to further increase its effectiveness, efficiency and value contribution.

The Audit Committee annually approves the Group Audit Plan and quarterly reviews reports from the function on its activities as well as significant risk, control and governance issues. The head of Group Audit reports to both the Chairman of the Audit Committee and the CEO.

Compliance

The Group's core values are founded on the principle that it acts lawfully and seeks to do what is right, reflecting its belief that without sound compliance in everything the company does, Zurich's reputation and the achievement of the Group's ambitious goals are jeopardized. Compliance teams support management in building awareness and understanding of compliance risks and offer training programs. A group wide policy provides dedicated processes for employees to raise concerns or report breaches with regards to the company's financial reporting, its internal compliance rules and legal or other obligations.

The Compliance function reviews laws, regulations and other requirements at all levels of the organization and reviews whether the Group is managing its compliance risks appropriately. It issues policies to ensure compliance with these requirements, supports and advises the businesses on how they apply to Zurich and monitors Zurich's compliance with them.

Key issues raised by the Compliance function across the organization and agreed remediation actions are communicated to the responsible management function, as well as to the corresponding oversight committees.

Internal control statement

The Board is overseeing the Group's risk management and internal control system, which Management has set up and which is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material financial misstatement or loss. There are two committees at the Board level that have primary risk and control oversight responsibilities:

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- the Risk Committee – with oversight over risk issues and
- the Audit Committee – with oversight over control issues.

At the management level management committees are established to continuously review risk and control matters. The management committees are consisting of such business and functional members to ensure independence of the business in review. The results of such reviews performed by these management committees are reported into the Board committees as appropriate.

The Group has adopted a coordinated and formalized approach to risk management and internal control. The Group's core risk and control systems and policies are generally established at the Group level with subsequent Group wide implementation. The principal focus of the approach is on major risks that might impact the achievement of the Group's business objectives, and focus on the activities to control and monitor these risks and to contribute to control effectiveness. Thus, a risk-aware and control-conscious environment is fostered in the Group and reinforced by communication and training.

Management is responsible for the identification, evaluation and control of significant risks. The Group manages risks throughout the organization, under direction of the senior management. Zurich has Group-wide risk management policies, common methods and tools for assessing and modeling risks. The Group risk assessment processes are aligned with the Group planning process and are reviewed by the Group Executive Committee and the Board Risk Committee. Significant risks, the results of the assessment and modeling processes and the relevant actions arising are reported regularly to the Risk Committee of the Board. Periodic local risk assessments are conducted using Zurich's Total Risk Profiling® tool and business units are required, at least quarterly, to report key risks and implement action plans to mitigate them.

The internal control system focuses on key financial, operational and compliance controls. The system encompasses the policies, processes and activities that contribute to the reliability of financial reporting, the effectiveness and efficiency of operations and the compliance with laws and regulations. In 2007, continuing progress was made to further develop and improve the Group's control framework whilst maintaining the focus on the effectiveness of the overall control environment.

The Group's annual business plan includes risk management considerations, as well as strategic and business direction, financial data and key indicators. During the year, the Board and Group Management receive regular reports summarizing financial condition, financial and operating performance, as compared to plan, and key risk exposures.

Processes and controls in the organization are subject to risk-based reviews by Management, the Group's internal audit function ("Group Audit") and Group Risk Management. Management reviews include the effective implementation of claims, underwriting, actuarial, accounting and reporting policies and procedures, as well as control activities for significant locations and Group information technology systems. The Board, through the Audit and Risk Committees, receives regular and if needed special reports from the Group Chief Risk Officer, Head of Group Audit and financial and business senior management on the adequacy of the control structure in place. In addition, the external auditors regularly report their conclusions, observations and recommendations arising from their independent audit process. The reports relate to matters such as a) significant changes in risks, the business and the external environment; b) management's monitoring and control systems; c) significant control issues, if any; and d) the effectiveness of the Group's external reporting process.

The Risk Committee has reviewed the Group's risk capacity and overseen Zurich's enterprise-wide risk governance framework and the Audit Committee has reviewed the effectiveness of the system of internal control operated by the Group related to the calendar year 2007 up to the date of the annual report and have reported to the Board accordingly. The Board is satisfied that the reviews were conducted in accordance with the U.K. Turnbull Guidance (as revised in October 2005). The assessment included the consideration of the effectiveness of the Group's ongoing process for identifying, evaluating, controlling and managing the risks of the business, including the scope and frequency of reports on both risk and control that were received and reviewed during the year by the Risk and Audit Committees and the Board, the important internal control matters discussed and associated actions taken by management. Issues identified by this process have been communicated to the Board and are being addressed by the Group.

Going concern

The Directors are satisfied that, having reviewed the performance of the Group and forecasts for the forthcoming year, the Group has adequate resources to enable it to continue in business for the foreseeable future. For this reason, the Directors have adopted the going concern basis for the preparation of the financial statements.

Employees

The Group is committed to provide equal opportunities when recruiting and promoting people, whereby ability, experience, skills, knowledge and diversity are the guiding principles. The Group actively encourages employee involvement in its activities via print and online publications, team briefings and regular meetings with employees' representatives.

The Group is party to a voluntary agreement within the scope of the European Works Council Directive. In some countries, the Group has established broad-based employee share compensation and incentive plans to encourage employees to become shareholders in the Group.

Information policy

Zurich Financial Services has approximately 108,000 shareholders registered in its share register, ranging from private individuals to large institutional investors. Each registered shareholder receives an invitation to the Annual General Meeting together with the Letter to the Shareholders that provides an overview of the Group's activities during the year and outlines its financial performance. The more comprehensive Annual Report consisting of the Financial Report and the Business Review, is available on Zurich's Web site (http://zdownload.zurich.com/main/reports/business_review_2007_en.pdf). Similar reports regarding half-year and quarterly results are available for all shareholders on Zurich's Web site. Shareholders may opt to receive printed versions of one or all of the aforementioned reports.

Zurich Financial Services maintains a regular dialogue with investors through its Investor Relations department and responds to questions and issues raised by institutional and private individual shareholders. In addition, Zurich Financial Services organizes investors days for institutional investors to provide comprehensive information on its businesses and strategic direction. Such presentations can be followed via webcast or conference call. The three investors days in 2007 focused on Capital Management (held on March 28, 2007), Strategy Update (May 23, 2007), and Investment Management (December 6, 2007). Further investors days are planned for 2008 on topics of interest to the investment market. A wide range of information on the Group and its businesses, including the aforementioned reports and the full documentation distributed at the investors days, is also available on the Investor Relations section of Zurich Financial Services' Web site, www.zurich.com (<http://www.zurich.com/main/investorrelations/investorrelations.htm>).

Zurich Financial Services will hold its Annual General Meeting on April 3, 2008. As part of the agenda, the Chairman, the CEO and the Chief Financial Officer will present a review of the business of the Group for the year 2007. The meeting will be conducted in the Hallenstadion in Zurich-Oerlikon. An invitation setting out the agenda for this meeting and an explanation of the proposed resolutions will be issued to shareholders by Zurich Financial Services at least 20 days before the meeting.

For addresses and further upcoming important dates, please refer to the Financial Calendar on page 262.

Remuneration Report

This Remuneration Report provides all the information that is outlined in chapter five of the Directive on Information Relating to Corporate Governance of the SWX Swiss Exchange and the Swiss Code of Best Practice, as amended with effect from January 1, 2007 and October 15, 2007 respectively. Included is also all information required by articles 663b^{bis} and 663c paragraph 3 of the Swiss Code of Obligations that are applicable for the first time for the business year 2007. The structure of this year's Remuneration Report has been revised to improve alignment with the new requirements of the Swiss Code of Obligations and the changes made to the above mentioned SWX Directive and Swiss Code of Best Practice. The first part of the Report describes the general principles and the governance framework, and the second part provides details of each of the remuneration elements.

Because the members of the Board of Directors of Zurich Financial Services are all non-executives, the information has been presented with the complete remuneration details of the Board of Directors contained in one section and that of the Group Executive Committee shown in a separate section.

All information required by articles 663b^{bis} and 663c paragraph 3 of the Swiss Code of Obligations is also included in the notes to the financial statements of Zurich Financial Services Holding Company.

The rest of the information to be disclosed according to the Directive of the SWX Swiss Exchange is included in the Corporate Governance Report preceding this Remuneration Report.

Remuneration principles

Directors

Recognizing that Zurich Financial Services is a global insurance-based financial services organization, the level of Directors' fees has been established to ensure the Group's ability to attract and retain high caliber individuals.

With effect from January 1, 2007, the fees paid to members of the Board of Directors of Zurich Financial Services incorporated the fee that was previously paid for the additional membership of the Board of Zurich Insurance Company. Therefore all Directors received in 2007 only one overall fee for their membership of the Boards of Zurich Financial Services and Zurich Insurance Company. Furthermore, with effect from January 1, 2007, a fixed portion of the overall fee was paid in Zurich Financial Services shares to increase alignment with shareholder interests. The shares are sales-restricted for three years.

The fees paid to Directors (including the portion allocated as shares) are not subject to the achievement of any specific performance conditions.

Group Executive Committee and all other employees

For the members of the Group Executive Committee (GEC) and all other employees throughout the Group, a compensation philosophy has been implemented as part of The Zurich Way initiatives.

The key components of this compensation philosophy are described below.

Zurich is committed to providing competitive total compensation opportunities that attract, retain, motivate and reward employees to deliver outstanding performance in the eyes of customers and shareholders. The compensation philosophy is an integral part of the overall offering to employees. Zurich has a clearly defined performance management process which supports the achievement of the overall business strategy and operating plans and links individual pay with business and personal performance. This is delivered through the compensation framework overseen by the Group Executive Committee, the Remuneration Committee of the Board and the Board itself.

Guiding principles

The guiding principles are as follows:

- Promote a high performance culture by differentiating total compensation based on the relative performance of businesses and individuals.
- Link variable compensation awards to relevant performance factors which can include the performance of the Zurich Group, business areas, e.g., segments, divisions, functions, units, and individual achievements.
- Clearly define the expected performance through a structured system of performance management and use this as the basis for compensation decisions.
- Provide employees with benefits based on local market practices.

Total compensation

Total compensation is influenced by a number of factors such as business performance and affordability, individual performance, internal equity, and legal requirements. Target opportunities are benchmarked to median levels in clearly defined markets and take into account internal equity considerations. The compensation mix between base salary and variable pay is also aligned with local market practices and internal relativities. Zurich is open in the communication of how the reward structure is defined and the processes used for decision making. Total compensation includes the following elements:

Base salary

Base salary is the fixed pay for the role performed determined by the scope and complexity of the role and is reviewed annually. Overall base salary structures are positioned to manage salaries around the relevant market medians. At an individual level, base salary is generally paid within an 80%-120% range of the appropriate market median. Key factors are the individual's overall experience and performance.

Variable pay

Incentive plans are designed to provide a range of award opportunities linked to levels of performance. Business and individual performance may result in superior awards above target for superior performance, and reduced or no awards for performance below expectations. Variable pay opportunities are provided, in markets where this is the norm, to motivate employees to achieve key short and long-term business goals to increase shareholder value. Variable pay opportunities may include both short-term and long-term incentives:

- Short-term incentives are performance driven based on relevant factors which can include the performance of the Zurich Group and the business areas as well as individual performance achievements. Key performance measures are determined annually and focus on business priorities. They typically include profitability measures, such as group net income after tax (NIAT) and business operating profit (BOP).
- Long-term incentives are for a defined group of executives and senior managers, whose specific roles focus on the performance drivers of long-term shareholder value. The instruments used are primarily performance share and performance based share options. The performance share and share option grants only vest if certain performance conditions are met. One third of the target grant is assessed for vesting in each of the three years following the grant date based on the Group's performance achievements in terms of the Group's return on common shareholders' equity (ROE) and the position of Zurich's total shareholder return (TSR) compared with an international peer group of 28 insurance companies that are included in the Dow Jones Titan Insurance Index. Based on the actual ROE and TSR achievements, the vesting percentage can vary between 0% and 200% of the target grants. For the grants made in 2007, these are assessed for vesting on the basis of considering three years of TSR and ROE performance, previous grants are assessed on the basis of performance during the calendar year prior to vesting. Further details on the plans are set out in the section covering the actual remuneration of GEC members.

Zurich's variable pay plans are reviewed annually both as to their content and participants. The plans can be terminated, modified, changed or revised at any time.

Employee benefits

Zurich provides employee benefits which are designed by reference to local market practice. Employees are normally required to contribute to the cost of these benefits, and the overall benefits offering is based on the relevant market median.

Remuneration Report

Remuneration governance

The Board of Directors defines the remuneration principles based on proposals of the Remuneration Committee. Based on these remuneration principles the Remuneration Committee is responsible for proposing to the Board on an annual basis the remuneration payable to the Directors, to the Chief Executive Officer (CEO) and to the other members of the GEC. For the other members of the GEC, these recommendations are based on proposals made by the CEO. The remuneration is approved by the Board of Directors. The Remuneration Committee does not include members with interlinked company mandates. For further details of its responsibilities see page 39 in the Corporate Governance Report.

To assist decision making on both Board and GEC remuneration, benchmarking studies are carried out regularly. To assess market practices and market compensation levels, the companies in the Dow Jones Titan Insurance Index are analyzed. This Index comprises the largest insurance companies based in both Europe and in the United States. This analysis is supplemented by additional benchmarking studies as appropriate, e.g. by looking at practices within the large Swiss Market Index (SMI) companies in Switzerland or at similar sized companies in other countries.

The results of the benchmarking studies are taken into account in setting fee levels for Directors and compensation structures for members of the GEC. In analyzing the results, factors considered are the market practices in the various countries and the internal relativities between positions. Overall positioning of the compensation structures is towards the median levels.

In reviewing compensation structures and practices on a regular basis, the Remuneration Committee has appointed its own independent adviser, Hewitt Associates, and the CEO is supported by Mercer HR Consulting. As both companies operate in the field of international compensation and benefits, they do have other mandates with Zurich.

In the meetings of the Remuneration Committee and the Board of Directors where decisions are made on the compensation of the Chairman, the Chairman is not present. In making decisions on the compensation of the CEO, the CEO is not present. Where decisions are made on the compensation of other members of the GEC, those members are also not present at the meetings.

Remuneration and shareholdings of the members of the Board of Directors and the Group Executive Committee

As of December 31, 2007, all of the Directors of Zurich Financial Services are non-executives, independent of management. The remuneration for Directors and for members of the Group Executive Committee (Executives), as well as their shareholdings, is therefore disclosed separately.

Directors

Directors' fees

To simplify the fee structure and to increase alignment with shareholders' interests, the fee structure for Directors of Zurich Financial Services and Directors of Zurich Insurance Company was amended in January 2007.

All Directors now receive only one fee, which is paid partly in cash and allocated partly in three-year sales-restricted Zurich Financial Services shares, for their memberships of the Boards of Zurich Financial Services and Zurich Insurance Company. The shares are provided as part of the overall fee which is not subject to the achievement of any defined performance targets. Other than these changes, there were no other changes in the structure or in the amounts in 2007 compared to 2006.

Except for the Chairman and Vice Chairman, Directors are remunerated with a basic annual fee of USD 205,000. One-third of this annual basic fee, i.e. USD 68,500 is allocated to sales-restricted Zurich Financial Services shares. Committee members receive an additional cash fee of USD 40,000 for all Committees on which they serve, irrespective of the number. In addition, the chair of each Committee receives an annual fee of USD 20,000 and the chair of the Audit Committee receives an additional USD 10,000. Directors who reside in the United States receive an additional fee of USD 10,000 per annum. The Committees on which the members serve is set out in the Corporate Governance Report on page 35.

The current annual fee for the Vice Chairman is USD 330,000, of which an amount of USD 68,500 is allocated to sales-restricted Zurich Financial Services shares. The annual fee for the Chairman of the Board of Zurich Financial Services and Zurich Insurance Company during 2007 was USD 580,000 and one-third of the total amount, i.e. USD 193,500 is allocated to sales-restricted Zurich Financial Services shares. Following a review of fee levels, the annual fee for the Chairman was increased to USD 700,000 with effect from January 1, 2008.

Neither the Chairman nor the Vice Chairman receive any additional fees for their Committee work.

Based on this structure, the total aggregate fees allocated to the Directors of Zurich Financial Services and Zurich Insurance Company for the year ended December 31, 2007, amounted to USD 3,089,167. This was paid USD 2,279,167 in cash and a value at the grant date of USD 810,000 in three-year sales-restricted shares. The share price at the grant date was CHF 389.50.

The Directors' fees are not pensionable.

Remuneration Report

The following table sets out the fees paid to the Directors in 2007:

Directors' fees	2007 ¹						
	Basic Fee	Committee Fee ²	Chair Fee ³	US Residence Fee ⁴	Total Fee	Of which paid in Cash ⁵	Of which allocated in Shares ^{6,7}
M. Gentz, Chairman ⁸	580,000	–	–	–	580,000	386,500	193,500
Ph. Pidoux, Vice Chairman ⁸	330,000	–	–	–	330,000	261,500	68,500
Th. Escher, Member	205,000	40,000	–	–	245,000	176,500	68,500
R.E.J. Gilmore, Member ^{9,10}	52,959	10,333	–	–	63,292	63,292	–
F. Kindle, Member	205,000	40,000	–	–	245,000	176,500	68,500
D.G. Mead, Member ⁹	52,959	10,333	5,167	2,583	71,042	71,042	–
A. Meyer, Member	205,000	40,000	–	–	245,000	176,500	68,500
D. Nicolaisen, Member	205,000	40,000	20,000	10,000	275,000	206,500	68,500
V.L. Sankey, Member ¹¹	205,000	40,000	14,833	–	259,833	191,333	68,500
G. Schulmeyer, Member	205,000	40,000	30,000	10,000	285,000	216,500	68,500
T. de Swaan, Member	205,000	40,000	–	–	245,000	176,500	68,500
R. Watter, Member ³	205,000	40,000	–	–	245,000	176,500	68,500
Total in USD¹²	2,655,918	340,666	70,000	22,583	3,089,167	2,279,167	810,000

¹ The remuneration shown in the table does not include any business related expenses incurred in the performance of the members' services.

² Committee members receive a cash fee of USD 40,000 for all Committees on which they serve, irrespective of the number. The Committees on which the members serve are set out in the Corporate Governance Report on page 35.

³ Committee chairs receive an annual fee of USD 20,000 and the chair of the Audit Committee receives an additional USD 10,000. The Committees on which the members serve and the chairs are set out in the Corporate Governance Report on page 35.

⁴ Directors who reside in the United States receive a fee of USD 10,000 per annum.

⁵ The cash fees are defined in US dollars, but paid in the actual currencies where the members reside, based on the relevant exchange rate at the dates of the payment.

⁶ Mr Gentz was allocated 617 shares and the other members 218 shares as per June 30, 2007. The share price (CHF 389.50) and the exchange rate (USD/CHF 1.2422) as of June 15, 2007, were adopted to calculate the number of shares based on the fixed portion of the fee allocated in shares for the respective members. Where the value of the allocated shares did not equal the value of the portion of the fee to be allocated in shares, the difference was paid in cash. The amount shown in the table above reflects the fixed amount in USD of the portion of the fee to be allocated in shares.

⁷ The shares allocated to the Directors are sales-restricted for three years.

⁸ Neither the Chairman nor the Vice Chairman receive any additional fees for their Committee work.

⁹ Mrs Gilmore and Mr Mead retired from the Board of Directors on April 3, 2007 and received pro rata fees for their Board work up to that date.

¹⁰ In addition to the remuneration set out in the table, the company paid contributions for Mrs Gilmore into a group health insurance plan in the UK until her retirement in April 2007 at a cost of USD 631.

¹¹ Mr Sankey became Chairman of the Remuneration Committee on April 3, 2007 following the retirement of Mr Mead. He received a pro rata fee for being Chair.

¹² In line with applicable laws, Zurich paid the company related portion of contributions to social security systems, which amounted to USD 68,439 in 2007. Any personal contributions of the Directors to social security systems are included in the amounts shown in the table above.

Termination arrangements for members of the Board of Directors who gave up their functions during the year

At the Annual General Meeting in 2007, R.E.J. Gilmore and D.G. Mead gave up their Directorships and retired from the Boards. No termination payments were paid to them during the year.

Compensation for former Directors

No benefits (or waiver of claims) have been provided to former members of the Boards during the year 2007.

Share plans for Directors

The members of the Board of Directors of Zurich Financial Services and Zurich Insurance Company do not participate in any of the share-based incentive plans established for executive management. However, as mentioned above, part of the fees of the Board of Directors of Zurich Financial Services are allocated to three-year sales-restricted shares with effect from January 1, 2007. As mentioned above, the shares provided to Directors are part of the overall fee and are not subject to the achievement of any defined performance targets.

Shareholdings of Directors

The shareholdings of the Directors, who held office at the end of the year, in the shares of Zurich Financial Services are shown below. All interests shown are beneficial, including sales-restricted shares allocated to the members as part of their fee and shares held by related parties to the Directors.

Directors' shareholdings	Number of Zurich Financial Services shares as of December 31, 2007	Ownership of shares ¹
	M. Gentz, Chairman	2,117
	Ph. Pidoux, Vice Chairman	2,218
	Th. Escher, Member	4,218
	F. Kindle, Member	2,218
	A. Meyer, Member	1,542
	D. Nicolaisen, Member	218
	V.L. Sankey, Member	1,388
	G. Schulmeyer, Member	2,218
	T. de Swaan, Member	218
	R. Watter, Member	3,186
	Total	19,541

¹ None of the Directors together with related parties to them held more than 0.5% of the voting rights as of December 31, 2007.

Share options held by Directors

The members of the Boards of Directors of Zurich Financial Services and Zurich Insurance Company do not participate in any share option plan for executive management. Hence, no share options have been allotted in the year under review or in earlier years. None of the Directors, nor any related parties to them, hold any share options or conversion rights over Zurich Financial Services shares as of December 31, 2007.

Additional honoraria and remuneration for Directors

None of the Directors received any other compensation or benefits-in-kind from the Group or from any of the Group's companies other than that set out above.

Personal loans for Directors

As of December 31, 2007, none of the Directors had outstanding loans, advances or credits.

Personal loans for former Directors

As of December 31, 2007, no former Director had outstanding loans, advances or credits.

Related parties to the Directors or to former members of the Board

No benefits (or waiver of claims) have been provided to related parties of Directors or related parties to former members of the Board during the year 2007. Neither had any related party to Directors or to former members of the Board outstanding loans, advances or credits as of December 31, 2007.

Remuneration Report

Group Executive Committee

Remuneration of the Group Executive Committee

The total remuneration of the members of the GEC for 2007 comprised the value of cash compensation, pensions, other remuneration and the equity grants made under the Group's Long-Term Incentive Plan in 2007.

The compensation structure and the mix of the individual compensation elements for GEC members are determined by taking into account market practices and internal relativities. These elements are described below (the amounts for the highest paid executive are included):

Value of total remuneration

The total value of the various compensation elements earned by the members of the GEC in 2007 was USD 57.6 million. This compares with an equivalent figure of USD 48.2 million earned in 2006 calculated on the same basis. The increase in overall remuneration can be explained by two main issues. Firstly through an increase in the performance related Short-Term Incentive Plan payments awarded to members given the record results in 2007 and secondly through an increase in the value of the Long-Term Incentive Plan grants made in 2007.

The total value for 2007 comprises the following elements:

Base salary and annual cash incentives paid for 2007

The total amount of base salary and annual cash incentive awards earned under the Short-Term Incentive Plan for 2007 was USD 31.4 million. This comprised USD 11.3 million in base salaries and USD 20.1 million in annual cash incentive awards, which reflect the amounts to be paid in 2008 for 2007 performance. The annual cash incentive awards are determined individually and are performance based. Overall funding for the incentives is based on overall profit performance in 2007 and funds are allocated to individuals based on a combination of factors, including the results of the business that the GEC member is responsible for, the accomplishment of growth initiatives and their individual contribution to the accomplishment of strategic objectives during the year. For members of the GEC the target levels under the Short-Term Incentive Plan for 2007 were set at 100% of the base salary.

Value of pension benefits accruing during 2007

Members of the GEC participate in the pension plan arrangements of the business units in which they are employed. The Group's philosophy is to provide pension benefits through cash balance and/or defined contribution plans where funds are accumulated throughout a career to provide retirement benefits. The majority of GEC members participate in such plans and, over time, all future GEC members will participate in such plans. The other GEC members continue to participate in defined benefit plans that provide retirement benefits based on final pensionable earnings and the number of years of service. The normal retirement ages vary from 60 to 65. The total value of pension benefits accruing to members of the GEC during 2007, calculated on the basis of the Service Costs for the company as assessed under IAS 19 accounting principles, was USD 3.9 million. Service Costs value the amount of the pension benefits accruing during the year and for defined contribution plans takes the amount of the company contribution paid during the year.

Value of other remuneration paid in 2007

Members of the GEC received other remuneration in 2007 in relation to employee benefits, expatriate allowances, perquisites, benefits-in-kind and any other payments due under each member's employment contract. The total value of the other remuneration elements in 2007 was USD 3.6 million. Benefits-in-kind have been valued using market rates.

Equity grants made to the GEC under the Long-Term Incentive Plan in 2007

Remuneration components for GEC Members under the Long-Term Incentive Plan comprise an annual grant of performance shares and performance options. In extraordinary circumstances, restricted share grants may also be made. For members of the GEC, the overall value of the target annual grants in 2007 ranged from 100% to 125% of the base salary. For the Chief Executive Officer the overall value was set at 300% of the base salary.

The performance share and share option grants only vest if certain performance conditions are met. One third of the target grant is assessed for vesting in each of the three years 2008, 2009 and 2010 based on the Group's performance achievements in terms of the Group's return on common shareholders' equity (ROE) and the position of Zurich's total shareholder return (TSR) compared with an international peer group of 28 insurance companies that are included in the Dow Jones Titan Insurance Index. Based on the actual ROE and TSR achievements, the vesting percentage can vary between 0% and 200% of the target grants. For the grants made in 2007, these are assessed for vesting on the basis of considering three years of TSR and ROE performance, previous grants are assessed on the basis of performance during the calendar year prior to vesting.

The following grants were made in 2007:

Performance share grants

The total number of target performance share grants made to members of the GEC during 2007 was 29,845. This compares with an equivalent figure of 27,409 made for 2006. The value of the target performance share grants made to members of the GEC in 2007 was USD 8.7 million at the date of grant based on the assumption of 100% vesting and a share price of CHF 355.75 on the day prior to the grant.

The number of share awards that vested to members of the GEC in 2007 from the performance share grants made in 2004, 2005 and 2006 was 44,774. This represented a basic vesting level of 150% of target given the actual ROE and TSR performance achievements. One-half of the shares that vest under the plan are sales-restricted for three years from the date of vesting.

Restricted share grants

Restricted share grants supplement the regular long-term incentive grants and are used in extraordinary circumstances mainly for new hires to compensate for the loss of their equity rights with their previous employer.

The total number of restricted share grants made to members of the GEC during 2007 was 7,280. These restricted shares vest over the following three years and are forfeited if the holders of such shares leave voluntarily before the vesting date and the employment relationship terminates.

The value of the restricted share grants made in 2007 was USD 2.0 million at the date of grant on the assumption of 100% vesting.

Share option grants

The total number of target share option grants made to members of the GEC during 2007 was 142,690. This compares with an equivalent figure of 125,584 for 2006.

The value of the option grants made in 2007 was USD 8.0 million at the date of grant, based on the assumption of 100% vesting and the Black Scholes valuation of the options at the date of grant.

The number of share option awards that vested to members of the GEC in 2007 from the share option grants made in 2004, 2005 and 2006 was 191,642. This represented a basic vesting level of 150% of target given the actual ROE and TSR performance achievements.

Remuneration Report

Summary of total remuneration for the GEC

By reference to the above figures, the total remuneration of the GEC members, comprising cash compensation, pensions, the value of other remuneration and the value of target equity grants for 2007 was USD 57.6 million, divided as follows:

All GEC members ¹ (incl. the highest paid)	in USD million	2007 ²
		Base compensation
	Cash incentive awards earned for 2007	20.1
	Service Costs for pension benefits ³	3.9
	Value of other remuneration ⁴	3.6
	Value of target performance share and restricted share grants ⁵	10.7
	Value of target performance option grants ⁵	8.0
	Total	57.6 ⁶

¹ On the basis of 12 GEC members of whom ten served during the whole year 2007.

² The remuneration shown in the table does not include any business related expenses incurred in the performance of the members' services.

³ This amount reflects the total value of pension benefits accruing to members of the GEC during 2007, calculated on the basis of the Service Costs for the company as assessed under IAS 19 accounting principles. Service Costs value the amount of the pension benefits accruing during the year and for defined contribution plans takes the amount of the company contribution paid during the year. Service Costs do not include the interest cost on accrued benefits, adjustments for actuarial gains and losses, nor the expected return on any assets held.

⁴ Includes employee benefits, expatriate allowances, perquisites, benefits-in-kind and any other payments due under employment contract. Benefits-in-kind have been valued using market rates.

⁵ The share and share option grants will vest in the future according to achievement of defined performance conditions. The value of the share and share options assumes that the grant will vest in the future at 100% of the target level with the valuation of the options based on the Black Scholes methodology as set out in Note 23 to the consolidated financial statements, the valuation of the target performance share grants based on the share price at the day prior to the grants (CHF 355.75) and the valuation of the restricted share grants based on the share price at the date of the grants.

⁶ In line with applicable laws where the executives are employed, Zurich paid the company related portion of contributions to social security systems, which amounted to USD 2.6 million in 2007. Since the contributions are based on full earnings, whereas benefits are capped, there is not a direct correlation between the costs paid to the social security system and the benefits received by the executives.

The value of total compensation for all members comprises 33% in fixed compensation elements (comprising base compensation, Service Costs for pension benefits and other remuneration) and 67% in performance related components (comprising the cash incentive awards under the Short-Term Incentive Plan together with the value of the target performance share grants, restricted share grants and share option grants).

Highest total remuneration for GEC members

The highest paid remuneration for the GEC members was USD 10.3 million for Mr. James J. Schiro, the Group's Chief Executive Officer. This amount reflects his 2007 base salary, the cash incentive earned for 2007, the value of pension benefits, other remuneration and the value of the target performance shares and share options granted in 2007.

The following table specifies the total remuneration paid to the highest paid GEC member

Highest paid Executive James J. Schiro, Chief Executive Officer	in USD million	2007 ¹
	Base compensation	1.50
	Cash incentive awards earned for 2007	3.00
	Service Costs for pension benefits ²	0.90
	Value of other remuneration ³	0.40
	Value of target performance share and restricted share grants ⁴	2.25
	Value of target performance option grants ⁴	2.25
	Total	10.30

¹ The remuneration shown in the table does not include any business related expenses incurred in the performance of the CEO's services.

² The amount reflects the total value of pension benefits, calculated on the basis of the Service Costs for the company as assessed under IAS 19 accounting principles. Service Costs value the amount of the pension benefits accruing during the year and for defined contribution plans takes the amount of the company contribution paid during the year. Service Costs do not include the interest cost on accrued benefits, adjustments for actuarial gains and losses, nor the expected return on any assets held.

³ Includes employee benefits, expatriate allowances, perquisites, benefits-in-kind and any other payments due under the employment contract. Benefits-in-kind have been valued using market rates.

⁴ The share and share option grants will vest in the future according to achievement of defined performance conditions. The value of the share and share options assumes that the grant will vest in the future at 100% of the target level with the valuation of the options based on the Black Scholes methodology as set out in note 23 to the consolidated financial statements, the valuation of the target performance share grants based on the share price at the day prior to the grants (CHF 355.75) and the valuation of the restricted share grants based on the share price at the date of the grants.

Termination arrangements for members of the GEC who gave up their functions during the year

During 2007, one of the GEC members gave up his function. No termination payments were made during the year.

Compensation for former Executives

No benefits (or waiver of claims) have been provided to former members of the GEC during the year 2007.

Remuneration Report

Summary of total outstanding share commitments for GEC members under the Group's Long-Term Incentive Plans

Share grants

Performance share grants

The total number of target performance share grants outstanding as of December 31, 2007 under the Group's Long-Term Incentive Plan was 56,399 (55,937 as of December 31, 2006). A summary of the outstanding grants is set out in the table below:

Summary of outstanding share grants				
	Performance period	Target performance share grants	Allocated price in CHF	Future years of vesting
	2005–2007	9,887	206.40	2008
	2006–2008	16,667	308.00	2008–2009
	2007–2009	29,845	355.75	2008–2010

Within the context of the Group's Long-Term Incentive Plan, these performance share grants are considered for vesting in one-third instalments during the three years after the grant. The actual level of vesting is determined in accordance with the remuneration principles set out above on pages 54 to 56.

Restricted share grants

In addition to the above performance share grants, there were 13,543 restricted shares outstanding for members of the GEC as of December 31, 2007. This total reflects grants of 7,280 restricted shares in 2007 and the vesting of 8,311 restricted shares during 2007. There were 14,574 restricted shares outstanding at the end of 2006. These restricted shares vest over the next three years and will be forfeited if the holders of such shares leave voluntarily before the vesting date and the employment relationship terminates.

Share option grants

Under the share option program for senior management, the Group can issue share options to individuals within prescribed rules. The first share option grant was made in 1999 and regular annual grants have been made since then. Prior to 2003, option grants were typically made on the basis of a seven-year option term, a three-year vesting period and an exercise price set at a 10% premium to the market rate during the month prior to the grant date. Under the rules of the plan, other parameters are allowed for option grants made under the share option program. In connection with the re-design of the long-term incentive program in 2003, the exercise price for the options granted since then, which include performance based vesting criteria, has been set at the market price on the day prior to the date of grant. The performance based option grants are considered for vesting in one-third instalments during the three years after the grant. The actual level of vesting is determined under the performance in accordance with the remuneration principles set out above on pages 54 to 56. Option grants are currently made each year on the third working day in April.

Under the share option program, the total number of shares under option for the GEC members as of December 31, 2007 is set out in the table below.

Summary of outstanding options	Year of grant	Number of options vested	Number of options unvested	Total number of shares under option	Exercise price per share CHF	Year of expiry
	2007	–	142,690	142,690	355.75	2014
	2006	64,543	76,359	140,902	308.00	2013
	2005	149,084	46,269	195,353	206.40	2012
	2004	82,896	–	82,896	213.25	2011
	2003	83,361	–	83,361	120.50	2010
	2002	39,129	–	39,129	331.10	2009
	2001 (b)	9,142	–	9,142	322.30	2012
	2001 (a)	10,586	–	10,586	492.55	2008
	Total	438,741	265,318	704,059		

Each of the above options entitles the holder to subscribe for one share of Zurich Financial Services at the exercise price stated.

Remuneration Report

Share and share option holdings of the GEC

The following table sets out the actual share and share option holdings of the GEC members as of December 31, 2007. In addition to any shares acquired in the market, the numbers include vested shares, whether sales-restricted or not, and vested share options received under the Group's Long-Term Incentive Plan. However, the table does not include the share interests of the members of the GEC through their participation in the currently unvested performance shares, unvested restricted shares or unvested performance share options.

All interests are beneficial and include shares or share options held by related parties to the GEC members. One vested option gives the right to one share with normal voting and dividend rights.

Share and vested share option holdings of the GEC members	Number of vested shares and vested share options as of December 31, 2007 ¹	
	Ownership of shares	Ownership of vested options over shares ²
J.J. Schiro, Chief Executive Officer ³	64,790	173,516
J. Amore, Chief Executive Officer General Insurance	17,220	73,880
A. Court, Chief Executive Officer Europe General Insurance ⁴	–	–
M. Greco, Designated Chief Executive Officer Global Life ⁵	–	–
P. Hopkins, Chief Executive Officer Farmers Group, Inc	4,765	26,290
A. Lehmann, Chief Executive Officer North America Commercial	10,813	39,421
P. O'Sullivan, Vice Chairman and Chief Growth Officer	19,739	49,031
G. Riddell, Chief Executive Officer Global Corporate	8,752	28,446
M. Senn, Chief Investment Officer	2,553	3,719
P. van de Geijn, Chief Executive Officer Global Life	6,993	24,889
D. Wemmer, Chief Financial Officer	5,565	19,549
Total	141,190	438,741

¹ None of the GEC members together with related parties to them held more than 0.5% of the voting rights as at December 31, 2007, either directly or through share options.

² The distribution of the vested options according to the grants identified in the table "Summary of outstanding options" is shown in the table below.

³ Includes an amount of 2,000 shares for Mr. Schiro which are held by family run charitable foundations.

⁴ Joined the Group on January 15, 2007.

⁵ Joined the Group on October 1, 2007.

The following table shows how the totals of the vested share options owned by the GEC members are distributed according to the grants identified in the table "Summary of outstanding options".

Distribution of vested share options	Number of vested share options as of December 31, 2007							Total
	2006	2005	2004	2003	2002	2001		
J.J. Schiro	29,108	71,994	24,198	32,589	15,627	–	173,516	
J. Amore ¹	5,822	16,456	15,913	11,595	12,502	11,592	73,880	
A. Court	–	–	–	–	–	–	–	
M. Greco	–	–	–	–	–	–	–	
P. Hopkins	4,367	10,284	3,779	4,746	1,718	1,396	26,290	
A. Lehmann	4,367	9,874	8,632	10,363	3,961	2,224	39,421	
P. O'Sullivan	5,064	12,342	11,647	15,084	2,587	2,307	49,031	
G. Riddell	3,968	9,670	6,373	5,694	1,503	1,238	28,446	
M. Senn	3,719	–	–	–	–	–	3,719	
P. van de Geijn	4,409	10,754	9,726	–	–	–	24,889	
D. Wemmer	3,719	7,710	2,628	3,290	1,231	971	19,549	
Total	64,543	149,084	82,896	83,361	39,129	19,728	438,741	

¹ The distribution of Mr. Amore's options for 2001 comprises 9,142 under grant b and 2'450 under grant a.

Trading Plans

To facilitate the sale of shares and the exercise of options for the members of the GEC, the Board has approved the implementation of Trading Plans. These plans allow members to sell shares and/or exercise share options under a pre-defined transaction program. Trading Plans can only be established at a time when the GEC member does not possess unpublished price-sensitive information with regard to Zurich Group. Further, the first transaction under a Trading Plan can only occur three months following the date it is established. The terms and conditions of the transactions have to be defined and they cannot be changed. All Trading Plans of GEC members require the approval of the Chairman of the Board. Once established, transactions take place on a monthly basis including during close periods. All transactions made under a Trading Plan are reported to the SWX according to the rules on disclosure of management transactions and recorded as such as being carried out as part of a Trading Plan.

Additional honoraria and remuneration for members of the GEC

None of the members of the GEC received any compensation from the Group or from any of the Group's companies other than as set out above.

Personal loans for members of the GEC

As of December 31, 2007, the total of loans, advances or credits outstanding for GEC members was USD 910'000. These loans represent mortgage loans in Swiss francs, the terms of which are similar to those available to all employees in Switzerland. Mortgage loans are issued with a reduced interest rate of up to one percentage point less than the prevailing market interest rates on mortgage balances, up to a maximum of USD 1,250,000. As at December 31, 2007, the highest mortgage loan was held by Mr. Lehmann (currently Group Chief Risk Officer), in the amount of USD 660,000 which had an overall interest rate of 2.3%.

Personal loans for former members of the GEC

Former members of the GEC are eligible to continue their mortgage loans following retirement on similar terms as when they were employed, in line with the terms available to employees in Switzerland as stated above. In this respect, one former member, Mr. Eckert, held an outstanding mortgage loan of USD 2,500,000 as at December 31, 2007, with a reduced interest rate of 2.25% applying on the first USD 1,250,000. Apart from this, no former members of the GEC had any outstanding loans, advances or credits as of December 31, 2007.

Related parties to GEC members or to former members of the GEC

No benefits (or waiver of claims) have been provided to related parties to GEC members or related parties to former members of the GEC during the year 2007. Neither had any related party to GEC members or to former members of the GEC outstanding loans, advances or credits as of December 31, 2007.



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Financial Review

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. 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 as of or for the year ended December 31, 2006, unless otherwise specified.

Financial highlights

in USD millions, for the years ended December 31	2007	2006	Change ¹
Business operating profit	6,614	6,035	10%
Net income attributable to shareholders	5,626	4,620	22%
General Insurance gross written premiums and policy fees	35,650	34,123	4%
Global Life gross written premiums, policy fees and insurance deposits	21,703	21,022	3%
Farmers Management Services management fees and other related revenues	2,266	2,133	6%
General Insurance business operating profit	4,024	3,804	6%
General Insurance combined ratio	95.6%	93.9%	(1.7 pts)
Global Life business operating profit	1,443	1,200	20%
Global Life new business annual premium equivalent (APE)	2,947	2,500	18%
Global Life new business margin, after tax (as % of APE)	24.7%	21.6%	3.1 pts
Global Life new business value, after tax	729	539	35%
Farmers Management Services business operating profit	1,271	1,225	4%
Farmers Management Services gross operating margin	46.6%	50.1%	(3.5 pts)
Farmers Management Services managed gross earned premium margin ²	6.8%	7.3%	(0.5 pts)
Group investments average invested assets	191,790	185,371	3%
Group investments result, net	10,089	9,434	7%
Group investments return (as % of average invested assets)	5.3%	5.1%	0.2 pts
Shareholders' equity	28,804	25,587	13%
Diluted earnings per share (in CHF)	46.37	39.52	17%
Return on common shareholders' equity (ROE)	21.0%	20.4%	0.6 pts
Business operating profit (after tax) return on common shareholders' equity	18.7%	19.5%	(0.8 pts)

¹ Parentheses around numbers represent an adverse variance.

² Farmers Management Services managed gross earned premium margin is calculated as gross operating profit of Farmers Management Services divided by the gross earned premiums of the Farmers Exchanges, which we manage, but do not own.

Financial Review

Performance overview

Business operating profit increased by 10 percent to USD 6.6 billion demonstrating the strength of our diversified portfolio in difficult market conditions.

- **General Insurance business operating profit** increased by USD 220 million, or 6 percent, to USD 4.0 billion. This reflects the strength of our diversified portfolio to absorb the adverse impacts of Winter storm Kyrill (USD 183 million) and the UK floods in June and July (USD 567 million).
- **Global Life business operating profit** increased by USD 243 million, or 20 percent, to USD 1.4 billion, primarily resulting from increases in the US, benefiting from lower amortization of acquisition costs, the UK and Germany. **New business value, after tax**, increased by 35 percent in US dollar terms (28 percent on a local currency basis), reflecting both selective growth and margin improvements in accordance with our strategic priorities.
- **Farmers Management Services business operating profit** increased by USD 46 million, which represents the net result from increased management fees, resulting from strategic and operational growth initiatives, including the acquisition of Bristol West, as well as increased expenses to support the implementation of these initiatives.

Other Businesses business operating profit increased by USD 110 million with strong results contributed by **Farmers Re, Centre** and **Centrally Managed Businesses**. The **Corporate Functions** result decreased by USD 38 million mainly due to increased funding expenses.

Net income attributable to shareholders increased by USD 1.0 billion, or 22 percent, to USD 5.6 billion, with the prior year affected by regulatory settlements in the US. The **shareholders' effective tax rate** was 24.7 percent compared with 26.9 percent for the year ended December 31, 2006. The decrease of 2.2 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 flat on a local currency basis, reflecting both underwriting discipline in all our General Insurance businesses in a competitive market environment and our ability to capitalize on attractive growth opportunities.
- **Global Life** insurance deposits increased by 12 percent in US dollar terms, and by 3 percent on a local currency basis, while gross written premiums and policy fees decreased by 6 percent in US dollar terms, and by 12 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 18 percent in US dollar terms, and by 11 percent on a local currency basis, with increases across most regions, in particular in Ireland and at Zurich International Solutions, our international expatriate business based in the Isle of Man.
- **Farmers Management Services** management fees and other related revenues increased by 6 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 organic and inorganic growth initiatives.

Return on common shareholders' equity increased by 0.6 percentage points to 21.0 percent as the prior year was affected by the costs of regulatory settlements in the US. These regulatory settlement costs were excluded from business operating profit, resulting in a decrease in **business operating profit (after tax) return on common shareholders' equity** of 0.8 percentage points to 18.7 percent.

Diluted earnings per share increased by CHF 6.85, or 17 percent, to CHF 46.37 for the year ended December 31, 2007, compared with CHF 39.52 for the same period in 2006.

General Insurance highlights

in USD millions, for the years ended December 31	2007	2006	Change
Gross written premiums and policy fees	35,650	34,123	4%
Net earned premiums and policy fees	29,731	28,417	5%
Insurance benefits and losses, net of reinsurance	(20,966)	(19,913)	(5%)
Net underwriting result	1,305	1,732	(25%)
Net investment income	3,662	3,203	14%
Business operating profit	4,024	3,804	6%
Loss ratio	70.5%	70.1%	(0.4 pts)
Expense ratio	25.1%	23.8%	(1.3 pts)
Combined ratio	95.6%	93.9%	(1.7 pts)

in USD millions, for the years ended December 31	Business operating profit		Combined ratio	
	2007	2006	2007	2006
Global Corporate	736	692	96.1%	94.4%
North America Commercial	1,460	1,123	94.5%	95.6%
Europe General Insurance	1,453	1,740	96.6%	91.5%
International Businesses	167	178	98.8%	98.1%
Group Reinsurance	208	72	nm	nm
Total	4,024	3,804	95.6%	93.9%

Business operating profit increased by USD 220 million, or 6 percent, to USD 4.0 billion for the year ended December 31, 2007, driven by Global Corporate, North America Commercial and positive claims experience within Group Reinsurance. Our businesses continued to demonstrate underlying strength and have benefited from our reserving policy with positive development emerging from reserves established in prior years. This positive development, together with higher investment income, which reflects both an increase in the average invested asset base and higher interest rates in Europe, more than offset losses arising from Winter storm Kyrill and the UK floods in June and July.

Gross written premiums and policy fees increased by USD 1.5 billion, or 4 percent in US dollar terms, to USD 35.7 billion, while remaining flat on a local currency basis, which reflects our continued ability to maintain underwriting discipline and manage different business areas for margin and/or volume. The market environment continued to be competitive with pressure on rates, although the picture was mixed by geography and by line of business, with the commercial lines of business in North America, the UK and Ireland most affected.

The **net underwriting result** decreased by USD 427 million to USD 1.3 billion driven by the impact of losses associated with Winter storm Kyrill and UK floods in June and July amounting to USD 677 million for Europe General Insurance and USD 73 million for Global Corporate. Together these two events increased the overall loss ratio and combined ratio by 2.5 percentage points. In 2006 we reported no comparable catastrophe losses. Favorable development emerging from reserves established in prior years reduced the loss ratio by 3.6 percentage points in 2007. Net technical expenses increased by USD 685 million, and by USD 345 million on a local currency basis, primarily as a result of higher commissions and increased investments in growth and operational transformation initiatives, driving an overall 1.3 percentage point increase in the expense ratio.

Financial Review

Global Corporate

in USD millions, for the years ended December 31	2007	2006	Change
Gross written premiums and policy fees	7,505	7,407	1%
Net underwriting result	184	278	(34%)
Business operating profit	736	692	6%
Loss ratio	76.9%	77.0%	0.1 pts
Expense ratio	19.2%	17.3%	(1.9 pts)
Combined ratio	96.1%	94.4%	(1.7 pts)

Business operating profit increased by USD 44 million, or 6 percent, to USD 736 million for the year ended December 31, 2007. A decrease in the net underwriting result was more than offset by a USD123 million increase in net investment income driven by a higher average invested asset base and higher interest rates.

Gross written premiums and policy fees increased by 1 percent in US dollar terms to USD 7.5 billion, while decreasing by 2 percent on a local currency basis primarily as a result of continued rate pressures across most major portfolios, particularly in North America and the UK. The increased level of customer renewals continued, with some new business growth achieved on targeted lines.

The **net underwriting result** decreased by USD 94 million to USD 184 million, leading to a 1.7 percentage point increase in the combined ratio. Positive impacts were attritional loss experience across a number of lines of business, a reduced incidence of large property losses and an improved result emerging from reserves established in prior years. These positive developments mitigated the impact of rate reductions and the USD 73 million of catastrophe losses associated with Winter storm Kyrill and the UK floods in June and July. Overall, there was an improvement in the loss ratio of 0.1 percentage points to 76.9 percent. An increase in premium refunds on loss-sensitive business was the primary driver of the 1.9 percentage point increase in the expense ratio to 19.2 percent.

North America Commercial

in USD millions, for the years ended December 31	2007	2006	Change
Gross written premiums and policy fees	11,532	11,856	(3%)
Net underwriting result	521	415	26%
Business operating profit	1,460	1,123	30%
Loss ratio	67.0%	69.5%	2.5 pts
Expense ratio	27.5%	26.2%	(1.3 pts)
Combined ratio	94.5%	95.6%	1.1 pts

Business operating profit increased by USD 337 million, or 30 percent, to USD 1.5 billion for the year ended December 31, 2007, primarily driven by an increase of USD 106 million in the net underwriting result and by a USD 131 million increase in net investment income.

Gross written premiums and policy fees decreased by USD 324 million, or 3 percent, to USD 11.5 billion. Our focus on disciplined growth through our market segmentation strategy has enabled us to maintain an effective market presence within our chosen customer segments despite continued market pressure together with changing economic conditions within a few key segments.

The **net underwriting result** increased by USD 106 million to USD 521 million, driven by a 2.5 percentage point decrease in the loss ratio. The 1.3 percentage point increase in the expense ratio to 27.5 percent arose primarily from an increase in net commission expenses, which was predominantly attributable to certain portfolio segments that delivered improved profitability.

Europe General Insurance

in USD millions, for the years ended December 31	2007	2006	Change
Gross written premiums and policy fees	13,852	12,445	11%
Net underwriting result	440	993	(56%)
Business operating profit	1,453	1,740	(16%)
Loss ratio	72.7%	68.9%	(3.8 pts)
Expense ratio	23.9%	22.6%	(1.3 pts)
Combined ratio	96.6%	91.5%	(5.1 pts)

Business operating profit decreased by USD 287 million, or 16 percent, to USD 1.5 billion, attributable to the lower net underwriting result following the catastrophe losses of USD 677 million from Winter storm Kyrill and the UK floods in June and July. Net investment income increased across Europe by USD 247 million, driven by higher interest rates throughout most of the year and a higher average invested asset base, in particular in the UK.

Gross written premiums and policy fees increased by 11 percent in US dollar terms, and by 3 percent on a local currency basis with growth in competitive market conditions, supported by contributions from acquisitions and a stable level of customer renewals. Pressure on rates in commercial lines continued, and rate changes on new business written varied by country, with decreases in Italy, Ireland and the UK and improvements in other countries.

The **net underwriting result** decreased by USD 553 million to USD 440 million, primarily due to the impact of Winter storm Kyrill (USD 165 million) and the UK floods in June and July (USD 512 million), which had a combined impact of 5.2 percentage points on the loss ratio. Excluding the impact of these catastrophes, the loss ratio improved by 1.4 percentage points to 67.5 percent, driven by favorable development emerging from reserves established in prior years, primarily in the UK, Switzerland, Ireland and Spain. The expense ratio increased by 1.3 percentage points to 23.9 percent as a result of investments in our Pan-European platform, Zurich Connect and other growth and operational transformation-related activities.

International Businesses

in USD millions, for the years ended December 31	2007	2006	Change
Gross written premiums and policy fees	3,205	2,875	11%
Net underwriting result	28	42	(33%)
Business operating profit	167	178	(6%)
Loss ratio	65.0%	63.4%	(1.6 pts)
Expense ratio	33.8%	34.7%	0.9 pts
Combined ratio	98.8%	98.1%	(0.7 pts)

Business operating profit decreased by USD 11 million, or 6 percent, to USD 167 million for the year ended December 31, 2007, driven by the decrease in the net underwriting result.

Gross written premiums and policy fees increased by USD 330 million, or 11 percent, and by 10 percent on a local currency basis, to USD 3.2 billion, with increases across all regions despite rate pressures in Australia and Asia. The primary drivers of the increase were Latin America with an increase in new business written, and Africa due to rate increases.

Net underwriting result decreased by USD 14 million to USD 28 million. The combined ratio increased by 0.7 percentage points, a combination of a 1.6 percentage point increase in the loss ratio and 0.9 percentage point decrease in the expense ratio. The increase in the loss ratio was primarily driven by a number of businesses incurring higher weather-related losses and an increase in the number of large losses. The expense ratio improved by 0.9 percentage points as a consequence of growth in premiums.

Global Life highlights

in USD millions, for the years ended December 31	2007	2006	Change
Insurance deposits	12,064	10,769	12%
Gross written premiums and policy fees	9,640	10,254	(6%)
Net investment income on Group investments	4,226	4,104	3%
Insurance benefits and losses, net of reinsurance	(694) ¹	(8,655)	92%
Underwriting and policy acquisition costs, net of reinsurance	(1,640)	(1,448)	(13%)
Administrative and other operating expenses	(1,678)	(1,583)	(6%)
Business operating profit	1,443	1,200	20%
Embedded value – highlights			
New business annual premium equivalent (APE)	2,947	2,500	18%
Present value of new business premiums (PVNBP)	23,781	20,598	15%
New business margin, after tax (as % of APE)	24.7%	21.6%	3.1 pts
New business margin, after tax (as % of PVNBP)	3.1%	2.6%	0.5 pts
New business value, after tax	729	539	35%

¹ The Group's life operations in the UK entered into a reinsurance agreement to transfer the risk associated with a significant annuities portfolio as of January 1, 2007. The initial impact of the transaction was an increase of USD 7.0 billion in ceded insurance benefits and losses.

In 2007, Global Life achieved its growth targets with an 18 percent increase in APE (11 percent on a local currency basis) and an increase in new business margin of 3.1 percentage points to 24.7 percent, which led to an increase in new business value of 35 percent (28 percent on a local currency basis) to USD 729 million.

New business annual premium equivalent (APE) increased by USD 447 million, or 18 percent in US dollar terms, and by 11 percent on a local currency basis. Growth accelerated in each quarter of 2007, reaching 17 percent on a local currency basis for the fourth quarter. The increase was driven by Ireland, the emerging markets served by Zurich International Solutions (ZIS) and in Southeast Asia, and by the UK in the latter half of the year. Innovative new propositions resulted in higher APE volumes in the US and Switzerland despite challenging conditions in both markets.

Business operating profit increased by USD 243 million, or 20 percent, to USD 1.4 billion for the year ended December 31, 2007. Increases in the US, UK and Germany compensated for the new business strain from the strong growth in ZIS and Southeast Asia.

Insurance deposits increased by 12 percent, while **gross written premiums and policy fees** decreased by 6 percent. The sustained attractiveness of our unit-linked products, giving customers choices based upon need and risk attitudes, resulted in increases in deposits, while traditional premiums decreased as we continued to focus on unit-linked products. Gross written premiums and policy fees decreased primarily due to the transfer of a further block of traditional group life business to independent pension foundations in Switzerland, to which we provide services but do not control.

During 2007, the majority of the UK annuity liabilities were reinsured as the first step in a transaction in which, subject to local regulatory and court approvals, the policies will be commuted to the reinsurer. This transaction reduced our exposure to longevity risk and reduced economic capital requirements.

APE by product	in USD millions, for the years ended December 31		Unit-linked ¹		Individual protection		Other ²		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
United States	6	6	106	102	7	6	119	113		
United Kingdom	416	386	100	98	410	336	926	820		
Germany	406	335	40	26	124	202	570	563		
Switzerland	30	17	7	10	67	63	104	104		
Rest of Europe	741	565	35	30	203	155	979	750		
<i>of which:</i>										
<i>Ireland</i>	180	120	24	21	97	69	301	210		
<i>ZIS</i>	445	312	–	–	8	6	453	319		
International Businesses	150	88	36	38	63	38	249	164		
<i>of which:</i>										
<i>Southeast Asia</i>	130	62	2	3	3	5	135	70		
<i>Latin America</i>	20	15	14	13	42	30	75	58		
Total	1,750	1,397	324	303	873	800	2,947	2,500		

¹ Unit-linked includes insurance and investment contracts.

² Other includes individual savings, deferred and immediate annuities and group and collective business.

New business annual premium equivalent (APE) increased by 18 percent (11 percent on a local currency basis), primarily reflecting the continued success of our unit-linked range of products.

Unit-linked APE increased by 25 percent (16 percent on a local currency basis) and represented 59 percent of total APE compared with 56 percent in 2006. Protection APE increased by 7 percent (2 percent on a local currency basis). Other products increased 9 percent (1 percent on a local currency basis), driven mainly by new group pension schemes in the UK and Ireland.

The independent broker sector was the main growth driver in 2007, providing 49 percent of total APE volumes. Openwork, our exclusive multi-tied distribution network in the UK, produced 8 percent of total APE and the Farmers Exchanges tied-agent network in the US produced 4 percent. Other tied-agent distribution contributed 16 percent with an increasing proportion coming from our tied-agent networks in emerging markets. Distribution through bank partnerships contributed 23 percent of total APE volumes.

The APE increase of 5 percent in the **US** was driven by an innovative simple protection proposition launched late in 2006, which also contributed to a record number of new policies issued in one year. In the **UK**, APE increased by 13 percent, and by 4 percent on a local currency basis, benefiting in the latter half of the year from a range of new propositions and enhancements including e-enablement. The UK also won a number of group pension schemes. In **Germany**, APE increased by 1 percent, while decreasing by 7 percent on a local currency basis in an overall declining market, while new unit-linked business increased by 21 percent, and by 11 percent on a local currency basis, driven by the success of our new unit-linked tax-advantaged pension product. APE in **Switzerland** increased by 16 percent, and by 11 percent on a local currency basis, with strong growth in individual unit-linked business following the introduction of new propositions. In **Ireland**, APE increased by 43 percent, and by 31 percent on a local currency basis. Momentum from 2006 carried through into 2007 with particularly strong growth in regular and single premium pension business in both unit-linked and individual savings products.

APE in the emerging markets served by **ZIS**, and in **Southeast Asia** and **Latin America** increased by 49 percent in US dollar terms. ZIS produced strong growth through bank partners and international broker networks and the maturing of branches that were opened in prior years. This growth reflected increased value-added propositions for our key distributors from improved segmentation and adaptation to the different customer and distributor needs. In Southeast Asia, the driver was strong unit-linked APE through the tied-agent channel, and in Latin America growth arose in Chile, Mexico and Argentina.

Financial Review

in USD millions, for the years ended December 31	Business operating profit		New business value, after tax		New business margin, after tax (as % of APE)	
	2007	2006	2007	2006	2007	2006
United States	313	230	108	59	90.8%	52.0%
United Kingdom	439	305	121	100	13.1%	12.2%
Germany	213	171	184	133	32.3%	23.7%
Switzerland	175	193	33	35	31.4%	38.8%
Rest of Europe	197	200	198	160	20.3%	21.4%
<i>of which:</i>						
<i>Ireland</i>	64	52	69	49	23.0%	23.2%
<i>ZIS</i>	27	41	93	65	20.4%	20.5%
International Businesses	106	101	85	52	34.0%	31.6%
<i>of which:</i>						
<i>Southeast Asia</i>	5	11	65	29	48.2%	41.9%
<i>Latin America</i>	47	43	19	16	25.4%	27.1%
Total	1,443	1,200	729	539	24.7%	21.6%

Business operating profit in the US increased by USD 83 million, benefiting from lower amortization of deferred policy acquisition costs (USD 106 million) partially offset by higher mortality claims. An increase in the in-force business drove the underlying increase of USD 10 million. In the UK, business operating profit improved by USD 134 million as a result of lower insurance benefits and losses before reinsurance and improved performance in Openwork. Business operating profit in Germany increased due to continued efficiency gains from the merger of our life entities. Business operating profit in Switzerland decreased due to the continued transfer of group life business to the independent pension foundations.

New business value, after tax, increased by USD 190 million, as a result of the US and Germany, due mainly to higher margins, and from Ireland, ZIS and Southeast Asia, mainly due to higher APE.

New business margin, after tax, increased by 3.1 percentage points, mainly due to strong improvements in the US and Germany and a small increase in our largest market, the UK. The improvement in the US mainly reflected a restructuring of our reinsurance program in that market. The improvement in Germany reflected the synergy benefits following the merger of our life entities. The decreased margin in Switzerland was due to increased selling expenses from the individual business line.

Farmers Management Services highlights

in USD millions, for the years ended December 31	2007	2006	Change
Management fees and other related revenues	2,266	2,133	6%
Management and other related expenses	(1,210)	(1,062)	(14%)
Gross operating margin	46.6%	50.1%	(3.5 pts)
Managed gross earned premium margin ¹	6.8%	7.3%	(0.5 pts)
Other income and expense items, net	215	154	40%
Business operating profit	1,271	1,225	4%

¹ This measure is calculated as the gross operating profit of Farmers Management Services divided by the gross earned premiums of the Farmers Exchanges. For additional information on the calculation, refer to the explanatory notes in the Financial Supplement.

Management fees and other related revenues increased by USD 133 million, or 6 percent, driven by an increase in management fees, including USD 64 million related to the recently acquired Bristol West Holdings, Inc. (Bristol West). The increase was driven by an overall 6 percent increase in gross earned premiums at the Farmers Exchanges, which we manage but do not own, in line with growth initiatives. Management and other related expenses increased by USD 148 million as a result of the increased volumes generated by the Exchanges, continued investments in growth and IT-related initiatives, as well as USD 41 million related to the first time inclusion of Bristol West. As a result, the **gross operating margin** decreased to 46.6 percent.

We are introducing an alternative measure of Farmers Management Services' profitability relative to the gross earned premiums of the Farmers Exchanges as they are the relevant indicator for the volumes managed by Farmers Management Services, **managed gross earned premium margin**. Farmers Management Services continues to evolve its business model through additional product lines and distribution channels, such as Foremost and Bristol West. As a consequence, a measure of its profitability against the underlying insurance businesses in the Farmers Exchanges will provide a relevant view of its profitability over time. For the year ended December 31, 2007, the managed gross earned premium margin decreased by 0.5 percentage points to 6.8 percent, due to the continued investments in growth and IT-related initiatives by Farmers Management Services.

Business operating profit increased by USD 46 million, or 4 percent, to USD 1.3 billion for the year ended December 31, 2007, as a result of the initiatives described above together with an increase in net investment income and in net other income, which was driven by one-time gains from the sale of properties vacated as a result of the concentration of customer service activities into two ServicePoints.

Farmers Exchanges – highlights

in USD millions, for the years ended December 31	2007	2006	Change
Gross written premiums	15,806	15,003	5%
Gross earned premiums	15,547	14,721	6%

Gross written premiums at the Farmers Exchanges, which we manage but do not own, increased by 5 percent, which includes premiums written by Bristol West. This led to a 6 percent increase in gross earned premiums, with all major lines of business contributing to the increase.

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Other Businesses highlights

in USD millions, for the years ended December 31	2007	2006	Change
Business operating profit:			
Farmers Re	173	181	(4%)
Centre	167	249	(33%)
Centrally Managed Businesses	291	305	(5%)
Rest of Other Businesses	56	(158)	nm
Total business operating profit	687	577	19%

Farmers Re contributed USD 173 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 decreased by USD 82 million to USD 167 million due to reserve strengthening in the disability business. **Centrally Managed Businesses**, which largely comprise portfolios that we proactively manage to achieve a profitable run-off, decreased by USD 14 million to USD 291 million. Gains on commutations and increases in net investment income were offset by lower premiums and reinsurance commissions as a result of the successful run-off of these businesses. The result in the rest of Other Businesses benefited from the absence of reserve strengthening compared with 2006, as well as higher net investment income.

Corporate Functions highlights

in USD millions, for the years ended December 31	2007	2006	Change
Net investment income	731	646	13%
Interest expense on debt	(1,317)	(1,162)	(13%)
Business operating loss	(810)	(772)	(5%)
Headquarter expenses, after allocations to operating businesses and excluding foreign currency impacts	(168)	(189)	11%

Business operating loss increased by USD 38 million to USD 810 million for the year ended December 31, 2007. Interest expense on debt increased by USD 155 million due to the one-time costs of USD 52 million associated with the early redemption of subordinated debt, which was replaced with lower cost hybrid debt, and due to interest expense on higher net intercompany funding levels. The increase in interest expense was partially offset by an increase of USD 85 million in net investment income.

Headquarter expenses decreased by USD 21 million as a result of higher allocations to the operating businesses.

Investment position and performance

Reflecting our outlook for the economy and the capital markets, our equity allocation during the greater part of 2007 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 December 31			
	Group investments		Unit-linked investments	
	2007	2006	2007	2006
Cash and cash equivalents	13,943	17,438	2,993	5,685
Equity securities:	18,589	18,339	100,178	90,666
Common stocks, including equity unit trusts	12,418	11,461	90,593	84,823
Unit trusts (debt securities, real estate and short-term investments)	3,291	3,014	9,585	5,842
Common stock portfolios backing participating with-profit policyholder contracts	1,274	1,604	–	–
Trading equity portfolios in capital markets and banking activities	1,606	2,260	–	–
Debt securities	123,762	126,435	10,112	8,922
Real estate held for investment	7,563	6,921	7,823	8,360
Mortgage loans	12,718	10,806	–	–
Policyholders' collateral and other loans	12,936	12,634	2	2
Investments in associates	238	153	–	–
Other investments	3,851	2,951	985	693
Total	193,600	195,676	122,092	114,327

Group investments have decreased by USD 2.1 billion to USD 193.6 billion since December 31, 2006. After excluding the effect of foreign currency translation, Group investments decreased by 6 percent, primarily driven by a decrease in debt securities following the USD 7.3 billion sale of investments relating to our UK Life annuity business, which was reinsured in June 2007.

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 78 percent of these securities being rated AAA, and only USD 16 million of impairments recognized in the current period.

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Performance of Group investments	in USD millions, for the years ended December 31		
	2007	2006	Change
Net investment income	8,591	7,899	9%
Net capital gains on investments and impairments	1,498	1,536	(2%)
Net investment result	10,089	9,434	7%
Net investment return on Group investments	5.3%	5.1%	0.2 pts
Movements in net unrealized gains/(losses) on investments included in total equity	(2,654)	(1,555)	71%
Total investment result, net of investment expenses¹	7,435	7,879	(6%)
Average investments ²	191,790	185,371	3%
Total return on Group investments	3.9%	4.3%	(0.4 pts)

¹ After deducting investment expenses of USD 247 million and USD 265 million for the years ended December 31, 2007 and 2006, respectively.

² Excluding average cash received as collateral for securities lending of USD 2.8 billion and USD 4.2 billion in the years ended December 31, 2007 and 2006, respectively.

Total return (net of investment expenses) was 3.9 percent on average Group investments, driven by other investments and equity securities, for which the total return was 5.9 percent and 5.5 percent respectively. Debt securities, which are invested to match our liability profiles, returned 3.1 percent.

Total **net investment income** was USD 8.6 billion, with a return of 4.5 percent, an increase of 22 basis points compared with 2006. This increase arose mainly from debt securities, with a return of 4.6 percent compared with 4.4 percent in 2006. Rising interest rates in the euro and Swiss franc markets and higher dividend income drove the USD 692 million increase, mainly contributed by General Insurance.

Total **net capital gains on investments and impairments** were USD 1.5 billion, a decrease of USD 38 million compared with the prior year. Realized gains on sales of securities of USD 790 million were USD 127 million less than 2006 largely as a result of increased realized losses from the sale of debt securities at higher interest rate levels. Net gains from market revaluations of USD 708 million were USD 89 million higher than 2006. Hedge funds and private equity investments were the main drivers, contributing USD 702 million, a net increase of USD 240 million over 2006. This increase was offset by decreased gains from equities and increased impairments on equity and debt securities. The net gains from market revaluations included USD 136 million of impairments, an increase of USD 110 million over 2006. Debt securities contributed USD 81 million to the 2007 total, while equity securities contributed a further USD 44 million.

Net unrealized gains decreased by USD 2.7 billion since December 31, 2006. Net unrealized gains on debt securities decreased by USD 1.5 billion to a net loss of USD 1.4 billion as interest rates rose across major markets except in the US during the first part of 2007. Net unrealized gains on equity securities decreased by USD 1.1 billion mainly due to the realization of USD 1.1 billion of gains following sales in positive markets in the first half of the year to maintain the desired asset allocation to equities.

Performance of unit-linked investments	in USD millions, for the years ended December 31		
	2007	2006	Change
Net investment income	3,000	2,384	26%
Net capital gains on investments and impairments	4,142	9,203	(55%)
Net investment result, net of investment expenses ¹	7,142	11,587	(38%)
Average investments	118,210	104,082	14%
Total return on unit-linked investments	6.0%	11.1%	(5.1 pts)

¹ After deducting investment expenses of USD 528 million and USD 461 million for the years ended December 31, 2007 and 2006, respectively.

Net investment income on **unit-linked investments** increased by 26 percent, primarily attributable to dividends on unit trust equity and short-term securities and a higher average invested asset base. Net capital gains on investments decreased by 55 percent as a result of negative market revaluations on preferred equity securities, as a result of comparatively lower rate of market appreciation in the UK, and on real estate.

Insurance and investment contract liabilities

Reserves for losses and loss adjustment expenses

in USD millions	2007	2006
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 year	23,374	21,448
Prior years	(1,219)	(218)
Total	22,155	21,230
Total net losses and loss adjustment expenses paid	(19,856)	(18,908)
Acquisitions/(divestments)	51	(65)
Foreign currency translation effects	1,548	2,363
As of December 31		
Net reserves for losses and loss adjustment expenses	54,712	50,814
Reinsurers' share	13,179	13,722
Gross reserves for losses and loss adjustment expenses	67,890	64,535

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

As of December 31, 2007, net reserves for losses and loss adjustment expenses increased by USD 3.9 billion, or 8 percent, to USD 54.7 billion compared with USD 50.8 billion as of December 31, 2006. Net loss and loss adjustment expenses incurred in the current year are impacted by foreign currency effects and higher catastrophe losses, in addition to increases in underlying exposure and claims inflation. Favorable prior year development arose primarily from our General Insurance business (USD 1.1 billion) across a number of countries and lines of business.

Development of cumulative net loss ratios

	2001	2002	2003	2004	2005	2006	2007
In the year	81.4%	70.6%	67.1%	68.3%	73.3%	69.6%	72.7%
One year later	85.7%	72.0%	66.1%	64.2%	68.1%	66.2%	
Two years later	85.8%	72.3%	65.4%	63.5%	66.6%		
Three years later	87.4%	74.5%	65.5%	63.7%			
Four years later	88.5%	74.7%	65.7%				
Five years later	90.2%	73.4%					
Six years later	90.2%						

This table represents the loss ratio development for individual accident years for the Group, with the General Insurance segment being the primary driver. Individual accident years are affected by the level of large catastrophe losses. In the General Insurance segment, excluding the effects of the hurricanes in 2004 and 2005

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of 2.8 and 4.6 percentage points, respectively, and the 2007 Winter storm Kyrill and the UK floods of 2.5 percentage points, the underlying loss ratios year-on-year would have been relatively more stable. The Zurich Way of Reserving adopts a conservative view in the initial accident year, suggesting that most years would develop favorably over time as is demonstrated by accident years 2003 to 2006.

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 for 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
	Net reserves as of January 1, 2007		187,525	19,882
	Movements in net reserves		3,592	300
	Net reserves as of December 31, 2007		191,116	20,182

More details on the development of the Group's total life reserves and liabilities can be found in notes 8 and 9 in the consolidated financial statements. In the following section we provide further detail on the development and composition of **Global Life** business on a stand-alone basis.

Global Life – Development of reserves and liabilities	in USD millions					
	Unit-linked and investment contracts ¹		Other life insurance liabilities ²		Total reserves and liabilities	
	2007	2006	2007	2006	2007	2006
As of January 1						
Gross reserves	101,330	80,528	87,949	82,478	189,278	163,006
Reinsurers' share	–	–	(1,753)	(1,537)	(1,753)	(1,537)
Net reserves	101,330	80,528	86,196	80,940	187,525	161,469
Premiums and claims	(2,030)	387	(13,612)	(5,688)	(15,642)	(5,301)
Interest and bonuses credited to policyholders	6,798	10,151	3,864	3,673	10,662	13,824
Change in assumptions	–	(14)	215	335	215	321
Divestments	(514)	(4)	–	(53)	(514)	(57)
Decreases recorded in shareholders' equity	(33)	(31)	(1,691)	(1,118)	(1,724)	(1,149)
Foreign currency translation effects	3,522	10,313	7,072	8,106	10,594	18,419
As of December 31						
Net reserves	109,073	101,330	82,044	86,196	191,116	187,525
Reinsurers' share	–	–	9,551	1,753	9,551	1,753
Gross reserves	109,073	101,330	91,595	87,949	200,667	189,278

¹ Includes reserves for unit-linked contracts and liabilities for investment contracts, the net amounts of which were USD 54.3 billion and USD 50.4 billion, and USD 54.7 billion and USD 51.0 billion as of December 31, 2007 and 2006, respectively.

² Includes reserves for future life policyholders' benefits and policyholders' contract deposits and other funds, the net amounts of which were USD 68.0 billion and USD 72.2 billion, and USD 14.0 billion and USD 14.0 billion as of December 31, 2007 and 2006, respectively.

**Global Life –
Reserves and
liabilities, net
of reinsurance,
by region**

	in USD millions, as of December 31		Unit-linked and investment contracts		Other life insurance liabilities		Total reserves and liabilities	
	2007	2006	2007	2006	2007	2006	2007	2006
United States	856	774	4,803	4,733	5,658	5,506		
United Kingdom	73,400	70,967	5,971	13,109	79,371	84,076		
Germany	8,768	6,878	43,672	40,108	52,439	46,986		
Switzerland	1,630	1,454	15,086	16,804	16,716	18,258		
Rest of Europe	20,789	17,460	9,860	9,070	30,650	26,529		
<i>of which:</i>								
<i>Ireland</i>	7,324	5,655	1,536	1,406	8,860	7,061		
<i>ZIS</i>	6,816	5,559	727	652	7,543	6,212		
International Businesses	3,630	3,798	2,652	2,372	6,282	6,170		
<i>of which:</i>								
<i>Southeast Asia</i>	386	201	771	776	1,157	977		
<i>Latin America</i>	322	272	1,457	1,205	1,779	1,477		
Total	109,073	101,330	82,044	86,196	191,116	187,525		

Unit-linked insurance and investment contracts, net of reinsurance, increased by 8 percent, and by 4 percent after excluding the impact of currency translation, compared with December 31, 2006. The increase reflects inflows from new and renewal premiums and the benefit to policyholders from equity market appreciation (reported as interest and bonuses credited to policyholders), offset by claims and related charges. The excess of claims over premiums of USD 2.0 billion is driven by the overall maturity of the UK pension portfolio, accelerated by the 2006 pension rule changes, which made it easier for pension plan holders in the UK to consolidate small plans or retire early.

Other life insurance liabilities, net of reinsurance, decreased by 5 percent, and by 13 percent after excluding the impact of currency translation, compared with December 31, 2006. The decrease was mainly due to the initial impact of the reinsurance of USD 7.1 billion of UK annuity liabilities that removed the related longevity risk and reduced economic capital requirements. Additionally, in 2007 there was a reduction of USD 2.5 billion of liabilities relating to traditional group life contracts in Switzerland, of which USD 1.8 billion was transferred to independent pension foundations, to which we provide services but do not control.

Indebtedness and capitalization

in USD millions, as of December 31	2007	2006	Change
Total operational debt	8,578	9,465	(9%)
Total financial debt ¹	8,999	8,708	3%
Total equity	29,177	26,105	12%

¹ For more information on financial debt, refer to note 20 in the consolidated financial statements.

Total operational debt was USD 8.6 billion as of December 31, 2007, a decrease of 9 percent compared with December 31, 2006, primarily attributable to reduced repo activities in our UK Life business.

Total financial debt was USD 9.0 billion as of December 31, 2007, an increase of 3 percent compared with December 31, 2006. As market conditions allowed for lower borrowing costs, we redeemed a USD 1 billion subordinated debt issuance early at a total pre-tax cost of USD 52 million and replaced it with two lower cost, hybrid debt issuances totaling USD 1.5 billion.

Total equity increased to USD 29.2 billion as of December 31, 2007, a 12 percent increase driven by net income after taxes, which more than offset the impact from treasury share transactions and dividends paid to shareholders.

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	147	–	147
Dividends	(1,339)	(10)	(1,348)
Share-based payment transactions	30	–	30
Treasury share transactions	(1,652)	–	(1,652)
Total recognized income and expense, net of tax	6,030	90	6,120
<i>Net income after taxes</i>	5,626	83	5,708
<i>Net other recognized income and expenses</i>	403	7	410
Net changes in capitalization and minority interests	–	(223)	(223)
As of December 31, 2007	28,804	374	29,177

As of December 31, 2007, the number of treasury shares deducted from equity was 5,839,154, which included 3,432,500 shares repurchased through the share buyback program completed as of July 3, 2007. The balance is held to meet potential future obligations under employee share and option plans. A proposal to cancel the shares repurchased through the share buyback program will be submitted to shareholders at the Annual General Meeting in 2008. As of December 31, 2007, the number of common shares issued, including those held as treasury shares, was 145,546,820 corresponding to share capital of CHF 14.6 million.

Total recognized income and expense included in total equity, after minority interests, was USD 6.1 billion. The major drivers were net income after taxes of USD 5.7 billion, an increase in cumulative translation adjustments of USD 572 million and reductions in net unrealized gains/(losses) on investments of USD 635 million, which offset an improvement in actuarial gains/(losses) on pension plans of USD 476 million.

Cash flows

Summary of cash flows	in USD millions, for the years ended December 31	
	2007	2006
Net cash (used in)/provided by operating activities	(1,580)	640
Net cash (used in)/provided by investing activities	(617)	54
Net cash used in financing activities	(2,686)	(1,940)
Foreign currency translation effects on cash and cash equivalents	642	1,637
Cash and cash equivalents excluding cash received as collateral for securities lending	15,061	19,302
Change in cash received as collateral for securities lending	(1,943)	(751)
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 December 31, including cash received as collateral for securities lending	16,936	23,122

Net cash used in operating activities was USD 1.6 billion for the year ended December 31, 2007, with the variance over last year predominantly driven by a lower proportion of cash in total investments. Net cash used in investing activities was USD 617 million for the year ended December 31, 2007, mainly attributable to the Bristol West and Nasta transactions. Net cash used in financing activities was USD 2.7 billion, driven by the dividends paid in April 2007 and treasury share transactions, offset by a net positive contribution of USD 322 million from the issuance of hybrid debt in May 2007, exceeding the early redemption of subordinated debt.

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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 items	variance over the prior period, for the year ended December 31, 2007	in USD	in %
		millions	
	Gross written premiums and policy fees	2,021	4%
	Insurance benefits and losses, gross of reinsurance	(1,669)	(5%)
	Net income attributable to shareholders	199	4%

Selected Group balance sheet items	variance over December 31, 2006, as of December 31, 2007	in USD	in %
		millions	
	Total investments	13,036	4%
	Reserves for insurance contracts, gross	11,024	5%
	Cumulative translation adjustment in total equity	663	2%

The income statements are translated at average exchange rates where the weakening of the US dollar during the year ended December 31, 2007, compared with 2006, 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 December 31, 2007, compared with December 31, 2006, resulted in an increase in most balance sheet positions.

Consolidated Financial Statements

Consolidated income statements

in USD millions, for the years ended December 31	Notes	2007	2006
Revenues			
Gross written premiums and policy fees		47,472	46,444
Less premiums ceded to reinsurers ¹		(13,197)	(5,794)
Net written premiums and policy fees		34,275	40,651
Net change in reserves for unearned premiums	11	(495)	(142)
Net earned premiums and policy fees		33,780	40,509
Farmers management fees and other related revenues	13	2,266	2,133
Net investment result on Group investments	6	10,089	9,434
Net investment income on Group investments		8,591	7,899
Net capital gains/(losses) and impairments on Group investments		1,498	1,536
Net investment result on unit-linked investments	6	7,142	11,587
Net gain/(loss) on divestments of businesses	5	118	(43)
Other income		1,767	1,381
Total revenues		55,163	65,002
Benefits, losses and expenses			
Insurance benefits and losses, gross of reinsurance	11	35,014	33,875
Less ceded insurance benefits and losses ¹	11	(11,636)	(3,668)
Insurance benefits and losses, net of reinsurance	11	23,378	30,207
Policyholder dividends and participation in profits, net of reinsurance	11	8,543	12,906
Underwriting and policy acquisition costs, net of reinsurance	11	7,589	6,980
Administrative and other operating expense		6,214	6,263
Amortization and impairments of intangible assets		302	257
Interest expense on debt	20	685	608
Interest credited to policyholders and other interest		957	916
Total benefits, losses and expenses		47,668	58,136
Net income before income taxes		7,495	6,866
Income tax expense	19	(1,787)	(2,148)
of which:			
– attributable to policyholders	19	83	(416)
– attributable to shareholders	19	(1,870)	(1,732)
Net income after taxes		5,708	4,718
Net income attributable to minority interests		(83)	(98)
Net income attributable to shareholders		5,626	4,620
in USD			
Basic earnings per share	21	39.11	31.71
Diluted earnings per share	21	38.68	31.53
in CHF			
Basic earnings per share	21	46.88	39.74
Diluted earnings per share	21	46.37	39.52

¹ The Group's life operations in the UK entered into a reinsurance agreement to transfer the risk associated with a significant annuities portfolio as of January 1, 2007. The initial impact of this transaction was an increase of USD 7.3 billion in premiums ceded to reinsurers and an increase of USD 7.0 billion in ceded insurance benefits and losses in the Global Life business.

The notes to the consolidated financial statements are an integral part of these consolidated financial statements.

Consolidated statements of total recognized income and expenses

in USD millions, for years ended December 31	2007	2006
Net income attributable to shareholders	5,626	4,620
Net unrealized gains/(losses) on available for sale investments ¹	(623)	(319)
Change in net unrealized gains/(losses) (excluding currency translation adjustments)	(509)	(451)
Foreign currency translation adjustments	75	95
Net realized gains/(losses) and impairment charges reclassified to the income statement	(189)	37
Change in fair value of cash flow hedges ¹	(103)	–
Cumulative translation adjustments	561	934
Net other recognized income and expense ¹	568	372
Net actuarial gains on pension plans	468	372
Revaluation reserve	101	–
Total recognized income and expense attributable to shareholders	6,030	5,607
Total recognized income and expense attributable to minority interests	90	117
Total recognized income and expense	6,120	5,724

¹ Amounts are net of tax; total tax effect is included in table 19.6.

The notes to the consolidated financial statements are an integral part of these consolidated financial statements.

Consolidated Financial Statements

Consolidated balance sheets

Assets	in USD millions, as of December 31	Notes	2007	2006
Investments				
Total Group Investments			193,600	195,676
Cash and cash equivalents			13,943	17,438
Equity securities			18,589	18,339
Debt securities			123,762	126,435
Real estate held for investment			7,563	6,921
Mortgage loans			12,718	10,806
Other loans			12,936	12,634
Investments in associates			238	153
Other investments			3,851	2,951
Investments for unit-linked contracts			122,092	114,327
Total investments ¹		6	315,693	310,003
Reinsurers' share of reserves for insurance contracts ¹		8	26,977	20,108
Deposits made under assumed reinsurance contracts			1,359	2,022
Deferred policy acquisition costs		12	14,941	13,197
Deferred origination costs		12	1,003	815
Accrued investment income			2,593	2,654
Receivables		14	12,846	11,926
Other assets			3,405	3,914
Mortgage loans given as collateral		15	2,243	2,426
Deferred tax assets		19	1,678	2,727
Property and equipment		16	1,972	1,905
Goodwill		17	1,730	660
Other intangible assets		17	2,906	2,425
Total assets			389,344	374,781

¹ The Group's life operations in the UK entered into a reinsurance agreement to transfer the risk associated with a significant annuities portfolio as of January 1, 2007. The initial impact of this transaction was a decrease of USD 7.4 billion in total investments and associated other assets and an increase of USD 7.1 billion in reinsurers' share of reserves for insurance contracts in the Global Life business.

The notes to the consolidated financial statements are an integral part of these consolidated financial statements.

Liabilities and equity	in USD millions, as of December 31		Notes	2007	2006
	Liabilities				
Reserve for premium refunds				625	655
Liabilities for investment contracts		9		54,485	50,705
Deposits received under ceded reinsurance contracts				1,739	2,375
Deferred front-end fees				5,791	5,395
Reserves for insurance contracts		8		252,886	241,138
Obligations to repurchase securities				5,370	6,144
Accrued liabilities				2,755	2,676
Other liabilities		18		20,257	22,802
Collateralized loans		15		2,243	2,426
Deferred tax liabilities		19		4,055	4,757
Debt related to capital markets and banking activities		20		1,663	1,889
Senior and subordinated debt		20		8,300	7,713
Total liabilities				360,167	348,677
Equity					
Share capital		21		10	10
Additional paid-in capital				10,289	10,448
Net unrealized gains/(losses) on investments				196	819
Cumulative translation adjustment				1,385	823
Net other recognized income and expenses				(717)	(1,286)
Cash flow hedges				(103)	–
Retained earnings				17,072	14,102
Common shareholders' equity				28,132	24,916
Preferred securities		21		671	671
Shareholders' equity				28,804	25,587
Minority interests				374	517
Total equity				29,177	26,105
Total liabilities and equity				389,344	374,781

The notes to the consolidated financial statements are an integral part of these consolidated financial statements.

Consolidated Financial Statements

Consolidated statements of cash flows

in USD millions, for the years ended December 31

	2007	2006
Cash flows from operating activities		
Net income attributable to shareholders	5,626	4,620
Adjustments for:		
Net (gain)/loss on divestments of businesses	(118)	43
Share of equity in income from investments in associates	(13)	(85)
Depreciation, amortization and impairments of fixed and intangible assets	515	460
Other non-cash items	310	1,857
Underwriting activities:	(3,259)	9,938
<i>Reserves insurance contracts, gross</i>	2,410	5,479
<i>Reinsurers' share of reserves for insurance contracts¹</i>	(6,407)	966
<i>Liabilities for investment contracts</i>	2,213	4,204
<i>Deferred policy acquisition costs</i>	(928)	(890)
<i>Deferred origination costs</i>	(166)	(32)
<i>Deposits made under assumed reinsurance contracts</i>	715	434
<i>Deposits received under ceded reinsurance contracts</i>	(1,096)	(223)
Investments:	(2,589)	(14,441)
<i>Net capital gains on investments and impairments</i>	(5,640)	(10,739)
<i>Net change in trading securities</i>	(180)	(351)
<i>Sales and maturities</i>		
<i>Debt securities¹</i>	70,307	58,544
<i>Equity securities</i>	70,825	46,044
<i>Other (primarily other investments)</i>	32,326	32,115
<i>Purchases</i>		
<i>Debt securities</i>	(64,227)	(61,291)
<i>Equity securities</i>	(73,614)	(46,191)
<i>Other (primarily other investments)</i>	(32,385)	(32,572)
Proceeds from sale and repurchase agreements	(865)	116
Movements in receivables and payables	350	207
Net changes in debt for capital markets and banking activities	(279)	(219)
Net changes in other operational assets and liabilities	(1,613)	(2,370)
Deferred income tax, net	355	514
Net cash provided by/(used in) operating activities	(1,580)	640

¹ The Group's life operations in the UK entered into a reinsurance agreement to transfer the risk associated with a significant annuities portfolio as of January 1, 2007. The main initial impact of this transaction were proceeds of USD 6.3 billion from the sale of debt securities, a reduction in cash and cash equivalents of USD 0.6 billion and an increase in reinsurers' share of reserves for insurance contracts of USD 7.0 billion.

The notes to the consolidated financial statements are an integral part of these consolidated financial statements.

in USD millions, for the years ended December 31	2007	2006
Cash flows from investing activities		
Sales of property and equipment	274	79
Purchase of property and equipment	(338)	(280)
Investments in associates, net	(73)	243
Acquisitions of companies, net of cash acquired	(543)	–
Divestments of companies, net of cash balances	58	–
Dividends from associates	5	12
Net cash provided by/(used in) investing activities	(617)	54
Cash flows from financing activities		
Dividends paid	(1,339)	(581)
Treasury share transactions	(1,669)	–
Nominal value reduction of share capital	–	(276)
Redemption of preferred securities and repayments to minority interests	–	(802)
Issuance of debt	1,898	311
Payments on debt outstanding	(1,576)	(592)
Net cash (used in) financing activities	(2,686)	(1,940)
Foreign currency translation effects on cash and cash equivalents	642	1,637
Change in cash and cash equivalents excluding change in cash received as collateral for securities lending ¹	(4,241)	391
Cash and cash equivalents as of January 1, excluding cash received as collateral for securities lending	19,302	18,911
Cash and cash equivalents as of December 31, excluding cash received as collateral for securities lending	15,061	19,302
Change in cash received as collateral for securities lending	(1,943)	(751)
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 December 31, including cash received as collateral for securities lending	16,936	23,122
Other supplementary cash flow disclosures		
in USD millions		
Other interest income received	8,519	7,760
Dividend income received	3,136	2,289
Other interest expense paid	(1,603)	(1,504)
Income tax paid	(1,701)	(1,342)

The notes to the consolidated financial statements are an integral part of these consolidated financial statements.

Consolidated Financial Statements

As of December 31, 2007 and 2006, cash and cash equivalents restricted as to use were USD 3,049 million and USD 423 million, respectively. Cash and cash equivalents held for the benefit of policyholders in connection with unit-linked products amounted to USD 2,993 million and USD 5,685 million as of December 31, 2007 and 2006, respectively.

Cash and cash equivalents	in USD millions, as of December 31	2007	2006
	Cash and cash equivalents comprise the following:		
	Cash at bank and in hand	5,567	4,912
	Cash equivalents	9,492	14,389
	Cash held as collateral for securities lending	1,877	3,820
	Total	16,936	23,122

The notes to the consolidated financial statements are an integral part of these consolidated financial statements.

Consolidated Financial Statements

Consolidated statements of changes in equity

in USD millions ⁴	Share capital	Additional paid-in capital	
Balance as of December 31, 2005, as previously reported	186	10,316	
Total adjustments due to implementation of IAS 19 SoRIE option	–	–	
Balance as of December 31, 2005, as restated	186	10,316	
Issuance of share capital	1	103	
Distributions to shareholders:			
Nominal value reduction of share capital ¹	(177)	–	
Dividends	–	–	
Redemption of preferred securities	–	–	
Share-based payment transactions	–	29	
Treasury share transactions	–	1	
Total recognized income and expense, net of tax	–	–	
Net changes in capitalization and minority interests	–	–	
Balance as of December 31, 2006	10	10,448	
Balance as of December 31, 2006, as previously reported	10	10,448	
Total adjustments due to implementation of IAS 19 SoRIE option	–	–	
Balance as of December 31, 2006, as restated	10	10,448	
Issuance of share capital ²	–	147	
Distributions to shareholders:			
Dividends	–	–	
Share-based payment transactions	–	30	
Treasury share transactions ³	–	(335)	
Total recognized income and expense, net of tax	–	–	
<i>Net income after taxes</i>	–	–	
<i>Net other recognized income and expenses</i>	–	–	
Net changes in capitalization and minority interests	–	–	
Balance as of December 31, 2007	10	10,289	

¹ As approved by the Annual General Meeting on April 20, 2006, the share capital was reduced by a nominal value reduction of CHF 2.40 per share from CHF 2.50 to CHF 0.10 in respect of each registered share. The distribution to shareholders relates to this nominal value reduction. The nominal value reduction of share capital in USD is adjusted for cumulative translation adjustments.

² The number of common shares issued as of December 31, 2007 was 145,546,820 (December 31, 2006: 144,749,399, December 31, 2005: 144,006,955).

³ On February 14, 2007, the Board of Zurich Financial Services authorized a share buy-back of up to CHF 1.25 billion (approximately USD 1 billion) over the course of 2007. A proposal to cancel all repurchased shares will be submitted to shareholders at the Annual General Meeting on April 3, 2008. The share buy-back scheme was completed on July 3, 2007, when 3,432,500 fully paid shares, with nominal value CHF 0.10, had been bought back at an average price of CHF 364.00 per share.

As of December 31, 2007 the number of treasury shares deducted from equity was 5,839,154, which comprises shares repurchased under the buy-back program and 2,406,654 shares held to cover employee share and option plans mainly purchased in November and December 2007.

⁴ Roundend amounts may not add to the rounded total in all cases.

The notes to the consolidated financial statements are an integral part of these consolidated financial statements.

	Net unrealized gains/(losses) on investments	Cumulative translation adjustment	Net other recognized income and expense	Cash flow hedges	Retained earnings	Common shareholders' equity	Preferred securities	Shareholders' equity	Minority interests	Total equity
	1,138	(111)	–	–	9,801	21,330	1,096	22,426	814	23,240
	–	–	(1,658)	–	248	(1,410)		(1,410)	(8)	(1,418)
	1,138	(111)	(1,658)	–	10,050	19,920	1,096	21,016	806	21,822
	–	–	–	–	–	104	–	104	–	104
	–	–	–	–	–	(177)	–	(177)	–	(177)
	–	–	–	–	(524)	(524)	(44)	(568)	(6)	(574)
	–	–	–	–	–	–	(425)	(425)	(355)	(780)
	–	–	–	–	–	29	–	29	–	29
	–	–	–	–	–	1	–	1	–	1
	(319)	934	372	–	4,576	5,563	44	5,607	117	5,724
	–	–	–	–	–	–	–	–	(45)	(45)
	819	823	(1,286)	–	14,102	24,916	671	25,587	517	26,105
	819	823	–	–	13,760	25,860	671	26,531	525	27,056
	–	–	(1,286)	–	342	(944)	–	(944)	(8)	(952)
	819	823	(1,286)	–	14,102	24,916	671	25,587	517	26,105
	–	–	–	–	–	147	–	147	–	147
	–	–	–	–	(1,293)	(1,293)	(46)	(1,339)	(10)	(1,348)
	–	–	–	–	–	30	–	30	–	30
	–	–	–	–	(1,317)	(1,652)	–	(1,652)	–	(1,652)
	(623)	561	568	(103)	5,580	5,984	46	6,030	90	6,120
	–	–	–	–	5,580	5,580	46	5,626	83	5,708
	(623)	561	568	(103)	–	403	–	403	7	410
	–	–	–	–	–	–	–	–	(223)	(223)
	196	1,385	(717)	(103)	17,072	28,132	671	28,804	374	29,177

Consolidated Financial Statements

Zurich Financial Services and its subsidiaries (collectively the "Group") are an insurance-based financial services provider with a global network. The Group also distributes non-insurance products, such as mutual funds, mortgages and other financial services products, from selected third-party providers. The Group operates mainly in Europe, the USA and Asia Pacific through subsidiaries and branch offices.

Zurich Financial Services, a Swiss corporation, is the holding company of the Group with a listing on the SWX Swiss Exchange. Zurich Financial Services was incorporated on April 26, 2000, in Zurich, Switzerland. It is recorded in the Commercial Register of the canton of Zurich under its registered address at Mythenquai 2, 8002 Zurich.

On February 13, 2008 the Board of Directors of Zurich Financial Services authorized these consolidated financial statements for issue. These financial statements will be submitted for approval to the Annual General Meeting of Shareholders to be held on April 3, 2008.

1. Basis of presentation

General information

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law. Where IFRS does not contain clear guidance governing the accounting treatment of certain transactions including those that are specific to insurance products, the IFRS Framework permits reference to another comprehensive body of accounting principles. In these cases, the Group typically refers to accounting principles generally accepted in the United States (US GAAP) for guidance.

Certain amounts recorded in the consolidated financial statements reflect estimates and assumptions made by management about insurance liability reserves, investment valuations, interest rates and other factors. Critical accounting judgments and estimates are discussed in note 4. Actual results may differ from the estimates made.

Certain reclassifications have been made to prior year amounts and segment disclosures to conform to the current year presentation. These reclassifications have no effect on the previously reported net income.

The Group's balance sheet is not presented using a current/non-current classification. However, the following balances are generally considered to be current: cash and cash equivalents, short-term investments, deferred policy acquisition costs on general insurance contracts, accrued investment income, receivables, reserve for premium refunds, accrued liabilities and obligation to repurchase securities.

The following balances are generally considered to be non-current: equity securities, investments in associates, investments held by investment companies, real estate held for investment, deferred policy acquisition costs on life insurance contracts, deferred tax assets, goodwill, other intangible assets, property and equipment, and deferred tax liabilities.

The following balances are of a mixed nature (including both current and non-current portions): debt securities, mortgage loans, other loans, other investments – other, reinsurers' share of reserves for insurance contracts, deposits made under assumed reinsurance contracts, deferred front-end fees, deferred origination costs, other assets, mortgage loans given as collateral, reserves for unit-linked contracts, liabilities for investment contracts, deposits received under ceded reinsurance contracts, reserves for losses and loss adjustment expenses, reserves for unearned premiums, future life policyholders' benefits, policyholders' contract deposits and other funds, other liabilities, collateralized loans, debt related to capital markets and banking activities, and senior and subordinated debt.

Maturity tables have been provided for the following balances: reserves for insurance contracts (table 26.16 and 26.17), liabilities for investment contracts (table 26.18 and 26.19), debt securities (table 6.4), derivative assets and derivative liabilities (tables 7.1 to 7.3), collateralized loans (table 15) and outstanding debt (table 20.3).

All amounts in the consolidated financial statements are shown in USD millions, rounded to the nearest million unless otherwise stated with the consequence that the rounded amounts may not add to the rounded total in all cases.

Change in accounting policies in 2007

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

Table 1

in USD millions	As reported	Amount of restatement	As restated
as of December 31, 2006			
Total equity	27,056	(952)	26,104
Other liabilities ¹	21,368	1,389	22,757
for the year ended December 31, 2006			
Net income attributable to shareholders	4,527	93	4,620

¹ Balances as at the date of restatement, excluding certain subsequent balance sheet reclassifications to conform with current year's presentation.

Transfer of UK annuity business

In the second quarter 2007, the Group's life operations in the UK entered into a reinsurance agreement to transfer the risk associated with a significant annuities portfolio as of January 1, 2007. This agreement is a first step in a transaction by which, subject to local regulatory and court approvals, the policies will be commuted to the reinsurer, who will then directly assume all rights and obligations under the policies. As at the date of the transaction, premiums ceded to reinsurers and ceded insurance benefits and losses increased by USD 7.3 billion and USD 7.0 billion, respectively. The transaction resulted in a net loss after tax of USD 59 million. In the consolidated balance sheets, total investments and associated other assets decreased by USD 7.4 billion and reinsurers' share of reserves for insurance contracts increased by USD 7.1 billion.

Segment information

The Group is managed on a matrix basis, reflecting both line of business and geography. Accordingly, segment information is presented in two formats. The primary format is based on the operating businesses of the Group and how they are strategically managed to offer different products and services to specific customer groups. The Group's primary business segments are as follows:

- General Insurance serves the property-casualty insurance needs of a wide range of customers, from individuals to small and medium-size businesses, commercial enterprises and major multinational corporations.
- Global Life pursues a customer-focused strategy with market-leading propositions in unit-linked and protection products and multi-channel distribution to develop leadership positions in our chosen segments and superior returns for our shareholders.
- Farmers Management Services which through Farmers Group, Inc. and its subsidiaries (FGI) provides non-claims related management services to the Farmers Exchanges, prominent writers of personal lines and small commercial lines business in the United States. FGI receives fee income for the provision of services to the Exchanges, which we manage, but do not own, and to their customers.
- Other Businesses includes Farmers Re which provides reinsurance to the Farmers Exchanges, Centre and capital markets and banking activities. This segment also includes certain businesses which are centrally managed and are not considered to be core businesses.
- Corporate Functions includes Group holding and financing companies, Corporate Center operations and certain alternative investments.

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To be consistent with the Group's management structure, the following transfers between primary segments have been made for 2007 financial reporting:

- Universal Underwriters Life Insurance Company from General Insurance to Other Businesses
- ZSFH LLC from Other Businesses to Corporate Functions
- Sterling Forest LLC from Other Businesses to General Insurance

The 2006 segmental results have been restated to reflect these changes.

The Group's secondary format for segment information is geographic as follows:

- North America
- Europe
- International Businesses, and
- Central Region

To be consistent with the Group's geographic structure, the following transfers between secondary segments have been made for 2007 financial reporting:

- Universal Underwriters Life Insurance Company from North America to Central Region
- The Group's businesses in Russia and Morocco from International Businesses to Europe
- Sterling Forest LLC from Central Region to North America

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Group accounts for inter-segment revenues and transfers as if the transactions were with third parties at current market prices, with the exception of dividends and realized capital gains, which are eliminated against equity.

2. Implementation of new accounting standards and amendments to published accounting standards effective in 2007

Standards published and effective as of January 1, 2007 and relevant for the Group's operations

The following standards, amendments and interpretations to published standards are relevant to the Group's operations:

In August 2005, the IASB issued IFRS 7 "Financial Instruments: Disclosures" which became effective for annual reporting periods beginning on or after January 1, 2007, and the complementary Amendment to IAS 1 "Presentation of Financial Statements – Capital Disclosures". In December 2005, the IASB released amendments to IFRS 4 "Insurance Contracts" to align risk disclosure requirements with IFRS 7. The impact of the adoption of IFRS 7 and the changes to IAS 1 and IFRS 4 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital. The Group has adopted IFRS 7, the amendments to IAS 1 and IFRS 4 as of January 1, 2007 with no effect on its financial results or financial position.

The following interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) became effective in 2007: IFRIC 7 "Applying the Restatement Approach under IAS 29 financial Reporting in Hyperinflationary Economies", IFRIC 8 "Scope of IFRS 2", IFRIC 9 "Reassessment of Embedded Derivatives", and IFRIC 10 "Interim Financial Reporting and Impairment". The Group has adopted these interpretations with no material effect on its financial results or financial position.

Standards that are not yet effective and have not been early adopted by the Group

The following standards, and amendments and interpretations to existing published standards are not yet effective but are relevant to the Group's operations. They have not been early adopted by the Group.

In November 2006, the IASB issued IFRS 8 "Operating Segments" which replaces IAS 14 "Segment Reporting". IFRS 8 is mandatory for reporting periods beginning on or after January 1, 2009. The standard sets out the requirements for disclosure of an entity's operating segments on the basis of internal reports used by management for decision making, as well as disclosures of the entity's products and services, the geographical areas in which it operates, and its major customers.

In March 2007, the IASB issued amendments to IAS 23 "Borrowing Costs". The amendments are mandatory for reporting periods beginning on or after January 1, 2009. The amendments eliminate the option available under the previous version of IAS 23 to recognize all borrowing costs immediately as an expense.

In September 2007, the IASB issued the revised IAS 1 "Presentation of Financial Statements". The revised Standard is mandatory for reporting periods beginning on or after January 1, 2009. The changes require information in financial statements to be aggregated on the basis of shared characteristics and introduce a statement of comprehensive income.

In June 2007, IFRIC 13 "Customer Loyalty Programmes" was issued. IFRIC 13 is mandatory for reporting periods beginning on or after July 1, 2008. The interpretation explains how entities that grant loyalty award credits should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem award credits.

In July 2007, IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" was issued. IFRIC 14 is mandatory for reporting periods beginning on or after January 1, 2008. The interpretation provides general guidance on how to assess the limit in IAS 19 Employee Benefits on the amount of the surplus that can be recognised as an asset. It also explains how the pension assets or liabilities may be affected when there is a statutory or contractual minimum funding requirement.

The Group is currently evaluating the impact of adopting these standards and interpretations.

3. Summary of significant accounting policies

The principal accounting policies applied in the presentation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

Consolidated Financial Statements

a) Consolidation principles

The Group's consolidated financial statements include the assets, liabilities, equity, revenues, expenses and cash flows of Zurich Financial Services and its subsidiaries. A subsidiary is an entity in which Zurich Financial Services owns, directly or indirectly, more than 50 percent of the outstanding voting rights, or which it otherwise has the power to control and is accounted for using the purchase method. The results of subsidiaries acquired are included in the consolidated financial statements from the date of acquisition. The results of subsidiaries that have been divested during the year are included up to the date control ceased. All significant intercompany balances, profits and transactions are eliminated in full.

When control over a subsidiary is acquired, a put option may be granted to minority shareholders. In such cases, the recognition of the puttable instrument as a liability depends on the contractual obligations. Where the contract involves an unconditional commitment exercisable at any time by the option holder, it is recognized as a liability. Such liability is subsequently remeasured at the present value of the option price, unless the minority interest can exercise the option at any time in which case the liability will not be discounted.

In the event of a buy out of minority interests, the existing ownership in an entity is revalued to the new valuation basis established at the time of acquisition. The increase in value is recorded directly in equity as a revaluation reserve.

Investments in associates and partnerships where the Group has the ability to exercise significant influence but not control, as well as joint ventures where there is joint control, are accounted for using the equity method. Significant influence is presumed to exist when the Group owns, directly or indirectly, between 20 percent and 50 percent of the outstanding voting rights. Under the equity method of accounting, investment in an associate, partnership or joint venture is initially recognized at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the investee.

The consolidated financial statements are prepared as of December 31 based on individual company financial statements at the same date. In some cases information is included with a time lag of up to three months.

b) Insurance contracts and investment contracts with discretionary participating features (DPF)

The Group developed its accounting policies for insurance contracts before the adoption of IFRS 4 and in the absence of a specific standard for insurance contracts. Management, at that time, used its judgment in developing a set of accounting policies for the recognition and measurement of rights and obligations arising from insurance contracts issued and reinsurance contracts held that provide the most useful information to users of the Group's financial statements. In making this judgment, Management primarily considered the pronouncements of the Financial Accounting Standards Board (US GAAP) on insurance and reinsurance contracts.

Classification

Insurance contracts are those contracts that transfer significant insurance risk. These contracts may also transfer financial risk. Significant insurance risk is defined as the possibility of paying significantly more in a scenario where the insured event occurs than in a scenario where the insured event does not occur. Scenarios considered include those which have commercial substance.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

A number of insurance and investment contracts contain DPF which entitle the contract holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the Group; and
- that are contractually based on:
 - the performance of a specified pool of contracts or a specified type of contract;
 - realized and/or unrealized investment returns on a specified pool of assets held by the issuer; or
 - the profit or loss of the company, fund or other entity that issues the contract.

The Group applies the same accounting policies for the recognition and measurement of obligations arising from insurance contracts and from investment contracts with DPF. These recognition and measurement criteria apply to obligations arising from the contract, deferred acquisition costs and other related intangible assets.

The Group also issues products containing an embedded option to the policyholder to switch all or part of the current and future invested funds into another product issued by the Group, usually from a unit-linked product into a unitized with-profits contract or similar. Certain of these products allow policyholders to switch back to the previous product at their convenience. Where this results in the reclassification of an investment product to a product that meets the definition of an insurance contract, the previously held reserve and the related deferred origination costs are also reclassified and are accounted for in accordance with the accounting policies for such products on a prospective basis.

As a consequence, no gain or loss is recognized as a result of the reclassification of a contract from investment to insurance.

Once a contract has been classified as an insurance contract no reclassification is done subsequently.

Premiums

Premiums from the sale of general insurance products are recorded when written and normally are accreted to earnings on a pro-rata basis over the term of the related policy coverage. However, for those contracts for which the period of risk differs significantly from the contract period, premiums are recognized over the period of risk in proportion to the amount of insurance protection provided. The unearned premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage.

Premiums from traditional life insurance contracts, including participating contracts and annuity policies with life contingencies, are recognized as revenue when due from the policyholder. Benefits and expenses are provided against such revenue to recognize profits over the estimated life of the policies. Moreover, for single premium and limited pay contracts, premiums are recognized in income when due with any excess profit deferred and recognized in income in a constant relationship to the insurance in-force or, for annuities, the amount of expected benefit payments.

Amounts collected as premiums from investment type contracts such as universal life, unit-linked and unitized with-profits contracts are reported as deposits. Revenue from these contracts consists of policy fees for the cost of insurance, administration and surrenders during the period. Front-end fees are recognized over the estimated life of the contracts. Policy benefits and claims that are charged to expenses include benefit claims incurred in the period in excess of related policyholder contract deposits and interest credited to policyholder deposits.

Deferred policy acquisition costs (DAC)

The costs of acquiring new business, including commissions, underwriting and policy issue expenses, which vary with and are directly related to the production of new business, are deferred. Future investment income is taken into account in assessing recoverability.

DAC for participating traditional life insurance contracts is amortized over the expected life of the contracts as a constant percentage of estimated gross margins. Estimated gross margins include anticipated premiums and investment results less benefits and administration expenses, changes in the net level premium reserve and expected policyholder dividends, as appropriate. Estimated gross margins are re-estimated regularly with the impact of deviations of actual result from estimated experience on the amortization of deferred acquisition costs reflected in earnings.

DAC for other traditional life insurance and annuity policies are amortized over the expected life of the contracts as a constant percentage of expected premiums. Expected premiums are estimated at the date of policy issue and are consistently applied throughout the life of the contract unless premium deficiency occurs.

DAC for contracts such as universal life, unit-linked and unitized with-profits contracts are amortized over the expected life of the contracts based on a constant percentage of the present value of estimated gross profits expected to be realized over the life of the contract. Estimated gross profits include expected amounts to be assessed for mortality, administration, investment and surrender, less benefit claims in excess of policyholder balances, administrative expenses and interest credited. Estimated gross profits are revised regularly and the interest rate used to compute the present value of revised estimates of expected gross profits is the latest revised rate applied to the remaining benefit period. Deviations of actual results from estimated experience are reflected in earnings.

The DAC asset is adjusted to equal the effect that realization of unrealized gains or losses on investments would have had on its measurement. This change is recorded as a direct offset to unrealized gains or losses at the balance sheet date (shadow accounting).

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Unamortized DAC associated with internally replaced contracts that are, in substance, contract modifications, continue to be deferred and amortized. Costs associated with internally replaced contracts that are, in substance, new contracts, are written down.

Liability adequacy tests

Liability adequacy testing is performed by portfolio of contracts, in accordance with the Group's manner of acquiring, servicing and measuring the profitability of its insurance contracts. Net unearned premiums are tested to determine whether they are sufficient to cover related expected claims, loss adjustment expenses, policyholder dividends, commission, amortization and maintenance expenses. If there is a premium deficiency, the DAC asset is written down by the amount of the deficiency. If, after writing down the DAC asset to nil (for the specified portfolio of contracts), a premium deficiency still exists, then a premium deficiency reserve is recorded to provide for the deficiency in excess of the DAC asset written down.

For life contracts, the net premium reserve, calculated on a locked-in basis and reduced by the unamortized balance of DAC or present value of profits of acquired insurance contracts (PVFP) is compared to the gross premium reserve, calculated on a best-estimate basis as of the valuation date. If there is a deficiency, the DAC or PVFP is written down to the extent of the deficiency. If, after writing down the DAC or PVFP to nil (for the specified portfolio of contracts), a deficiency still exists, the net liability is increased by the amount of the remaining deficiency.

Reserves for losses and loss adjustment expenses

Losses and loss adjustment expenses are charged to income as incurred. Reserves for losses and loss adjustment expenses represent the accumulation of estimates for ultimate losses and include provisions for losses incurred but not yet reported (IBNR). The reserves represent estimates of future payments of reported and unreported claims for losses and related expenses with respect to insured events that have occurred. Reserving is a complex process dealing with uncertainty, requiring the use of informed estimates and judgments. The Group does not discount its loss reserves, other than for settled claims with fixed payment terms. Any changes in estimates are reflected in the results of operations in the period in which estimates are changed.

Future life policyholders' benefits and policyholders' contract deposits

These represent the estimated future policyholder benefit liability respectively for traditional life insurance policies and for certain unit-linked contracts.

Future life policyholders' benefits for participating traditional life insurance policies are calculated using a net level premium valuation method based on actuarial assumptions equal to guaranteed mortality and interest rates.

Future life policyholders' benefits for other traditional life insurance policies are calculated using a net level premium valuation method based on actuarial assumptions as to mortality, persistency, expenses and investment return including a margin for adverse deviation.

For traditional life insurance policies, interest rate assumptions can vary by country, year of issuance and product. The mortality rate assumptions are based on published mortality tables and are adjusted for actual experience by geographic area and modified to allow for variations in policy form. The surrender assumptions are based on actual experience by geographic area and modified to allow for variations in policy form.

Future life policyholders' benefits include the value of accumulated declared bonuses or dividends that have vested to policyholders.

Policyholders' contract deposits represent the accumulation of premium received less charges plus declared dividends.

Where unrealized gains or losses on the revaluation of available-for-sale assets arise and are recorded directly in equity in accordance with the accounting policy for such assets, the corresponding adjustments to future life policyholders' benefits and related assets are also recognized directly in equity.

The policyholders' share of unrealized gains or losses, which may be paid in the future, in respect of assets, is included in future life policyholders' benefits.

For products containing discretionary participation features the amount of the discretionary participation feature is deemed to be the investment return on all related assets where the apportionment between the shareholder and the policyholder has not yet been determined. The liability includes certain elements of unrealized gains and portions of retained earnings attributable to the DPF, based on the mandated rates applied to these gains and earnings on the assumption that they had been realized at the balance sheet date.

The minimum mandated amounts, which are to be paid to policyholders plus any declared additional benefits, are recorded in liabilities. The remainder of undeclared discretionary balances are not included in the liability but are included in shareholders' equity until such time as the discretionary element of a bonus is determined and declared.

Reserves for unit-linked contracts are recorded equal to the consideration received plus accumulated investment yield less any fees charged or dividends paid to the policyholder.

For products containing guarantees in respect of minimum death benefits (GMDB), retirement income benefits (GRIB) and/or annuitization options (GAO), any additional liabilities are recorded in proportion to the receipt of the contracted revenues.

Reinsurance

The Group's insurance subsidiaries cede risk in the normal course of business in order to limit the potential for losses arising from certain exposures. Reinsurance does not relieve the originating insurer of its liability. Certain Group insurance companies assume reinsurance business incidental to their normal business, as well as from the Farmers Exchanges. Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses, ceded unearned premiums and ceded future life policy benefits. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross in the consolidated balance sheet unless a legal right of offset exists.

Reinsurance assets are assessed for impairment on a regular basis for any events that may trigger impairment. Triggering events may include legal disputes with third parties, changes in capital and surplus levels, change in credit ratings of a counterparty and historic experience regarding collectibility from specific reinsurers.

If there is objective evidence that a reinsurance asset is impaired, the carrying amount of the asset is reduced to its recoverable amount. The impairment is considered to have taken place if it is probable that the Group will not be able to collect the amounts due from reinsurers. The carrying amount of a reinsurance asset is reduced through the use of an allowance account, and the amount of the impairment loss is recognized in income.

In addition to assessing whether significant insurance risk has been transferred, reinsurance contracts are further assessed to ensure that underwriting risk, defined as the reasonable possibility of significant loss, and timing risk, defined as the reasonable possibility of a significant variation in the timing of cash flows, are transferred by the ceding or assuming company to the reinsurer. Those contracts that do not transfer both risks, referred to in total as insurance risk, are accounted for using the deposit method. A deposit asset or liability is recognized based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the ceding company. Deposits for contracts that transfer only significant underwriting risk are subsequently measured based on the unexpired portion of coverage until a loss is incurred, after which the present value of expected future cash flows under the contract is added to the remaining unexpired portion of coverage. Changes in the deposit amount are recorded in the consolidated income statements as an incurred loss. Interest on deposits that transfer only timing risk, or no risk at all, are accounted for using the effective interest rate method. Future cash flows are estimated to calculate the effective yield, and revenue and expense are recorded as interest income or expense. Premiums paid under the retroactive contracts are included in reinsurance recoverables in the balance sheet. If the amount of gross claims provisions reinsured is higher than the premium paid, reinsurance receivables are increased by the difference, and the gain is deferred and amortized over the period in which the underlying claims are paid.

c) Investment contracts (without DPF)

The Group issues investment contracts without fixed terms (unit-linked) and investment contracts with fixed and guaranteed terms (fixed interest rate).

Investment contracts without fixed terms are financial liabilities where the fair value of the contract is determined with reference to the fair value of the underlying financial assets, derivatives and/or investment property (unit-linked) and are designated at inception as at fair value through profit or loss.

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Liabilities for investment contracts (unit-linked)

These represent portfolios maintained to meet specific investment objectives of policyholders who bear the credit and market risks. The liabilities are carried at fair value with changes recognized in income. The related assets held under unit-linked investments contracts are classified as designated at fair value through profit or loss in order to reduce measurement inconsistencies. The related liabilities are carried at fair value with changes recognized in income. The costs of policy administration, investment management, surrender charges and certain policyholder taxes assessed against the policyholders' account balances are included in policy fee revenue.

The liability held for unit-linked contracts with capital units is measured at the funded value of those units. At the date of issue, the difference between the funded and unfunded value of units is treated as deferred revenue.

Liabilities for investment contracts (amortized cost)

Liabilities for investment contracts are measured at amortized cost, using the effective interest rate method. Transaction costs are deducted from the initial amount and form part of the effective yield. Future assumptions, except for the effective interest rate, are reviewed each reporting period. Changes in the liability due to changes in future assumptions are recognized in income.

Measurement of investment contracts

Valuation techniques are used to establish the fair value at inception and at each subsequent reporting date.

The Group's main valuation techniques incorporate all factors that market participants would consider and are based on observable market data. The fair value of a unit-linked financial liability is determined using the current unit values that reflect the fair values of the financial assets contained within the Group's unitized investment funds linked to the financial liability, multiplied by the number of units attributed to the contract holder at the balance sheet date.

If the investment contract is subject to a put or surrender option, the fair value of the financial liability is never recorded at less than the amount payable on surrender, discounted for the required notice period, where applicable.

The effective interest rate method applies an interest rate (the effective interest rate) that exactly discounts the estimated future cash payments or receipts to the net carrying amount of the financial liability, through the expected life of the financial instrument or, when appropriate, a shorter period if the holder has the option to redeem the instrument before maturity.

The Group re-estimates at each reporting date the expected future cash flows and recalculates the carrying amount of the financial liability by computing the present value of estimated future cash flows using the financial liability's original effective interest rate. Any adjustment is immediately recognized as income or expense in the income statement.

Deferred origination costs

The costs of acquiring new investment contracts with investment management services, including commissions and other incremental expenses directly related to the issuance of each new contract are amortized in line with revenue generated by the investment management service. The deferred origination costs (DOC) are tested for recoverability at each reporting date.

The costs of acquiring new investment contracts without investment management services are included as part of the effective interest rate used to calculate the amortized-cost measure of the related liabilities.

d) Other revenue recognition

Fee revenue for the provision of non-claims related management services to the Farmers Exchanges is calculated primarily as a percentage of gross premiums earned by the Farmers Exchanges. FGI provides non-claims related management services to the Farmers Exchanges, including risk selection, preparation and mailing of policy forms and invoices, premium collection, management of the investment portfolios and certain other administrative and managerial functions. The Farmers Exchanges are responsible for their own claims functions, including the settlement and payment of claims and claims adjustment expenses. They are also responsible for the payment of agent commissions and bonuses and the payment of premium and income taxes.

Revenues from investment management and distribution fees are based on contractual fee arrangements applied to assets under management and recognized as earned when the service has been provided. For practical purposes, the Group recognizes these fees on a straight-line basis over the estimated life of the contract.

The Group charges its customers for asset management and other related services using the following different approaches:

- Front-end fees charged to the customer at inception are used particularly for single premium contracts. The consideration received is deferred as a liability and recognized over the life of the contract on a straight-line basis.
- Regular fees charged to the customer periodically (monthly, quarterly or annually) either directly or by making a deduction from invested funds are billed in advance and recognized on a straight-line basis over the period in which the service is rendered. Fees charged at the end of the period are accrued as a receivable and are offset against the financial liability when charged to the customer.

e) Net investment income

Net investment income includes investment income earned and investment expenses incurred.

Investment income primarily consists of dividend income on equity securities, interest income on financial assets other than equity securities, rental income earned on real estate held for investment and income earned on investments that are accounted for by using the equity method of accounting.

Dividend income is recognized when the right to receive payment is established, which is usually the ex-dividend date.

Interest income on financial assets that are not classified as held for trading or designated at fair value through profit or loss is recognized using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income.

Rental income earned on real estate held for investment is recognized on the accrual basis.

Investment expenses consist of operating expenses for real estate held for investment and other investment expenses, including investment management fees. These expenses are recognized on the accrual basis.

f) Investments

Investments include cash and cash equivalents, non-derivative financial instruments, real estate held for investment, investments in associates and joint ventures, short-term investments and investments held by investment companies.

Categories of non-derivative financial instruments

Non-derivative financial instruments are classified as financial assets at fair value through profit or loss, financial assets held-to-maturity, loans and receivables, and financial assets available-for-sale. The classification depends on the purpose for which the investments were acquired. Management determines the classification of these investments at initial recognition with reference to its long-term investment objectives.

Financial assets at fair value through profit or loss are sub-classified into financial assets held for trading and those designated at fair value through profit or loss at inception.

Financial assets held for trading are debt and equity securities which the Group buys with the principal intention to resell in the near term.

Financial assets designated at fair value through profit or loss at inception are mainly financial assets backing unit-linked insurance and unit-linked investment contracts. Reserves relating to unit-linked insurance contracts and liabilities for unit-linked investment contracts are carried at fair value, which is determined by reference to these assets with changes in the fair value of both the asset and liability recognized in income. The designation of these assets at fair value through profit or loss eliminates or significantly reduces a measurement inconsistency that would otherwise arise from measuring assets or from recognizing the resultant gains and losses on them on a different basis to the liability. The fair value designation, once made, is irrevocable.

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Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities other than those that meet the definition of loans and receivables, and for which the Group's management has the positive intention and the ability to hold to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group intends to sell in the short term or that it has designated at fair value through profit or loss or is holding as available-for-sale. Loans and receivables include loans where money is provided directly to the borrower, such as mortgage loans, policyholder loans and other loans.

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or are not classified in any of the other categories.

Measurement of non-derivative financial instruments

General

The Group recognizes regular way purchases and sales of financial assets on the trade date, which is the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognized at fair value plus, in the case of all financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. After initial recognition, financial assets are measured either at fair value or at amortized cost.

Held-to-maturity financial assets

Held-to-maturity financial assets are subsequently carried at amortized cost using the effective interest rate method, less any provision for impairment. The amortization of premium and accretion of discount on held-to-maturity investments recognized in the current period is included in investment income.

Financial assets carried at fair value through profit or loss

Financial assets carried at fair value through profit or loss are subsequently measured at fair value. Realized and unrealized gains and losses arising from changes in the fair value are recognized in income within net capital gains/losses on investments and impairments in the period in which they arise.

Investments backing certain life insurance policies with participation features are held as at fair value through profit or loss in order to reduce measurement inconsistencies. Movements in the carrying value of these assets that are recognized in the current period investment income are offset by equivalent movements attributable to policyholders.

Loans and receivables

Loans and receivables are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

Available-for-sale financial assets

Available-for-sale financial assets are subsequently carried at fair value, with changes in fair values recognized in shareholders' equity until the securities are either sold or impaired. The cumulative unrealized gains or losses recorded in shareholders' equity are net of cumulative deferred income taxes, certain life policyholder liabilities, deferred acquisition costs and minority interests. Realized gains or losses on sale are based on the difference between the proceeds received and the carrying value of the investment plus any unrealized gains or losses on the investment recorded in shareholders' equity using the specific identification method. When available-for-sale financial assets are sold, impaired or otherwise disposed of, the cumulative gains and losses previously recognized in shareholders' equity are included in current period income. The amortization of premium and accretion of discount on available-for-sale debt securities is computed using the effective interest method and is recognized in current period income.

Unrealized gains and losses on securities classified as available-for-sale are analyzed between differences resulting from foreign currency translation, differences resulting from changes in the amortized cost and other fair value changes. Foreign currency translation differences on monetary available-for-sale investments, such as debt securities, are recognized in income. Foreign currency translation differences on non-monetary assets, such as equity securities, are recognized directly in equity. Other unrecognized gains and losses on available-for-sale investments are recognized directly in equity.

Dividends on available-for-sale equity instruments are recognized in income when the Group's right to receive payments is established. Dividends are included in the investment income line.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arms-length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Other items

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, which are held for cash management purposes. Cash and cash equivalents also includes cash received as collateral for securities lending as well as cash and cash equivalents held for the benefit of policyholders in connection with unit-linked products. Cash and cash equivalents are stated at face value.

Real estate held for investment purposes is initially recorded at cost (including transaction costs) and is subsequently measured at fair value with changes in fair value recognized in current period income. No depreciation is recorded for real estate held for investment. The gain or loss on disposal of real estate held for investment is based on the difference between the proceeds received and the carrying value of the investment.

Short-term investments are investments with an original maturity date between three months and twelve months. The carrying values of short-term investments approximate to fair values.

Investments held by investment companies are carried at fair value as they are managed on a fair value basis.

Impairments of non-derivative financial instruments

General

Financial assets are assessed for impairment on a regular basis. A financial asset is impaired if its carrying value exceeds the estimated recoverable amount and there is objective evidence of impairment to the financial asset.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following events:

- a) significant financial difficulty of the issuer or debtor;
- b) a breach of contract, such as a default or delinquency in payments;
- c) it becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganization;
- d) the disappearance of an active market for that financial asset because of financial difficulties; or
- e) observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in that group, including:
 - adverse changes in the payment status of issuers or debtors in that group; or
 - national or local economic conditions that correlate with defaults on the assets in that group.

The Group first assesses whether objective evidence of impairment exists for financial assets that are individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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Financial assets carried at amortized cost

For held-to-maturity financial assets and loans and receivables the impairment is considered to have taken place if it is probable that the Group will not be able to collect principal and/or interest due according to the contractual terms of the instrument. When impairment is determined to have occurred, the carrying amount of the held-to-maturity financial assets, policyholders' loan or other loans is decreased through a charge to income. The carrying amount of mortgage loans or receivables is reduced through the use of an allowance account, and the amount of any allowance is recognized as an impairment loss in income. The allowance is determined using an analytical method based on knowledge of each loan group or receivable. The method is usually based on historical statistics, adjusted for known or anticipated trends in the group of financial assets or individual accounts.

Financial assets carried at fair value

When a decline in the fair value of an available-for-sale asset has been recognized directly in shareholders' equity and there is objective evidence that the asset is impaired, the cumulative loss already recognized directly in shareholders' equity is recognized in current period income. This arises when the fair value of the security has been significantly below the weighted-average cost, usually considered to be more than 50 percent for any period of time. Additionally, the Group considers an available-for-sale equity for impairment when the fair value has been below the weighted-average cost by more than 20 percent for more than 12 months. The amount of the cumulative loss that is removed from shareholders' equity and recognized in current period income is the difference between acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that asset previously recognized in income.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognized in income, the impairment loss is reversed through income. Impairment losses recognized in income on equity instruments classified as available-for-sale are not reversed through income.

g) Derivative financial instruments

Derivative financial instruments include interest rate, currency and total return swaps, futures, forwards and option contracts, all of which derive their value mainly from changes in underlying interest rates, foreign exchange rates, commodity values or equity instruments. A derivative contract may be traded on an exchange or over-the-counter (OTC). Exchange-traded derivatives are standardized and include futures and certain option contracts. OTC derivative contracts are individually negotiated between contracting parties and include forwards, caps, floors and swaps. Derivative financial instruments are subject to various risks similar to those related to the underlying financial instruments, including market, credit and liquidity risk.

In addition to the derivative financial instruments described above, the Group enters into contracts that are not considered derivative financial instruments in their entirety but which include embedded derivative features. Such embedded derivatives are assessed at inception of the contract and, depending on their characteristics, are accounted for as separate derivative financial instruments.

Derivative financial instruments that are not part of a qualifying accounting hedge relationship are classified as held for trading assets or liabilities and carried at fair value on the balance sheet.

Fair values are obtained from quoted market prices, dealer price quotations, discounted cash flow models and option pricing models, which incorporate current market and contractual prices for the underlying instrument, time to expiry, yield curves and volatility of the underlying instrument. Inputs used in pricing models are generally market observable or can be derived from market observable data. Derivative financial instruments with positive fair values are recorded as derivative trading assets and those with negative fair values are recorded as derivative trading liabilities. Apart from derivative financial instruments designated as qualifying cash flow hedging instruments. Changes in fair value are recognized in income.

Derivative financial instruments that qualify for hedge accounting

For the purpose of hedge accounting, hedging instruments are classified as fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability, cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction, or hedges of the net investment in a foreign operation.

To qualify for hedge accounting, the relationship of the hedging instrument to the underlying transaction must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. If these conditions are not met, then the relationship does not qualify for hedge accounting, in which case the hedging instrument and the hedged item are reported independently in accordance with the respective accounting policy as if there was no hedging relationship. Where these conditions are met, the accounting treatments are as follows:

Fair value hedges

Gains or losses from re-measuring the derivatives that are designated and qualify as fair value hedges are recognized immediately in the same line item of the consolidated income statement as the offsetting change in fair value of the risk being hedged. Offsetting gains or losses on the fair value hedged item attributable to the hedged risk are adjusted against the carrying amount of the hedged item and recognized in income.

Cash flow hedges

In a cash flow hedge relationship the effective portion of gain or loss on the re-measurement of the cash flow hedging instrument is recognized directly in shareholders' equity. The ineffective portion is recognized in current period income. The accumulated gains and losses on the hedged instrument in shareholders' equity are transferred to income in the same period in which gains or losses on the item hedged are recognized in income.

Hedges of net investment in a foreign operations

Changes in the fair value of hedges of a net investment in a foreign operation are recorded in shareholders' equity, to the extent the hedge is effective. The change in fair value representing hedge ineffectiveness is recorded in net realized capital gains/(losses) on investments and impairments. On disposal of a foreign operation the accumulated gains and losses on the related hedging instruments previously recognized in shareholders' equity in relation to the effective portion of the hedge, are transferred to income.

Discontinued hedges

Where hedge accounting is applied, the Group formally documents all relationships between hedging instruments and hedged items, including the risk management objectives and strategy for undertaking hedge transactions. At inception of a hedge and on an ongoing basis, the hedge relationship is formally assessed in order to determine whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risk. The Group discontinues hedge accounting prospectively in the following circumstances:

- it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item (including forecast transactions);
- the derivative expires or is sold, terminated, or exercised;
- the derivative is no longer designated as a hedging instrument because it is unlikely that the forecast transaction will occur; or
- the Group otherwise determines that designation of the derivative as a hedging instrument is no longer appropriate.

When the Group discontinues fair value hedge accounting because it determines that the derivative no longer qualifies as an effective fair value hedge, the derivative will be carried separately on the consolidated balance sheet at its fair value, and the value of the hedged asset or liability will no longer be adjusted for changes in fair value attributable to the hedged risk. Interest-related fair value adjustments made to the underlying hedged items will be amortized in income over the remaining life of the hedged item. Any unamortized interest-related fair value adjustment is recorded in income upon sale or extinction of the hedged asset or liability, respectively. Any other fair value hedge adjustments remain part of the carrying amount of the hedged asset or liability and are recognized in income upon disposition of the hedged item as part of the gain or loss on disposal.

When hedge accounting is discontinued on a cash flow hedge, the net gain or loss will remain in other recognized income and expenses within shareholders' equity and be reclassified to income in the same period or periods during which the formerly hedged transaction is reported in income. When the Group discontinues hedge accounting because the forecast transaction is no longer expected to occur the derivative will continue to be carried on the consolidated balance sheet at its fair value, and any related accumulated gains and losses that were previously recorded in other recognized income and expenses from the period when the hedge was effective are recognized in income. The forecast transaction may still be expected to occur, but may no longer

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be highly probable, in which case the related cumulative gains and losses on the hedging instrument remain in other recognized income and expense within shareholders' equity until the forecast transaction occurs or is no longer expected to occur. At that point, the gains and losses will be treated as described above.

h) Derecognition of financial assets and liabilities

Financial assets are derecognized when the right to receive cash flows from the assets has expired, or when the Group has transferred its contractual right to receive the cash flows from the financial asset, and either

- substantially all the risks and rewards of ownership have been transferred; or
- substantially all the risks and rewards have not been retained or transferred, but control has been transferred.

Financial liabilities are derecognized when they are extinguished, that is when the obligation is discharged, cancelled or expired.

i) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to settle the asset and settle the liability simultaneously.

j) Securities lending

Certain entities within the Group participate in securities lending arrangements whereby specific securities are loaned to other institutions, primarily banks and brokerage firms, for short periods of time. Under the terms of the securities lending agreements, the Group retains substantially all the risks and rewards of ownership of these loaned securities, and also retains contractual rights to cash flows therefrom. These securities are therefore not derecognized from the Group's balance sheet. Cash collateral received as security for loaned securities is recorded as an asset and the related liability is recorded in liabilities for cash collateral received for securities lending.

k) Obligation to repurchase securities

Sales of securities under agreements to repurchase are accounted for as collateralized borrowing transactions and any difference between the amount of consideration received at initial recognition and the purchase value is recognized in income over the period of lending using the effective interest rate method.

l) Borrowings

Borrowings (debt issued) are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in income over the period of the borrowings using the effective interest rate method.

When fair value hedge accounting is applied to borrowings, the carrying values of borrowings are adjusted for changes in fair values related to the hedged exposure rather than carried at amortized cost.

m) Interest expense

Interest expense for all financial instruments except for those classified as held for trading or designated at fair value is recognized in income using the effective interest method.

n) Goodwill and other intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the acquisition date. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates and is tested for impairment as part of the overall measurement of the carrying amount of those investments.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use of that group of assets (the 'cash generating unit'), and are largely independent of the cash inflows of other assets or groups of assets. The Group's cash generating units, on which impairment losses are assessed, represent the lowest level at which goodwill is monitored for internal management purposes.

The test for goodwill impairment is performed annually or whenever there is an indication that the cash generating unit may be impaired. Goodwill is carried at cost less accumulated impairment losses which are recorded in income if the recoverable amount is less than the carrying amount of the cash generating unit, including goodwill. Gains and losses on the divestment of an entity are calculated including the carrying amount of any goodwill relating to the entity sold.

The recoverable amount of a cash generating unit is the higher of its fair value less costs to sell and its value in use. Fair value less costs to sell is based on the best information available to reflect the amount that the Group could obtain, at the balance sheet date, from the disposal of the cash generating unit on an arm's length basis between knowledgeable, willing parties, after deducting the costs of disposal. The information considered in assessing fair value may include quoted market prices, current share values in the market place for similar publicly traded entities, and recent sale transactions of similar entities or businesses in the market place. Value in use is determined using the present value of estimated future cash flows expected to be generated from or used by the cash generating unit. The estimated future cash flows are based on best estimate assumptions, such as revenue and expense projections, growth rate, interest rates and investment yields, and inflation rate.

Indications that goodwill related to a cash generating unit may be impaired include events or changes in circumstances that may have a significant negative impact on the operations of the cash generating unit, or material adverse changes in the assumptions used in determining its recoverable amount.

Other intangible assets

Other intangible assets acquired in a business combination are recognized separately from goodwill at the acquisition date if it is probable that the expected future economic benefits that are attributable to these assets will flow to the entity, and that the cost of these assets can be measured reliably, and, if these assets are separable or arise from contractual or other legal rights.

Such assets include brand names, customer relationships and contracts, affinity partnerships, computer software licenses and capitalized development costs.

The useful lives of brand names, customer relationships and contracts and affinity partnerships are estimated based on the period of time over which they are expected to provide economic benefit. The useful lives of computer software licenses and capitalized software development costs generally does not exceed 5 years. Capitalized software costs are depreciated on a straight-line basis, taking into account the effects of obsolescence, technology, competition and other economic factors.

Intangible assets that have an indefinite useful life are not subject to amortization but are tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that have a finite useful life are amortized using the straight-line method over the useful life. They are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Any impairment loss is recorded in income if the carrying value of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value less selling costs of an asset and its value in use.

Present value of future profits from acquired insurance contracts (PVFP)

On the acquisition of life insurance businesses a customer contract intangible asset representing the present value of future profits from the acquired contracts or PVFP is determined. This asset is amortized over the expected life of the policies acquired, based on a constant percentage of the present value of estimated gross profits (margins) expected to be realized, or over the premium recognition period, as appropriate. PVFP is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recovered.

Attorney-in-fact relationships (AIF)

The asset representing the AIF reflects the ability of the Group to generate future revenues based on the Group's relationship with the Farmers Exchanges. In determining that these relationships have an indefinite useful life, the Group considered the organizational structure of inter-insurance exchanges, under which subscribers exchange contracts with each other and appoint an attorney-in-fact to provide certain management services and the historical AIF between FGI and the Farmers Exchanges. Similar to goodwill, an impairment test for AIF is performed on an annual basis or whenever there is a change in circumstances that may have an adverse effect.

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o) Income taxes

The Group provides current tax expense according to the tax laws of each jurisdiction in which it operates. Deferred income taxes are recognized using the asset and liability method. Deferred income taxes are recorded for temporary differences, which are based on the difference between financial statement carrying amounts and income tax bases of assets and liabilities using enacted income tax rates and laws. Losses for tax purposes are treated as deferred tax assets to the extent it is probable that the losses can offset future taxable income and is allowed by the applicable local tax laws and regulations.

Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same taxation authority and when there is a legally enforceable right to offset them.

Taxes payable by either the company or its subsidiaries on expected distribution to the holding company of the profits of subsidiaries are not recognized as deferred income taxes unless a distribution of those profits is intended in the foreseeable future.

Taxes paid by certain of our life insurance businesses are based on the investment result less allowable expenses. To the extent that these taxes exceed the amount that would have been payable in respect of the shareholders' share of taxable profits, it is normal practice for certain of our businesses to recover this tax from policyholders. While the relevant company has the contractual right to charge policyholders for the taxes attributable to their share of the investment result less expenses, the obligation to pay the tax authority rests with the company and therefore, the full amount of tax including that charged to policyholders is accounted for as income tax. Income tax expense therefore includes an element attributable to policyholders. In addition, deferred tax on unrealized gains on investment contracts with DPF related to certain unit-linked contracts is included as income tax expense and an accrual for future policy fees to recover the tax charge is included in gross written premiums and policy fee revenue.

p) Employee benefits

Retirement benefits

The operating companies in the Group provide employee retirement benefits through both defined benefit plans providing specified benefits and defined contribution plans. The assets of these plans are generally held separately from the Group's general assets in trustee-administered funds. Defined benefit plan obligations and contributions are determined annually by qualified actuaries using the projected unit credit method. The Group's expense related to these plans is accrued over the employees' service periods based upon the actuarially determined cost for the period.

Actuarial gains and losses are recognized in full in the period in which they occur and are presented on a separate line in the statement of total recognized income and expenses (SORIE). Actuarial gains and losses result from experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred during the accounting period), changes in actuarial assumptions since the previous balance sheet date, and differences between the expected and actual returns on plan assets. Unrecognized prior service costs represent non-vested benefits on the date of a change in the amount of benefits following an amendment to the plan and are amortized on a straight-line basis over the average vesting period.

Other post-employment benefits

Other defined post-employment benefits, such as medical care and life insurance, are also provided for certain employees and are primarily funded internally. Similar to retirement benefits, the cost of such benefits is accrued over the service period of the employees based on the actuarially determined cost for the period.

q) Share-based compensation and cash incentive plans

Under the Group's equity-settled, share-based compensation plan, the fair value of the employee services received in exchange for the grant of shares and/or options is recognized as an expense in income over the vesting period, with a corresponding amount recorded in additional paid-in capital.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares and/or options granted. Non-market vesting conditions (for example, profitability and premium income growth targets) are included in assumptions about the number of shares and/or options that are expected to be issued or become exercisable. At each balance sheet date, the Group revises its estimates of the number of shares and/or options that are expected to be issued or become exercisable. It recognizes the impact of the revision to original estimates, if any, in income with a corresponding adjustment to equity. However, no subsequent adjustment to total equity is made after the vesting date.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the shares are delivered or options are exercised.

Under the Group's cash-settled, share based payment compensation plan, the Group allows participants to take their option award in the form of Share Appreciation Rights (SAR). Hence, the Group incurs a liability which is measured at the fair value of the SAR using the Black-Scholes model. The liability is measured at initial recognition and at each balance sheet date until settled thereby taking into account the terms and conditions on which the share appreciation rights were granted, and the extent to which the participants have rendered service to date. The fair value of the participants' services received in exchange for the SAR is recognized as an expense in income over the vesting period and measured by reference to the fair value of the liability.

As the fair value of the options which the Group uses for its employee schemes cannot be compared to the ones in the market, the Group estimates the fair value using the Black-Scholes model. This model requires inputs such as share price, exercise price, implied volatility, risk-free interest rate, expected dividend rate and the expected life of the option.

r) Property and equipment

Own use property is defined as property held by the Group for use in the supply of services or for administrative purposes. Buildings held for own use and equipment are carried at cost less accumulated depreciation and any accumulated impairment loss. The costs of these assets are depreciated principally on a straight-line basis to income over the following estimated useful economic lives:

- buildings 25 to 50 years;
- furniture and fixtures five to ten years; and
- computer equipment three to five years.

Land held for own use is carried at cost less any accumulated impairment loss.

Maintenance and repair costs are charged to income as incurred. Costs of systems purchased from third party vendors are carried as fixed assets and amortized over expected useful lives. Gains and losses on the disposal of property and equipment and property held for own use are determined by comparing the proceeds with the carrying amounts and recorded in other income.

Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the balance sheet carrying amount may not be recoverable.

Impairment of non-financial assets

Assets that have an indefinite useful life, for example land, are not subject to amortization and are tested regularly for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying value of the asset exceeds its expected recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped on a cash generating unit level.

s) Finance and operating leases

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to income on a straight-line basis over the period of the lease.

t) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are only discounted where the effect of the time value of money is considered material.

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u) Treasury shares

Zurich Financial Services shares held by the Group are classified as treasury shares and are deducted from equity at nominal value. The difference between the nominal value and the amount paid for acquiring, or received for disposing of treasury shares, is recorded as an adjustment to additional paid-in capital to the extent that additional paid-in capital is available. Any premium or discount above the available additional paid-in capital is recorded directly in retained earnings.

v) Foreign currency translation and transactions

Foreign currency translation

In view of the international nature of the Group, there are many individual entities with different functional currencies. A functional currency is the currency of the primary economic environment in which the entity operates. Therefore, a common presentation currency is required. Due to the Group's economic exposure to the US dollar (USD), the presentation currency of the Group has been determined to be the USD. Assets and liabilities of Group companies with functional currencies other than USD are translated into the presentation currency at end-of-period exchange rates, while income statements are translated at average exchange rates for the period. The resulting translation differences are recorded directly in shareholders' equity as cumulative translation adjustments.

Foreign currency transactions

Foreign currency monetary items and foreign currency non-monetary items, which are carried at fair value are translated at end-of-period exchange rates. Foreign currency non-monetary items which are carried at historical cost are translated at historical rates. Revenues and expenses are translated using the exchange rate at the date of the transaction or a weighted average rate. The resulting exchange differences are recorded in the consolidated income statement, except when the gain or loss on a non-monetary item measured at fair value is recognized directly in equity in which case any exchange component of that gain or loss is also recognized directly in equity.

Movements shown in development tables throughout the consolidated financial statements are translated at end-of-period exchange rates.

The table below summarizes the principal exchange rates that have been used for translation purposes. Net gains and (losses) on foreign currency transactions included in the consolidated income statements were USD 131 million and USD (115) million for the years ended December 31, 2007 and 2006, respectively. Foreign currency exchange forward and swap gains and (losses) included in the amounts above were USD (249) million and USD 154 million for the years ended December 31, 2007 and 2006, respectively.

Table 3

Principal exchange rates	USD per foreign currency unit, as of or for the year ended December 31		Income statements and cash flows	
	Balance sheets		2007	2006
	2007	2006	2007	2006
Euro	1.4601	1.3199	1.3706	1.2552
Swiss franc	0.8822	0.8203	0.8341	0.7980
British pound sterling	1.9849	1.9589	2.0019	1.8415

4. Critical accounting judgments and estimates

Critical accounting estimates are those which involve the most complex or subjective judgments or assessments, and relate to general insurance and life insurance reserves, the determination of fair value for financial assets and liabilities, impairment charges, the determination of fair values of assets and liabilities attributable to business combinations, deferred policy acquisition costs, deferred taxes, retirement and other defined benefit post-employment plans and share-based compensation and cash incentive plans. In each case, the determination of these items requires management to make informed judgments based on information and financial data that may change in future periods. Because of the uncertainties involved in such judgments, actual outcomes and results may differ from assumptions and estimates made by management.

a) Reserves for losses and loss adjustment expenses

The Group is required by applicable insurance laws, regulations and IFRS to establish reserves for payment of losses and loss adjustment expenses that arise from the Group's general insurance products and the run-off of its former third party reinsurance operations. These reserves represent the expected ultimate cost to settle claims occurring prior to, but still outstanding as of, the balance sheet date. The Group establishes its reserves by product line, type and extent of coverage and year of occurrence. Loss reserves fall into two categories: reserves for reported losses and reserves for incurred but not reported (IBNR) losses. Additionally, reserves are held for loss adjustment expenses, which contain the estimated legal and other expenses expected to be incurred to finalize the settlement of the losses.

The Group's reserves for reported losses and loss adjustment expenses are based on estimates of future payments to settle reported general insurance claims and claims from the run-off of its former third party reinsurance operations. The Group bases such estimates on the facts available at the time the reserves are established. The Group generally establishes these reserves on an undiscounted basis to recognize the estimated costs of bringing pending claims to final settlement, taking into account inflation, as well as other factors that can influence the amount of reserves required, some of which are subjective and some of which are dependent on future events. In determining the level of reserves, the Group considers historical trends and patterns of loss payments, pending levels of unpaid claims and types of coverage. In addition, court decisions, economic conditions and public attitudes may affect the ultimate cost of settlement and, as a result, the Group's estimation of reserves. Between the reporting and final settlement of a claim circumstances may change, which would result in changes to established reserves. Items such as changes in law and interpretations of relevant case law, results of litigation, changes in medical costs, as well as costs of vehicle and home repair materials and labor rates can substantially impact ultimate settlement costs. Accordingly, the Group reviews and re-evaluates claims and reserves on a regular basis. Amounts ultimately paid for losses and loss adjustment expenses can vary significantly from the level of reserves originally set.

The Group establishes IBNR reserves, generally on an undiscounted basis, to recognize the estimated cost of losses for events which have already occurred but which have not yet been notified. These reserves are established to recognize the estimated costs required to bring claims for these not yet reported losses to final settlement. As these losses have not yet been reported, the Group relies upon historical information and statistical models, based on product line, type and extent of coverage, to estimate its IBNR liability. The Group also uses reported claim trends, claim severities, exposure growth, and other factors in estimating its IBNR reserves. The Group revises these reserves as additional information becomes available and as claims are actually reported.

The time required to learn of and settle claims is an important consideration in establishing the Group's reserves. Short-tail claims, such as for automobile and property damage, are normally reported soon after the incident and are generally settled within months following the reported incident. Long-tail claims, such as bodily injury, pollution, asbestos and product liability, can take years to develop and additional time to settle. For long-tail claims, information concerning the event, such as the required medical treatment for bodily injury claims and the measures and costs required to clean up pollution, may not be readily available. Accordingly, the reserving analysis of long-tail lines of business is generally more difficult and subject to greater uncertainties than for short-tail losses.

Since the Group does not establish reserves for catastrophes in advance of the occurrence of such events, these events may cause volatility in the levels of its incurred losses and reserves, subject to the effects of reinsurance recoveries. This volatility may also be contingent upon political and legal developments after the occurrence of the event.

The Group uses a number of accepted actuarial methods to estimate and evaluate the amount of reserves recorded. The nature of the claim being reserved for and the geographic location of the claim influence the techniques used by the Group's actuaries. Additionally, the Group's Corporate Center actuaries perform periodic reserve reviews of the Group's businesses throughout the world. Management considers the results of these reviews and adjusts its loss and loss adjustment expense reserves, where necessary.

Refer to notes 8 and 11 for further information on reserves for losses and loss adjustment expenses.

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b) Future life policyholders' benefits and policyholders' contract deposits

The future life policyholders' benefits and policyholders' contract deposits liabilities contain a number of assumptions regarding mortality (or longevity), lapses, surrenders, expenses and investment returns. These assumptions are determined with reference to past experience adjusted for new trends, current market conditions and future expectations. As such the liabilities for future life policyholders' benefits and policyholders' contract deposits may not represent the ultimate amounts paid out to policyholders. For example:

- The estimated number of deaths determines the value of the benefit payments. The main source of uncertainty arises because of the potential for pandemics and wide-ranging lifestyle changes, such as changes in eating, smoking and exercise habits, which could result in earlier deaths for age groups in which the Group has significant exposure to mortality risk.
- For contracts that insure the risk of longevity, such as annuity contracts, an appropriate allowance is made for people living longer. Continuing improvements in medical care and social conditions could result in further improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Group is exposed to longevity risk.
- Under certain contracts, the Group has offered product guarantees (or options to take up product guarantees), including fixed minimum interest rate or mortality rate returns. In determining the value of these options and/or benefits, estimates have been made as to the percentage of contract holders that will exercise them. Changes in investment conditions could result in significantly more contract holders exercising their options and/or benefits than has been assumed.
- Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.
- Assumptions are determined with reference to current and historical client data, as well as industry data. Interest rate assumptions reflect expected earnings on the assets supporting the future policyholder benefits. The information used by the Group's qualified actuaries in setting such assumptions includes, but is not limited to, pricing assumptions, available experience studies and profitability analysis.

Refer to notes 8 and 11 for further information on future life policyholders' benefits and policyholders' contract deposits and other funds.

c) Fair value of financial assets and liabilities

Certain of the Group's assets and liabilities are recorded at fair value on the balance sheet. Fair value determinations for financial assets and liabilities are based generally on listed market prices or broker or dealer price quotations. If prices are not readily determinable, fair value is based on either internal valuation models or management estimates of amounts that could be realized under current market conditions. Fair values of certain financial instruments, including over-the-counter (OTC) derivative instruments, are determined using pricing models that consider, among other factors, contractual and market prices, correlations, yield curves, credit spreads volatility factors and/or prepayment rates of the underlying positions. The use of different pricing models and assumptions could lead to different estimates of fair value.

The Group issues a number of investment contracts that are recorded at fair value through profit or loss. These financial instruments are not quoted in active markets, and their fair values are determined by using valuation techniques. A variety of factors are considered in the Group's valuation techniques, including credit risk (both own and counterparty), embedded derivatives (such as unit-linking features), volatility factors (including contract holder behavior), servicing costs and surrenders of similar instruments. Changes in assumptions for any of these factors could affect the reported fair value of these financial instruments. Increased surrender volumes may not be fully recognized in the valuation of investment contract liabilities owing to the requirement to maintain the fair value of financial liabilities above the amount payable on demand.

Refer to notes 6, 7 and 25 for further information on the fair value of financial assets and liabilities.

d) Impairment of assets

Assets are subject to regular impairment reviews under the relevant IFRS standard. A financial asset is considered impaired if its carrying value exceeds the estimated recoverable amount and there is objective evidence of impairment to the financial asset.

For a non-derivative financial asset, the decision to record an impairment is based on a review of objective evidence, such as the issuer's current financial position and future prospects and the national or economic conditions that may correlate with defaults on the asset, as well as the availability of an active financial market for that financial assets. For a quoted available-for-sale asset the impairment decision is further based on an assessment of the probability that the current market price will recover to former levels within the foreseeable future. The recoverable amount is determined by reference to the market price. For non-quoted available-for-sale financial assets, the recoverable amount is determined by applying recognized valuation techniques.

For held-to-maturity financial assets and loans and receivable, the recoverable amount is determined by reference to the present value of the estimated future cash flows. The carrying amount of mortgage loans and receivables is reduced through an allowance account, and the allowance is determined using an analytical method based on knowledge of each loan group or receivable. The method is normally based on historical statistics, adjusted for known or anticipated trends in the group of financial assets or individual accounts. As judgement is involved in the process of evaluating the impairment of such assets, actual outcomes could vary significantly from the forecasted future cash flows.

To determine the fair value of intangible assets, including goodwill and intangibles with indefinite life, the discounted cash flow method is normally used. As judgement is involved in the process of evaluating the impairment of such assets, actual outcomes could vary significantly from the forecasted future cash flows.

Impairments are recorded in current period income when they occur.

Refer to notes 3, 6, 14, 16 and 17 for further information on impairments of assets.

e) Fair values of assets and liabilities attributable to business combinations

Acquired businesses are accounted for using the purchase method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. Fair values are determined using certain valuation techniques. The judgments made in determining the estimated fair value of assets acquired and liabilities assumed may differ from actual results due to changes in economic conditions.

Refer to note 5 for further information on the fair value of assets and liabilities attributable to business combinations.

f) Deferred policy acquisition costs

Deferred policy acquisition costs generally consist of commissions, underwriting expenses and policy issuance costs. The amount of acquisition costs to be deferred is dependent on management's judgment as to which issuance costs are directly related to and vary with the acquisition. Further, once the costs are deferred, the related asset is amortized over the estimated life of the contract.

Refer to note 12 for further information on deferred policy acquisition costs.

g) Deferred taxes

Deferred tax assets are recognized if sufficient future taxable income, including income from the reversal of existing taxable temporary differences and available tax planning strategies, are available for realization. The utilization of deferred tax assets arising from temporary differences depends on the generation of sufficient taxable profits in the period in which the underlying asset or liability is recovered or settled. As of each balance sheet date, management evaluates the recoverability of deferred tax assets and if it is considered probable, that all or a portion of the deferred tax asset will not be utilized, then a valuation allowance would be recognized.

Refer to note 19 for further information on deferred taxes.

h) Employee benefits

The Group has defined benefit pension plans and other post-employment plans. In assessing the Group's liability for these plans, critical judgments include estimates of mortality rates, rates of employment turnover, disability, early retirement, discount rates, expected long-term rates of return on plan assets, future salary increases, future pension increases and increases in long-term healthcare costs. These assumptions may differ from actual results due to changing economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. These differences may result in variability of pension income or expense recorded in future years.

Refer to note 22 for further information on employee benefits.

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i) Share-based compensation and cash incentive plans

The Group has adopted various share-based compensation and cash incentive plans to attract, retain and motivate executives and employees. Share-based compensation plans include plans under which shares and options to purchase shares, based on the performance of the businesses, are awarded. The fair value of options granted are estimated using the Black-Scholes option pricing model. The key factors involve, but are not limited to, the expected share price volatility, expected change in dividend rate and contracted option life. These assumptions may differ from actual results due to changes in economic conditions.

Refer to note 23 for further information on share-based compensation and cash incentives plans.

5. Acquisitions and divestments

Transactions in 2007

Acquisitions

On January 2, 2007, the Group purchased all of the remaining shares in the insurance intermediary Endsleigh Limited (Endsleigh) in the UK for a total of USD 84 million including transaction costs. Since 2002 the Group had owned 45 percent of Endsleigh. An asset revaluation surplus arose from revaluation of tangible and intangible assets of Endsleigh acquired by the Group in 2002 to the fair values of the initial accounting in 2007. Residual goodwill arose in this business combination in the amount of USD 90 million due to the expected growth opportunities and synergies within the Group. Identifiable intangibles net of deferred tax amounted to USD 63 million the major part of which related to contractual relationships.

On March 5, 2007, the Group purchased 100 percent of the surety writer ACC Seguros y Reaseguros de Daños, S.A in Spain. Total acquisition costs amounted to USD 41 million with residual goodwill generated of USD 9 million.

On April 4, 2007 the Group purchased 66 percent of the insurance company OOO "NASTA" in Russia with an agreed path to 100 percent ownership by 2010. The total consideration for the acquisition of 100 percent interest in Nasta is composed of an initial cash payment of USD 260 million plus a deferred payment estimated to amount to a present value of USD 178 million at the initial acquisition date. Residual goodwill arising from the initial accounting of this acquisition amounted to USD 370 million, representing the expected growth opportunities for the Group in the Russian market. Identifiable intangible assets have been valued at USD 28 million, mainly representing the Nasta distribution network. Nasta has been consolidated one quarter in arrears (IAS 27, paragraph 27 provision) while the infrastructure is brought up to Zurich standards.

On July 2, 2007, the Group acquired a 24.51 percent equity interest in Best Harmonious Insurance Brokers Company, Ltd., a nationally licensed Chinese insurance brokerage firm domiciled in Beijing for a total consideration of USD 11 million. This interest corresponds to a profit share of 91.44 percent and gives the Group effective control. The residual goodwill related to this acquisition amounts to USD 2 million.

On July 3, 2007, the Group, through its fully owned subsidiary FGI completed the acquisition of 100 percent of Bristol West Holdings, Inc. (Bristol West) in the US. As part of this transaction, FGI sold the underlying insurance business, consisting of non-standard auto insurance, to the Farmers Exchanges (which FGI manages but does not own). Net of the business sold to the Farmers Exchanges, FGI incurred total acquisition costs of USD 353 million (including transaction costs of USD 9 million). Net assets acquired amounted to negative USD 32 million due to the assumption of a debt obligation of USD 50 million. The residual goodwill arising from the acquisition amounted to USD 385 million and reflects the economic benefit of the management services which remained with FGI. This transaction did not affect the Group's scope of consolidation.

On September 5, 2007, the Group acquired 100 percent of Wrightway Underwriting Limited, an underwriting agency in Ireland, for a consideration of USD 27 million plus deferred payments depending on the acquired company's performance. Total acquisition costs amounted to USD 29 million and identifiable intangible assets, net of deferred tax, amounted to USD 12 million. The residual goodwill of USD 15 million represents expected growth opportunities and synergies.

On November 29, 2007, the Group acquired 100 percent of Real Garant Versicherung AG, a car warranty insurer based in Germany. Total acquisition costs amounted to USD 43 million, tangible assets acquired to USD 23 million and intangible assets net of deferred tax were identified in the amount of USD 4 million. The residual goodwill of USD 16 million primarily represents expected growth opportunities and synergies.

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On December 17, 2007, the Group announced it has entered into an agreement to acquire 100 percent of DWS Vita SpA, a life insurer located in Italy, for approximately USD 140 million. This transaction did not affect the Group's scope of consolidation as it is expected to close in the first half of 2008, subject to the approval of the relevant insurance regulatory and antitrust authorities.

Table 5.1

In USD millions, for the year ended December 2007

Business combinations	Bristol West	Nasta	Other	Total
Book value of net assets prior to acquisition	(32)	45	44	58
Fair value of net tangible assets acquired	(32)	48	(19)	(3)
Identifiable intangible assets, net of deferred tax	–	28	95	123
Goodwill	385	370	132	886
Total acquisition costs	353	445	208	1,006
Cash consideration	344	260	174	778
Equity instruments transferred	–	–	18	18
Transaction costs	9	7	5	21
Present value of deferred payments	–	178	11	189
Cash and cash equivalents acquired	–	102	154	255

Divestments

During the year ended December 31, 2007, the Group completed divestments of several businesses and recognized a post-completion adjustment on a divestment effected previously.

On February 1, 2007, the Group divested all of its shares in Truckwriters, Inc. in the United States, a specialist insurer for the trucking industry. In Australia, the Group sold Finium Trustee Limited and the Zurich Master Super Fund on May 31 and June 30, 2007 respectively, both companies being part of the Group's Australian superannuation business. On October 1, 2007, the Group sold all of its shares in Valiant Insurance Company in the United States. On November 14, 2007, the Group sold its interest in two financial service businesses in Australia. As part of the sale proceeds, the Group received shares in DKN corresponding to an interest of approximately 31 percent, which is carried as an investment in associate. On November 30, 2007 the Group divested all of its shares in Risk Enterprise Management Limited, a property and casualty claims and risk management services provider in the United States.

In 2007, the Group recorded a gain on divestments before tax of USD 118 million. This gain includes an amount of USD 32 million for a purchase price adjustment related to contractually agreed profit participation from the sale of Zurich Atrium BV in the Netherlands in 2004. Total cash and net assets divested in 2007 were USD 64 million and USD 52 million, respectively. The total consideration received in 2007, net of transaction costs of USD 9 million, amounted to USD 175 million.

Table 5.2

in USD millions, for the years ended December 31

Net gain/(loss) on divestments	2007	2006
Cash consideration received	122	–
Equity instruments received	63	–
Less: net assets divested	(52)	–
Fair value adjustment for portfolio transfer	–	(66)
Other income/(cost) related to divestments	(13)	23
Net gain/(loss) on divestments, before tax	118	(43)
Tax effect	(25)	(9)
Net gain/(loss) on divestments, after tax	93	(52)
Net assets divested		
Cash and cash equivalents	64	–
Other assets	47	–
Other liabilities	(59)	–
Net assets divested	52	–

Transactions in 2006

The Group recorded an estimated loss of USD 66 million (pre-tax) on the envisaged disposal of certain run-off portfolios in four European countries. The loss was partially offset by a USD 23 million (pre-tax) gain resulting from a reorganization of our legal entity structure in Germany changing the minority interest share of the Group's net assets.

Transactions and events after the balance sheet date

On January 24, 2008, the Group announced that it had signed an agreement to acquire 100 percent of the outstanding share capital of TEB Sigorta A.S., a general insurer based in Turkey. The closing of the transaction is subject to regulatory and antitrust approval and is expected to take place in the first quarter of 2008.

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6. Investments

The investment result for the years ended December 31, 2007 and 2006 comprised the following:

Investment result for total investments	Net investment income		Net realized capital gains/ (losses) on investments and impairments		Investment result	
	2007	2006	2007	2006	2007	2006
	Cash and cash equivalents	621	661	27	6	648
Equity securities	3,132	2,275	6,459	9,850	9,591	12,124
Debt securities	6,151	5,666	(751)	(416)	5,400	5,250
Real estate held for investment	927	836	(419)	1,130	508	1,966
Mortgage loans	580	475	–	3	579	477
Other loans	575	594	(5)	(18)	570	576
Investments in associates	13	85	(1)	(23)	12	62
Other investments	367	417	330	207	698	624
<i>Short-term investments</i>	115	117	1	1	116	118
<i>Investments held by investment companies</i>	1	5	475	283	477	288
<i>Other</i> ¹	251	295	(146)	(77)	105	218
Investment result, gross	12,366	11,009	5,640	10,739	18,006	21,748
Investment expenses	(775)	(726)	–	–	(775)	(726)
Investment result, net	11,591	10,283	5,640	10,739	17,231	21,022

¹ Including net capital losses on derivative financial instruments of USD 147 million and USD 65 million for the years ended December 31, 2007 and 2006, respectively, of which net capital losses on derivatives attributable to cash flow hedges ineffectiveness amounted to USD 9 million for the year ended December 31, 2007.

Table 6.1b

in USD millions, for the years ended December 31

**Investment
result for
Group
investments**

	Net investment income		Net capital gains/ (losses) on investments and impairments		Investment result	
	2007	2006	2007	2006	2007	2006
Cash and cash equivalents	590	499	(4)	4	586	503
Equity securities	706	533	1,422	1,391	2,128	1,924
Debt securities	5,773	5,368	(461)	(269)	5,312	5,099
Real estate held for investment	438	410	101	220	539	629
Mortgage loans	580	475	–	3	579	477
Other loans	575	594	(5)	(18)	570	576
Investments in associates	13	85	(1)	(23)	12	62
Other investments	164	200	445	229	610	428
<i>Short-term investments</i>	71	87	1	1	72	88
<i>Investments held by investment companies</i>	1	5	475	283	477	288
<i>Other¹</i>	92	108	(31)	(55)	61	52
Investment result, gross for Group investments	8,838	8,164	1,498	1,536	10,336	9,699
Investment expenses for Group investments	(247)	(265)	–	–	(247)	(265)
Investment result, net for Group investments	8,591	7,899	1,498	1,536	10,089	9,434

¹ Including net capital losses on derivative financial instruments of USD 33 million and USD 44 million for the years ended December 31, 2007 and 2006, respectively, of which net capital losses on derivatives attributable to cash flow hedges ineffectiveness of USD 9 million for the year ended December 31, 2007 are included.

Table 6.1c

in USD millions, for the years ended December 31

**Investment
result for
unit-linked
products**

	Net investment income		Net capital gains/ (losses) on investments		Investment result	
	2007	2006	2007	2006	2007	2006
Cash and cash equivalents	31	162	31	3	62	164
Equity securities	2,426	1,742	5,037	8,459	7,463	10,201
Debt securities	379	298	(290)	(148)	88	150
Real estate held for investment	489	427	(520)	910	(31)	1,337
Other investments	203	218	(116)	(22)	87	196
<i>Short-term investments</i>	44	30	–	–	44	30
<i>Other¹</i>	159	188	(116)	(22)	43	166
Investment result, gross for unit-linked contracts	3,528	2,845	4,142	9,203	7,670	12,048
Investment expenses for unit-linked contracts	(528)	(461)	–	–	(528)	(461)
Investment result, net unit-linked products	3,000	2,384	4,142	9,203	7,142	11,587

¹ Including net capital losses on derivative financial instruments of USD 114 million and USD 21 million for the years ended December 31, 2007 and 2006, respectively.

Impairment charges on Group investments included in net capital losses amounted to USD 136 million and USD 26 million for the years ended December 31, 2007 and 2006, respectively, of which impairments charges on mortgage loans and other loans comprised USD 9 million and USD 5 million for the years ended December 31, 2007 and 2006, respectively.

Rental operating expense for real estate held for investment included in investment expenses (total investments) amounted to USD 170 million and USD 163 million for the years ended December 31, 2007 and 2006, respectively.

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Capital gains and losses and impairments on equity and debt securities included in total investments for the years ended December 31, 2007 and 2006 comprised the following:

Table 6.2
in USD millions, for the years ended December 31

Total net capital gains, losses and impairments on equity and debt securities

	Equity securities		Debt securities		Total	
	2007	2006	2007	2006	2007	2006
Securities at fair value through profit or loss:	5,379	8,880	(337)	(351)	5,042	8,529
<i>of which: trading securities</i>						
Net capital gains/(losses) on Group investments	233	187	(10)	(1)	223	187
<i>of which: securities designated at FV</i>						
Net capital gains/(losses) on Group investments	108	234	(36)	(203)	72	31
Net capital gains/(losses) for unit-linked contracts	5,037	8,459	(290)	(148)	4,747	8,312
Available-for-sale securities:	1,080	970	(413)	(65)	668	904
Realized capital gains on Group investments	1,261	1,141	482	345	1,743	1,487
Realized capital losses on Group investments	(137)	(166)	(813)	(397)	(950)	(564)
Impairments on Group investments	(44)	(5)	(81)	(13)	(125)	(19)
Total net capital gains/(losses) and impairments	6,459	9,850	(751)	(417)	5,708	9,434

Details of the investment balances as of December 31, 2007 and 2006 by category are given in the tables below:

Breakdown of total investments	Table 6.3a as of December 31			
	Total investments			
	2007		2006	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	16,936	5.4	23,122	7.5
Equity securities:				
Fair value through profit or loss	104,220	33.0	95,049	30.7
<i>of which: trading</i>	2,768	0.9	2,778	0.9
<i>of which: trading equity portfolios in capital markets and banking activities</i>	1,606	0.5	2,260	0.7
Available-for-sale	14,547	4.6	13,956	4.5
Total equity securities	118,767	37.6	109,005	35.2
Debt securities:				
Fair value through profit or loss	18,499	5.9	17,572	5.7
<i>of which: trading</i>	616	0.2	547	0.2
Available-for-sale	109,733	34.8	112,128	36.2
Held-to-maturity	5,642	1.8	5,657	1.8
Total debt securities	133,874	42.4	135,357	43.7
Real estate held for investment	15,386	4.9	15,281	4.9
Mortgage loans	12,718	4.0	10,806	3.5
Other loans	12,938	4.1	12,636	4.1
Investments in associates	238	0.1	153	0.0
Other investments:				
Short-term investments	2,929	0.9	1,703	0.5
Investments held by investment companies	1,827	0.6	1,862	0.6
Other	80	0.0	79	0.0
Total other investments	4,836	1.5	3,644	1.2
Total investments	315,693	100.0	310,003	100.0

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Breakdown of Group investments	Table 6.3b as of December 31			
	Group investments			
	2007		2006	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	13,943	7.2	17,438	8.9
Equity securities:				
Fair value through profit or loss	4,042	2.1	4,383	2.2
<i>of which: trading</i>	2,768	1.4	2,778	1.4
<i>of which: trading equity portfolios in capital markets and banking activities</i>	1,606	0.8	2,260	1.2
Available-for-sale	14,547	7.5	13,956	7.1
Total equity securities	18,589	9.6	18,339	9.4
Debt securities:				
Fair value through profit or loss	8,387	4.3	8,650	4.4
<i>of which: trading</i>	616	0.3	547	0.3
Available-for-sale	109,733	56.7	112,128	57.3
Held-to-maturity	5,642	2.9	5,657	2.9
Total debt securities	123,762	63.9	126,435	64.6
Real estate held for investment	7,563	3.9	6,921	3.5
Mortgage loans	12,718	6.6	10,806	5.5
Other loans	12,936	6.7	12,634	6.5
Investments in associates	238	0.1	153	0.1
Other investments:				
Short-term investments	1,944	1.0	1,010	0.5
Investments held by investment companies	1,827	0.9	1,862	1.0
Other	80	0.0	79	0.0
Total other investments	3,851	2.0	2,951	1.5
Total Group investments	193,600	100.0	195,676	100.0

Cash and investments with a carrying value of USD 4,617 million and USD 4,469 million were deposited on behalf of regulatory authorities as of December 31, 2007 and 2006, respectively.

Short-term investments primarily consist of available-for-sale securities with original maturities between three months and one year.

Investments held by investment companies primarily consist of investments in hedge and private equity funds.

There were no material reclassifications between the categories of financial instruments in 2007 and 2006.

Securities under security lending and short-term sale and repurchase agreements

As of December 31, 2007 and 2006, investments included USD 12,204 million and USD 11,512 million, respectively, of loaned securities. These loaned securities were mainly debt securities. Cash and cash equivalents included USD 1,877 million and USD 3,820 million of cash received as collateral for loaned securities as of December 31, 2007 and 2006, respectively. Liabilities for cash collateral received for securities lending comprised USD 1,889 million and USD 3,918 million as of December 31, 2007 and 2006, respectively. Non-cash collaterals received for loaned securities comprised USD 10,911 million and USD 7,654 million as of December 31, 2007 and 2006, respectively. Non-cash collaterals comprised mainly equity and debt securities. The Group can sell or repledge the collateral only in the event of a default of a counterparty.

As of December 31, 2007 and 2006, respectively, debt securities with a carrying value of USD 5,370 million and USD 6,144 million have been sold to financial institutions under short-term sale and repurchase agreements. These securities continue to be recognized as investments in the balance sheets. Obligations to repurchase these securities comprised USD 5,370 million and USD 6,144 million as of December 31, 2007 and 2006, respectively. The Group retains the rights to the risks and rewards of ownership of loaned securities and securities under short-term sale and repurchase agreements. These risks and rewards include changes in market values and income earned, respectively.

Table 6.3c
as of December 31

Breakdown of investments for unit-linked contracts

	Investments for unit-linked contracts			
	2007		2006	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	2,993	2.5	5,685	5.0
Equity securities	100,178	82.1	90,666	79.3
Debt securities	10,112	8.3	8,922	7.8
Real estate held for investment	7,823	6.4	8,360	7.3
Other loans	2	0.0	2	0.0
Short-term investments	985	0.8	693	0.6
Total investments for unit-linked contracts	122,092	100.0	114,327	100.0

The table below presents the carrying value of debt securities for total investments by maturity:

Table 6.4
in USD millions, as of December 31

Debt securities maturity schedule (total investments)

	Held-to-maturity		Available-for-sale		Fair value through profit or loss	
	2007	2006	2007	2006	2007	2006
Debt securities:						
< 1 year	413	668	6,651	7,043	1,948	1,475
1 to 5 years	1,257	1,218	33,388	32,196	3,711	3,527
6 to 10 years	1,181	816	23,532	24,346	5,113	4,103
> 10 years	2,791	2,956	20,241	23,294	5,622	6,156
Subtotal	5,642	5,657	83,810	86,879	16,395	15,261
Mortgage and asset-backed securities:						
< 1 year	–	–	991	855	246	219
1 to 5 years	–	–	5,166	6,199	178	179
6 to 10 years	–	–	6,233	5,873	378	499
> 10 years	–	–	13,531	12,323	1,301	1,413
Subtotal	–	–	25,923	25,249	2,104	2,310
Total	5,642	5,657	109,733	112,128	18,499	17,571

The breakdowns are provided by contractual maturity. Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

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The following table provides an analysis of available-for-sale securities which applies to both total and Group investments.

Available-for-sale securities	Table 6.5 in USD millions, as of December 31		Cost or amortized cost		Gross unrealized gains		Gross unrealized losses		Fair value	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	Equity securities									
Common stock	8,325	6,804	1,508	1,846	(833)	(230)	9,000	8,420		
Unit trusts	5,088	4,958	383	432	(136)	(52)	5,335	5,337		
Non-redeemable preferred stock	206	160	11	39	(4)	–	212	198		
Total equity securities	13,618	11,922	1,902	2,317	(973)	(283)	14,547	13,956		
Debt securities										
Swiss federal and cantonal governments	4,815	5,378	26	101	(54)	(6)	4,788	5,473		
United Kingdom government	8,271	8,602	92	86	(24)	(104)	8,339	8,584		
United States government	4,186	6,083	173	89	(82)	(140)	4,277	6,032		
Other governments and supra-nationals	27,218	26,203	169	313	(702)	(322)	26,686	26,194		
Corporate securities	40,450	40,290	744	1,020	(1,568)	(731)	39,626	40,579		
Mortgage and asset-backed securities	26,060	25,434	197	92	(334)	(277)	25,923	25,249		
Redeemable preferred stocks	92	18	3	–	–	–	95	18		
Total debt securities	111,092	112,008	1,404	1,701	(2,764)	(1,581)	109,733	112,128		

The following table provides an analysis of securities for both Group investments and investments for unit-linked products at fair value through profit or loss.

Table 6.6
as of December 31

**Fair value through
profit or loss
securities**

	Group investments				Investments for unit-linked products		Total investments	
	2007		2006		2007	2006	2007	2006
	USD millions	% of total	USD millions	% of total	USD millions	USD millions	USD millions	USD millions
Equity securities								
Common stock	4,042	32.5	4,383	33.6	62,225	62,077	66,267	66,460
<i>of which: trading equity portfolios in capital markets and banking activities</i>	1,606	12.9	2,260	17.3	–	–	1,606	2,260
<i>of which: common stock portfolios backing participating with profit policyholder contracts</i>	1,274	10.3	1,604	12.3	–	–	1,274	1,604
Unit trusts	–	0.0	–	0.0	37,935	28,568	37,935	28,568
Non-redeemable preferred stock	–	0.0	–	0.0	17	21	17	21
Total equity securities	4,042	32.5	4,383	33.6	100,177	90,666	104,219	95,049
Debt securities								
Debt securities	6,612	53.2	6,676	51.2	9,783	8,586	16,395	15,262
<i>of which: trading debt securities in capital markets and banking activities</i>	117	0.9	44	0.3	–	–	117	44
Mortgage and asset-backed securities	1,775	14.3	1,974	15.1	329	336	2,104	2,310
Total debt securities	8,387	67.5	8,650	66.4	10,112	8,922	18,499	17,572
Total	12,429	100.0	13,033	100.0	110,289	99,588	122,718	112,621

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The following table provides an analysis of total investments classified as held-to-maturity debt securities.

Held-to-maturity debt securities	2007		2006	
	USD millions	% of total	USD millions	% of total
Swiss federal and cantonal governments	1,498	26.6	1,395	24.7
United States governments	1,598	28.3	1,576	27.9
Other governments and supranationals	901	16.0	1,162	20.5
Corporate securities	1,645	29.2	1,525	27.0
Total held-to-maturity debt securities	5,642	100.0	5,657	100.0

The carrying value of real estate held for total investments developed as follows:

Real estate held for total investments	Total	
	2007	2006
Carrying value as of January 1	15,281	12,702
Additions and capital improvements	329	537
Disposals	(211)	(224)
Market value revaluation	(665)	1,052
Transfer from/(to) assets held for own use	6	(132)
Foreign currency translation effects	647	1,346
Carrying value as of December 31	15,386	15,281

Real estate held for investment consists of investments in commercial, residential and mixed-use properties primarily located in Switzerland, Germany and the United Kingdom.

Investments in associates as of December 31, 2007 and 2006 comprised the following:

Investments in associates	Carrying value		Share in profit		Ownership interest	
	2007	2006	2007	2006	2007	2006
DKN Financial Group Limited	63	-	-	-	31.55%	-
MCIS Zurich Insurance Berhad	37	37	1	1	40.00%	40.00%
Euclid Office, L.P. ¹	24	23	1	4	99.00%	99.00%
Other	114	93	11	80	n/m	n/m
Total	238	153	13	85	n/m	n/m

¹ This entity is not consolidated as it is not controlled by the Group.

Unrealized net gains/(losses) on investments included in the shareholders' equity comprised the following:

Net unrealized gains/(losses) on investments included in shareholders' equity	Table 6.10 in USD millions, as of December 31	
	Total	
	2007	2006
Equity securities: available-for-sale	929	2,034
Debt securities: available-for-sale	(1,359)	120
Other	66	136
Less: amount of net unrealized gains/(losses) on investments attributable to:		
Life policyholder dividends and other policyholder liabilities	459	(1,038)
Life deferred acquisition costs	78	(95)
Deferred income taxes	(72)	(312)
Minority interests	(8)	(26)
Total	93¹	819

¹ The unrealized gains/(losses) include net losses arising on cash flow hedges in the amount of USD 103 million.

7. Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments mostly for economic hedging purposes in order to mitigate the risks posed to the Group as a consequence of changes in foreign exchange rates, interest rates, equity prices and credit quality from its assets and liabilities and its commitments to third parties. In certain circumstances these instruments may meet the definition of an effective hedge for accounting purposes. Where this is the case, hedge accounting is applied. Details for the accounting of these instruments is set out in note 3; tables 7.1 and 7.2 below set out those instruments which are not hedges for accounting purposes, while table 7.3 sets out those where hedge accounting has been applied. The notional principal amounts indicate the volume of transactions outstanding at the balance sheet date and are used to express the extent of the Group's involvement in derivative transactions. These do not represent amounts at risk.

Derivative assets are included in "Other assets" and derivative liabilities are included in "Other liabilities" of the consolidated balance sheets as of December 31, 2007 and 2006.

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a) Derivative financial instruments held for economic hedging purposes

Outstanding positions of the Group (excluding Zurich Capital Markets (ZCM))

Maturity profile of notional principal amounts and market values of derivative financial instruments (excluding ZCM)	Remaining life			Notional principal amounts		Market values	
	Up to 1 year	1 to 5 years	Over 5 years	2007	2006	2007	2006
Swaps							
Interest rate swaps	24	164	511	699	976	(18)	(6)
Currency swaps	–	200	1,568	1,767	1,617	58	194
Total return equity swaps	–	5	74	80	981	7	(13)
Other swaps	–	929	–	929	708	–	(29)
Options							
Purchased call options	370	2,610	5,377	8,357	8,152	202	320
Purchased put options	4,309	131	1,362	5,802	2,358	223	126
Written call options	1,675	341	257	2,274	1,223	(118)	(207)
Written put options	–	–	–	–	(13)	–	(10)
Futures/forwards							
Purchased futures/forwards	7,451	–	–	7,451	6,340	31	47
Written futures/forwards	3,168	–	–	3,168	5,337	18	(49)
Total	16,997	4,380	9,149	30,527	27,679	404	373
<i>of which:</i>							
<i>financial assets</i>						607	713
<i>financial liabilities</i>						(203)	(340)

Outstanding positions of ZCM

Maturity profile of notional principal amounts and market values of derivative financial instruments (ZCM)	Remaining life			Notional principal amounts		Market values	
	Up to 1 year	1 to 5 years	Over 5 years	2007	2006	2007	2006
Swaps							
Interest rate swaps	303	20	445	769	929	37	26
Total return equity swaps	–	–	–	–	–	–	(2)
Options							
Purchased call options	–	12	–	12	12	1	12
Purchased put options	5	–	510	515	510	(70)	(52)
Written call options	210	12	–	222	222	(4)	(27)
Written put options	–	1,076	770	1,846	1,955	84	75
Total	518	1,120	1,725	3,363	3,628	48	32
<i>of which:</i>							
<i>financial assets</i>						122	107
<i>financial liabilities</i>						(74)	(75)

b) Derivative financial instruments that qualify for hedge accounting

The following table sets out details of the fair value and cash flow hedges:

Maturity profile of notional principal amounts and market values of derivative financial instruments	Remaining life			Notional principal amounts		Market values	
	Up to 1 year	1 to 5 years	Over 5 years	2007	2006	2007	2006
	Fair value hedges						
Cross currency interest rate swaps	–	–	1,022	1,022	924	118	24
Total fair value hedges	–	–	1,022	1,022	924	118	24
Cash flow hedges							
Options on interest rate swaps	–	587	2,589	3,176	–	58	–
Currency swaps	–	–	1,168	1,168	–	153	–
Total cash flow hedges	–	587	3,757	4,344	–	211	–
<i>of which:</i>							
<i>assets</i>						329	24
<i>liabilities</i>						–	–

The **fair value hedges** consist of cross currency interest rate swaps used to protect the Group against changes in foreign currency exposure and interest rate exposure of euro denominated debt held by the Group. Changes in the fair value of the derivatives designated as fair value hedges and changes in the fair value of the hedged item in relation to the risk being hedged are recognized in income.

Gains and losses arising from fair value hedges are as follows:

Gains/(losses) arising from fair value hedges	2007	2006
Gains/(losses)		
<i>on hedging instruments¹</i>	72	38
<i>on hedged debt issued attributable to the hedged risk</i>	(71)	(34)

¹ Excluding current interest income, which is booked in the same line as interest expense on the hedged debt.

The Group uses options on interest rate swaps in **cash flow hedges** to protect against variability in future cash flows due to changes in interest rates associated with forecast purchase of debt investments related to life insurance policies (during the years ended December 31, 2011, 2016, 2021 and 2026). Gains and losses on such derivatives are initially recognized directly in equity, and are transferred to the income statement when the underlying financial asset is recognized and affects profit and loss through the recognition of interest income between the year ended December 31, 2011 and the year ended December 31, 2036. The gains and losses on the ineffective portion of such derivatives are recognized immediately in income within net capital gains/(losses) on investments and impairments.

The Group also uses currency swaps in a cash flow hedge to protect against exposures to variability in cash flows due to changes in the exchange rate of the euro against the reporting currency of the Group on 80 percent of the 4.50% EUR 1 billion debt issued by Zurich Finance (USA), Inc (see note 20). The change in the fair value of the hedging instruments is recognized directly in shareholders' equity and the effective portion, related to spot rate changes in fair value of the hedging instrument, together with ineffectiveness are then recognized in current period income in the same line as the foreign currency revaluation on the underlying hedged debt issued. This hedge relationship is in place until the maturity of the debt in September 2014.

For the year ended December 31, 2007 the net loss deferred in shareholder's equity on derivatives designated as cash flow hedges was USD 144 million before tax. During 2007, the amount removed from shareholders' equity and included in the income statement was not material.

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During the year ended December 31, 2007, a net loss of USD 9 million was recognized due to hedge ineffectiveness within net capital gains/(losses) on investments and impairments.

8. Reserves for insurance contracts and reinsurers' share of reserves for insurance contracts

Table 8.1

in USD millions, as of December 31

Reserves for insurance contracts		2007	2006
Gross			
Reserves for losses and loss adjustment expenses		67,890	64,535
Reserves for unearned premiums		15,941	15,158
Future life policyholders' benefits		80,293	76,503
Policyholders' contract deposits and other funds		18,687	18,934
Reserves for unit-linked contracts		70,075	66,008
Total reserves for insurance contracts, gross		252,886	241,138
Ceded			
Reserves for losses and loss adjustment expenses		(13,179)	(13,722)
Reserves for unearned premiums		(1,720)	(1,882)
Future life policyholders' benefits ¹		(9,265)	(1,485)
Policyholders' contract deposits and other funds		(2,976)	(3,258)
Reinsurers' share of reserves for insurance contracts, gross²		(27,140)	(20,347)
Net			
Reserves for losses and loss adjustment expenses		54,712	50,814
Reserves for unearned premiums		14,221	13,275
Future life policyholders' benefits		71,028	75,018
Policyholders' contract deposits and other funds		15,711	15,676
Reserves for unit-linked contracts		70,075	66,008
Total reserves for insurance contracts, net		225,745	220,790

¹ The Group's life operations in the UK entered into a reinsurance agreement to transfer the risk associated with a significant annuities portfolio as of January 1, 2007. The initial impact of this transaction was an increase of USD 7.1 billion in reinsurers' share of reserves for insurance contracts in the Global Life business.

² Gross of allowance for uncollectible amounts of USD 164 million and USD 239 million as of December 31, 2007 and 2006, respectively.

Development of reserves for losses and loss adjustment expenses	Gross		Ceded		Net	
	2007	2006	2007	2006	2007	2006
As of January 1	64,535	60,425	(13,722)	(14,231)	50,814	46,194
Losses and loss adjustment expenses incurred:						
Current year	25,798	23,919	(2,424)	(2,471)	23,374	21,448
Prior years	(847)	587	(372)	(804)	(1,219)	(218)
Total	24,951	24,506	(2,796)	(3,276)	22,155	21,230
Losses and loss adjustment expenses paid:						
Current year	(9,007)	(7,859)	388	374	(8,619)	(7,485)
Prior years	(14,613)	(15,374)	3,375	3,951	(11,237)	(11,423)
Total	(23,619)	(23,233)	3,763	4,325	(19,856)	(18,908)
Acquisitions / (divestments) of companies and businesses	57	(65)	(6)	–	51	(65)
Foreign currency translation effects	1,967	2,903	(419)	(540)	1,548	2,363
As of December 31	67,890	64,535	(13,179)	(13,722)	54,712	50,814

The Group establishes loss reserves, which are estimates of future payments of reported and unreported claims for losses and related expenses, with respect to insured events that have occurred. Reserving is a complex process dealing with uncertainty, requiring the use of informed estimates and judgments. Any changes in estimates or judgments are reflected in the results of operations in the period in which estimates and judgments are changed.

Significant delays may occur in the notification and settlement of claims, and a substantial measure of experience and judgment is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as of the balance sheet date. The reserves for losses and loss adjustment expenses are determined on the basis of information currently available; however, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

Table 8.3 presents changes in the historical non-life reserves, net of reinsurance, that the Group established in 2001 and subsequent years. Reserves are presented by financial year, not by accident year. The reserves (and the development thereon) are for all accident years in that financial statement year and prior. The top line of the table shows the estimated gross reserves for unpaid losses and loss adjustment expenses as of each balance sheet date, which represents the estimated amount of future payments for losses incurred in that year and in prior years. The cumulative paid portion of the table presents the cumulative amounts paid through each subsequent year in respect of the reserves established at each year end. The net reserves re-estimated portion of the table shows the re-estimation of the initially recorded reserve as of each succeeding year end. Reserve development is shown down each column. Changes to estimates are made as more information becomes known about the actual losses for which the initial reserves were established. The cumulative deficiency or redundancy is equal to the initial net reserves less the liability re-estimated as of December 31, 2007. It is the difference between the initial net reserve estimate and the last entry of the diagonal. Conditions and trends that have affected the development of our reserves for losses and loss adjustment expenses in the past may or may not necessarily occur in the future, and accordingly, conclusions about future results may not be derived from the information presented in the table below.

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Table 8.3

Development of insurance losses, net

in USD millions, as of December 31	2001	2002	2003	2004	2005	2006	2007
Gross reserves for losses and loss adjustment expenses	37,694	45,306	51,068	57,765	60,425	64,535	67,890
Reinsurance recoverable	(13,605)	(14,940)	(14,055)	(14,279)	(14,231)	(13,722)	(13,179)
Initial net reserves for losses and loss adjustment expenses	24,089	30,366	37,013	43,486	46,194	50,814	54,712
Cumulative paid as of:							
<i>One year later</i>	(7,976)	(8,923)	(9,930)	(9,464)	(11,423)	(11,237)	
<i>Two years later</i>	(12,855)	(14,472)	(15,550)	(16,273)	(18,044)		
<i>Three years later</i>	(16,698)	(18,001)	(20,407)	(21,234)			
<i>Four years later</i>	(19,255)	(21,390)	(23,941)				
<i>Five years later</i>	(21,634)	(23,814)					
<i>Six years later</i>	(23,471)						
Net reserves re-estimated as of:							
<i>One year later</i>	26,908	32,239	38,977	43,627	45,976	49,594	
<i>Two years later</i>	28,471	34,471	40,413	45,006	45,827		
<i>Three years later</i>	30,636	36,118	42,004	45,325			
<i>Four years later</i>	31,784	37,691	42,254				
<i>Five years later</i>	33,326	37,880					
<i>Six years later</i>	33,799						
Cumulative (deficiency) / redundancy	(9,710)	(7,514)	(5,241)	(1,839)	367	1,219	
Cumulative (deficiency) / redundancy as a percentage of initial net reserves	(40.3%)	(24.7%)	(14.2%)	(4.2%)	0.8%	2.4%	
Gross reserves re-estimated as of December 31, 2007	51,226	55,728	58,769	60,964	61,257	63,688	
Cumulative (deficiency) / redundancy	(13,532)	(10,422)	(7,701)	(3,199)	(832)	847	
Cumulative (deficiency) / redundancy as a percentage of initial gross reserves	(35.9%)	(23.0%)	(15.1%)	(5.5%)	(1.4%)	1.3%	

Management has considered asbestos, environmental and latent injury claims and claims expenses in establishing the reserves for losses and loss adjustment expenses. The Group continues to be advised of claims asserting injuries from toxic waste, hazardous materials and other environmental pollutants and alleged damages to cover the clean-up costs of hazardous waste dump sites relating to policies written in prior years and indemnity claims asserting injuries from asbestos. Coverage and claim settlement issues, such as determination that coverage exists and the definition of an occurrence, together with increased medical diagnostic capabilities and awareness have often caused actual loss development to exhibit more variation than in other lines. Such claims require specialized reserving techniques and the uncertainty of the ultimate cost of these types of claims has tended to be greater than the uncertainty relating to standard lines of business.

Uncertainties also arise out of changes or potential changes in various laws or the interpretation of laws. While the Group believes that it has made adequate provision for these claims, it is possible that future adverse development could have a material effect on the Group's results of operations, cash flows and financial position. The net reserve amounts related to the above mentioned claims were USD 3,564 million and USD 3,508 million as of December 31, 2007 and 2006, respectively. The development of these reserves is shown below.

Table 8.4

in USD millions

Development of reserves for losses and loss adjustment expenses for asbestos and environmental claims	2007		2006	
	Gross	Net	Gross	Net
Asbestos				
As of January 1	3,499	3,142	2,957	2,529
Losses and loss adjustment expenses incurred	454	180	515	533
Losses and loss adjustment expenses paid	(188)	(109)	(180)	(131)
Divestments, commutations, settlements and other	–	(18)	(29)	(29)
Foreign currency translation effects	33	43	236	241
As of December 31	3,799	3,238	3,499	3,142
Environmental				
As of January 1	433	366	462	378
Losses and loss adjustment expenses incurred	22	8	4	18
Losses and loss adjustment expenses paid	(60)	(48)	(34)	(32)
Foreign currency translation effects	(1)	–	1	2
As of December 31	394	326	433	366

Table 8.5

in USD millions

Development of future life policyholders' benefits	Gross		Ceded		Net	
	2007	2006	2007	2006	2007	2006
As of January 1	76,503	71,292	(1,485)	(1,305)	75,018	69,987
Premiums and claims	(6,246)	(4,747)	(6,552)	(16)	(12,797)	(4,764)
Interest and bonuses credited to policyholders	3,047	3,040	(160)	(67)	2,887	2,973
Changes in assumptions	1,322	311	(1,010)	(18)	313	293
Divestments/transfers	–	(37)	–	–	–	(37)
(Decrease)/increase recorded in shareholders' equity	(532)	(508)	6	14	(526)	(494)
Foreign currency translation effects	6,199	7,152	(64)	(94)	6,135	7,058
As of December 31	80,293	76,503	(9,265)	(1,485)	71,028	75,018

The impact of changes in assumptions relating to net future life policyholders' benefits was USD 313 million after reinsurance (USD 293 million in 2006). In particular, the 2007 net changes include the following significant movements:

- USD 446 million related to changes in interest rate assumptions;
- USD -39 million related to changes in expense assumptions;
- USD -62 million related to changes in longevity assumptions; and
- USD -46 million related to changes in morbidity assumptions.

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In 2006 net changes included the following significant movements:

- USD 150 million related to changes in interest rate assumptions; and
- USD 103 million related to changes in modeling.

Table 8.6

in USD millions, as of December 31

Policyholders' contract deposits and other funds gross

	2007	2006
Annuities	2,451	2,136
Universal life and other contracts	10,510	10,594
Policyholder dividends	5,725	6,204
Total	18,687	18,934

Table 8.7

in USD millions

Development of policyholders' contract deposits and other funds

	Gross		Ceded		Net	
	2007	2006	2007	2006	2007	2006
As of January 1	18,934	18,984	(3,258)	(3,504)	15,676	15,480
Premiums and claims	(1,360)	(1,557)	411	393	(950)	(1,164)
Interest and bonuses credited to policyholders	1,264	1,010	(120)	(134)	1,144	876
Change in assumptions	(1)	–	–	(4)	(1)	(3)
(Decrease)/increase recorded in shareholders' equity	(1,171)	(624)	6	2	(1,165)	(623)
Foreign currency translation effects	1,020	1,121	(14)	(11)	1,006	1,110
As of December 31	18,687	18,934	(2,976)	(3,258)	15,711	15,676

Table 8.8

in USD millions

Development of reserves for unit-linked contracts

	Gross		Ceded		Net	
	2007	2006	2007	2006	2007	2006
As of January 1	66,008	55,691	–	–	66,008	55,691
Premiums and claims	(1,816)	(382)	–	–	(1,816)	(382)
Interest and bonuses credited to policyholders	4,403	6,184	–	–	4,403	6,184
Change in assumptions	–	(17)	–	–	–	(17)
Foreign currency translation effects	1,479	4,533	–	–	1,479	4,533
As of December 31	70,075	66,008	–	–	70,075	66,008

Long-duration contract liabilities included in future life policyholders' benefits result primarily from traditional participating and non-participating life insurance products. Short-duration contract liabilities are primarily accident and health insurance products.

The amount of policyholder dividends to be paid is determined annually by each life insurance company. Policyholder dividends include life policyholders' share of net income and unrealized appreciation of investments that are required to be allocated by the insurance contract or by local insurance regulations. Experience adjustments relating to future policyholders' benefits and policyholders' contract deposits vary according to the type of contract and the country. Investment, mortality and morbidity results may be passed through by experience credits or as an adjustment to the premium mechanism, subject to local regulatory provisions.

Guarantees arising from minimum death benefits (GMDB) and retirement income benefits (GRIB)

Certain products for which policyholders bear in full the credit and market risks associated with the underlying invested funds selected by them contains guarantees for which liabilities have been recorded for additional benefits and minimum guarantees. These arise primarily in the subsidiary Kemper Investors Life Insurance Company which has written variable annuity contracts that provide annuitants with certain guarantees related to minimum death and income benefits. The determination of these liabilities is based on models that involve a

range of scenarios and assumptions, including those regarding expected market rates of return and volatility, contract surrender rates, annuitization elections and mortality experience. The assumptions used are consistent with those used in determining estimated gross profits for the purpose of amortizing deferred policy acquisition costs.

Table 8.9

in USD millions (except average attained age)

Information on guaranteed liabilities		
	2007	2006
Account balance for products with guarantee features as of December 31		
Gross	4,112	4,403
Ceded	(374)	(486)
Net	3,738	3,917
Amount at risk from minimum death benefits (GMDB) as of December 31		
Gross	539	600
Ceded	(186)	(230)
Net	353	370
Average attained age of policyholders (in years)	64	63

The net amount at risk is the present value of payouts exceeding the current policyholder account balance assuming the payout criteria in all policies are collectively triggered as of the balance sheet date. We do not provide for this amount but follow the accretion guidance in the US Statement of Principle 03-1 "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts". Under this guidance future fees are taken into account in determining the net loss to be provided. The net amount at risk is not the same as the fair value of these benefits, as it does not fully take into account the option value accruing to the policyholder.

9. Liabilities for investment contracts (with and without DPF)

Table 9.1

in USD millions, as of December 31

Liabilities related to investment contracts		
	2007	2006
Liabilities related to unit-linked investment contracts	48,187	44,269
Liabilities related to investment contracts (amortized cost)	117	121
Liabilities related to investment contracts with DPF	6,182	6,315
Total	54,485	50,705

Unit-linked investment contracts issued by the Group are recorded at a value reflecting the returns on investment funds which include selected equities, debt securities and derivatives. Policyholders bear the full risk of the returns on these investments.

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The value of financial liabilities at amortized cost is based on a discounted cash flow valuation technique and is shown in table 25.1. The discount rate is determined by current market assessment of the time value of money and risk specific to the liability.

Table 9.2

in USD millions		2007	2006
Development of investment contract liabilities	As of January 1	50,705	40,999
	Premiums and claims	(1,024)	(595)
	Interest and bonuses credited to policyholders	3,312	5,115
	Divestments/transfers	(514)	(4)
	Increase/(decrease) recorded in shareholders' equity	(33)	(31)
	Foreign currency translation effects	2,039	5,221
	As of December 31	54,485	50,705

10. Equity component relating to contracts with DPF

Certain investment and insurance contracts sold by the Group contain benefit features for which the amount and timing of declaration and payment are at the discretion of the Group. Where that discretion has not been exercised, the total amount of undeclared funds surplus is included in shareholders' equity. Mandated allocations related to unrealized gains and earnings are included in policyholder liabilities and upon declaration discretionary bonuses are allocated to policyholders. The changes in the table below represent the increase or decrease in unallocated gains and retained earnings after charging discretionary bonuses.

Table 10

in USD millions		2007	2006
Development of equity component relating to contracts with DPF	As of January 1	1,414	1,395
	Net unrealized (losses)/gains on investments	(226)	(159)
	Current period profit	17	62
	Foreign currency translation effects	104	117
	As of December 31	1,309	1,414

11. Gross and ceded insurance revenues and expenses

Table 11.1

Insurance benefits and losses	in USD millions, for the years ended December 31					
	Gross		Ceded		Net	
	2007	2006	2007	2006	2007	2006
Losses and loss adjustment expenses	24,951	24,506	(2,796)	(3,276)	22,155	21,230
Life insurance death and other benefits	11,903	10,787	(1,065)	(293)	10,837	10,494
Decrease in future life policyholders' benefits	(1,840)	(1,418)	(7,775)	(99)	(9,614)	(1,517)
Total insurance benefits and losses¹	35,014	33,875	(11,636)	(3,668)	23,378	30,207

¹ The Group's life operations in the UK entered into a reinsurance agreement to transfer the risk associated with a significant annuities portfolio as of January 1, 2007. The initial impact on ceded insurance benefits and losses amounted to USD 7.0 billion in the Global Life business.

Policyholder dividends and participation in profits	Gross		Ceded		Net	
	2007	2006	2007	2006	2007	2006
Change in policyholders' contract deposits and other funds	1,134	991	(13)	–	1,121	991
Change in reserves for unit-linked products	4,077	6,476	–	–	4,077	6,476
Change in liabilities for investment contracts – unit-linked	3,165	5,196	–	–	3,165	5,196
Change in liabilities for investment contracts – other	180	243	–	–	180	243
Total policyholder dividends and participation in profits	8,556	12,906	(13)	–	8,543	12,906

Underwriting and policy acquisition costs	Gross		Ceded		Net	
	2007	2006	2007	2006	2007	2006
Underwriting and policy acquisition costs	8,521	7,821	(932)	(841)	7,589	6,980

Net change in reserves for unearned premiums	Gross		Ceded		Net	
	2007	2006	2007	2006	2007	2006
Net change in reserves for unearned premiums	(286)	(211)	(209)	69	(495)	(142)

12. Deferred policy acquisition costs and deferred origination costs

Development of deferred policy acquisition costs	General Insurance		Global Life		Other segments ¹		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
As of January 1	2,959	2,596	10,113	8,441	124	143	13,197	11,179
Acquisition costs deferred and transfers	2,628	2,788	1,611	1,521	39	53	4,278	4,361
Amortization	(2,390)	(2,544)	(823)	(830)	(70)	(67)	(3,283)	(3,440)
Amortization charged to shareholders' equity	–	–	154	56	(5)	(4)	149	51
Foreign currency translation effects	109	119	493	926	–	–	602	1,045
As of December 31	3,306	2,959	11,547	10,113	89	124	14,941	13,197

¹ Net of eliminations from intersegment transactions.

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Table 12.2 in USD millions		2007	2006
Development of deferred origination costs	As of January 1	815	690
	Origination costs deferred	271	134
	Amortization	(103)	(100)
	Foreign currency translation effects	19	92
	As of December 31	1,003	815

13. Farmers management fees and other related revenues

Table 13 in USD millions, for the years ended December 31		2007	2006
Farmers management fees and other related revenues			
	Farmers management fees and other related revenues	2,266	2,133

FGI, through its AIF relationship with the Farmers Exchanges, which the Group manages but does not own, is contractually permitted to receive a management fee of up to 20% (25% in the case of the Fire Insurance Exchange) of the gross premiums earned by the Farmers Exchanges. To enable the Farmers Exchanges to maintain appropriate capital and surplus while offering competitive insurance rates, FGI has historically charged a lower management fee than the maximum allowed. The range of fees has varied by line of business over time and from year to year. During the past five years, aggregate management fees have averaged between 12% and 13% of gross premiums earned by the Farmers Exchanges. The gross earned premiums of the Farmers Exchanges were USD 15,547 million and USD 14,721 million for the twelve months ended December 31, 2007 and 2006, respectively.

14. Receivables

Table 14.1 in USD millions		2007	2006
Receivables	Receivables from policyholders	2,972	2,738
	Receivables from insurance companies, agents, brokers and intermediaries	5,972	5,592
	Receivables arising from ceded reinsurance	1,372	1,445
	Other receivables	3,084	2,620
	Allowance for impairments ¹	(554)	(468)
	Total	12,846	11,926

¹ Allowance for impairments includes USD 239 million and USD 204 million as of December 31, 2007, and 2006, respectively, for receivables arising from ceded reinsurance.

Receivables are generally settled within one year.

The table below shows the movement in allowance for impairments deducted from receivables in 2007 and 2006.

Table 14.2		2007	2006
Development of allowance for impairments (deducted from receivables)	in USD millions		
	As of January 1	(468)	(496)
	Increase in allowance for impairments	(82)	(21)
	Recoveries	2	7
	Amounts written-off against receivables	3	5
	Foreign currency translation effects and other movements	(8)	36
	As of December 31	(554)	(468)

15. Mortgage loans given as collateral and collateralized loans

As part of the Deutscher Herold transaction in 2002, the Group acquired various mortgage loans. Deutscher Herold had previously sold these loans to credit institutions while retaining the related credit and interest risk. Therefore the loans have not been derecognized from the balance sheet and the transaction is reflected as a collateralized borrowing. Accordingly, the loans are recorded as "Mortgage loans given as collateral" and the liability to credit institutions as "Collateralized loans".

Impairment charges of USD 1 million and USD 2 million on mortgage loans given as collateral were recorded in the income statement for the years ended December 31, 2007 and 2006, respectively.

The table below shows the maturity schedule of collateralized loans as of December 31, 2007 and 2006, respectively.

Table 15		2007	2006
Maturity schedule of collateralized loans	in USD millions, as of December 31		
	< 1 year	259	249
	1 to 2 years	325	320
	2 to 3 years	287	317
	3 to 4 years	622	275
	4 to 5 years	269	564
	> 5 years	480	701
	Total	2,243	2,426

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16. Property and equipment

Table 16.1
in USD millions

Property and equipment	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other equipment	Total
Gross carrying value as of January 1, 2007	385	1,500	398	666	577	3,525
Less: accumulated depreciation/impairments	–	(537)	(322)	(484)	(277)	(1,621)
Net carrying value as of January 1, 2007	385	962	76	182	299	1,905
Additions, capital improvements and transfers	3	95	32	97	117	343
Disposals and transfers	(24)	(70)	(1)	(3)	(80)	(176)
Depreciation and impairments	–	(52)	(34)	(78)	(56)	(221)
Foreign currency translation effects	28	71	4	7	12	121
Net carrying value as of December 31, 2007	392	1,006	78	204	292	1,972
Plus: accumulated depreciation/impairments	–	571	359	561	324	1,814
Gross carrying value as of December 31, 2007	392	1,577	436	765	615	3,785

Table 16.2
in USD millions

Property and equipment	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other equipment	Total
Gross carrying value as of January 1, 2006	355	1,341	378	684	510	3,267
Less: accumulated depreciation/impairments	–	(472)	(284)	(514)	(268)	(1,538)
Net carrying value as of January 1, 2006	355	868	94	170	242	1,729
Additions, capital improvements and transfers	5	71	19	79	109	284
Disposals and transfers	(4)	(3)	(15)	(2)	(10)	(34)
Depreciation and impairments	–	(50)	(28)	(74)	(51)	(202)
Foreign currency translation effects	30	76	5	8	9	129
Net carrying value as of December 31, 2006	385	962	76	182	299	1,905
Plus: accumulated depreciation/impairments	–	537	322	484	277	1,621
Gross carrying value as of December 31, 2006	385	1,500	398	666	577	3,525

The fire insurance value of the Group's own-used property and equipment and real estate held for investment totaled USD 10,049 million and USD 8,900 million as of December 31, 2007 and 2006, respectively.

17. Goodwill and other intangible assets

Table 17.1
in USD millionsIntangible assets –
current period

	Goodwill	Present value of profits of acquired insurance contracts	Other intangible assets ¹	Attorney-in-fact relationships	Total
Gross carrying value as of January 1, 2007	672	2,329	2,041	1,024	6,066
Less: accumulated amortization/impairments	(12)	(1,554)	(1,415)	–	(2,981)
Net carrying value as of January 1, 2007	660	775	626	1,024	3,085
Additions and transfers	1,040	–	752	–	1,792
Divestments and transfers	(12)	–	(61)	–	(74)
Amortization	–	(58)	(200)	–	(257)
Amortization charged to shareholders' equity	–	27	–	–	27
Impairments	(12)	–	(34)	–	(46)
Foreign currency translation effects	55	36	19	–	110
Net carrying value as of December 31, 2007	1,730	780	1,100	1,024	4,636
Plus: accumulated amortization/impairments	24	1,612	1,687	–	3,323
Gross carrying value as of December 31, 2007	1,754	2,392	2,787	1,024	7,957

¹ Other intangible assets include internally generated capitalised software development costs as well as intangible assets at fair value on acquisitions.

In addition to goodwill increases related to business combination of USD 886 million as disclosed in note 5, goodwill has increased by USD 127 million due to a change in the Group's interest in Deutscher Herold AG from 76.88 percent to 95 percent as a result of the recognition of buy out options and an acquisition of shares by the Group from minority shareholders. The remainder is due to foreign currency impacts.

Table 17.2
in USD millions, as of December 31, 2007Intangible assets
by segment –
current period

	Goodwill	Present value of profits of acquired insurance contracts	Other intangible assets ¹	Attorney-in-fact relationships	Total
General Insurance	706	–	538	–	1,244
Global Life	635	780	284	–	1,698
Farmers Management Services	385	–	171	1,024	1,582
Other Businesses	–	–	13	–	13
Corporate Functions	5	–	94	–	99
Net carrying value as of December 31, 2007	1,730	780	1,100	1,024	4,636

¹ Other intangible assets include internally generated capitalised software development costs as well as intangible assets at fair value on acquisitions.

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Table 17.3
in USD millions

**Intangible assets –
prior period**

	Goodwill	Present value of profits of acquired insurance contracts	Other intangible assets¹	Attorney-in-fact relationships	Total
Gross carrying value as of January 1, 2006	605	2,117	1,770	1,024	5,516
Less: accumulated amortization/impairments	–	(1,377)	(1,279)	–	(2,656)
Net carrying value as of January 1, 2006	605	740	491	1,024	2,860
Additions and transfers	–	–	352	–	352
Divestments and transfers	–	–	(38)	–	(38)
Amortization	–	(49)	(212)	–	(261)
Amortization charged to shareholders' equity	–	16	–	–	16
Impairments	(12)	–	–	–	(12)
Foreign currency translation effects	67	68	33	–	168
Net carrying value as of December 31, 2006	660	775	626	1,024	3,085
Plus: accumulated amortization/impairments	12	1,554	1,415	–	2,981
Gross carrying value as of December 31, 2006	672	2,329	2,041	1,024	6,066

¹ Other intangible assets include internally generated capitalised software development costs as well as intangible assets at fair value on acquisitions.

Table 17.4
in USD millions, as of December 31, 2006

**Intangible assets
by segment –
prior period**

	Goodwill	Present value of profits of acquired insurance contracts	Other intangible assets¹	Attorney-in-fact relationships	Total
General Insurance	168	–	250	–	417
Global Life	488	775	231	–	1,494
Farmers Management Services	–	–	122	1,024	1,146
Other Businesses	–	–	8	–	8
Corporate Functions	5	–	15	–	20
Net carrying value as of December 31, 2006	660	775	626	1,024	3,085

¹ Other intangibles include internally generated capitalised software development costs as well as intangible assets at fair value on acquisitions.

Goodwill is allocated to cash generating units (CGU) identified according to its business and geographical segment.

When testing for impairment for goodwill, the recoverable amount of a cash generating unit is determined on the basis of value-in-use calculations. These calculations use cash flow projections based on financial budgets, which are approved by management, typically covering a five-year period. Cash flows beyond the five year period are extrapolated using the estimated growth rates. The estimated growth rate does not exceed the long-term average past growth rate for the insurance business in which the CGU operates. The discount rates applied reflect the respective risk free interest rate adjusted for the risk factors which are reflective of the risk inherent in the underlying cash flows.

In 2007 impairment charges of USD 46 million were recorded in the income statement comprising impairment of other intangible assets of USD 34 million mainly relating to software capitalized in the UK life business and impairment of goodwill of USD 12 million as a result of updated cash flow assumptions in the Spanish life operations.

In 2006, impairment charges of USD 12 million were recorded in the income statement. USD 6 million of the 2006 impairment charge relates to entities in Australia and USD 6 million to the Spanish life operations.

When testing for impairment of attorney-in-fact (AIF) relationships in 2007 and 2006, the recoverable amount of AIF relationship is determined on the basis of value-in-use calculations. These calculations use cash flow projections based on business plans and the surplus development in the Farmers Exchanges. Business plans are approved by management and typically cover a 5-year period and a discount rate of 6.0 percent (5.5 percent in 2006). Cash flows beyond that 5-year period are extrapolated for 20 years assuming zero growth. Management believes that any reasonably possible change in the key assumptions of the underlying Farmers Exchanges business plans, would not cause the recoverable amount of the AIF to be lower than the carrying value.

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18. Other liabilities

Table 18

in USD millions, as of December 31		2007	2006
Other liabilities	Amounts due to reinsurers, agents and other insurance companies	1,712	1,816
	Amounts due to life policyholders	722	721
	Liabilities for cash collateral received for securities lending	1,889	3,918
	Current tax payables	1,643	1,846
	Derivative liabilities	276	415
	Liabilities for employee benefit plans	1,019	2,504
	Other liabilities	12,997	11,582
	Total	20,257	22,802

USD 18,291 million and USD 19,367 million as of December 31, 2007, and 2006, respectively, are considered financial liabilities. USD 1,967 million and USD 3,435 million as of December 31, 2007, and 2006, respectively, are considered non-financial liabilities. The undiscounted amounts are not materially different from the carrying amounts.

19. Income taxes

Table 19.1

in USD millions, for the years ended December 31		2007	2006
Income tax expense – current/deferred split	Current	1,515	1,766
	Deferred	272	381
	Total income tax expense	1,787	2,148

Table 19.2

in USD millions, for the years ended December 31		2007	2006
Income tax expense – policyholder/shareholder attribution	Total income tax expense attributable to policyholders	(83)	416
	Total income tax expense attributable to shareholders	1,870	1,732
	Total income tax expense	1,787	2,148

The Group is required to record taxes on policyholder earnings for life insurance policyholders in certain jurisdictions. Accordingly, the income tax expense or benefit attributable to these life insurance policyholder earnings is included in income tax expense. In certain jurisdictions an accrual for future policy fees that will cover the tax charge is included in gross written premiums and policy fees revenue.

Table 19.3

in USD millions, for the years ended December 31

Expected and actual income tax expense	2007		2006	
	Rate		Rate	
Net income before income taxes		7,495		6,866
Less: income tax (expense)/benefit attributable to policyholders		83		(416)
Net income before income taxes attributable to shareholders		7,578		6,450
Expected income tax expense attributable to shareholders	30.3%	2,296	30.2%	1,950
Increase/(reduction) in taxes resulting from:				
<i>Tax exempt and lower taxed income</i>		(517)		(637)
<i>Non-deductible expenses</i>		74		133
<i>Tax losses previously unrecognized or no longer recognized</i>		(185)		10
<i>Prior year adjustments and other</i>		202		276
Actual income tax expense attributable to shareholders	24.7%	1,870	26.9%	1,732
Plus: income tax expense/(benefit) attributable to policyholders		(83)		416
Actual income tax expense	23.8%	1,787	31.3%	2,148

The table above illustrates the factors that cause the actual income tax expense to differ from the expected amount computed by applying the weighted average statutory income tax rate.

The expected weighted average statutory income tax rate for the Group is 30.3 percent and 30.2 percent for the years ended December 31, 2007 and 2006, respectively. These rates were derived by obtaining a weighted average of the applicable statutory income tax rates in relation to the net income before income tax attributable to shareholders generated in the taxable territories in which the Group operates.

A credit of USD 145 million resulting from the reduction of corporate income tax rates in the UK, Germany and Italy is included in the line "prior years adjustments and other" for the year 2007. Also included in this line are withholding and local taxes amounting to USD 113 million and USD 119 million for the years 2007 and 2006, respectively.

Table 19.4

in USD millions, as of December 31

Current tax receivables and payables	2007		2006	
Current tax receivables		743		509
Current tax payables		(1,643)		(1,846)
Net current tax payables		(900)		(1,337)

Table 19.5

in USD millions, as of December 31

Deferred tax assets and liabilities	2007		2006	
Deferred tax assets		1,678		2,727
Deferred tax liabilities		(4,055)		(4,757)
Net deferred tax liabilities		(2,377)		(2,030)

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Table 19.6

in USD millions		2007	2006
Development of net deferred tax assets/(liabilities)	As of January 1	(2,030)	(1,278)
	Net change recognized in the income statement	(272)	(381)
	Net change recognized in equity	56	(97)
	Net changes due to acquisitions/(divestments)	7	–
	Foreign currency translation effects	(138)	(299)
	Other changes	–	25
	As of December 31	(2,377)	(2,030)

The cumulative amount of deferred tax credited to shareholders' equity amounted to USD 328 million and USD 272 million for the years ended December 31, 2007 and 2006, respectively.

Table 19.7

in USD millions, as of December 31		2007	2006
Deferred taxes – policyholder/ shareholder attribution	Net deferred tax liabilities attributable to policyholders	(566)	(976)
	Net deferred tax liabilities attributable to shareholders	(1,811)	(1,054)
	Net deferred tax liabilities	(2,377)	(2,030)

Table 19.8

in USD millions, as of December 31		2007		2006	
		Assets	Liabilities	Assets	Liabilities
Deferred tax assets/(liabilities) breakdown by source	Gross deferred tax				
	Deferred acquisition and origination costs	144	(2,735)	236	(2,618)
	Depreciable and amortizable assets	163	(1,825)	119	(1,825)
	Life policy liabilities	188	(578)	267	(771)
	Unrealized (gains) / losses on investments	502	(574)	179	(491)
	Accruals	201	(132)	262	(137)
	Reserves for losses and loss adjustment expenses	583	(675)	535	(495)
	Reserves for unearned premiums	918	(296)	758	(313)
	Deferred front-end fees	669	–	766	–
	Pensions and other employee benefits	592	(37)	658	(51)
	Other assets / liabilities	1,034	(621)	1,336	(955)
	Tax loss carryforwards	588	–	1,220	–
	Gross deferred tax assets/(liabilities) before valuation allowance	5,582	(7,473)	6,336	(7,656)
	Valuation allowance	(486)	–	(710)	–
	Gross deferred tax assets/(liabilities) after valuation allowance	5,096	(7,473)	5,626	(7,656)
	Effect of offsetting on taxpayer basis	(3,418)	3,418	(2,899)	2,899
	Deferred tax assets/(liabilities)	1,678	(4,055)	2,727	(4,757)
Net deferred tax liabilities		(2,377)		(2,030)	

As of December 31, 2007 the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognised approximated USD 16 billion. In the remote scenario in which these temporary differences reverse simultaneously, the resulting tax liabilities will be very limited due to participation exemption rules.

Table 19.9

Tax losses carryforwards and tax credits	in USD millions, as of December 31		2007	2006
		For which deferred tax assets have been recognized		
	Expiring up to 5 years		17	7
	Expiring after 5 and up to 20 years		765	1,606
	Expiring after 20 years or with no time limitation		110	587
	Subtotal		892	2,200
	For which deferred tax assets have not been recognized			
	Expiring up to 5 years		-	741
	Expiring after 5 and up to 20 years		1,226	1,849
	Subtotal		1,226	2,590
	Total		2,118	4,790

The tax rates applicable to tax losses for which a deferred tax asset has not been recognized are 35 percent and 31 percent for the years 2007 and 2006, respectively.

The Group's deferred tax assets and liabilities are recorded in the tax paying entities throughout the world, which may include several legal entities within each tax jurisdiction. Legal entities are grouped as a single taxpayer only when permitted by local legislation and when deemed appropriate.

The recoverability of the deferred tax asset for each taxpayer is based on its ability to utilize the deferred tax asset over a reasonable period of time. This analysis considers the projected taxable income to be generated by the taxpayer, as well as its ability to offset deferred tax assets with deferred tax liabilities.

As of December 31, 2007 and 2006, the net deferred tax positions by taxpayer groups are as follows.

Table 19.10

Deferred tax assets/(liabilities) by taxpayer group	in USD millions, as of December 31		Deferred tax assets/(liabilities), net of valuation allowance	
	2007	2006	2007	2006
Taxpayer groups				
Zurich Holding Company of America companies	1,455	1,551	1,301	1,381
Centre companies	(15)	118	(102)	29
Zurich Capital Markets companies	229	229	-	-
UK General Insurance companies	(87)	289	(97)	276
Other taxpayer groups carrying net deferred tax assets	249	268	250	234
Other taxpayer groups carrying net deferred tax liabilities	(3,722)	(3,775)	(3,729)	(3,950)
Net deferred tax liabilities	(1,891)	(1,320)	(2,377)	(2,030)

Management assesses the recoverability of the deferred tax assets carrying values based on future years taxable income projections and believe that the carrying values of the deferred tax assets as of December 31, 2007, are recoverable.

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20. Debt

Table 20.1

in USD millions, as of December 31

Debt		2007	2006
a) Debt related to capital markets and banking activities			
Zurich Capital Markets	Various debt instruments payable within 1 year	800	1,050
	Various debt instruments payable in more than 1 year	48	45
Zurich Financial Services EUB Holdings Limited	Various debt instruments payable within 1 year	814	738
	Various debt instruments payable in more than 1 year	1	1
Centre Solutions (Bermuda) Ltd.	Various debt instruments payable in more than 1 year	–	56
Debt related to capital markets and banking activities		1,663	1,889
b) Senior debt			
Zurich Finance (USA), Inc.	3.50% CHF 300 bond, due July 2008 ¹	264	246
	4.50% EUR 1,000 bond, due September 2014 ²	1,441	1,309
Kemper Corporation	Various debt instruments, due in 2009	26	26
Zurich Insurance Company	3.875% CHF 1,000 bond, due July 2011	884	822
	Various debt instruments payable within 1 year	50	63
Other	Various debt instruments payable within 1 year	54	297
	Various debt instruments payable in more than 1 year	111	143
Senior debt		2,830	2,906
c) Subordinated debt			
Zurich Capital Trust I	8.376% USD 1,000 Capital Securities	–	990
Zurich Finance (UK) p.l.c.	6.625% GBP 450 bond, undated notes ³	879	867
Zurich Finance (USA), Inc.	5.75% EUR 500 bond, due October 2023	720	651
	4.5% EUR 500 bond, due June 2025 ⁴	670	621
ZFS Finance (USA) Trust I	Series I 6.15% USD 600 ECAPS, due December 2065	595	593
ZFS Finance (USA) Trust II	Series II 6.45% USD 700 ECAPS, due December 2065	690	690
ZFS Finance (USA) Trust III	Series III Floating Rate USD 400 ECAPS, due December 2065	397	396
ZFS Finance (USA) Trust IV	Series IV 5.875% USD 500 Trust Preferred Securities, due May 2062	497	–
ZFS Finance (USA) Trust V	Series V 6.5% USD 1,000 Trust Preferred Securities, due May 2067	994	–
Other	Various debt instruments payable in more than 1 year	29	–
Subordinated debt		5,471	4,808
Total senior and subordinated debt		8,300	7,713
Total debt		9,963	9,602

¹ The bond is economically hedged, but hedge accounting treatment has not been applied.² The bond is part of a qualifying cash flow hedge (80% of the total) and fair value hedge (20% of the total).³ The holders of these notes benefit from the Replacement Capital Covenant which states that if Series IV and V Fixed / Floating Trust Preferred Securities, issued by ZFS Finance (USA) Trust IV and V, are called before 2042 and 2047 respectively, the Group will issue a replacement debt instrument with terms and provisions that are as or more equity-like than the replaced notes.⁴ The bond is part of a qualifying fair value hedge relationship.

None of the debt instruments listed above were in default as of December 31, 2007 and 2006.

a) Debt related to capital markets and banking activities

Debt related to capital markets and banking activities decreased from USD 1,889 million as of December 31, 2006 to USD 1,663 million as of December 31, 2007, which is attributable to the maturity of a number of loans.

b) Senior debt

The Group's Euro Medium Term Note Programme (EMTN Programme) allows for the issuance of senior and subordinated notes up to a maximum of USD 6 billion. Zurich Finance (USA), Inc. and Zurich Finance (UK) p.l.c. are issuing entities under the EMTN Programme, which have debt outstanding as of December 31, 2007 and 2006.

No new senior debt issuances took place in 2007.

c) Subordinated debt

Subordinated debt securities are obligations of the Group which, in case of liquidation, rank junior to all present and future senior indebtedness and certain other obligations of the Group.

On June 1, 2007 the Group through Zurich Capital Trust called USD 1 billion 8.376 percent Capital Securities at a redemption price of 104.188 percent, recognizing a pre tax loss of USD 52 million, comprising USD 42 million from call premium and USD 10 million from recognition of unamortized discount.

On May 9, 2007, ZFS Finance (USA) Trust IV and ZFS Finance (USA) Trust V issued USD 500 million of Series IV and USD 1 billion of Series V Fixed / Floating Rate Trust Preferred Securities. Series IV is a 5.875 percent USD 500 million tranche maturing in 2062, callable from 2012, and Series V is a 6.5 percent USD 1 billion tranche maturing in 2067, callable from 2017. These trust preferred securities were sold to a number of qualified institutional buyers and qualified purchasers under the exemption from Rule 144A of the United States Securities Act (1933). Each Trust benefits from a subordinated support agreement from Zurich Financial Services and Zurich Group Holding. See table 20.2 for details of redemption conditions.

d) Hedged debt

The Group uses cross-currency interest rate swaps and currency swaps to manage the risks inherent in certain debt issues. Where the relationship qualifies for hedge accounting (see notes to table 20.1), such hedge accounting is applied as described in notes 3 and 7.

The objective of the fair value hedges on debt issued is to protect against changes in the foreign currency exposure and interest rate exposure of euro denominated debt issuances, while the objective of the cash flow hedge on debt is to hedge changes in US dollar cash flows of the euro denominated debt resulting from changes in euro/US dollar exchange rate.

A fair value hedge relationship on EUR 500 million 4.5 percent subordinated bond due June 2025 was entered into at the issuance of the debt instrument in 2005 and will end on June 15, 2015.

A fair value hedge relationship on 20 percent of the EUR 1 billion 4.5 percent senior debt due 2014 and a cash flow hedge relationship on the remaining 80 percent of this debt were entered into on January 1, 2007 and will end at maturity of the underlying debt instrument in 2014.

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Table 20.2

in USD millions

Description and features of significant subordinated debt	Description	Coupon conditions	Call/ Redemption date	Redemption conditions ³
	6.625% GBP 450 bond, undated notes	6.625% payable annually up to October 2, 2022 and then reset every 5 years to the reset rate of interest. ¹	Every five years on or after October 2, 2022	Redeemable in whole every five years at par plus any accrued interest.
	5.75% EUR 500 bond, due October 2023	5.75% payable annually up to October 2, 2013 and then reset quarterly to 3-month EURIBOR plus 2.67%.	Quarterly on or after October 2, 2013	Redeemable in whole quarterly at par plus any accrued interest.
	4.5% EUR 500 bond, due June 2025	4.5% payable annually up to June 15, 2015 and then reset quarterly to 3-month EURIBOR plus 2.20%.	Quarterly on or after June 15, 2015	Redeemable in whole quarterly at par plus any accrued interest.
	Series I 6.15% Fixed / Adjustable Rate USD 600 ECAPS, due December 2065	6.15% payable semi-annually until December 15, 2010 and then reset quarterly to the adjustable rate plus 1.75%. ²	Quarterly on or after December 15, 2010	Redeemable in whole or in part at par plus any accumulated and unpaid distributions.
	Series II 6.45% Fixed / Adjustable Rate USD 700 ECAPS, due December 2065	6.45% payable semi-annually until June 15, 2016 and then reset quarterly to the adjustable rate plus 2.00%. ²	Quarterly on or after June 15, 2016	Redeemable in whole or in part at par plus any accumulated and unpaid distributions.
	Series III Floating Rate USD 400 ECAPS, due December 2065	3-month LIBOR plus 1.15% reset quarterly until December 15, 2010 and then 3-month LIBOR plus 2.15%.	Quarterly on or after December 15, 2010	Redeemable in whole or in part at par plus any accumulated and unpaid distributions.
	Series IV 5.875% USD 500 Fixed / Floating Trust Preferred Securities, due May 2062	5.875% payable semi-annually until May 9, 2012 and then reset quarterly to 3-month LIBOR plus 1.815%.	Quarterly on or after May 9, 2012	Redeemable in whole or in part at par plus any accumulated and unpaid distributions.
	Series V 6.5% USD 1,000 Fixed / Floating Trust Preferred Securities, due May 2067	6.5% payable semi-annually until May 9, 2017 and then reset quarterly to 3-month LIBOR plus 2.285%.	Quarterly on or after May 9, 2017	Redeemable in whole or in part at par plus any accumulated and unpaid distributions.

¹ Reset rate of interest is equal to the gross redemption yield on the benchmark five-year Gilt as determined by the Calculation Bank, plus 2.85% per annum.

² Adjustable Rate is equal to the greatest of (i) the 3-month LIBOR rate; (ii) the 10-year Treasury CMT (Constant Maturity Treasury) Rate; and (iii) the 30-year Treasury CMT Rate, subject to a maximum under (ii) and (iii) of 13.25% Series I and 13% for Series II.

³ All subordinated debt instruments are also subject to mandatory redemption as a result of various tax, default or other events.

Table 20.3

in USD millions, as of December 31

Maturity schedule of outstanding debt	2007	2006
< 1 year	1,983	2,148
1 to 2 years	76	274
2 to 3 years	10	74
3 to 4 years	884	11
4 to 5 years	1	822
> 5 years	7,010	6,273
Total	9,963	9,602

Debt maturities shown in table 20.3 reflect original contractual dates. For call/redemption dates, refer to table 20.2. The total notional amount of debt due in each period is not materially different from the total carrying amount disclosed in table 20.3.

Table 20.4
in USD millions, for the years ended December 31

Interest expense on debt	2007		2006
Debt related to capital markets and banking activities	148		147
Senior debt	133		136
Subordinated debt	404		326
Total	685		608

Credit facilities

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 December 31, 2007.

Dunbar Bank and Zurich Bank have access to various committed credit facilities totaling GBP 420 million and GBP 250 million, respectively. No borrowings were outstanding under these facilities as of December 31, 2007.

In addition, ZIC has access to a USD 300 million credit facility expiring in 2010 for the sole purpose of financing surplus notes issued by the Leschi Life Assurance Company (Leschi), a special purpose reinsurer owned by Farmers New World Life (FNWL) and to which FNWL cedes business subject to Regulation XXX (Triple X). As of December 31, 2007, USD 50 million had been drawn under this credit facility.

Financial debt

Financial debt consists of all debt items that are included in financial leverage calculations of rating agencies. As of December 31, 2007 and 2006 financial debt consisted of the following components.

Table 20.5
in USD millions, as of December 31,

Financial debt	2007	2007	2007	2006
	Reported	Adjustments	Financial debt	Financial debt
Debt related to capital markets and banking activities	1,663	(815)	848	1,094
Senior debt	2,830	(150)	2,680	2,806
Subordinated debt	5,471	–	5,471	4,808
Total	9,964	(965)	8,999	8,708

USD 815 million adjustment relates to Zurich Financial Services EUB Holdings Limited notes and loans payable, while USD 150 million adjustment contains USD 100 million of non-recourse debt and the USD 50 million drawn under the abovementioned Leschi credit facility.

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21. Shareholders' equity

Table 21.1

Share capital	number of shares, as of December 31	
	2007	2006
Issued share capital, CHF 0.10 par value	145,546,820	144,749,399
Authorized, contingent and issued share capital, CHF 0.10 par value	160,231,227	156,988,783

a) Issued share capital

As of December 31, 2007, Zurich Financial Services had 145,546,820 issued and fully paid registered shares of CHF 0.10 par value, amounting to total issued share capital of CHF 14,554,682.00. As of December 31, 2006, the share capital amounted to CHF 14,474,939.90, divided into 144,749,399 fully paid registered shares of CHF 0.10 par value.

The shareholders at the Annual General Meeting of April 3, 2007 approved the increase of the contingent share capital for the issuance of new registered shares to employees of the Group from CHF 75,755.60 by CHF 324,244.40 to a new maximum of CHF 400,000 by issuing up to 4,000,000 registered shares payable in full with a nominal value of CHF 0.10 each. During the year 2007, a total of 797,421 shares have been issued to employees. As a result, 145,546,820 fully paid shares with a nominal value of CHF 0.10 were issued as of December 31, 2007, amounting to a share capital of CHF 14,554,682.00.

In 2006, the Board of Directors approved on February 15, 2006, the issuance of a maximum of 1,000,000 out of the 1,500,000 dividend-paying shares from the contingent share capital to employees. At the Annual General Meeting on April 20, 2006, shareholders approved a share capital reduction in the form of a nominal value reduction of each share from CHF 2.50 to CHF 0.10. At the effective date of the nominal value reduction on July 3, 2006, Zurich Financial Services had 144,565,255 issued and fully paid shares, including 558,300 shares issued out of the contingent capital. As a result of this reduction, the share capital was reduced by CHF 346,956,612.00 from CHF 361,413,137.50 to a new total of CHF 14,456,525.50. As of December 31, 2006 a total of 742,444 shares were issued to employees from contingent share capital. As a consequence, 144,749,399 fully paid shares with a nominal value of CHF 0.10 were issued as of December 31, 2006, amounting to a share capital of CHF 14,474,939.90.

b) Authorized share capital

Until June 1, 2008, the Board of Zurich Financial Services is authorized to increase the share capital by an amount not exceeding CHF 600,000 by issuing up to 6,000,000 fully paid registered shares with a nominal value of CHF 0.10 each. An increase in partial amounts is permitted. The Board determines the date of issue of such new shares, the issue price, type of payment, conditions for exercising pre-emptive rights, and the beginning of the dividend entitlement. The Board may issue such new shares by means of a firm underwriting by a banking institution or syndicate with subsequent offer of those shares to current shareholders. The Board may allow the expiry of pre-emptive rights which have not been exercised, or it may place these rights as well as shares, the pre-emptive rights of which have not been exercised, at market conditions.

The Board is further authorized to restrict or withdraw the pre-emptive rights of shareholders and to allocate them to third parties if the shares are to be used for the take-over of an enterprise, or parts of an enterprise or of participations or if issuing shares for the financing including re-financing of such transactions; or for the purpose of expanding the scope of shareholders in connection with the quotation of shares on foreign stock exchanges.

c) Contingent share capital**Capital market instruments and option rights to shareholders**

The share capital of Zurich Financial Services may be increased by an amount not exceeding CHF 548,182.80 by the issuance of up to 5,481,828 fully paid registered shares with a nominal value of CHF 0.10 each (i) by exercising of conversion and/or option rights which are granted in connection with the issuance of bonds or similar debt instruments by Zurich Financial Services or one of its Group companies in national or international capital markets; and/or (ii) by exercising option rights which are granted to current shareholders. When issuing bonds or similar debt instruments connected with conversion and/or option rights, the pre-emptive rights of the shareholders will be excluded. The current owners of conversion and/or option rights shall be entitled to subscribe for the new shares. The conversion and/or option conditions are to be determined by the Board.

The Board of Directors is authorized, when issuing bonds or similar debt instruments connected with conversion and/or option rights, to restrict or withdraw the right of shareholders for advance subscription in cases where such bonds are issued for the financing or re-financing of a takeover of an enterprise, of parts of an enterprise, or of participations. If the right for advance subscription is withdrawn by the Board, the convertible bond or warrant issues are to be offered at market conditions (including standard dilution protection provisions in accordance with market practice) and the new shares are issued at then current convertible bond or warrant issue conditions. The conversion rights may be exercisable during a maximum of 10 years and option rights for a maximum of 7 years from the time of the respective issue. The conversion or option price or its calculation methodology shall be determined in accordance with market conditions, whereby for shares of Zurich Financial Services the quoted share price is to be used as a basis.

Employee participation

Subject to shareholder approval to increase the contingent share capital for the issuance of new registered shares to employees of the Group from CHF 75,755.60 by CHF 324,244.40 to a new maximum of CHF 400,000 by issuing up to a maximum of 4,000,000 registered shares payable in full with a nominal value of CHF 0.10 each, the Board of Directors of Zurich Financial Services decided on February 14, 2007, to allow the issuance of up to 4,000,000 shares out of the contingent share capital to employees of the Group. A respective proposal for the increase of the contingent share capital was made by the Board of Directors to the shareholders and was approved at the Annual General Meeting on April 3, 2007. On December 31, 2007, 797,421 shares of this contingent share capital have been issued. Consequently, as of the same date, the remaining contingent capital, which can be issued to employees of Zurich Financial Services and Group companies, amounts to CHF 320,257.90 or 3,202,579 fully paid registered shares with a nominal value of CHF 0.10 each. The pre-emptive rights of the shareholders, as well as the right for advance subscription, are excluded. The issuance of shares or respective option rights to employees is subject to one or more regulations to be issued by the Board of Directors and take into account performance, functions, levels of responsibility and criteria of profitability. Shares or option rights may be issued to the employees at a price lower than that quoted on the stock exchange.

d) Preferred securities

Table 21.2

in USD millions, as of December 31

Preferred securities		
	2007	2006
Preferred securities, USD 1,000 par value ¹	700	700

¹ The amount includes issuance costs of USD 29 million.

In February 2001, the Group placed six series of Trust Capital Securities (Zurich RegCaPS) for the total amount of USD 1,125 million (USD 1,096 million net of issuance costs) with a limited number of qualified institutional and corporate US investors. The securities, which were issued under Rule 144A in the United States, are perpetual, non-cumulative and have a par value of USD 1,000 each. They have no voting rights, except for certain specified circumstances and are linked to Farmers Group, Inc. Class C shares. On March 30, 2006, and April 11, 2006, the Group redeemed the Series I and III of the Zurich RegCaPS, respectively. The liquidation amounts totaled USD 425 million in aggregate. Of the remaining series totaling USD 700 million, one has a fixed rate coupon (6.58 percent) and three have a floating rate coupon (between LIBOR +53 bps and +71 bps). These coupon rates step up after the first call dates. The Group has the option to call Series IV floating rate securities in 2008 and Series II fixed rate and Series V and VI floating rate securities in 2011. Subsequent to year-end the Group announced the redemption of the Series IV of the Zurich RegCaPS amounting to USD 125 million at par.

e) Additional paid-in capital

This reserve is not ordinarily available for distribution.

f) Treasury shares

Table 21.3

number of shares, as of December 31

Treasury shares		
	2007	2006
Treasury shares	5,839,154	161,451

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As of December 31, 2007, the total number of treasury shares was 5,839,154, which comprises shares repurchased under the buy-back program and shares acquired in the market held to cover employee share and option plans.

On February 14, 2007 the Board of Zurich Financial Services authorized a share buy-back program. 3,432,500 fully paid shares, with a nominal value of CHF 0.10, were bought back at an average price of CHF 364 per share, at a total cost of USD 1 billion. A proposal to cancel these repurchased shares will be submitted to the shareholders at the Annual General Meeting on April 3, 2008.

g) Earnings per share

Table 21.4

Earnings per share	Net income attributable to common shareholders (in USD millions)	Weighted average number of shares	Per share (USD)	Per share (CHF) ¹
2007				
Basic earnings per share	5,580	142,685,268	39.11	46.88
Effect of potentially dilutive shares related to share-based compensation plans		1,572,388	(0.43)	(0.51)
Diluted earnings per share	5,580	144,257,656	38.68	46.37
2006				
Basic earnings per share	4,576	144,281,666	31.71	39.74
Effect of potentially dilutive shares related to share-based compensation plans		814,490	(0.18)	(0.22)
Diluted earnings per share	4,576	145,096,156	31.53	39.52

¹ The translation from USD into CHF has been done for information purposes only at the Group's average exchange rates for the years ended December 31, 2007 and 2006, respectively.

Basic earnings per share is computed by dividing net income attributable to shareholders by the weighted average number of shares outstanding for the period, excluding the weighted average number of shares held as treasury shares and preferred securities. Diluted earnings per share reflects the effect of potentially dilutive shares.

22. Employee benefits

The Group had 58,220 and 52,286 employees (full-time equivalents) as of December 31, 2007 and 2006, respectively. Personnel and other related costs incurred for the year ended December 31, 2007 and 2006, were USD 4,922 million and USD 4,757 million, including wages and salaries of USD 4,181 million and USD 3,954 million, respectively.

The Group operates a number of retirement benefit arrangements for employees, the majority of whom belong to defined benefit plans. Other employees participate in defined contribution plans, which provide benefits equal to amounts contributed by both the employer and the employee plus investment returns.

The Group also operates post-employment plans, mainly in the United States, which provide employees with certain defined post-employment benefits other than pensions.

To ensure appropriate governance and oversight of the Group's pension and post-employment benefit plans, the Group Pension Committee was established during 2006 to provide oversight of the Group's benefits policy.

As described in note 1, the Group has adopted the SORIE option under IAS 19. As a result prior year numbers have been restated as appropriate.

a) Defined benefit plans

Defined benefit pension plans

Employees of the Group's operating companies are covered under various pension plans, the largest ones of which are in the UK, US, Germany and Switzerland. Certain companies run defined benefit plans, some of which provide benefits related to employee's service periods and final pensionable earnings and others provide cash balance plans, where the participants receive the benefit of annual contributions made by both employer and employee and a credit for the investment return achieved on the assets. Eligibility for participation in the various plans is either based on completion of a specified period of continuous service or from the date of commencement of employment.

Most of the Group's defined benefit pension plans are funded through contributions by the Group and, in some cases, the employee to trusts or foundations independent of the Group's finances. In these cases, the annual funding requirements are determined in accordance with local funding and actuarial cost methods. Where plans are not specifically funded, a liability for the accrued pension obligations is recognized in the Group's balance sheet.

For the defined benefit pension plans, total contributions to funded pension plans and benefit payments by the Group are currently expected to be about USD 470 million in 2008.

Other defined post-employment benefits

Certain of the Group's operating companies provide post-employment benefit programs covering medical care and/or life insurance. Eligibility in the various plans is generally based on completion of a specified period of eligible service and reaching a specified age. The programs typically pay a stated percentage of medical expenses subject to deductibles and other factors. The cost of post-employment benefits is accrued during the employees' service periods. The method of accounting and the frequency of valuations are similar to those for defined benefit pension plans.

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The tables below show the funded status of the Group's plans; this being the pension plan assets at fair value less the pension plans liability based on the present value of the obligation. Plans that are wholly unfunded are shown separately from funded plans.

Table 22.1

in USD millions, as of December 31

Status of funded defined benefit plans	Defined benefit pension plans		Other defined post-employment benefits	
	2007	2006	2007	2006
Present value of obligations	(13,653)	(12,190)	(66)	(70)
Fair value of plan assets	13,285	11,071	5	10
Funded status	(368)	(1,119)	(61)	(60)
Unrecognized past service cost	–	2	–	–
Cumulative impact of asset ceiling	(62)	–	–	–
Liability – funded obligations	(430)	(1,117)	(61)	(60)

Pensions are long-term by nature. However, short-term variations between long-term actuarial assumptions and actual experience may be positive or negative, resulting in actuarial gains or losses, which are recognized in full in the period in which they occur, but outside of income and presented on a separate line of the statement of recognized income and expense in shareholders' equity.

In the second quarter of 2007, the Group implemented a contractual trust arrangement to cover its defined benefit obligations in Germany. As a consequence of this transaction, the fair value of the plan assets in the funded defined benefit plans increased by USD 786 million at the time of implementation of the trust arrangement.

Table 22.2

in USD millions, as of December 31

Status of unfunded defined benefit plans	Defined benefit pension plans		Other defined post-employment benefits	
	2007	2006	2007	2006
Present value of obligations	(207)	(985)	(208)	(196)
Unrecognized past service cost	–	–	(2)	(1)
Liability – unfunded obligations	(207)	(985)	(210)	(197)

For several of the Group's wholly unfunded defined benefit pension plans there are assets within the Group that are designated, but not legally separated, to meet the liabilities of those plans. Consequently, in accordance with IAS 19 these are not recognized as plan assets. However, to arrive at an economic net liability for these unfunded pension plans these assets would have to be netted against the present value of obligations. The significant change from 2006 to 2007 mainly relates to the implementation of a contractual trust arrangement set up in Germany in the second quarter of 2007, which transferred the plan to a funded defined benefit pension plan.

Table 22.3
in USD millions, for the years ended December 31

Components of net pension expense	Defined benefit pension plans		Other defined post-employment benefits	
	2007	2006	2007	2006
	Current service cost	(310)	(384)	(6)
Interest cost	(665)	(613)	(14)	(14)
Expected return on plan assets	710	575	–	1
Past service cost	(9)	(17)	–	–
Gains on curtailment or settlement	–	135	–	10
Net pension expense	(274)	(304)	(20)	(9)

Pension expense is recognized in administrative and other operating expense.

Table 22.4
in USD millions, as of December 31

Fair value of assets held in funded defined benefit pension plans	Defined benefit pension plans		Other defined post-employment benefits	
	2007	2006	2007	2006
	Mortgage loans	383	–	–
Cash and cash equivalents	126	126	–	4
Short-term investments	6	2	4	–
Equity securities	4,530	6,168	–	–
Debt securities	7,404	3,821	1	5
Real estate	793	924	–	–
Other investments	43	19	–	–
Investments held by investment companies	–	11	–	–
Total	13,285	11,071	5	10

As a matter of policy, pension plan investment guidelines do not permit investment in any assets in which the Group or its subsidiaries have an interest, including shares or other financial instruments issued and real estate held for own use.

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Table 22.5
in USD millions

**Movement in
funded and
unfunded
defined benefit
pension plan
obligation**

	Defined benefit pension plans		Other defined post-employment benefits	
	2007	2006	2007	2006
Benefit obligation as of January 1	(13,175)	(11,498)	(266)	(293)
Current service cost	(310)	(384)	(6)	(6)
Past service cost incl. plan amendments	(7)	(17)	2	1
Interest cost	(665)	(613)	(14)	(14)
Actuarial gain passed through SORIE	442	125	3	28
Employee contributions	(38)	–	(3)	(10)
Effect of curtailments or settlements	–	130	–	7
Benefits paid	472	425	17	19
Effect of business combinations and other transfers	(168)	(337)	–	–
Foreign currency translation effects	(411)	(1,006)	(7)	2
Benefit obligation as of December 31	(13,860)	(13,175)	(274)	(266)

Table 22.6
in USD millions

**Movement in
fair value of
plan assets –
funded plans**

	Defined benefit pension plans		Other defined post-employment benefits	
	2007	2006	2007	2006
Fair value of plan assets as of January 1	11,071	8,597	10	13
Expected return on plan assets	710	575	–	1
Actuarial gain passed through SORIE	179	447	–	–
Employer contributions	1,329	679	1	6
Employee contributions	38	–	3	10
Benefits paid	(472)	(425)	(9)	(19)
Effect of curtailments or settlements	–	5	–	3
Effect of business combinations and other transfers	97	320	–	(4)
Foreign currency translation effects	333	873	–	–
Fair value of plan assets as of December 31	13,285	11,071	5	10

The actual returns on defined benefit pension plan assets for the years ended December 31, 2007 and 2006 were USD 889 million and USD 1,022 million, respectively. The actual returns on other defined post-employment plan assets was USD 1 million for the year ended December 31, 2006.

The summary of the balance sheet changes in relation to defined benefit plans and other defined post-employment benefits is given below.

Table 22.7

in USD millions

Movement in liability for funded and unfunded plans	Defined benefit pension plans		Other defined post-employment benefits	
	2007	2006	2007	2006
	Liability as of January 1	(2,102)	(2,899)	(257)
Current year expense	(274)	(304)	(20)	(9)
Contributions paid	1,329	679	10	6
Change in liability due to asset ceiling	(62)	–	–	–
Actuarial gain passed through SORIE	621	572	3	28
Effect of business combinations and other transfers	(71)	(17)	–	(4)
Foreign currency translation effects	(78)	(133)	(7)	2
Liability as of December 31	(637)	(2,102)	(271)	(257)

The movements in actuarial gains and losses due to differences between actual and expected experience on the Group's plan assets and defined benefit obligations, together with the impact of changes in actuarial assumptions to reflect economic conditions at the year end are summarized below:

Table 22.8

in USD millions

Actuarial gain/(loss)	2007	2006
Actuarial loss as of January 1	(1,870)	(2,420)
Experience adjustments on plan liabilities	(114)	(375)
Experience adjustments on plan assets	179	447
Changes due to discount rate assumptions	991	–
Changes due to other actuarial assumptions	(432)	528
Asset ceiling recognition	(62)	–
Foreign currency translation effects	–	(50)
Total actuarial loss as of December 31	(1,308)	(1,870)

The principal financial assumptions used to calculate the Group's major defined benefit pension and defined post-employment benefit obligations and the Group's pension expense are as follows:

Table 22.9

as of December 31

Assumptions used in determining the actuarial liabilities for major defined benefit pension plans	2007			2006		
	Switzerland	UK	US	Switzerland	UK	US
Discount rate	3.7%	5.5%	6.2%	3.3%	5.3%	5.9%
Expected long-term rate of return on assets	4.1%	5.4%	7.3%	4.0%	6.2%	8.0%
Expected future salary increases	2.1%	3.7%	4.6%	1.5%	3.5%	4.4%
Expected future pension increases	1.0%	2.5%	0.3%	1.0%	2.5%	0.7%

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Table 22.10

Assumptions used in determining the actuarial liabilities for other defined post-employment benefit plans	as of December 31	2007	2006
		US	US
	Discount rate	6.2%	5.8%
	Expected long-term rate of return on assets	3.1%	4.9%
	Expected future salary increases	4.1%	4.2%
	Expected increase in long-term health cost	8.5%	9.1%

The expected long-term rate of return on assets assumption is derived separately for each of the Group's benefit plans. Each major asset class is assigned an expected long-term rate of return, net of investment expenses, appropriate for the environment in which that plan is invested. The overall expected long-term rate of return on assets for a plan is calculated as the weighted average of the expected return for each asset class, weighted by the plan's target allocation to each asset class.

The assumed life expectancy in each country has been based on the most up to date mortality tables in accepted general use in that market. Where appropriate these tables make allowance for projected future improvements in life expectancy.

The actuarial assumptions of the healthcare cost trends rates have an impact on the amounts recognized. A one percentage point change in the health care cost trend rate would have the following effects on amounts recognized in 2007:

Table 22.11

Effect of a change in the health care cost trend	in USD millions	1% increase	1% decrease
	Effect on total service cost and interest cost	- ¹	- ¹
	Effect on benefit obligation	6	(5)

¹ below USD 1 million

b) Defined contribution pension plans

Certain of the Group's operating companies sponsor defined contribution plans. Eligibility for participation in such plans is either based on completion of a specified period of continuous service or date of commencement of employment. The plans provide for voluntary contributions by employees and contributions by the employer which typically range from 3 percent to 15 percent of annual pensionable salary, depending on the employees' years of service. The Group's contributions under these plans amounted to USD 51 million and USD 34 million in 2007 and 2006, respectively.

23. Share-based compensation and cash incentive plans

The Group has adopted various share-based compensation and cash incentive plans to attract, retain and motivate executives and employees. The plans are designed to reward employees for their contribution to the performance of the Group and to encourage employee share ownership. Share-based compensation plans include plans under which shares and options to purchase shares, based on the performance of the businesses, are awarded. Share-based plans are based on the provision of the Group's shares.

a) Cash incentive plans

Various businesses throughout the Group operate short-term incentive programs for executives, management and, in some cases, for employees of that business unit. Awards are made in cash, based on the accomplishment of both organizational and individual performance objectives. The expenses recognized for these cash incentive plans amounted to USD 365 million and USD 358 million for the years ended December 31, 2007 and 2006, respectively.

b) Share-based compensation plans for employees and executives

The Group encourages employees to own shares of Zurich Financial Services and has set up a framework based on the implementation of either share options and/or performance share programs. Actual plans are tailored to meet local market requirements.

Table 23.1

in USD millions, for the years ended December 31

Expenses recognized in the income statements		
	2007	2006
Total option-based expenses	49	40
Total share-based expenses	121	111
Total expenses	170	151

The explanations below give a more detailed overview of the plans of the Group.

Share option plans for UK employees

UK Sharesave Plan

The plan is open to employees in the UK. Participants enter into a savings contract with a bank for the accumulation of contributions of between GBP 5 and GBP 250 per month for a period of three or five years. An interest bonus is credited at the end of the savings period. Participants are granted options to acquire Zurich Financial Services shares at a pre-determined price, which is not less than 80 percent of the market price prior to grant. Options under the plan can normally be exercised for a period of six months after the end of the savings period. Early exercise, limited to the value of shares that can be acquired with accrued savings, is permitted in certain circumstances. There were a total of 3 and 569 participants in this plan as of December 31, 2007 and 2006, respectively. There have been no new grants under this plan since 2002.

Employee share plans

Share Incentive Plan for employees in the UK

The Group established an Inland Revenue approved Share Incentive Plan and launched the partnership shares element of this plan in 2003. This plan enables participating employees to make monthly purchases of Zurich Financial Services shares at the prevailing market price out of their gross earnings. There were 439 and 494 participants in the partnership element of the plan as of December 31, 2007 and 2006 respectively. The Group also operates the profit-sharing element of the Share Incentive Plan (reward shares) which was launched in 2004 with annual share allocations being made in May each year subject to business performance. The awards are based on the performance of the participating employee's business unit for the year, subject to a maximum award of 5 percent of participant's base salary (before any flexible benefit adjustments) or GBP 3,000. The total number of participating employees in the reward share element of the plans as of December 31, 2007 and 2006 was 6,952 and 6,620 respectively.

Share Incentive Plans for employees in Switzerland

The Employee Incentive Plan introduced for employees in Switzerland continued to operate in 2007. Under this plan, employees have the option to acquire sales-restricted shares at a 30 percent discount to the market value. The maximum permitted investment in shares is CHF 3,500 per employee. During 2007, 6,369 employees participated in the Employee Incentive Plan compared with 5,811 in 2006. For the year ended December 31, 2007, 1,929 employees received shares under the 2006 employee performance share plan. For the year ended December 31, 2006, 1,830 employees received shares under the 2005 employee performance share plan.

Share-based compensation plans for executives

The Group operates long-term incentive plans for selected executives. These plans comprise the allocation of a target number of share grants and/or share option grants with the vesting of these share and option grants being subject to the achievement of specific financial performance goals. The Group can also make restricted share grants to selected employees, which provide share awards if the individual remains employed with the Group on selected dates in the future.

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Senior Executive long-term incentive plans

Each year, Senior Executives are granted performance shares and performance options, which vest on an annual basis over the subsequent three year period. The actual level of vesting, which can be between 0 percent and 175 percent, with an additional discretion to increase vesting to a maximum of 200 percent, of the original number of shares and/or options granted, depends on the performance of the Group during the previous calendar year. The current performance metrics are the Group's return on equity (ROE) and the position of its total annual relative shareholder return measured against an international peer group of insurance companies. One-half of the shares that actually vest are sales-restricted for a further period of three years. The options have a seven year term from the date of grant. Grants under the plan are made annually each April. The actual number of performance shares and performance options granted is determined such that the economic value is a defined percentage of annual salary in the year of allocation. There were a total of 159 and 174 participants in this plan as of December 31, 2007 and 2006, respectively.

Executive long-term performance share plans

Each year, selected executives are granted performance shares which vest over a period of three years, either on an annual basis or at the end of the three year period. Specific performance parameters are established for each of the Business Divisions and include, for example, return on equity or business operating profit objectives. The actual number of performance shares granted at the beginning of the performance period is determined such that the economic value is a defined percentage of the annual salary in the year of allocation. Actual awards under these plans are made fully in shares of Zurich Financial Services, of which 50 percent are sales-restricted for a further period of three years. There were a total of 746 and 640 participants in this plan as of December 31, 2007 and 2006, respectively.

c) Further information on performance share and option plans

Table 23.2

Movements in options granted under the various equity participation plans	Number of shares under option		Weighted average exercise price (in CHF)	
	2007	2006	2007	2006
Outstanding as of January 1	2,272,040	2,107,346	260	210
Options granted	702,420	706,773	317	266
Options forfeited	(75,513)	(54,004)	302	209
Options exercised	(422,451)	(330,907)	217	169
Expired during period	(89,139)	(157,168)	554	517
Outstanding as of December 31	2,387,357	2,272,040	273	260
Exercisable as of December 31	1,468,492	1,265,961	273	260

Certain plan participants elected in 2002 to take their option award in the form of Share Appreciation Rights (SAR). Included in table 23.2 and 23.3 are 61,318 and 67,801 as of December 31, 2007 and 2006, respectively, which will be settled through cash payments rather than through delivery of shares. The fair value of the SAR at grant date is determined using Black-Scholes formula. The model inputs were the same as used for calculating value of the share options.

The average share price for Zurich Financial Services shares in 2007 and 2006 was CHF 350.32 and CHF 294.63, respectively.

Table 23.3

Share options exercised during the period	Amount	Average share price
Exercise date		
January-April, 2007	210,396	351.9
May-August, 2007	167,449	374.8
September-December, 2007	44,606	337.4

Table 23.4
in CHF

Range of exercise prices of options outstanding as of December 31, 2007	Weighted average contractual life in years	Weighted average remaining expected life in years
100 – 200	7.0	2.3
201 – 300	7.0	3.9
301 – 400	7.1	5.0
401 – 500	7.0	0.3

Table 23.5
for the years ended December 31

Options and shares granted during the period	Number		Weighted average fair value at grant date (in CHF)	
	2007	2006	2007	2006
Shares granted during the period	270,367	332,289	356	308
Options granted during the period ¹	702,420	706,773	68	67

¹ Number of options granted is shown as the number of shares under option granted during the period.

The shares and options granted during the period are the target allocations made under the performance option and performance share plans together with any restricted share awards granted during the year. Whether these grants become vested or not will depend on whether the performance achievements are met. The expense is adjusted when shares and options vest.

The fair value of options granted is estimated using the Black-Scholes option pricing model, with the following assumptions.

Table 23.6

Black-Scholes assumptions for fair value of options	2007	2006
Share price, in CHF ¹	356	308
Exercise price, in CHF	356	308
Assumed volatility	25.25%	24.63%
Risk-free interest rate	2.87%	2.71%
Expected dividend rate	3.50%	2.50%
Expected option life	7 years	7 years

¹ Share price as at date of grant.

The risk-free interest rate was determined by using the seven year CHF swap rate applicable in 2007 and 2006. The implied volatility was determined based on the average of a number of several independent quotes.

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24. Contingent liabilities, contractual commitments and financial guarantees

The Group has provided financial guarantees and contractual commitments to external parties, associates, partnerships and joint ventures. These arrangements include commitments under certain conditions to make liquidity advances to cover delinquent principal and interest payments, make capital contributions or provide equity financing.

Table 24.1

in USD millions, as of December 31

Quantifiable commitments and contingencies	2007		2006
	in USD millions, as of December 31		
Commitments under investment agreements	4,082		4,289
Less funded	(3,300)		(3,452)
Remaining commitments under investment agreements	782		837
Guarantees and letters of credit ¹	939		1,646
Future rent commitments	1,613		1,538
Undrawn loan commitments (capital markets and banking activities)	926		589
Other commitments and contingent liabilities	40		36

¹ Guarantee features embedded in life insurance products are not included. For such guarantee features refer to note 8 on insurance reserves.

Contractual commitments under investment agreements

The Group has committed to contribute capital to subsidiaries and third parties that engage in making investments in direct private equity, private equity funds, emerging market funds and hedge funds. Included in the remaining commitments is USD 133 million to Capital Z Investments II, L.P. and USD 61 million to Capital Z Investments, L.P. Part of these commitments may be called at any time and in any amount, based on various criteria.

Contractual commitments under lease agreements

The Group has entered into various operating leases as lessee for office space and certain computer and other equipment. Lease expenses totaled USD 203 million and USD 163 million for the years ended December 31, 2007 and 2006, respectively.

Table 24.2

in USD millions, as of December 31, 2007

Future payments under non-cancelable operating leases with terms in excess of one year	Rental payments	
	in USD millions, as of December 31, 2007	
< 1 year		249
1 to 2 years		231
2 to 3 years		209
3 to 4 years		180
4 to 5 years		148
> 5 years		596
Total		1,613

Financial guarantees and letters of credit

The Group knows of no event of default that would require it to satisfy financial guarantees. Irrevocable letters of credit have been issued to secure certain reinsurance contracts.

Indemnity agreements

The Group, through certain of its subsidiaries, has agreed to arrangements that cap Converium's (Converium Holding AG, now Scor Holding (Switzerland) AG) net exposure for losses arising out of the September 11, 2001 event at USD 289 million. As of December 31, 2007, the Group has recorded in this respect provisions of USD 54 million.

Pledged assets

The majority of assets pledged to secure the Group's liabilities relates to debt securities pledged under short-term sale and repurchase agreements. The total amount of pledged financial assets including the securities under short-term sale and repurchase agreements amounted to USD 5,251 million and USD 6,042 million as of December 31, 2007 and December 31, 2006, respectively.

Terms and conditions associated with the financial assets pledged to secure Group's liabilities are usual and standard in the markets in which the underlying agreements were executed.

Other contingent liabilities

The Group has received notices from various tax authorities asserting deficiencies in taxes for various years. The Group is of the view that the ultimate outcome of these reviews would not materially affect the Group's consolidated financial position.

The Group has commitments to provide collateral on certain insurance contracts in the event of a credit rating downgrade.

In common with other groups writing life assurance business in the UK, the Group remains exposed to a number of Conduct of Business issues. While provisions are maintained which reflect management's best evolving estimate of the probable costs and expenses of resolving these matters, significant uncertainty regarding the ultimate cost remains. The main area of uncertainty concerns sales advice related complaints. The key assumptions used to derive the complaint provision are the volume of complaints, both those already recorded and an assumption as to the level of future complaints, the percentage of complaints which will be successful (the uphold rate), the average redress payable per complaint and the expenses of reviewing each case or complaint. The assumptions used to set the provision have been based on actual experience over the past three years weighted towards more recent experience.

In 2003, the Group completed the divestment of various asset management operations. As part of these agreements, the Group has guaranteed certain minimum levels of "assets under management" to the acquirers. The guarantees provide that if the "assets under management" fall below those defined levels under certain conditions, the Group may be required to compensate for these shortfalls.

On December 11, 2001, the Group divested its third party reinsurance business operated under the "Zurich Re" brand name by offering the shares of the newly established Converium to the public. As part of the formation of Converium and the subsequent public offering of its shares, the Group entered into various contracts with Converium and its subsidiaries, including certain Quota Share Retrocession Agreements. These Quota Share Retrocession Agreements, together with subsequent amendments, provide for the reinsurance premium to Converium to be retained by the Group on a funds withheld basis. Converium may call for payment in cash certain amounts of the funds withheld on pre-determined dates (cash call option). If Converium calls for such payments on July 1, 2008, the maximum amount that would be payable by the Group is estimated to be in the range of approximately USD 200 million to USD 230 million. The Group is currently renegotiating the cash call option.

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. 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. Zurich Financial Services and the class-action plaintiffs have entered into an agreement to settle all claims against the

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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 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.

25. Fair value of financial assets and financial liabilities

The methods and assumptions used by the Group in estimating fair value of the financial instruments and other investments are discussed below.

Cash and cash equivalents: carrying amounts approximate fair values.

Debt and equity securities: fair values are based on quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models, discounted cash flow or other recognized valuation techniques or information from external pricing sources.

Mortgage loans: fair values of loans backed by real estate are estimated using discounted cash flow calculations based on the Group's current incremental lending rates for similar types of loans.

Other loans: fair values are estimated on the basis of discounted cash flow, pricing models, or other recognized valuation techniques.

Short-term investments: carrying amounts approximate fair values.

Investments held by investment companies: estimated fair values are determined by the investment managers and reviewed by management.

Obligation to repurchase securities: carrying amounts approximate fair value.

Derivative trading assets and liabilities: fair values are based on quoted market prices, dealer price quotations, discounted cash flow models and option pricing models.

Liabilities related to unit-linked investment contracts: fair values for financial liabilities for unit-linked contracts are determined based on the underlying fair value of the financial assets backing these liabilities.

Liabilities related to investment contracts: fair values for financial liabilities related to investment contracts are determined using discounted cash flow calculations.

Liabilities related to investment contracts with DPF: fair values of liabilities related to investment contracts with DPF are based on current economic conditions and other performance factors.

Total outstanding debt: fair values are estimated using discounted cash flow calculations based upon the Group's current incremental borrowing rates for similar types of borrowings with maturities consistent with those remaining for the debt being valued.

Fair value (FV) and carrying value of financial assets and financial liabilities

Table 25.1

in USD millions, as of December 31

	Total fair value		Total carrying value	
	2007	2006	2007	2006
Cash and cash equivalents	16,937	23,122	16,937	23,122
Available-for-sale securities:				
Debt securities	109,733	112,128	109,733	112,128
Equity securities	14,547	13,956	14,547	13,956
Total available-for-sale securities	124,280	126,084	124,280	126,084
Securities at FV through profit or loss:				
Trading:				
Debt securities	616	547	616	547
Equity securities	2,768	2,778	2,768	2,778
Derivative assets	1,055	844	1,055	844
Designated at FV:				
Debt securities	17,883	17,025	17,883	17,025
Equity securities	101,452	92,270	101,452	92,270
Total securities at FV through profit or loss	123,774	113,464	123,774	113,464
Held-to-maturity debt securities	5,739	5,934	5,642	5,657
Loans:				
Mortgage loans	12,800	10,860	12,718	10,806
Other loans	12,545	13,206	12,938	12,636
Other Investments:				
Short-term investments	2,929	1,703	2,929	1,703
Investments held by investment companies	1,827	1,862	1,827	1,862
Other	80	79	80	79
Total financial assets	300,911	296,314	301,125	295,413
Financial liabilities at FV through profit or loss:				
Trading:				
Obligation to repurchase securities	(5,370)	(6,144)	(5,370)	(6,144)
Derivative liabilities	(276)	(415)	(276)	(415)
Designated at FV:				
Liabilities related to unit-linked investment contracts	(48,187)	(44,269)	(48,187)	(44,269)
Financial liabilities held at amortized cost:				
Liabilities related to investment contracts	(117)	(121)	(117)	(121)
Liabilities related to investment contracts with DPF	(5,789)	(6,074)	(6,182)	(6,315)
Total debt	(9,913)	(9,889)	(9,963)	(9,603)
Total financial liabilities	(69,652)	(66,912)	(70,095)	(66,867)

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26. Risk management

The Group employs Enterprise Risk Management as the structured Group-wide framework for identifying, measuring, managing, reporting and responding to risks that could affect the achievement of the Group's strategic and financial objectives. The objectives of the Group's Enterprise Risk Management are to:

- Protect the capital base by ensuring that capital is deployed in the most efficient way and that risks are not taken beyond the Group's risk-taking capacity;
- Enhance value creation and contribute to an optimal risk-return profile; and
- Support the Group's decision-making process by providing reliable and timely risk information.

The Board of Directors establishes the Group's corporate risk management framework. The Risk Committee of the Board serves as a focal point for oversight regarding risk management. It reviews the Group's enterprise-wide risk governance framework, including risk management methodologies, policies, models, reporting and risk strategy. Group-wide risk management policies specify risk limits and authorities, reporting requirements, and procedures for referring risk issues to senior management. The Group regularly monitors its risks through analyses and reports, and through relevant risk modelling.

Insurance risk

Insurance risk is the inherent uncertainty as to the occurrence, amount and timing of insurance liabilities. The exposure is transferred to the Group through the underwriting process.

The Group assumes certain customer risks, and therefore must manage the transfer of risk including the establishment of limits for underwriting authority and the requirement for specific approvals for transactions involving new products or where established limits of size and complexity may be exceeded. The Group's underwriting strategy is to exploit the diversification of risks across industries and geographic regions in which the Group operates. The Group seeks to optimize shareholder value by achieving its mid-term return on equity goals. Doing so necessitates a prudent, stable underwriting philosophy that takes advantage of competitive strengths while avoiding risks with disruptive volatility. At the core of the Group's underwriting is a robust governance process. It includes strategy, establishment of goals, delegation of authorities, financial monitoring, underwriting reviews and remedial actions to facilitate continuous improvement. The Group has policies that provide the boundaries within which employees and managers carry out their underwriting duties and the Group's business.

The Group uses a variety of reserving and modeling methods to address the various insurance risks inherent in its insurance business.

As part of its overall risk management strategy, the Group cedes insurance risk through proportional, non-proportional and specific risk reinsurance treaties. The Group has centralized the management of treaty reinsurance for General Insurance. In 2007 the Group developed a concept to centralize the management of reinsurance for Life Insurance and started the implementation.

General insurance risk

General insurance risk includes the reasonable possibility of significant loss due to uncertainty in the frequency of the occurrence of the insured events as well as in the severity of the resulting claims. The following provides an overview of the risks inherent in the Group's main lines of business:

- Motor includes, but is not limited to, automobile physical damage, loss of the insured vehicle and automobile third party liability insurance;
- Property includes, but is not limited to, fire risks (e.g. fire, explosion and business interruption), natural perils (e.g. earthquake, windstorm and flood), engineering lines (e.g. boiler explosion, machinery breakdown and construction) and marine (cargo and hull);
- Liability includes, but is not limited to, general/public and product liability, excess and umbrella liability, professional indemnity, directors and officers liability and errors and omissions liability, including medical malpractice;
- Special lines include, but are not limited to, credit and surety, crime and fidelity, accident and health, and crop;
- Worker injury includes, but is not limited to, workers compensation and employers liability;

In addition to the specific risks insured, each line of business could expose the Group to losses that could arise from natural and man-made catastrophes.

The Group assesses natural catastrophe risk by modeling potential losses from its property policies located in the most hazard prone areas and adjusting for non-property related losses. These assessments principally address the risk of tornadoes, hail, windstorms, earthquake, and river floods. Man-made catastrophes include, but are not limited to, such risks as train collisions, hotel fires and terrorism. Man-made catastrophe risks present challenges for the Group to assess due to the high degree of uncertainty about what events might actually occur. The Group monitors potential exposures by analyzing certain accumulations in some geographic areas, using a number of assumptions about the potential characteristics of the threat.

The table below shows the Group's concentration of risk within the General Insurance business by region and line of business based on direct written premiums before reinsurance. The Group's exposure to general insurance risks varies significantly by geographic region and may change over time. Premiums ceded to reinsurers (including retrocessions) amounted to USD 5,345 million and USD 5,488 million for the years ended December 31, 2007 and 2006, respectively. Reinsurance programs such as catastrophe covers are managed on a global basis.

Table 26.1

in USD millions, for the year ended December 31, 2007

General Insurance – Direct written premiums and policy fees by line of business and by region	Motor	Property	Liability	Special lines	Worker injury	Total
North America	1,895	3,548	4,574	1,476	2,323	13,816
Europe	7,035	5,233	2,609	1,820	636	17,333
International Businesses ¹	1,189	1,163	231	452	15	3,050
Total	10,119	9,944	7,414	3,748	2,974	34,199

¹ Including intercompany eliminations.

Table 26.2

in USD millions, for the year ended December 31, 2006

General Insurance – Direct written premiums and policy fees by line of business and by region	Motor	Property	Liability	Special lines	Worker injury	Total
North America	1,961	3,614	4,919	1,409	2,338	14,242
Europe	6,276	4,732	2,259	1,676	628	15,571
International Businesses ¹	769	1,265	183	575	12	2,804
Total	9,006	9,612	7,361	3,660	2,978	32,617

¹ Including intercompany eliminations.

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The table below shows the sensitivity of net income before tax and the sensitivity of net assets, considering the Group actual income tax rate, against an adverse development in the net loss ratio by one percentage point. Such an increase could arise from either higher frequency of the occurrence of the insured events or from an increase in the severity of the resulting claims or from a combination of frequency and severity. The sensitivities do not indicate a probability of such an event and do not consider any non-linear effects of reinsurance. Based on the assumptions applied in the presentation of the sensitivity analysis in the table below, each additional percentage point increase in the loss ratio would lead to a linear impact on net income before tax and net assets applying the assumptions as for this table. In addition, the Group monitors insurance risk by evaluating extreme scenarios, taking also non-linear effects of reinsurance contracts into account.

Table 26.3

in USD millions,
for the year ended December 31, 2007

Insurance risk sensitivity for the Group's General Insurance business	Global Corporate ¹	North America Commercial ¹	Europe General Insurance ¹	International Business ¹
	+1% in net loss ratio			
Net income before tax	(48)	(96)	(130)	(24)
Net assets	(36)	(72)	(98)	(18)

¹ Parentheses around numbers represent a decrease in net income before tax and net assets.

Table 26.4

in USD millions,
for the year ended December 31, 2006

Insurance risk sensitivity for the Group's General Insurance business	Global Corporate ¹	North America Commercial ¹	Europe General Insurance ¹	International Business ¹
	+1% in net loss ratio			
Net income before tax	(49)	(95)	(117)	(22)
Net assets	(36)	(70)	(86)	(16)

¹ Parentheses around numbers represent a decrease in net income before tax and net assets.

Life insurance risk

The risks associated with Life insurance include, but are not limited to:

- Biometric risk, which includes adverse mortality and morbidity experience. Mortality risk can relate to either policyholders living longer than expected (longevity) or dying sooner than expected. This is because some products pay out if the person dies, other products pay regular amounts whilst the policyholder remains alive.
- Policyholder behavior risk, which includes persistency experience. Poor persistency rates may lead to fewer policies remaining on the books to help cover fixed expenses and reduce the future positive cash flows from the business written. Poor persistency can impact all types of products.
- Risk due to movements in financial markets, i.e. investment returns and interest rate risk which are managed as part of market risk.
- Risk due to adverse development of expenses.

The table below shows the Group's concentration of risk within the Global Life business by region and line of business based on direct written premiums and policy fees on a gross basis. The Group's exposure to life insurance risks varies significantly by geographic region and line of business and may change over time.

Table 26.5

Life Insurance – Direct written premiums and policy fees by line of business and by region	in USD millions, for the year ended December 31, 2007					
	Individual ²	Group	Accident and health	Unit-linked ³	Total	
United States	387	–	11	271	669	
Europe ⁴	4,553	1,546	9	2,096	8,204	
International Businesses ¹	316	78	113	143	650	
Total	5,257	1,624	133	2,510	9,523	

¹ Including intercompany eliminations.

² Including individual annuity and individual life policies.

³ Including policy fees of USD 1.9 billion (United States USD 271 million, Europe USD 1.5 billion and International Businesses USD 143 million).

⁴ Including fees charged to policyholders relating to the recovery of policyholder taxes, which amount to a USD 128 million credit.

Table 26.6

Life Insurance – Direct written premiums and policy fees by line of business and by region	in USD millions, for the year ended December 31, 2006					
	Individual ²	Group	Accident and health	Unit-linked ³	Total	
United States	368	–	–	260	628	
Europe ⁴	4,612	1,822	1	2,491	8,926	
International Businesses ¹	273	68	105	153	599	
Total	5,253	1,890	106	2,904	10,153	

¹ Including intercompany eliminations.

² Including individual annuity and individual life policies.

³ Including policy fees of USD 2.3 billion (United States USD 256 million, Europe USD 1.9 billion and International Businesses USD 153 million).

⁴ Including fees charged to policyholders relating to the recovery of policyholder taxes, which amount to a USD 320 million charge.

The main risks in each line of business are as follows:

- Individual annuity includes, but is not limited to, longevity and interest rate risks arising on personal annuity insurance contracts. Individual life includes, but is not limited to, mortality, morbidity and interest rate risks arising on personal life insurance contracts.
- Group includes, but is not limited to, mortality, morbidity, longevity and interest rate risks arising on commercial death, disability and annuity insurance contracts.
- Accident and Health includes, but is not limited to, mortality, morbidity and interest rate risks arising on accident and health insurance contracts.
- Unit-linked includes, but is not limited to, mortality risks. However, on unit-linked products, the interest rate or equity market risk is largely passed on to the policyholder.

In addition to the specific risks listed above, all these lines of business expose the Group to lapse, surrender and expense risks.

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At a Group level certain life insurance contracts contain guarantees for which liabilities have been recorded for additional benefits and minimum guarantees, primarily in the subsidiary Kemper Investors Life Insurance Company which has written variable annuity contracts that provide annuitants with certain guarantees related to minimum death and income benefits. The determination of IFRS liabilities for these contracts is based on SOP 03-1 "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts" and involves a range of scenarios and assumptions, including those regarding expected market rates of return and volatility, contract surrender rates, annuitization elections and mortality experience. The assumptions used are consistent with those used in determining estimated gross profits for purposes of amortizing deferred policy acquisition costs. The carrying value of these liabilities does not represent their fair value.

Refer to note 8 for additional information on reserves for insurance contracts.

The Group reports sensitivities of Life insurance contracts on Embedded Value and New Business Value to changes in economic and operating risk factors. The operating factors include, but are not limited to, discontinuance rates, expenses, mortality and morbidity. The Embedded Value methodology adopted by the Group is based on a "bottom up" market consistent approach to allow explicitly for market risks. Refer to the Embedded Value Report for more information on the sensitivities of Life insurance contracts to economic and operating risk factors.

Credit risk

Credit risk is the risk associated with a loss or potential loss from a counterparty failing to fulfill its financial obligations related to, but not limited to the investment portfolio of debt securities, reinsurance assets, loans, receivables and derivatives. To assess counterparty credit risk, the Group relies on the ratings assigned by external rating agencies, qualified third parties, such as asset managers, and internal rating assessments. The Group maintains counterparty credit risk databases, recording external and internal sources of credit intelligence.

Credit risk relating to debt securities

The Group is exposed to credit risk from third party counterparties where the Group holds securities in those entities. The table below shows the credit risk exposure on debt securities, by credit rating.

Table 26.7
as of December 31

Debt securities by rating of issuer

Rating	2007		2006	
	USD millions	% of total	USD millions	% of total
AAA	78,073	63.1%	77,130	61.0%
AA	15,318	12.4%	17,082	13.5%
A	21,925	17.7%	24,097	19.1%
BBB	6,954	5.6%	6,857	5.4%
BB and below	549	0.4%	630	0.5%
Unrated	943	0.8%	639	0.5%
Total	123,762	100.0%	126,435	100.0%

The overall average rating of the Group's debt securities portfolio is AA+. As of December 31, 2007 the largest concentration in the Group's debt securities portfolio is in government and supranational debt securities at 40.4%. A total of USD 42,522 million or 57.7% of the non-government and non-supranational debt securities are secured. As of December 31, 2006, 39.7% of the Group's debt portfolio was invested in governments and supranationals and a total of USD 44,641 million or 58.6% of the non-government and non-supranational debt securities were secured.

In accordance with the Group's investment policy, investment grade securities comprise 98.8% of the Group's debt securities, and 63.1% are rated AAA as of December 31, 2007. As of December 31, 2006, investment grade securities comprised 99.0% of our debt securities, and 61.0% were rated AAA. US subprime mortgage-backed securities comprise USD 288 million or 0.2% of the Group investments, with the majority, 78.3%, of the positions rated AAA.

The Group's investment policy prohibits speculative grade investments, unless specifically authorized and under exceptional circumstances. The Group identifies and implements appropriate corrective action on investments expected to be downgraded to below investment grade.

Credit risk relating to reinsurance assets

The reinsurance assets include reinsurance recoverables of USD 26,977 million and USD 20,108 million as of December 31, 2007 and 2006, respectively, which are the reinsurer's share of reserves for insurance contracts, and receivables arising from ceded reinsurance of USD 1,372 million and USD 1,445 million as of December 31, 2007 and 2006, respectively. Bad debt allowances on reinsurance receivables amount to USD 239 million and USD 204 million as of December 31, 2007 and 2006, respectively.

As part of its overall risk management strategy, the Group cedes insurance risk through proportional, non-proportional and specific risk reinsurance treaties. While these cessions mitigate insurance risk, the recoverables from reinsurers and receivables arising from ceded reinsurance expose the Group to credit risk.

The Group typically cedes new business to authorized reinsurers with a minimum rating of BBB. The premiums ceded to reinsurers that are below investment grade or not rated relate mainly to former transactions, pools and captives.

Reinsurance assets in the table below are shown before taking into account the fair value of credit default swaps, bought by the Group to mitigate credit risks with some of its larger reinsurers, and other collaterals such as cash or letters of credit from banks rated at least 'A', which are easily convertible into cash and deposits received under ceded reinsurance contracts. The increase of reinsurance assets in 2007 can be attributed to the reinsurance of a portfolio of immediate pension annuities followed by a part VII transfer as disclosed in note 1. Until regulatory approval of the portfolio transfer, the corresponding assets (corporate and government bonds) are being kept in a segregated account, managed by a third-party asset manager.

The average credit quality of the reinsurance assets (including receivables, but after deduction of collateral) was 'A' as of December 31, 2007 (2006: 'A-'). For credit risk assessment purposes collateral has been taken into account at nominal value as an approximation for fair value.

Table 26.8

for the years
ended December 31

Reinsurance premiums ceded and reinsurance assets by rating of reinsurer

Rating	2007				2006			
	Premiums ceded		Reinsurance assets		Premiums ceded		Reinsurance assets	
	USD millions	% of total	USD millions	% of total	USD millions	% of total	USD millions	% of total
AAA	234	1.8%	542	1.9%	272	4.6%	606	2.8%
AA	9,203	69.8%	18,149	64.6%	1,817	31.4%	8,045	37.7%
A	1,796	13.5%	5,956	21.2%	1,768	30.5%	7,572	35.5%
BBB	670	5.1%	1,320	4.7%	618	10.7%	2,761	12.9%
BB	215	1.6%	461	1.6%	149	2.6%	189	0.9%
B	15	0.1%	162	0.6%	119	2.1%	221	1.0%
Unrated	1,064	8.1%	1,520	5.4%	1,051	18.1%	1,955	9.2%
Total	13,197	100.0%	28,110¹	100.0%	5,794	100.0%	21,349	100.0%

¹ The fair value of the collaterals received amount to USD 16,702 million at December 31, 2007 and USD 8,974 million at December 31, 2006.

Credit risk relating to mortgage loans and mortgage loans given as collateral

Mortgage loans and mortgage loans given as collateral expose the Group to credit risk. The Group's mortgage loan portfolios are principally European-based with the largest portfolios in Germany, Switzerland and the UK. The portfolios' loss experience benefits positively from the diversification of having many loans within each portfolio as well as being underwritten using conservative lending criteria. Loans are secured by first mortgages only and maximum mortgage loan to property value ratios (LTV) are applied. The Group undertakes economic research on the three principal markets and closely monitors the portfolios' performance in terms of impairments and losses.

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Credit risk relating to other loans

The credit risk arising from other loans and policyholders' collateral is assessed and monitored together with the fixed income securities portfolio. 85.3% of the reported loans are to government or supranational institutions, of which the majority, 99.0%, are owed by the German Central Government or the German Federal States. The table below shows the composition of the loan portfolio by rating class. A total of USD 11,457 million or 88.6% of loans are secured as of December 31, 2007. As of December 31, 2006, a total of USD 10,965 million or 86.8% of loans were secured.

Table 26.9

as of December 31

Other loans by rating of issuer

	2007		2006	
	USD millions	% of total	USD millions	% of total
Rating				
AAA	8,396	64.9%	7,150	56.6%
AA	2,709	21.0%	3,475	27.5%
A	7	0.0%	6	0.0%
BBB	1	0.0%	1	0.0%
Unrated	1,823	14.1%	2,002	15.9%
Total	12,936	100.0%	12,634	100.0%

Credit risk relating to receivables

The Group's credit risk exposure to receivables from third party agents, brokers and other intermediaries arises where they collect premiums from customers to be paid to the Group or pay claims to customers on behalf of the Group. Receivables from ceded reinsurance form part of the reinsurance assets and are managed accordingly. The Group has policies and standards to manage and monitor credit risk from intermediaries with a focus in day-to-day monitoring of the largest positions. As part of these standards the Group requires that intermediaries maintain segregated cash accounts for policyholder money. Additionally, the Group requires intermediaries to satisfy minimum requirements in terms of their capitalization, reputation and experience as well as providing short-dated business credit terms.

Credit risk relating to derivatives

For derivatives, such as interest rate or currency swaps, forward contracts and purchased options, the replacement value of the outstanding derivatives represents a credit risk to the Group. In addition there is a potential exposure arising from possible changes in the replacement value. The Group regularly monitors credit risk exposures arising from derivative transactions. Outstanding positions with external counterparties are managed through an approval process embedded in derivative programs.

To limit credit risk, derivative financial instruments are typically executed with counterparties rated A- or better by an external rating agency. In addition almost all derivative counterparties have a Credit Support Annex in place, which requires them to post collateral when the derivative position is beyond an agreed threshold.

Aging analysis of financial assets

The table below provides an aging analysis of financial assets.

Analysis of financial assets

Table 26.10

in USD millions, as of
December 31, 2007

	Debt securities – Group	Mortgage loans – Group	Mortgage loans given as collateral – Group	Other loans	Receivables ¹	Total
Neither past due nor impaired financial assets	123,601	12,624	2,209	12,933	9,573	160,940
Aging of past due but not impaired financial assets:						
1 – 90 days	–	–	–	–	1,658	1,658
91 – 180 days	–	5	–	–	172	177
181 – 365 days	–	24	5	–	144	173
over 365 days	–	78	23	–	266	367
Past due but not impaired financial assets	–	107	28	–	2,240	2,375
Financial assets impaired	242	21	7	4	215	489
Gross carrying value	123,843	12,752	2,244	12,937	12,028	163,804
Less: impairment	81	34 ²	1	1	315 ²	432
Net carrying value	123,762	12,718	2,243	12,936	11,713	163,372

¹ Excluding receivables arising from ceded insurance and impairments thereon.

² Represents allowance for impairments.

Analysis of financial assets

Table 26.11

in USD millions, as of
December 31, 2006

	Debt securities – Group	Mortgage loans – Group	Mortgage loans given as collateral – Group	Other loans	Receivables ¹	Total
Neither past due nor impaired financial assets	126,420	10,661	2,394	12,634	8,506	160,615
Aging of past due but not impaired financial assets:						
1 – 90 days	–	58	4	–	1,780	1,842
91 – 180 days	–	16	6	–	109	131
181 – 365 days	–	17	5	–	116	138
over 365 days	–	65	12	–	258	335
Past due but not impaired financial assets	–	156	27	–	2,263	2,446
Financial assets impaired	28	11	7	1	181	228
Gross carrying value	126,448	10,828	2,428	12,635	10,950	163,289
Less: impairment	13	22 ²	2	1	264 ²	302
Net carrying value	126,435	10,806	2,426	12,634	10,686	162,987

¹ Excluding receivables arising from ceded insurance and impairments thereon.

² Represents allowance for impairments.

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Refer to note 20 for additional information on debt securities and loans and note 14 for additional information on receivables.

Credit risk concentration

The Group routinely monitors and limits credit exposures by individual counterparty and related counterparties by the aggregated exposure across the various types of credit risk. The Group's exposure from counterparties' parents companies and subsidiaries across such sources of credit risk as reinsurance assets, various types of investments, certain insurance products, derivatives and treasury instruments is then aggregated. Best estimates, based on statistics and experience, are used to assign loss-given-default percentages and loss dependency factors reflecting e.g. double default events. The aggregated exposure information is compared with the Group's limits. The limits vary based on the underlying rating category of the counterparty. There was no exposure in excess of the limits at December 31, 2007. The Group Chief Risk Officer regularly reports the largest exposures by rating category to the Risk Committee of the Board.

Market risk

The Group's exposure to market risk includes, but is not limited to, changes in interest rates, equity prices, real estate markets, and currency exchange rates, as these changes can affect the Group's net income and the value of the Group's assets and liabilities. The Group has policies and limits to manage market risk. The Group aligns its strategic asset allocation to the Group's risk-taking capacity.

The Group regularly measures and manages its market risk exposure. The Group has established limits on its concentration in investments by single issuers and certain asset classes as well as on asset/liability mismatches. The Group's Asset Liability Management and Investment Committee sets the Group's Strategic Asset Allocation, determines boundaries for tactical asset allocation and manages the Group's asset/liability exposure. The Group oversees the activities of local Asset Liability Management and Investment Committees and regularly assesses financial market risks both at a Group and at a local business level. Risk assessment includes quantification of the contributions to financial market risk from all major risk drivers.

Risk reviews include the analysis of the following aspects:

- Management of the interest rate risk per major maturity bucket;
- Efficiency of the asset allocation relative to the actual risk level; and
- Compliance of the aggregated positions with risk limits.

The economic effect of extreme market moves is routinely examined and considered when setting the asset allocation.

The Group uses derivative financial instruments to limit market risks arising from changes in foreign currency exchange rates, interest rates, equity prices and credit quality from its assets and liabilities and its commitments to third parties. The Group enters into derivative financial instruments mostly for economic hedging purposes and, in limited circumstances, the instruments may also meet the definition of an effective hedge for accounting purposes. Derivatives that are part of the effective accounting hedges include cross currency interest rate swaps in fair value hedges and cross currency swaps in cash flow hedges of its borrowings in order to mitigate its exposure to foreign currency and interest rate risk. Also included are interest rate swaps in cash flow hedges of the Group's exposure in future cash flows due to changes in interest rates associated with forecast transactions such as the purchase of debt instruments related to Life Insurance policies. Derivatives are complex financial transactions; therefore, the Group addresses the risks arising from derivatives through a stringent policy that requires approval of a derivative program before transactions are initiated, and by subsequent monitoring of open positions.

For additional information on derivative financial instruments and hedge accounting refer to note 7.

Risk from equity securities and real estate

The Group is exposed to various risks resulting from price fluctuations on equity securities, real estate and capital markets. Risks arising from equity securities and real estate could affect the Group's liquidity, reported income, net assets and regulatory capital position. The exposure to real estate includes, but is not limited to, equity real estate assets, such as direct holdings in real estate, listed real estate company shares and funds, as well as exposure through non-quoted indirect real estate, and debt real estate securities such as commercial and residential mortgages, commercial mortgage-backed securities and mezzanine debt. Also, returns on unit-linked contracts, whether classified as insurance or investment contracts, may be exposed to risks from equity and real

estate, but are at the risk of policyholders. However, the Group is exposed to market movements in so far as they impact the amount of fees assessed against the policyholder.

The Group manages its risks from equity securities and real estate as part of the overall investment risk management process by applying limits as expressed in its policies and guidelines.

Refer to note 16 for additional information on equity securities and real estate held for investment.

Interest rate risk

Interest rate risk is the risk of loss resulting from changes in interest rates, including changes in the shape of yield curves. The Group's exposures to interest rate risk include, but are not limited to, interest rate risk from debt securities, reserves for insurance contracts, liabilities for investment contracts, and borrowings. Changes in interest rates affect the Group's held-to-maturity floating rate debt securities and unhedged floating rate borrowings through fluctuations in interest income and interest expense. Changes in interest rates affect the Group's held-for-trading debt securities and fair value hedged borrowings through periodic recognition of changes in their fair values through the income statement. Changes in interest rates affect the Group's available-for-sale debt securities through periodic recognition of changes in their fair values through shareholders equity.

Returns on unit-linked contracts, whether classified as insurance or investment contracts, are at the risk of the policyholder, however, the Group is exposed to fluctuations in so far as they impact the amount of fee income received.

Sensitivities analysis

The table below shows the estimated impacts on Group investments and own used real estate of a one percentage point increase in yield curves and a separate 10% decline in all stock markets after consideration of hedges in place, as of December 31, 2007 and 2006, respectively. This is in line with management's monitoring of its asset base in the markets in which the Group operates. The sensitivities of these two separate but instantaneous shocks are shown for both, net income before tax and net assets, using the Group actual income tax rate. The table excludes sensitivities on unit-linked assets, as policyholders bear the investment risk.

The sensitivity analysis is presented on the basis of IFRS and does not take into account actions that might be taken to mitigate losses, as the Group uses an active strategy to manage these risks. This strategy may involve changing the asset allocation e.g. through the selling and buying of assets.

The sensitivities show the effects of a change of certain risk factors, while other assumptions remain unchanged. The sensitivities do not consider the correlation between the volatility of risk factors. The two scenarios assume a concurrent movement of all stock markets and an unrelated parallel shift of all interest rates in different currencies.

The major markets where the Group invests are the US and Europe. The major interest rate exposures are to US dollar and euro denominated assets and liabilities. The sensitivities do not indicate a probability of such events and do not necessarily represent the Group's view of expected future market changes. Debt securities are primarily exposed to interest rate risk while equity securities are primarily exposed to equity market risk. Debt securities can also be affected by spread-widening due to changes in credit quality. Additional impairments as a result of such changes are not considered in the following analysis.

General Insurance reserves are generally not discounted, or not discounted with market rates; therefore, interest rate risks on these reserves are not considered to be significant, and thus not disclosed.

The sensitivities provided for Global Life's business in the following table are on Group investments and own used real estate only and thus exclusive of the impact on insurance liabilities. The Embedded Value Report details the sensitivity of the value of the Life business to financial market movements. In modeling these exposures, where appropriate, allowance has been made for dynamic actions that would be taken by management or by policyholders. For contracts with financial options and guarantees, such as some participating business, movements in financial markets can change the nature and value of these benefits. The dynamics of these liabilities are captured so that this exposure is quantified, monitored, managed and where appropriate, mitigated. The assumptions on policyholder behavior, such as lapses, included in the sensitivity analysis for Global Life may be different from actual behavior. Therefore, the actual impact may deviate from the analysis. Refer to the Embedded Value Report for more information.

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The table on sensitivities for the rest of the businesses include Farmers, Other Businesses and Corporate Functions. To the extent those segments include life insurance contracts, the related sensitivities are included in the Embedded Value Report.

Table 26.12

in USD millions, as of December 31

Sensitivities for the Group's General Insurance business	2007 ¹		2006 ¹
	in USD millions, as of December 31		
1% increase in the interest rate yield curves			
Total investments	(2,412)		(1,542)
Net assets	(1,816)		(1,127)
Net income before tax	–		–
10% decline in stock markets			
Total investments	(534)		(349)
Net assets	(402)		(255)
Net income before tax	(2)		(1)

¹ Negative values indicate a decrease of the balance. Positive values indicate an increase of the balance.

Table 26.13

in USD millions, as of December 31

Sensitivities for the Global Life business	2007 ¹		2006 ¹
	in USD millions, as of December 31		
1% increase in the interest rate yield curves			
Total investments	(3,670)		(3,637)
Net assets	(2,764)		(2,658)
Net income before tax	(272)		(384)
10% decline in stock markets			
Total investments	(590)		(637)
Net assets	(445)		(466)
Net income before tax	63		(173)

¹ Negative values indicate a decrease of the balance. Positive values indicate an increase of the balance.

Note that the positive impact on net income before tax from the equity shock on the Global Life business results from investments classified as trading. These investments include derivative positions that are held for hedging purposes. The market value of such derivative instruments can increase if equity markets fall.

Table 26.14

in USD millions, as of December 31

Sensitivities for the rest of the businesses	2007		2006 ¹
	2007 ¹		
1% increase in the interest rate yield curves			
Total investments	(726)		(522)
Net assets	(547)		(382)
Net income before tax	(296)		(201)
10% decline in stock markets			
Total investments	(357)		(295)
Net assets	(269)		(216)
Net income before tax	(84)		(217)

¹ Negative values indicate a decrease of the balance. Positive values indicate an increase of the balance.

Currency risk

Currency risk is the risk of loss resulting from changes in exchange rates. The Group operates internationally and therefore is exposed to the financial impact arising from changes in the exchange rates of various currencies. The Group's reporting currency is the US dollar, but its assets, liabilities, income and expenses are denominated in many currencies, with significant amounts in the euro, Swiss franc, British pound sterling, as well as the US dollar.

On local balance sheets there is the risk that a currency mismatch may lead to fluctuations in a balance sheet's accounting net asset value, either through income or directly through equity. The Group manages this risk by matching foreign currency positions on local balance sheets within prescribed limits. The Group does not take speculative positions on foreign currency market movements. Foreign currency is a centrally managed risk, with hedging coordinated at the Corporate Center. As a result, the monetary currency risk exposure is considered immaterial, as disclosed in note 3.

As the Group has chosen the US dollar as its presentation currency, differences arise when functional currencies are translated into the presentation currency.

Using constant exchange rates from one year to the next, the Group's 2007 net income attributable to shareholders would have been lower by USD 199 million (applying 2006 exchange rates to the 2007 result). In 2006 the result would have been lower by USD 21 million (applying 2005 exchange rates to the 2006 results).

The table below shows the approximate effect of an instantaneous depreciation of the US dollar compared with the euro, Swiss franc and British pound sterling, respectively, by 10% on net income before tax, net assets, reserves for insurance contracts and liabilities for investment contracts upon translation of the net assets into the presentation currency of the Group. The impact on net assets is primarily driven by currency translation adjustments. An appreciation of the US dollar would have the opposite impact. The sensitivities do not include dependencies among the currencies, but rather show isolated exchange rate movements. The effect is indicative of how the Group's financial statements would be impacted by exchange rate movements. The scenarios do not indicate a probability of such shifts and do not represent the Group's view of expected future currency exchange rate movements.

Table 26.15
in USD millions, for the years ended December 31

Sensitivities to exchange rate movements

	2007			2006		
	General Insurance ¹	Global Life ¹	Rest of the businesses ¹	General Insurance ¹	Global Life ¹	Rest of the businesses ¹
Euro						
Impact on net income before tax	93	50	10	90	42	(3)
Impact on net assets	301	420	(119)	265	341	(116)
Impact on reserves for insurance contracts and liabilities for investment contracts	1,190	7,562	57	1,048	6,741	61
Swiss franc						
Impact on net income before tax	51	21	3	70	23	(46)
Impact on net assets	(201)	110	(170)	(215)	152	(105)
Impact on reserves for insurance contracts and liabilities for investment contracts	890	1,692	61	763	1,846	76
British pound sterling						
Impact on net income before tax	47	26	5	91	57	(5)
Impact on net assets	147	395	61	157	434	(12)
Impact on reserves for insurance contracts and liabilities for investment contracts	1,170	8,671	64	1,081	9,009	86

¹ Negative values indicate a decrease of the balance. Positive values indicate an increase of the balance.

Refer to note 3 for additional information on foreign currency translation and transactions.

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Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. Maintaining sufficient available liquid assets to meet the Group's obligations as they fall due is an important part of the Group's financial management practice. For this purpose the Group has established Group liquidity management policies and specific guidelines as to how local businesses have to plan, manage and report their local liquidity.

At Group level, similar guidelines apply and detailed liquidity forecasts based on the local businesses' input as well as the Group's own forecasts are regularly performed. As part of its liquidity management, the Group also maintains sufficient cash and cash equivalents to meet expected out flows. In addition, the Group maintains a liquidity buffer and committed borrowing facilities as well as access to diverse funding sources to cover contingencies. A credit downgrade could impact the Group's commitments and guarantees, thus potentially increasing the Group's liquidity needs. These contingencies are also included in the Group's liquidity management. Refer to note 20 for additional information on credit facilities.

The table below provides an analysis of the maturity of reserves for insurance contracts net of reinsurance based on expected cashflows without considering the surrender values as of December 31, 2007 and 2006. Reserves for unit-linked contracts amounting to USD 70,075 million and USD 66,008 million at December 31, 2007 and 2006, respectively, are not included in the table below, as policyholder can generally surrender their contracts at any time, at which point the underlying unit-linked assets would be liquidated. Risks from the liquidation of unit-linked assets are borne by the policyholders of unit-linked contracts.

Table 26.16

in USD millions, as of
December 31, 2007**Maturity schedule
of reserves for
insurance contracts**

	Reserves for losses and loss adjustment expenses, net	Future life policyholders' benefits, net	Policyholders' contract deposits and other funds, net	Total
< 1 year	15,590	6,232	1,520	23,342
1 to 5 years	23,185	18,220	2,009	43,414
6 to 10 years	8,393	16,421	1,687	26,501
11 to 20 years	5,424	14,283	2,313	22,020
> 20 years	2,120	15,871	8,182	26,173
Total	54,712	71,027	15,711	141,450

Table 26.17

in USD millions, as of
December 31, 2006**Maturity schedule
of reserves for
insurance contracts**

	Reserves for losses and loss adjustment expenses, net	Future life policyholders' benefits, net	Policyholders' contract deposits and other funds, net	Total
< 1 year	15,236	6,940	1,638	23,814
1 to 5 years	20,998	18,420	2,059	41,477
6 to 10 years	7,136	15,339	1,369	23,844
11 to 20 years	5,400	13,232	1,708	20,340
> 20 years	2,043	21,086	8,903	32,032
Total	50,813	75,017	15,677	141,507

Refer to note 8 for additional information on reserves for insurance contracts.

The table below provides an analysis of the maturity of liabilities for investment contracts based on expected cash-flows as of December 31, 2007 and 2006. The policyholders of unit-linked investment contracts can generally surrender their contracts at any time at which point the underlying unit-linked assets would be liquidated. Risks from the liquidation of unit-linked assets are borne by the policyholders of unit-linked investment contracts.

Table 26.18
in USD millions, as of December 31, 2007

Maturity schedule of liabilities for investment contracts	Liabilities related to unit-linked investment contracts	Liabilities related to investment contracts (amortised cost)	Liabilities related to investment contracts with DPF	Total
< 1 year	5,550	75	273	5,898
1 to 5 years	7,063	–	1,672	8,735
6 to 10 years	8,870	2	1,106	9,978
11 to 20 years	11,323	1	1,123	12,447
> 20 years	15,381	38	2,007	17,426
Total	48,187	116	6,181	54,484

Table 26.19
in USD millions, as of December 31, 2006

Maturity schedule of liabilities for investment contracts	Liabilities related to unit-linked investment contracts	Liabilities related to investment contracts (amortised cost)	Liabilities related to investment contracts with DPF	Total
< 1 year	3,518	81	303	3,902
1 to 5 years	6,840	18	1,732	8,590
6 to 10 years	7,955	11	1,253	9,219
11 to 20 years	9,881	9	1,342	11,232
> 20 years	16,075	2	1,685	17,762
Total	44,269	121	6,315	50,705

Refer to notes 15 and 20, respectively, for information on the maturities of collateralized loans and total debt issued. The majority of the Group's other financial liabilities, listed in note 18, are due within 12 months, with the exception of USD 1,284 million and USD 667 million, with a maturity of more than 12 months, at December 31, 2007 and 2006, respectively.

The Group has entered into commitments that are disclosed in note 24. These are in addition to the liabilities shown in the table above. Parts of these commitments may be called at any time and in any amount, based on various criteria.

Effective interest rates

The table below shows the ranges for weighted average effective interest rates for selected balance sheet statement captions.

The ranges for the liabilities for investment contracts and future policyholder benefit reserves represent the weighted average of the minimum and maximum effective interest rate across the Group's Life business.

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Table 26.20

for the years ended December 31

Effective interest rates on selected assets and liabilities		
	2007	2006
Debt securities	4.6%	4.4%
Liabilities for investment contracts (amortized cost)	3.6-8.0%	3.6-8.0%
Future policyholders' benefits reserves	2.3-4.6%	2.3-4.8%
Debt related to capital markets and banking activities	8.3%	7.3%
Senior and subordinated debt	6.5%	6.0%

27. Capital management

The Group endeavours to ensure that all of its regulated subsidiaries meet local regulatory capital requirements at all times. Furthermore, the Group's capital management strategy is to manage efficiently the capital base and structure commensurate with our risks and growth opportunities while maximizing long-term total shareholder value using the Group's internal risk based capital model (RBC) calibrated to an 'AA' level. In addition to cash dividends, other components of the Group's capital management program may, from time to time, include share buy-backs or special dividends to optimize shareholder return. Similarly, share issuances may be used to meet capital needs including growth opportunities as they emerge.

a) Regulatory minimum capital requirements and compliance

In each country in which the Group operates the local regulator specifies the minimum amount and type of capital that each of the regulated subsidiaries must hold in addition to their liabilities. The Group targets this minimum requirement plus an adequate buffer to ensure each of its regulated subsidiaries meets the local capital requirements at all times. The Group has differing requirements depending on the country in which it operates. The two main territories are Europe (both European Union (EU) and non-EU countries) and the US.

Insurance enterprises in EU member countries are required to maintain minimum solvency margins according to the existing Solvency I legislation. Solvency I capital is calculated as a fixed percentage of premiums, claims, reserves and/or net amounts at risk. The required minimum solvency margin for general insurers is the greater of 16 percent of premiums written for the year or 23 percent of a three-year average of claims incurred, subject to the first tranche (EUR 50 million) of premiums being at 18 percent and the first tranche (EUR 35 million) of claims at 26 percent. In these calculations, premiums and claims for certain liability lines are increased by 50 percent. A reduction is given for reinsurance based on reinsurance claims recoveries over three years as a percentage of gross claims in those years, limited to a maximum of 50 percent. Life insurance companies are required to maintain a minimum solvency margin generally of 4 percent of insurance reserves, but reduced to 1 percent of insurance reserves for life insurance where the credit and market risks are carried by policyholders, plus 0.3 percent of the amount at risk under insurance policies. The same minimum capital requirements are applicable for insurance enterprises operating in Switzerland. In certain European countries further requirements may apply.

In 2007 the European Commission proposed a new directive on Solvency II which will include a new solvency regime and reflects the latest developments in prudential supervision, actuarial methods and risk management. Solvency II will introduce economic risk-based solvency requirements which will be more risk-sensitive and more sophisticated and a new regime where all risks and their interactions are considered. As part of the risk management system, all insurance and reinsurance undertakings will be required to have, as an integral part of their business strategy, a regular process for assessing their overall solvency needs with reference to their specific risk profile. The Commission aims to have the new system in operation in 2012.

Some countries have already introduced, or are introducing, an economic risk-based capital assessment to be prepared by each local company of the Group and reviewed by the local regulator. In the UK this test is known as Pillar 2. In Switzerland, the new Insurance Supervisory Law (VAG) which came into effect on January 1, 2006 includes the Swiss Solvency Test (SST). Under SST, risk-bearing and target capital have to be calculated based on a risk-based capital model for groups, conglomerates, reinsurers and small companies. Groups, conglomerates and reinsurers have to use company specific internal models, which must be approved by the Federal Office of

Private Insurance (FOPI). In order to comply with future SST requirements, Zurich has continued to build on its existing internal risk based capital model (RBC) and shared it with FOPI. In 2007, Zurich conducted a field test for each Swiss legal entity as required.

In the US, required capital is determined to be the 'company action level risk based capital' based on the National Association of Insurance Commissioners risk based capital model. This is a method of measuring the minimum amount of capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The calculation is based on applying factors to various asset, premium, claim, expense and reserve items, with the factors determined as higher for those items with greater underlying risk and lower for less risky items.

The Group's banking operations, based in Europe, have been subject to the Basel I capital regime up to December 31, 2007, and adopted Basel II from January 1, 2008. Under Basel I, required capital is calculated as the sum of a fixed percentage of the banking operations' risk weighted assets and capital required for the impact of market risk exposures. There is a further requirement to maintain sufficient capital to support large exposures. Under Basel II, required capital is calculated on a risk based approach. As of December 31, 2007, the Group's banking operations were in compliance with applicable regulatory capital adequacy requirements and management also expects to be in compliance with Basel II requirements.

The Group endeavours to pool risk and capital as much as possible and, in so doing, benefits in regimes where diversification benefits are recognized (eg. US, UK and Switzerland).

The Group continues to be subject to Solvency I requirements based on the Swiss Insurance Supervisory Law. The Group's Solvency I as at December 31, 2007 and 2006 was as follows:

Table 27

In USD millions, as of December 31

	2007	2006
Eligible equity		
Shareholders' equity and minority interest	29,177	26,105
Subordinated debt ¹	1,580	1,419
Deferred policy acquisition costs net of present value of profits of acquired insurance contracts	(2,614)	(2,309)
Dividends, share buy-back and nominal value reduction ²	(3,867)	(2,306)
Goodwill and other intangible assets	(3,855)	(2,309)
Total eligible equity	20,421	20,599
Total required solvency capital	12,498	11,797
Excess margin	7,923	8,802
Solvency ratio	163%	175%

¹ Under guidelines issued by FOPI during 2007, only 25% of all subordinated debt issuances are admissible, except for the issuance by Zurich Finance (UK) p.l.c., of which 50% is admissible.

² Amount for dividend reflects the proposed dividend for the respective financial year, not yet approved by the Annual General Meeting. Includes amount authorized by Board of Directors for share buy-back program.

From the Group's perspective, local regulatory requirement for business operations are added to the requirement for insurance businesses. For some of the Group's holding companies, which do not have local regulatory requirements, the Group uses 8% of assets as a capital requirement.

As of December 31, 2007, the Group and all its subsidiaries were substantially in compliance with applicable regulatory capital adequacy requirements.

In conjunction with the considerations set out above, the Group seeks to maintain the balance between higher returns on equity, which may be possible with higher levels of borrowing, and the advantages and security provided by a sound capital position.

An important influence on the capital levels is the payment of dividends and share buy-backs. On February 14, 2007 the Board of Zurich Financial Services AG authorized a share buy-back program. 3,432,500 fully paid shares, with a nominal value CHF 0.10, were bought back during 2007 at an average price of CHF 364 per share, with a total cost of USD 1 billion. A proposal to cancel these repurchased shares will be submitted to the shareholders at the Annual General Meeting in 2008.

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b) Dividend restrictions

Zurich Financial Services is not subject to legal restrictions on the amount of dividends it may pay to its shareholders other than under the Swiss Code of Obligations. The Swiss Code of Obligations provides that dividends may only be paid out of freely distributable reserves or retained earnings and that 5 percent of annual retained earnings must be allocated to the general legal reserve until such reserve in the aggregate has reached 20 percent of the paid-in share capital and therefore the earnings allocated to those reserves are restricted. As of December 31, 2007, the amount of the general legal reserve exceeded 20 percent of the paid-in share capital of the Group. Similarly, the company laws of many countries in which the Group's subsidiaries operate may restrict the amount of dividends payable by such subsidiaries to their parent companies.

Other than by operation of the restrictions mentioned above, the ability of the Group's subsidiaries to pay dividends may be restricted or, while dividend payments as such may be legally permitted, may be indirectly influenced by minimum capital and solvency requirements imposed by insurance, bank and other regulators in the countries in which the subsidiaries operate as well as by other limitations existing in some countries such as foreign exchange control restrictions.

In the US, restrictions on the payment of dividends that apply to insurance companies may be imposed by the insurance laws or regulations of an insurer's state of domicile. For general insurance subsidiaries, dividends are generally limited over a 12-month period to 10 percent of the previous year's policyholders' surplus or previous year's net income. For life, accident and health insurance subsidiaries, dividends are generally limited over a 12-month period to 10 percent of the previous year's policyholders' surplus or the previous year's net gain from operations. Dividends paid in excess of statutory limitations require prior approval from the Insurance Commissioner of the insurer's state of domicile.

28. Related party transactions

In the normal course of business, the Group enters into various transactions with related companies, including various reinsurance and cost-sharing arrangements. These transactions are not considered material to the Group, either individually or in aggregate. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions.

The table below sets out related party transactions reflected in the consolidated income statements and consolidated balance sheets.

Table 28.1

Related party transactions included in the consolidated financial statements	in USD millions	
	2007	2006
Consolidated income statements for the years ended December 31		
Net earned premiums and policy fees	9	–
Net investment income	16	89
Other expense	(3)	(4)
Losses and loss adjustment expenses	(8)	(6)
Consolidated balance sheets as of December 31		
Policyholders' collateral and other loans	15	16
Other receivables	6	6
Reserves for losses and loss adjustment expenses	(3)	(3)
Accrued liabilities	–	(2)

The table below summarizes related transactions with key personnel reflected in the consolidated financial statements. Key personnel includes Directors of Zurich Financial Services, Directors of Zurich Insurance Company and Members of the Group Executive Committee.

Table 28.2

Related party transactions – key personnel	in USD millions, for the years ended December 31	
	2007	2006
Remuneration of key personnel of the Group		
Cash compensation, current benefits and fees	34	30
Post-employment benefits	4	4
Share based compensation	23	16
Total remuneration of key personnel	61	50

Outstanding loans and guarantees granted to Members of the Group Executive Committee amounted to USD 1 million and USD 4 million for the years ended December 31, 2007 and 2006. No outstanding loans or guarantees were granted to the Directors of Zurich Financial Services or Zurich Insurance Company for either of the years ended December 31, 2007 and 2006. The terms "Directors" and "Members of the Group Executive Committee" in this context include the individual as well as members of their respective households. The above figures include the fees paid to members of the Board of Directors of Zurich Financial Services and Zurich Insurance Company, which were USD 3.1 million and USD 3.2 million, in 2007 and 2006 respectively.

No provision for non-repayment has been required in 2007 and 2006 for the loans or guarantees made to members of the Group Executive Committee.

Information required by art. 663b^{bis} and art. 663c paragraph 3 of the Swiss Code of Obligation is disclosed in the Financial Statements of the Holding Company.

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29. Farmers Exchanges

Farmers Group, Inc. (FGI) and its subsidiaries provide certain non-claims related management services to the Farmers Exchanges. In addition, the Group has the following relationships with the Farmers Exchanges.

a) Surplus note and certificates of contribution issued by the Farmers Exchanges

As of December 31, 2007 and 2006, FGI and other Group companies held the following surplus note and certificates of contribution issued by the Farmers Exchanges. Originally these were purchased by FGI in order to supplement the policyholders' surplus of the Farmers Exchanges.

Table 29

Surplus Notes	in USD millions, as of December 31	
	2007	2006
6.15% surplus note, due December 2013	88	88
6.15% certificates of contribution, due December 2013	523	523
6.15% certificates of contribution, due August 2014	296	296
Various other certificates of contribution	23	23
Total	930	930

Conditions governing payment of interest and repayment of principal are outlined in the surplus note and certificates of contribution. Generally, repayment of principal may be made only when the issuer has an appropriate amount of surplus, and then only after approval is granted by the issuer's governing board and the appropriate state insurance regulatory department in the US. In addition, payment of interest may generally be made only when the issuer has an appropriate amount of surplus and then only after approval is granted by the appropriate state insurance regulatory department in the US.

b) Quota share reinsurance treaties with the Farmers Exchanges

The Farmers Exchanges cede risk through quota share reinsurance treaties to Farmers Reinsurance Company (Farmers Re), a wholly owned subsidiary of FGI, and, to Zurich Insurance Company (ZIC).

Effective January 1, 2004, Farmers Re assumes annually USD 200 million and ZIC assumes USD 800 million of gross written premiums under an Auto Physical Damage (APD) Quota Share reinsurance agreement with the Farmers Exchanges. In addition, Farmers Re and ZIC assume a quota share percentage of ultimate net losses sustained by the Farmers Exchanges in their APD lines of business. The agreement, which can be terminated after 30 days notice by any of the parties, also provides for the Farmers Exchanges to receive a ceding commission of 18.0 percent of premiums, with additional experience commissions that depend on loss experience. This experience commission arrangement limits Farmers Re and ZIC's potential underwriting gain on the assumed business to 2.5 percent of premiums assumed.

Effective January 1, 2006, the Farmers Exchanges modified the terms of the APD agreement with Farmers Re and ZIC. The new agreement provides for annual ceded premiums of USD 1 billion of gross written premiums with 20.0 percent assumed by Farmers Re and 80.0 percent assumed by ZIC, a 25.8 percent ceding commission for acquisition expenses, and an 8.2 percent ceding commission for unallocated loss adjustment expense. The agreement also includes provisions for additional experience commissions that will depend on loss experience and recoveries below a specified ratio for each year. This experience commission arrangement limits Farmers Re and ZIC's potential underwriting gain on the assumed business to 2.0 percent of premiums assumed plus 20.0 percent of the underwriting gain resulting from a combined ratio under 98.0 percent. The agreement, which can be cancelled after 90 days notice by any of the parties, has a termination date of December 31, 2008.

Effective December 31, 2004, Farmers Re and ZIC entered into a 12.0 percent All Lines Quota Share reinsurance treaty under which they each assume a percentage of all lines of business written by the Farmers Exchanges, prospectively. Under this treaty, which amended the 10.0 percent All Lines Quota Share reinsurance treaty in effect since December 31, 2002, Farmers Re and ZIC assume a 2.4 percent and 9.6 percent respective quota share of the premiums written and the ultimate net losses sustained in all lines of business written by the Farmers Exchanges after the APD reinsurance agreement has been applied. Underwriting results assumed are subject to a maximum combined ratio of 112.5 percent and a minimum combined ratio of 93.5 percent. In addition, under this treaty the Farmers Exchanges' catastrophe losses are subject to a maximum of

USD 800 million. Farmers Re and ZIC assumed USD 19 million and USD 77 million, respectively, of maximum annual catastrophe losses. This reinsurance agreement, which can be terminated after 60 days notice by any of the parties, also provides for the Farmers Exchanges to receive a provisional ceding commission of 22.0 percent of premiums for acquisition expenses, 8.8 percent of premiums for unallocated loss adjustment expenses and 5.3 percent of premiums for other expenses with additional experience commissions potentially payable depending on loss experience.

Effective December 31, 2005, the 12.0 percent All Lines agreement was amended and the quota share participation ratio was reduced to 6 percent. As a result, Farmers Re and ZIC assume a 1.2 percent and 4.8 percent respective quota share of the premiums written and the ultimate net losses sustained in all lines of business written by the Farmers Exchanges after the APD reinsurance agreement has been applied. In addition, under this treaty the Farmers Exchanges' catastrophe losses are subject to a maximum of USD 800 million. Farmers Re and ZIC may assume USD 10 million and USD 38 million, respectively, of the maximum Farmers Exchanges' catastrophe losses subject to under this treaty.

Effective December 31, 2007, the All Lines agreement was amended and the quota share participation ratio was reduced by 16.7 percent to 5.0 percent. As a result, Farmers Re and ZIC assume a 1.0 percent and 4.0 percent respective quota share of the premiums written and the ultimate net losses sustained in all lines of business written by the Farmers Exchanges after the APD reinsurance agreement has been applied. In addition, under this treaty the Farmers Exchanges' catastrophe losses were changed from USD 800 million to a maximum of USD 1 billion. Farmers Re and ZIC may assume USD 10 million and USD 40 million, respectively, of the maximum Farmers Exchanges' catastrophe losses subject to under this treaty.

For the year ended December 31, 2007, Group companies assumed USD 731 million of gross written premiums (USD 740 million in 2006) from the Farmers Exchanges under the All Lines Quota Share reinsurance agreement.

c) Other transactions between Zurich Financial Services and the Farmers Exchanges

The Farmers Exchanges have been charged by Corporate Center for various services throughout the year in the amount of less than USD 1 million.

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30. Segment information

Table 30.1
in USD millions, for the years ended December 31

**Income statements
by business
segment**

	General Insurance		Global Life	
	2007	2006	2007	2006
Revenues				
Direct written premiums and policy fees	34,199	32,617	9,523	10,153
Assumed written premiums	1,451	1,506	117	100
Gross written premiums and policy fees	35,650	34,123	9,640	10,254
Less premiums ceded to reinsurers ¹	(5,345)	(5,488)	(8,002)	(543)
Net written premiums and policy fees	30,305	28,635	1,638	9,710
Net change in reserves for unearned premiums	(574)	(218)	(5)	(5)
Net earned premiums and policy fees	29,731	28,417	1,633	9,706
Farmers management fees and other related revenues	–	–	–	–
Net investment result on Group investments	3,913	3,650	4,741	4,774
Net investment income on Group investments	3,662	3,203	4,226	4,104
Net capital gains/(losses) on Group investments and impairments	250	448	514	670
Net investment result on unit-linked investments	–	–	6,479	10,640
Net gain/(loss) on divestments of businesses	13	(5)	74	28
Other income	644	369	1,073	947
Total revenues	34,300	32,431	14,000	26,094
Intersegment transactions	(987)	(1,215)	(242)	(262)
Benefits, losses and expenses				
Losses and loss adjustment expenses, net of reinsurance	20,916	19,867	90	88
Life insurance death and other benefits, net of reinsurance	50	47	10,385	10,034
(Decrease)/increase in future life policyholders' benefits, net of reinsurance	–	(1)	(9,781)	(1,467)
Insurance benefits and losses, net of reinsurance ¹	20,966	19,913	694	8,655
Policyholder dividends and participation in profits, net of reinsurance	11	7	7,771	11,904
Underwriting and policy acquisition costs, net of reinsurance	5,358	4,927	1,640	1,448
Administrative and other operating expense	3,130	3,111	1,678	1,583
Amortization and impairments of intangible assets	96	88	143	114
Interest expense on debt	310	296	17	13
Interest credited to policyholders and other interest	268	211	585	583
Total benefits, losses and expenses	30,138	28,553	12,528	24,300
Net income/(loss) before income taxes	4,162	3,878	1,472	1,794
Income tax benefit/(expense) attributable to policyholders				
Income tax expense attributable to shareholders				
Net income attributable to minority interests				
Net income/(loss) attributable to shareholders				
Supplementary segment information				
Additions and capital improvements of property/equipment and intangible assets	1,026	213	343	236
Significant non-cash expenses:				
Depreciation and impairments of property and equipment	89	76	45	47
Amortization and impairments of intangible assets	96	88	143	114

¹ The Group's life operations in the UK entered into a reinsurance agreement to transfer the risk associated with a significant annuities portfolio as of January 1, 2007. The initial impact of this transaction was an increase of USD 7.3 billion in premiums ceded to reinsurers and an increase of USD 7.0 billion in ceded insurance benefits and losses in the Global Life business.

Farmers Management Services		Other Businesses		Corporate Functions		Eliminations		Total	
2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
-	-	381	359	6	7	11	3	44,119	43,139
-	-	1,969	1,970	160	183	(344)	(454)	3,353	3,305
-	-	2,350	2,329	166	190	(333)	(451)	47,472	46,444
-	-	(32)	(30)	(152)	(183)	333	451	(13,197)	(5,794)
-	-	2,318	2,298	14	7	-	-	34,275	40,651
-	-	82	81	1	-	-	-	(495)	(142)
-	-	2,401	2,380	15	7	-	-	33,780	40,509
2,266	2,133	-	-	-	-	-	-	2,266	2,133
134	206	1,213	1,031	1,309	886	(1,221)	(1,113)	10,089	9,434
167	153	1,025	906	731	646	(1,221)	(1,113)	8,591	7,899
(33)	53	188	125	578	240	-	-	1,498	1,536
-	-	663	947	-	-	-	-	7,142	11,587
-	-	33	(66)	(2)	-	-	-	118	(43)
62	5	167	177	898	776	(1,075)	(893)	1,767	1,381
2,462	2,344	4,477	4,469	2,220	1,669	(2,296)	(2,006)	55,163	65,002
(52)	(29)	(329)	(204)	(686)	(296)	2,296	2,006	-	-
-	-	1,174	1,310	-	2	(25)	(37)	22,155	21,230
-	-	362	363	18	15	23	35	10,837	10,494
-	-	196	19	(32)	(69)	2	2	(9,614)	(1,517)
-	-	1,733	1,692	(14)	(52)	-	(1)	23,378	30,207
-	-	761	994	-	-	-	-	8,543	12,906
-	-	592	603	-	1	-	-	7,589	6,980
1,161	1,044	241	300	1,051	1,085	(1,047)	(860)	6,214	6,263
53	45	-	1	10	9	-	-	302	257
9	1	264	236	1,317	1,162	(1,233)	(1,100)	685	608
-	-	111	162	9	6	(16)	(45)	957	916
1,224	1,091	3,701	3,989	2,373	2,210	(2,296)	(2,006)	47,668	58,136
1,238	1,254	776	481	(153)	(541)	-	-	7,495	6,866
								83	(416)
								(1,870)	(1,732)
								(83)	(98)
								5,626	4,620
610	137	13	9	142	40	-	-	2,135	636
54	50	3	5	30	25	-	-	221	202
53	45	-	1	10	9	-	-	302	257

Consolidated Financial Statements

Table 30.2

in USD millions, as of December 31

**Assets and liabilities
by business segment**

	General Insurance		Global Life	
	2007	2006	2007	2006
Total Group Investments	84,996	78,718	95,740	101,755
Cash and cash equivalents	10,896	11,499	3,713	4,514
Equity securities	7,011	6,188	8,250	8,632
Debt securities	60,005	54,477	54,939	63,334
Real estate held for investment	2,744	2,478	4,408	4,023
Mortgage loans	1,453	1,182	9,203	8,399
Other loans	1,975	2,009	13,296	12,315
Investments in associates	24	27	134	46
Other investments	887	859	1,795	492
Investments for unit-linked contracts	–	–	106,355	98,696
Total investments ¹	84,996	78,718	202,094	200,452
Reinsurers' share of reserves for insurance contracts ¹	13,149	13,702	9,555	1,785
Deposits made under assumed reinsurance contracts	68	73	–	–
Deferred policy acquisition costs	3,306	2,959	11,547	10,113
Deferred origination costs	–	–	1,003	815
Goodwill	706	168	635	488
Other related intangible assets	–	–	780	775
Other assets ¹	15,652	14,692	8,155	8,260
Total assets after consolidation of investments in subsidiaries	117,876	110,313	233,769	222,688
Liabilities for investment contracts	–	–	54,736	50,953
Reserves for losses and loss adjustment expenses, gross	63,383	59,241	6	131
Reserves for unearned premiums, gross	15,428	14,582	157	142
Future life policyholders' benefits, gross	97	89	77,422	73,832
Policyholders' contract deposits and other funds, gross	1,024	930	14,173	14,117
Reserves for unit-linked contracts, gross	–	–	54,337	50,376
Reserves for insurance contracts, gross	79,932	74,843	146,096	138,597
Debt related to capital markets and banking activities	–	–	–	–
Senior debt	5,673	4,684	239	448
Subordinated debt	2,311	2,349	72	–
Other liabilities	16,291	18,397	20,758	21,133
Total liabilities	104,207	100,273	221,901	211,131
Supplementary segment information				
Reserves for losses and loss adjustment expenses, net	51,935	47,386	6	103
Reserves for unearned premiums, net	13,721	12,712	154	137
Future life policyholders' benefits, net	97	89	68,019	72,197
Policyholders' contract deposits and other funds, net	1,006	914	14,026	13,999
Reserves for unit-linked contracts, net	–	–	54,337	50,376
Reserves for insurance contracts, net	66,759	61,102	136,542	136,812

¹ The Group's life operations in the UK entered into a reinsurance agreement to transfer the risk associated with a significant annuities portfolio as of January 1, 2007. The initial impact of this transaction was a decrease of USD 7.4 billion in total investments and associated other assets and an increase of USD 7.1 billion in reinsurers' share of reserves for insurance contracts in the Global Life business.

Farmers Management Services		Other Businesses		Corporate Functions		Eliminations		Total	
2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
2,311	3,522	18,758	18,404	18,560	18,269	(26,764)	(24,993)	193,600	195,676
264	560	4,862	3,736	8,459	8,697	(14,250)	(11,568)	13,943	17,438
–	–	2,063	2,531	1,265	988	–	–	18,589	18,339
83	1,256	7,396	7,055	1,769	1,815	(430)	(1,501)	123,762	126,435
172	182	197	200	42	39	–	–	7,563	6,921
–	–	2,095	1,255	–	–	(33)	(30)	12,718	10,806
1,714	1,450	1,999	3,256	4,872	4,782	(10,921)	(11,179)	12,936	12,634
–	–	76	76	4	4	–	–	238	153
79	75	69	296	2,151	1,944	(1,130)	(715)	3,851	2,951
–	–	15,738	15,631	–	–	–	–	122,092	114,327
2,311	3,522	34,495	34,035	18,560	18,269	(26,764)	(24,993)	315,693	310,003
207	205	6,399	7,192	107	99	(2,440)	(2,875)	26,977	20,108
–	–	1,323	1,985	2	2	(34)	(38)	1,359	2,022
–	–	89	124	–	–	(1)	1	14,941	13,197
–	–	–	–	–	–	–	–	1,003	815
385	–	–	–	5	5	–	–	1,730	660
1,024	1,024	–	–	–	–	–	–	1,804	1,799
1,337	1,356	1,380	2,056	1,793	2,664	(2,482)	(2,852)	25,836	26,176
5,266	6,108	43,687	45,392	20,468	21,039	(31,721)	(30,757)	389,344	374,781
–	–	–	–	–	–	(251)	(248)	54,485	50,705
–	–	6,084	7,127	114	110	(1,697)	(2,073)	67,890	64,535
–	–	381	500	43	41	(68)	(107)	15,941	15,158
–	–	3,017	2,823	415	437	(657)	(678)	80,293	76,503
–	–	3,489	3,887	–	–	–	–	18,687	18,934
–	–	15,738	15,631	–	–	–	–	70,075	66,008
–	–	28,708	29,969	572	587	(2,423)	(2,858)	252,886	241,138
–	–	3,385	3,578	–	–	(1,722)	(1,689)	1,663	1,889
–	–	622	614	18,397	17,594	(22,102)	(20,435)	2,830	2,906
180	180	99	98	5,588	4,953	(2,780)	(2,772)	5,470	4,808
1,480	2,221	5,002	6,224	1,745	2,011	(2,443)	(2,755)	42,834	47,231
1,660	2,401	37,817	40,483	26,302	25,145	(31,721)	(30,757)	360,167	348,677
–	–	2,733	3,288	43	44	(7)	(6)	54,712	50,814
–	–	339	418	6	8	–	–	14,221	13,275
(207)	(205)	2,698	2,493	415	437	7	6	71,028	75,018
–	–	662	746	–	–	17	17	15,711	15,676
–	–	15,738	15,631	–	–	–	–	70,075	66,008
(207)	(205)	22,169	22,576	465	488	17	17	225,745	220,790

Consolidated Financial Statements

Table 30.3

in USD millions

Gross written premiums and policy fees, total revenues and total assets by geographical segment	Gross written premiums and policy fees for the years ended December 31		Total revenues for the years ended December 31		Total assets as of December 31	
	2007	2006	2007	2006	2007	2006
	North America	17,461	17,825	18,490	18,279	70,600
Europe	26,728	25,823	29,926	40,308	275,828	259,921
International Businesses	3,855	3,475	3,918	3,717	14,434	13,567
Central Region	1,295	1,276	4,457	4,057	54,237	56,518
Eliminations	(1,867)	(1,955)	(1,628)	(1,359)	(25,754)	(24,632)
Total	47,472	46,444	55,163	65,002	389,344	374,781

Table 30.4

in USD millions, for the years ended December 31

Additions and capital improvements of property/equipment and intangible assets by geographical segment	Property and equipment		Intangible assets	
	2007	2006	2007	2006
North America	137	89	562	98
Europe	131	141	1,125	238
International Businesses	17	18	9	4
Central Region	58	37	97	12
Total	343	284	1,792	352

Report of Group Auditors

Report of Group auditors

To the General Meeting of Zurich Financial Services, Zurich

As auditors of the Group, we have audited the consolidated financial statements (income statement, statement of total recognized income and expenses, balance sheet, statement of cash flows, statement of changes in equity and notes on pages 91 to 200) of Zurich Financial Services for the year ended December 31, 2007.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

R Marshall

M Humphreys

Auditor in charge

Zurich, February 13, 2008

Significant Subsidiaries

Significant subsidiaries	as of December 31, 2007					Nominal value of common stock (in local currency millions)
	Domicile	Segment ¹	Voting rights %	Ownership interest %		
Australia						
Zurich Australia Limited	Sydney	Life Insurance	100	100	AUD	0.5
Zurich Australian Insurance Limited	Sydney	General Insurance	100	100	AUD	6.6
Zurich Financial Services Australia Limited	Sydney	General Insurance	100	100	AUD	22.8
Austria						
Zürich Versicherungs-Aktiengesellschaft	Vienna	General Insurance	99.98	99.98	EUR	12
Bermuda						
B G Investments Ltd.	Hamilton	Corporate Functions	100	100	USD	0.3
Centre Group Holdings Limited	Hamilton	Other Businesses	100	100	USD	0.3
CMSH Limited	Hamilton	Other Businesses	100	100	USD	0.3
ZCM Holdings (Bermuda) Limited	Hamilton	Other Businesses	100	100	USD	137
ZG Investments Ltd.	Hamilton	Corporate Functions	100	100	USD	0.01
ZG Investments II Ltd.	Hamilton	Corporate Functions	100	100	USD	0.01
ZG Investments III Ltd.	Hamilton	Corporate Functions	100	100	USD	0.01
ZG Investments IV Ltd.	Hamilton	Corporate Functions	100	100	USD	0.01
Zurich International (Bermuda) Ltd.	Hamilton	Other Businesses	100	100	USD	9.9
Chile						
Chilena Consolidada Seguros de Vida S.A.	Santiago	Life Insurance	98.95	98.95	CLP	24,484.0
Cyprus						
Dalegate Ltd. ²	Nicosia	General Insurance	100	100	CYP	0.01
Germany						
BONNSECUR GmbH & Co. Liegenschaften Deutscher Herold KG	Bonn	Life Insurance	85.02	85.02	EUR	170
DA Deutsche Allgemeine Versicherung Aktiengesellschaft	Oberursel	General Insurance	100	100	EUR	24.5
Deutscher Herold Aktiengesellschaft ³	Bonn	Life Insurance	77.83	77.83	EUR	18.4
Zürich Beteiligungs-Aktiengesellschaft (Deutschland)	Frankfurt / Main	General Insurance	100	100	EUR	152.9
Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft	Bonn	Life Insurance	85.02	85.02	EUR	68.5
Zurich Service GmbH	Bonn	Life Insurance	100	100	EUR	3.25
Zurich Versicherung Aktiengesellschaft (Deutschland)	Frankfurt / Main	General Insurance	95.17	95.17	EUR	142.2

¹ The segments are defined in the notes to the consolidated financial statements, note 1, basis of presentation.

² Dalegate Ltd. holds 66% of Zurich Retail Insurance Company Ltd. in Russia (formerly OOO Nasta Insurance Company). The Group has agreed to a path to acquire the remaining 34% ownership.

³ In addition buy out options exist which allow the minority shareholders to sell another 17.17 percent of the shares of Deutscher Herold Aktiengesellschaft to the Group.

Significant Subsidiaries

Significant subsidiaries (continued)	as of December 31, 2007					Nominal value of common stock (in local currency millions)
	Domicile	Segment	Voting rights %	Ownership interest %		
Ireland						
Eagle Star Life Assurance Company of Ireland Limited	Dublin	Life Insurance	100	100	EUR	17.5
Orange Stone Holdings	Dublin	Other Businesses	100	100	USD	1,609.6
Zurich Financial Services EUB Holdings Limited	Dublin	Other Businesses	100	100	GBP	0.001
Zurich Insurance Ireland Ltd.	Dublin	General Insurance	100	100	EUR	4.6
Italy						
Zurich Investments Life S.p.A.	Milan	Life Insurance	100	100	EUR	34
Zurich Life Insurance Italia S.p.A.	Milan	Life Insurance	100	100	EUR	25.9
Portugal						
Zurich – Companhia de Seguros S.A.	Lisbon	General Insurance	100	100	EUR	10
South Africa						
Zurich Insurance Company South Africa Limited ⁴	Bryanston	General Insurance	73.61	73.61	ZAR	3
Spain						
Zurich España, Compañía de Seguros y Reaseguros, S.A.	Barcelona	General Insurance	99.89	99.89	EUR	33.6
Zurich Vida, Compañía de Seguros y Reaseguros, S.A. – Sociedad Unipersonal	Madrid	Life Insurance	100	100	EUR	50.4
Switzerland						
Assuricum Company Limited	Zurich	Corporate Functions	100	100	CHF	610
Genevoise, Life Insurance Company Ltd	Geneva	Life Insurance	100	100	CHF	17
Zurich Group Holding	Zurich	Corporate Functions	100	100	CHF	1,600.0
Zurich Insurance Company	Zurich	Corporate Functions	100	100	CHF	825
Zurich Life Insurance Company Ltd	Zurich	Corporate Functions	100	100	CHF	60
“Zurich” Investment Management AG	Zurich	Corporate Functions	100	100	CHF	10
United Kingdom						
Allied Dunbar Assurance p.l.c.	Swindon, England	Life Insurance	100	100	GBP	0.05
Allied Zurich Limited	Swindon, England	Corporate Functions	100	100	GBP	378.1
Eagle Star Holdings Limited	Swindon, England	Corporate Functions	100	100	GBP	0.05
Eagle Star Insurance Company Limited	Fareham, England	Other Businesses	100	100	GBP	50
Zurich Assurance Ltd	Swindon, England	Life Insurance	100	100	GBP	236.1
Zurich Employment Services Limited	Swindon, England	Life Insurance	100	100	GBP	9

⁴ Listed on the Johannesburg Stock Exchange. On December 31, 2007, the company had a market capitalization of ZAR 411.5 m (ISIN Number 000006243).

Significant subsidiaries (continued)	as of 31 December 2007				
	Domicile	Segment	Voting rights %	Ownership interest %	Nominal value of common stock (in local currency millions)
Zurich Financial Services (UKISA) Limited	Swindon, England	Corporate Functions	100	100	GBP 1,492.1
Zurich International (UK) Limited	Fareham, England	General Insurance	100	100	GBP 40
Zurich International Life Limited	Douglas, Isle of Man	Life Insurance	100	100	GBP 55.6
Zurich Specialties London Limited	Fareham, England	Other Businesses	100	100	GBP 150
United States of America					
Farmers Group, Inc.	Reno, Nevada	Farmers Management Services	97.91	100	USD 0.001
Farmers New World Life Insurance Company	Mercer Island, WA	Life Insurance	97.91	100	USD 6.6
Farmers Reinsurance Company	Los Angeles, CA	Other Businesses	97.91	100	USD 5
Kemper Corporation	Schaumburg, IL	Other Businesses	100	100	USD 220
Kemper Investors Life Insurance Company	Bellevue, WA	Other Businesses	100	100	USD 2.5
ZFS Finance (USA) LLC V ⁵	Wilmington, DE	Corporate Functions	100	100	USD –
ZFUS Services, LLC ⁵	Wilmington, DE	Farmers Management Services	100	100	USD –
Zurich American Insurance Company (and subsidiaries)	New York, NY	General Insurance	100	100	USD 5
Zurich Finance (USA), Inc.	Wilmington, DE	Corporate Functions	100	100	USD 0.000001
Zurich Holding Company of America, Inc.	Dover, DE	Corporate Functions	100	100	USD 0.6

⁵ This entity is a LLC that has no share capital.

Embedded Value Report

Embedded Value Report – Life Insurance

1. Overview

Zurich Financial Services Group (the Group) has reported Embedded Value (EV) in respect of the twelve months ended December 31, 2007 together with comparative figures for the twelve months ended December 31 2006 in line with the European Embedded Value Principles issued by the CFO Forum, for the companies and business reported in its Global Life segment (covered business). Certain other life businesses are included in Other Businesses segment and have been excluded from the EV. This report primarily relates to Global Life, but information relating to the Other Businesses is given in section 2.h below.

The EV methodology adopted by the Group is based on a “bottom-up” market consistent approach to allow explicitly for market risk. In particular:

- asset and liability cash flows are valued using risk discount rates consistent with those applied to similar cash flows in the capital markets; and
- options and guarantees are valued using market consistent models calibrated to observable market prices.

In line with the European Embedded Value Principles, the EV is broken down into the following components:

- shareholders’ net assets, including free surplus and required capital allocated to covered business; and
- the value of business in-force.

The adoption of the European Embedded Value Principles does not affect the basis of reporting the local statutory results, the regulatory capital position or the dividend paying capacity of the Group. EV is derived from the local statutory, regulatory and IFRS financial statements of the Group’s Global Life entities and is presented net of minority interests. However new business value is shown before deduction of minorities.

EV information in this supplement includes:

- Summary of Embedded Value results;
- Geographical analysis of Embedded Value results;
- Embedded Value methodology; and,
- Embedded Value assumptions.

The process for preparing the EV information as of December 31, 2007 as well as the new business value and the analysis of movement have been subject to limited external review by PricewaterhouseCoopers AG. Their Statement of External Review is set out in section 6.

Embedded Value Report

2. Summary of Embedded Value results

a) Basis of current and future presentation and comparability

To align EV reporting with the IFRS accounts, from 2007 relevant results have been translated to the Group presentation currency, US dollar, using average exchange rates for the period. Valuations are translated at end-of-period exchange rates. A similar approach was applied to the comparative results for the period ended December 31, 2006.

From 2007, new business value has been calculated separately for each quarter using assumptions, both operating and economic, as of the start of the relevant quarter. In consequence, the new business strain has also been calculated on a quarterly discrete basis. The comparative new business results for 2006 have not been restated to this basis.

b) Embedded Value of Global Life

Embedded Value	in USD millions, as of December 31	
	2007	2006 ¹
Shareholders' net assets	6,982	6,224
Value of business in-force	8,953	7,868
Embedded Value	15,935	14,092

¹ Comparative 2006 figures for Switzerland have been restated. More details can be found in section 2g.

Shareholders' net assets are based on local statutory accounting. The EV is adjusted to reflect shareholders' interest in the market value of net assets after the exclusion of goodwill and other necessary actuarial adjustments.

Value of business in-force is the present value of future projected profits from covered business, and can be defined as the certainty equivalent value of business in-force less frictional costs, time value of options and guarantees, and cost of non market risk. Further details of the methodology used in the calculation of these items are given in section 4.

In the consolidated financial statements, an allowance is made for IAS19 Employee Benefits deficits. This adjustment has not been made in the detailed EV described in the remainder of the Embedded Value Report. If the adjustment had been made the EV as of December 31, 2007 would have been lower by USD 85 million at USD 15.9 billion. Similarly the EV as of December 31, 2006 would have been lower by USD 223 million at USD 13.9 billion.

Value of business in-force	in USD millions, as of December 31	
	2007	2006 ¹
Certainty equivalent value of business in-force	10,705	9,681
Frictional costs	(771)	(696)
Time value of options and guarantees	(476)	(529)
Cost of non market risk	(505)	(589)
Value of business in-force	8,953	7,868

¹ Comparative 2006 figures for Switzerland have been restated. More details can be found in section 2g.

A breakdown of the EV results by geographical region is set out in section 3 below. A definition of the EV components is given in section 4.

Frictional costs are applied to the total capital held by the covered business. As of December 31, 2007 total capital is the sum of:

- USD 3.7 billion of minimum solvency margin required by regulation;
- USD 1.1 billion of any additional solvency margin that life business units consider is in practice required; and,
- USD 2.2 billion of free surplus.

The sum of the first two items above is referred to as "required capital" elsewhere in this document.

c) New business

New business value is the value added by new business written, calculated at the point of sale, without any value from future new business sales.

Frictional costs are applied to the minimum solvency margin required to be held in respect of new business.

Table 2.3

New business volumes, gross of minorities	in USD millions, for the years ended December 31	
	2007	2006
Annual premiums	1,854	1,432
Single premiums	10,929	10,680
New business annual premium equivalent (APE) ¹	2,947	2,500
Present value of new business premiums (PVNBP) ²	23,781	20,598

¹ APE is taken as new annual premiums plus 10% of single premiums.

² PVNBP is equal to new single premiums plus the present value of annual premiums.

Table 2.4

New business margin, gross of minorities	in USD millions, for the years ended December 31		2007		2006	
			after tax	before tax ¹	after tax	before tax ¹
New business value			729	1,021	539	774
New business margin (as % APE)			24.7%	34.6%	21.6%	31.0%
New business margin (as % PVNBP)			3.1%	4.3%	2.6%	3.8%

¹ In certain countries, particularly in the UK, where life insurance companies pay tax in respect of both policyholders and shareholders, the results shown in the above table are before shareholders' tax but after deducting policyholders' tax.

Table 2.5

New business value, after tax gross of minorities	in USD millions, for the years ended December 31	
	2007	2006
Certainty equivalent new business value	856	645
Frictional costs	(54)	(33)
Time value of options and guarantees	(2)	(23)
Cost of non market risk	(71)	(50)
New business value, after tax	729	539

EV is shown net of minority holdings. Where the Group has a majority interest in a subsidiary company, the new business value and the premium information are shown gross of minority holdings. The minorities' share of new business value mostly relates to life entities in Germany.

The new business value after tax, the annual premium equivalent and present value of new business premiums net of minority holdings are shown in the following table:

Table 2.6

New business value, after tax net of minorities	in USD millions, for the years ended December 31	
	2007	2006
New business value, after tax	725	514
New business annual premium equivalent (APE)	2,927	2,394
Present value of new business premiums (PVNBP)	23,603	19,647

Embedded Value Report

d) Analysis of movement in Embedded Value

The following table provides an analysis of the movement in the EV for the covered business from December 31, 2006 (opening EV) to December 31, 2007 (closing EV). The analysis is shown separately for shareholders' net assets and the value of business in-force, and includes amounts transferred between these components.

Table 2.7
in USD millions, for the year ended December 31, 2007

Analysis of movement in Embedded Value

	Shareholders' net assets ¹	Value of business in-force ¹	Total
Opening Embedded Value	6,224	7,868	14,092
Expected transfer from value of business in-force to shareholders' net assets, after tax	1,070	(1,070)	–
Expected return on in-force business and shareholders' net assets, after tax	274	615	889
New business value, after tax	(669)	1,398	729
Operating variance, after tax	412	(136)	277
Total operating profit, after tax	1,087	808	1,895
Economic variance, after tax	26	(109)	(83)
Embedded Value profit, after tax	1,113	699	1,811
Dividends and capital movements	(703)	52	(651)
Foreign currency translation effects	349	334	683
Closing Embedded Value after foreign currency translation effects	6,982	8,953	15,935

¹ Comparative 2006 figures for Switzerland have been restated. More details can be found in section 2g.

The following table provides an analysis of the components which comprise the value of business in-force.

Table 2.8
in USD millions, for the year ended December 31, 2007

Analysis of movement in Value of business in-force

	Certainty equivalent value of business in-force	Frictional costs	Time value of options and guarantees	Cost of non market risk	Value of business in-force
Opening Embedded Value	9,681	(696)	(529)	(589)	7,868
Expected transfer from value of business in-force to shareholders' net assets, after tax	(1,109)	38	0	0	(1,070)
Expected return on in-force business and shareholders' net assets, after tax	537	(6)	68	17	615
New business value, after tax	1,526	(54)	(2)	(71)	1,398
Operating variance, after tax	(443)	36	96	176	(136)
Total operating profit, after tax	510	13	163	122	808
Economic variance, after tax	(22)	(4)	(73)	(11)	(109)
Embedded Value profit, after tax	488	10	90	112	699
Dividends and capital movements	109	(38)	(14)	(5)	52
Foreign currency translation effects	427	(47)	(22)	(23)	334
Closing Embedded Value after foreign currency translation effects	10,705	(771)	(476)	(505)	8,953

Total operating profit after tax consists of the following:

- **Expected transfer from value of business in-force to shareholders' net assets, after tax** shows the profits expected to emerge during the period in respect of business that was in-force at the beginning of the

period. The net effect is zero, as the reduction in value of business in-force is offset by the increase in shareholders' net assets. The expected profits do not include changes in solvency margin over the period.

- **Expected return on in-force business and shareholders' net assets, after tax** is calculated as the expected change in the EV resulting from a projection of the assets and liabilities over the period based on expected "real world" returns. Further details are given below in section 5.a "Expected return for the analysis of movement".
- **New business value, after tax** reflects the value added by new business written during the period. This item is valued at the point of sale, using the revised methodology described in section 4.g. The reduction in shareholders' net assets shown in respect of new business (i.e. new business strain) excludes the solvency margin set up in respect of new business. Including the solvency margin, new business strain during 2007 was USD 0.9 billion.
- **Operating variance, after tax** is the difference between actual experience during the period and that expected based on the operating assumptions. It also includes the impact of changes in assumptions in respect of future operating experience.

The other components of the movement in EV are:

Economic variance, after tax arises from the differences between the actual investment returns in the period and the expected investment returns based on economic assumptions as of the start of year, and allows for the change in future economic assumptions between the start and end of the period. It also includes the impact of legal, tax and regulatory changes in the period.

Dividends and capital movements reflect dividends paid by the covered business to the Group and capital received from the Group. Capital movements can also relate to value of business in-force in respect of acquisitions and disposals, or corporate restructuring.

Foreign currency translation effects represent the impact of currency movements to end-of-period exchange rates.

e) Reconciliation of IFRS net assets to Embedded Value for covered life business

Table 2.9

in USD billions, as of December 31

Reconciliation of Global Life IFRS net assets to Embedded Value	Total	
	2007	2006
Goodwill	0.6	0.5
Intangible assets ¹	3.5	2.9
Tangible assets	7.8	8.2
Global Life IFRS net assets	11.9	11.6
Adjustments to Global Life IFRS net assets for Embedded Value		
Minorities	(0.2)	(0.2)
Reserves and investments valuation differences	(0.7)	(2)
Intangible assets ¹	(3.5)	(2.9)
Goodwill	(0.6)	(0.5)
IAS 19 Employee Benefit related items	0.1	0.2
Certainty equivalent value of business in-force	10.8	9.7
Frictional costs	(0.8)	(0.7)
Time value of options and guarantees	(0.5)	(0.5)
Cost of non market risk	(0.5)	(0.6)
Embedded Value	16.0	14.1

¹ Intangible assets are defined as deferred policy acquisition and origination costs and other intangible assets less front end fees.

Embedded Value Report

f) Sensitivities

A number of sensitivities have been produced to indicate the sensitivity of the EV and the new business value to changes in certain assumptions. These are in line with the CFO Forum's Additional Guidance on European Embedded Value Disclosures issued in October 2005.

Table 2.10

In USD millions

Sensitivities	Change in Embedded Value	Change in new business value
Actual Value	15,935	729
Economic sensitivities		
100 basis points increase in risk free yield curve	(393)	(16)
100 basis points decrease in risk free yield curve	190	10
10% fall in equity and property market values	(676)	n/a
100 basis points increase in risk discount rate	(902)	(131)
10% increase in implied volatilities for equities and properties	(189)	(26)
10% increase in implied volatilities for risk free yields	(372)	74
Operating sensitivities		
10% decrease in voluntary discontinuance rates	420	88
10% decrease in maintenance expenses	319	37
10% decrease in initial expenses and commissions	n/a	112
5% improvement in mortality and morbidity for assurances	218	25
5% improvement in mortality for annuities	(76)	(1)
Frictional costs applied to 150% of minimum solvency margin	348	(27)

The key assumption changes represented by each of these sensitivities are as follows:

Economic sensitivities

- 100 basis points increase and decrease in the risk free yield curve across all durations;
- 10% fall in equity and property market values (EV only, this is not applicable for new business);
- 100 basis points increase in the discount rates (e.g. a discount rate of 6% p.a. would increase to 7% p.a.);
- 10% increase in implied equity and property volatilities (e.g. 15% p.a. would increase to 25% p.a.);
- 10% increase in implied risk free volatilities (e.g. 15% p.a. would increase to 25% p.a.).

Operating sensitivities

- 10% decrease in voluntary discontinuance rates (e.g. a base assumption of 5% p.a. would decrease to 4.5% p.a.);
- 10% decrease in maintenance expenses (e.g. a base assumption of USD 30 p.a. would decrease to USD 27 p.a.);
- 10% decrease in initial expenses and commissions (new business values only);
- 5% improvement in mortality and morbidity assumptions for assurances (e.g. if the base mortality assumption for assurances was 90% of a particular table this would decrease to 85.5%);
- 5% improvement in mortality assumptions for annuities (e.g. if the base mortality assumption for annuities was 90% of a particular table this would decrease to 85.5%);
- Frictional costs applied to 150% of minimum solvency margin, rather than to total capital for in-force business or minimum solvency margin for new business.

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised conditions. The results include any impact of the assumption change on the time value of options and guarantees.

The 100 bps increase in risk free yield curve reduces the value of some products, such as term assurance, with fixed cash flows which are discounted at higher rates. This reduction is partially offset by the increase in the value of other products, such as those with profit sharing, due to the higher assumed investment returns on investment of net cash flows. The former effect is particularly apparent in the US where this sensitivity leads to a decrease in value. This is only partially offset by positive effects particularly in Germany.

The sensitivity to a 1% p.a. increase in discount rates represents an increase in the discount rates used to discount projected shareholder profits, with no change to the assumed investment returns. This moves away from market consistent methodology and hence is not strictly pertinent under a market consistent approach. For stochastic modeling, the increase in discount rates applies to each year in each projected simulation.

g) Restatement of comparative 2006 figures for Switzerland

Comparative 2006 shareholders' net assets and value of business in force have been restated for Switzerland due to a model refinement to include the impact of unrealized gains on equity and property, and certain miscellaneous reserves, which were previously reported as part of the shareholders' net assets and are now included in the value of the business in force. The overall EV remains the same, with a movement of USD 952 million between the shareholders' net assets and the value of business in-force. The table below gives an overview of the previously reported and the restated comparative figures.

Table 2.11

in USD millions

Embedded Value	2006 as previously reported	2006 restated
Shareholders' net assets	7,176	6,224
Value of business in-force	6,916	7,868
Embedded Value	14,092	14,092

Table 2.12

in USD millions

Value of business in-force	2006 as previously reported	2006 restated
Certainty equivalent value of business in-force	8,761	9,681
Frictional costs	(728)	(696)
Time value of options and guarantees	(529)	(529)
Cost of non-market risk	(589)	(589)
Value of business in-force	6,916	7,868

h) Life business included in Other Businesses

The Group writes life business in Kemper Investors Life Insurance Company and in Centre operations, which are not managed in Global Life. The main products written by these businesses are:

- Variable annuity contracts that provide annuitants with guarantees related to minimum death and income benefits;
- Disability business; and,
- Bank owned life insurance business.

Embedded Value Report

The Group has estimated the EV of these businesses based on the same principles as the covered business, including deductions for time value of options and guarantees, frictional costs and cost of non market risks, but using more approximate models. The results are set out as follows:

	2007	2006
Estimated Embedded Value of life businesses in Other Businesses		
Shareholders' net assets	1.4	1.2
Value of business in-force	0.9	0.9
Time value of options and guarantees	(0.3)	(0.3)
Cost of non market risk	(0.4)	(0.3)
Embedded Value	1.6	1.5

3. Geographical analysis of Embedded Value

EV results for 2007 and 2006 are translated from local currency using different exchange rates. The comments in this section relate to business issues only and not to movements in exchange rates.

a) Geographical analysis of Embedded Value

Table 3.1
in USD millions, as of December 31, 2007

Geographical analysis of Embedded Value

	Shareholders' net assets ¹		Value of business in-force ¹		Total	
	2007	2006	2007	2006	2007	2006
United States	645	652	1,787	1,675	2,432	2,326
United Kingdom	2,383	2,536	2,498	2,597	4,880	5,133
Germany	1,410	960	676	336	2,087	1,296
Switzerland	256	125	1,639	1,445	1,895	1,570
Rest of Europe	1,471	1,277	1,825	1,391	3,297	2,667
International Businesses	817	675	527	424	1,344	1,099
Global Life	6,982	6,224	8,953	7,868	15,935	14,092

¹ Comparative 2006 figures for Switzerland have been restated. More details can be found in section 2g.

Table 3.2a
in USD millions, as of December 31, 2007

Geographical analysis of value of business in-force – 2007

	United States	United Kingdom	Germany	Switzerland	Rest of Europe	International Businesses	Total
Certainty equivalent value of business in-force	2,207	2,832	1,079	1,795	2,105	686	10,705
Frictional costs	(112)	(154)	(322)	(20)	(84)	(79)	(771)
Time value of options and guarantees	(163)	(94)	(39)	(81)	(90)	(9)	(476)
Cost of non market risk	(144)	(86)	(42)	(55)	(106)	(71)	(505)
Value of business in-force	1,787	2,498	676	1,639	1,825	527	8,953

Table 3.2b
in USD millions, as of December 31, 2006

Geographical analysis of value of business in-force – 2006

	United States	United Kingdom	Germany	Switzerland ¹	Rest of Europe	International Businesses	Total ¹
Certainty equivalent value of business in-force	2,031	3,120	690	1,638	1,638	563	9,681
Frictional costs	(114)	(191)	(236)	(9)	(78)	(68)	(696)
Time value of options and guarantees	(127)	(84)	(88)	(136)	(86)	(7)	(529)
Cost of non market risk	(116)	(248)	(30)	(48)	(84)	(63)	(589)
Value of business in-force	1,675	2,597	336	1,445	1,391	424	7,868

¹ Comparative 2006 figures for Switzerland have been restated. More details can be found in section 2g.

Embedded Value Report

Frictional Costs

Frictional costs have changed between 2006 and 2007 broadly in line with shareholders' net assets and reflect changes in the economic conditions.

- In the **UK**, the level of frictional costs however reduced as a result of the reinsurance of a major part of its closed book of annuity business and a reduction in the corporate tax rate from 2008 onwards.
- In **Switzerland**, the frictional costs reduced by USD 32m due to the reclassification described in section 2g.

Time value of options and guarantees

The change in the time value of options and guarantees from 2006 to 2007 reflects the following:

- In the **US**, the increase was mainly related to the lower market yield curve in 2007, which increased the overall exposure to market risk on interest and surrender guarantees from universal life and interest sensitive deferred annuity business.
- In the **UK**, the increase was due to increased equity implied volatilities, which increased the time value of options and guarantees for unit-linked business. For with profits business, management has in place an investment matching strategy which includes the use of derivative hedging and which mitigates the time value of options and guarantees in both 2007 and 2006.
- In **Germany**, the significant reduction reflects the increase in the risk free yield curve and the reduction of interest rate implied volatilities over the period. The average interest guarantee in respect of the conventional business is similar to the 2006 level while the ten year risk free rate increased from 4.2% in 2006 to 4.7% for 2007. The time value of options and guarantees is mainly related to guaranteed minimum interest rates as well as guaranteed surrender values and annuity options.
- In **Switzerland**, the reduction follows from improved investment conditions due to the higher yield curve and lower implied volatilities. The reduction is also due to a refinement in the modeling of unrealized capital gains.
- In **Rest of Europe**, the increase due to currency translation effects is partly offset by lower implied volatilities for the Euro interest rates and an increase in the risk free rates. Most of the countries in Rest of Europe have profit sharing rules with guarantees on maturity and surrender similar to those in Germany, or in the case of Ireland, similar to those in the UK.
- In **International Businesses**, the time value of options and guarantees has increased slightly. The time value of options and guarantees relates mostly to business in Hong Kong, where the decrease in risk free rates and the increase in interest rate implied volatilities resulted in increased costs attached to the maturity guarantees provided. The unit linked and protection products written in this region have no significant time value of options and guarantees.

Cost of non market risk

The decrease in the cost of non market risk from 2006 to 2007 reflects the following:

- In the **US**, the increase is due to the revision of the persistency assumption for one of the major blocks of term assurance business.
- In the **UK**, the significant reduction is due to the removal of the longevity risk associated with the closed book of annuity business as a result of the reassurance of the major part.
- In **Germany**, higher interest rates have reduced shareholder exposure to risks such as longevity experience due to higher profit sharing.
- In **Switzerland**, the increase reflects higher volumes of business in-force.
- In **Rest of Europe**, the increase reflects higher volumes of business in-force as well as the revision of the persistency assumptions in Zurich International Solutions and Spain.
- In **International Businesses**, the increase was broadly in line with the growth of business in-force and the revision of the persistency and mortality assumptions in Hong Kong.

b) New business

Summary of new business results

New business volumes	Annual premiums		Single premiums		APE		PVNBP	
	2007	2006	2007	2006	2007	2006	2007	2006
United States	110	105	84	80	119	113	1,053	1,039
United Kingdom	338	253	5,883	5,668	926	820	8,087	7,192
Germany	526	466	445	968	570	563	5,292	4,970
Switzerland	70	63	336	269	104	90	989	810
Italy	43	16	763	866	119	102	1,011	951
Spain	16	20	507	610	66	81	619	744
Ireland	167	114	1,334	963	301	210	2,240	1,593
ZIS	342	231	1,115	873	453	319	2,861	2,033
Other Europe	28	26	115	120	39	38	316	314
International Businesses	215	138	347	264	249	164	1,314	951
Global Life	1,854	1,432	10,929	10,680	2,947	2,500	23,781	20,598

New business value, after tax	New business value, after tax		New business margin, after tax			
			as % APE		as % PVNBP	
	2007	2006	2007	2006	2007	2006
United States	108	59	90.8%	52.0%	10.2%	5.7%
United Kingdom	121	100	13.1%	12.2%	1.5%	1.4%
Germany	184	133	32.3%	23.7%	3.5%	2.7%
Switzerland	33	35	31.4%	38.8%	3.3%	4.3%
Italy	22	22	18.3%	21.2%	2.2%	2.3%
Spain	14	17	20.8%	21.1%	2.2%	2.3%
Ireland	69	49	23.0%	23.2%	3.1%	3.1%
ZIS	93	65	20.4%	20.5%	3.2%	3.2%
Other Europe	1	7	2.1%	19.7%	0.3%	2.4%
International Businesses	85	52	34.0%	31.6%	6.5%	5.5%
Global Life	729	539	24.7%	21.6%	3.1%	2.6%

Embedded Value Report

Table 3.5

in USD millions, for the years ended December 31

New business ¹ value, before tax

	New business value, before tax		New business margin, before tax			
			as % APE		as % PVNBP	
	2007	2006	2007	2006	2007	2006
United States	184	111	155.0%	97.8%	17.5%	10.7%
United Kingdom	174	143	18.8%	17.4%	2.2%	2.0%
Germany	292	220	51.1%	39.0%	5.5%	4.4%
Switzerland	42	46	40.9%	51.1%	4.3%	5.6%
Italy	33	33	27.3%	32.5%	3.2%	3.5%
Spain	22	26	33.3%	31.4%	3.6%	3.4%
Ireland	78	55	26.0%	26.2%	3.5%	3.5%
ZIS	93	65	20.4%	20.5%	3.2%	3.2%
Other Europe	2	8	4.4%	22.2%	0.5%	2.7%
International Businesses	101	67	40.7%	41.1%	7.7%	7.1%
Global Life	1,021	774	34.6%	31.0%	4.3%	3.8%

¹ In certain countries particularly the UK, where life insurance companies pay tax in respect of both policyholders and shareholders, the results shown in the above table are before shareholders' tax and after allowing for policyholders' tax.

Analysis of new business components

Table 3.6a

in USD millions, for the year ended December 31, 2007

Geographical analysis of new business value, after tax 2007

	United States	United Kingdom	Germany	Switzerland	Rest of Europe	International Businesses	Total
Certainty equivalent new business value	138	149	194	41	228	106	856
Frictional costs	(10)	(4)	(24)	(2)	(6)	(8)	(54)
Time value of options and guarantees	(3)	(14)	20	(2)	(3)	(0)	(2)
Cost of non market risk	(18)	(9)	(6)	(5)	(20)	(13)	(71)
New business value	108	121	184	33	198	85	729

Table 3.6b

in USD millions, for the year ended December 31, 2006

Geographical analysis of new business value, after tax 2006

	United States	United Kingdom	Germany	Switzerland	Rest of Europe	International Businesses	Total
Certainty equivalent new business value	74	142	129	49	184	67	645
Frictional costs	(2)	(1)	(17)	(2)	(5)	(7)	(33)
Time value of options and guarantees	(3)	(32)	24	(9)	(3)	(0)	(23)
Cost of non market risk	(10)	(10)	(3)	(4)	(15)	(8)	(50)
New business value	59	100	133	35	160	52	539

- In the **US**, the new business value increased mostly due to a restructure of the reinsurance programs for protection business. The proportion of interest sensitive business in new business is lower than for the existing business portfolio, and hence the time value of options and guarantees is small.
- In the **UK**, there was an increase in new business value, as a result of a number of initiatives to improve the profitability of new investment contracts sold. This resulted in a decrease in the time value of options and guarantees arising from death guarantees on investment contracts sold in 2007. The benefits emerging from the revision of the business model in prior years, and increased sales of high margin corporate pensions business, also added to the new business value.
- In **Germany**, there was an increase in new business value, driven by the change in economic conditions and the reduction of investment guarantees offered on new business. The new business written in 2007 has reduced the time value of options and guarantees for the business written in prior years and this produces the positive time value for new business. Improved efficiencies of the administration service companies and the reduction in the corporate tax rate from 2008 onwards increased the new business margin further.
- In **Switzerland**, there was a decrease in new business value mainly due to investments in marketing initiatives. The increase in risk free rates compared with the prior year led to a reduction in the cost of options and guarantees.
- In **Rest of Europe**, there was an increase in new business value primarily attributable to increased volumes of business sold by Zurich International Solutions and in Ireland. This was however partly offset by the impact of an increase in the risk free rates over 2007.
- In **International Businesses**, there was an increase in value as a result of profitable new business sold in Hong Kong and Chile. This business has limited financial options and guarantees.

c) Geographical analysis of movement in Embedded Value

Table 3.7

in USD millions, for the year ended
December 31, 2007

Geographical analysis of movement in Embedded Value

	United States	United Kingdom	Germany	Switzerland	Rest of Europe	International Businesses
Opening Embedded Value, as previously reported	2,326	5,133	1,296	1,570	2,667	1,099
Operating profit expected from in-force business and shareholders' net assets, after tax	159	315	59	135	165	55
New business value, after tax	108	121	184	33	198	85
Operating variance, after tax	19	25	41	187	40	(34)
Total operating profit, after tax	286	461	283	354	404	106
Economic variance, after tax	(48)	(172)	95	(6)	(9)	57
Embedded Value profit, after tax	237	289	378	349	395	163
Dividends and capital movements	(131)	(613)	235	(153)	(3)	14
Foreign currency translation effects	0	71	178	130	238	67
Closing Embedded Value after foreign currency translation effects	2,432	4,880	2,087	1,895	3,297	1,344

- In the **US**, operating profit includes a significant contribution from new business value. The operating profit increased as a result of a revision to the expense projection assumptions as well as a revision of the counterparty risk allowance for re-insurance. This increase was partly offset by the revision of the persistency assumption for one of the major blocks of term assurance business. Term assurance is a significant portion of the US business and its value is sensitive to the persistency and mortality assumptions adopted. These assumptions are monitored on a regular basis to ensure they reflect the emerging experience. Economic variance reflects the reduction in the risk free rate, particularly at shorter durations, and the increase in interest rate volatilities in the US economy. This resulted in an increase in interest rate guarantees provided on historical blocks of universal life and deferred annuity business.

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- In the **UK**, operating profit includes an increase of USD 176 million due to de-risking the business through the reinsurance of a major portion of the closed book of annuity business in advance of an intended Part VII transfer of the business. This transaction enabled increased dividends to be paid. The contribution from new business value, improved measurement of death guarantees on a significant block of investment contracts, favorable mortality experience and the revision of mortality assumptions in line with the improved experience, increased operating profit. These improvements were partly offset by USD 112 million due to expenses incurred in the development of a new administration system. A revision of the persistency, expense and annuitant longevity assumptions decreased operating profit. The economic variance reflects the increase in the risk free yield curve and equity implied volatilities as well as the under-performance of the equity and property markets over the year. This was partly offset by a reduction in the corporate tax rate from 2008 onwards.
- In **Germany**, operating profit includes a significant contribution from new business value. In addition improved efficiencies from outsourcing the administration services increased shareholder value. Economic variance reflects the strong increase in the risk free yield curve and a reduction in Euro interest rate volatilities compared with 2006. The impact of a change in legislation requiring an increase in policyholders' share of statutory profits from hidden reserves is also reflected in economic variance.
- In **Switzerland**, the operating profit was increased by a refinement in the modeling of unrealized capital gains and better than expected persistency experience. The economic variance reflects the reduction in unrealized gains which was partly offset by the impact of the increase in the risk free yield curve and a reduction in interest rate volatilities.
- In **Rest of Europe**, principally Zurich International Solutions and Ireland, operating profits include a significant contribution from new business value. The operating profit was also increased by a refinement in the recognition of the clawback of initial commission payments and the level of commission in advance assets held in Zurich International Solutions, and improved mortality experience and the revision of the mortality assumptions in line with the improved experience in Spain. This was partly offset by a revision of the persistency assumptions in Zurich International Solutions and Spain. Operating profits were also partly reduced due to increased expense projection assumptions in Spain. Economic variance reflects a reduction in the market value of fixed interest assets following the increase in interest rates in the Euro zone. This was however partly offset by the growth of unit-linked funds in Zurich International Solutions and Italy, as well as a reduction of taxation in Italy.
- In **International Businesses**, operating profit includes a significant contribution from new business value in particular from Hong Kong and Chile. The revision of the persistency assumptions for Hong Kong in line with experience and an increase in the expense assumption for Australia however decreased operating profits. Economic variance reflects the increase in the risk free yield curve, particularly in Chile, during 2007.

Return on opening Embedded Value

Table 3.8

in USD millions, for the year ended December 31, 2007

Geographical analysis of return on opening EV – annualized

	United States	United Kingdom	Germany	Switzerland	Rest of Europe	International Businesses	Total
After tax operating return on opening EV	12.3%	9.0%	21.9%	22.6%	15.1%	9.6%	13.4%
Adjustments for foreign currency translation effects and dividends	–	(0.2%)	(1.9%)	(0.4%)	(0.5%)	(0.1%)	(0.3%)
Adjusted operating return on opening EV	12.3%	8.8%	20.0%	22.2%	14.7%	9.5%	13.1%
After tax return on opening EV	10.2%	5.6%	29.2%	22.2%	14.8%	14.8%	12.9%
Adjustments for foreign currency translation effects and dividends	–	(0.1%)	(2.5%)	(0.4%)	(0.5%)	(0.2%)	(0.3%)
Adjusted return on opening EV	10.2%	5.5%	26.7%	21.8%	14.3%	14.6%	12.5%
After tax expected return on opening EV	6.8%	6.1%	4.5%	8.6%	6.2%	5.0%	6.3%
Adjustments for foreign currency translation effects and dividends	–	(0.1%)	(0.4%)	(0.1%)	(0.2%)	(0.1%)	(0.2%)
Adjusted expected return on opening EV	6.8%	6.0%	4.1%	8.5%	6.0%	5.0%	6.1%

In **Germany** the adjustments for foreign currency translation effects and dividends line reflects a change in shareholder structure of the service companies, which has increased EV at the beginning of the year.

Embedded Value Report

4. Embedded Value methodology

EV represents the shareholders' interests in the entities included in Global Life as set out in the Group's consolidated IFRS Financial Statements. EV excludes any value from future new business. The Group has adopted the methodology for its EV based on the European Embedded Value Principles issued by the CFO Forum in May 2004, selecting a "bottom-up" market consistent approach. The following sets out the principles adopted and definitions used in that approach.

a) Covered business

Covered business includes all business written by companies that are included in Global Life, in particular:

- life and critical illness insurance;
- savings business (with profit, non-profit and unit-linked);
- pensions and annuity business; and,
- long-term health and accident insurance.

For certain smaller companies, no EV has been calculated but these companies have been included in the EV at their shareholders' equity value, as calculated in accordance with IFRS. The contribution from these companies to the EV is approximately 2%.

b) Calculation of Embedded Value

EV presented in this document is derived through calculations which are performed separately for each business unit. Enhanced models to produce market consistent valuations have been developed by each of the Group's life businesses.

c) Reporting of Embedded Value

In line with the European Embedded Value Principles, the EV is broken down into the following components:

- shareholders' net assets, including free surplus and required capital; and,
- the value of business in-force.

The results are disclosed in a format that the Group considers to be appropriate for the market consistent methodology adopted.

d) Shareholders' net assets

Shareholders' net assets represent the market value of net assets held in respect of the covered business, and consist of the required capital and free surplus. The level of required capital reflects the amount of capital considered by the Directors to be appropriate to manage the business. The free surplus comprises the market value of shareholders' net assets allocated to the covered business in excess of the assets backing the required capital.

The shareholders' net assets are based on local statutory and regulatory accounting. Adjustments are made to the EV where appropriate, for example in respect of any unrealized gains attributable to shareholders. Any such adjustments are made consistently with the calculation of the value of business in-force.

e) Value of business in-force

The value of business in-force is the present value of future projected profits from the covered business, and it is defined as the certainty equivalent value of business in-force less frictional costs, time value of options and guarantees, and cost of non market risk. These components are explained below.

Certainty equivalent value is the value calculated using discount rates consistent with those applied to the underlying cash flows in the capital markets. It includes the intrinsic value but excludes the time value of options and guarantees which is allowed for separately, as described below.

Frictional costs reflect a deduction for the cost of holding shareholder capital. Under the Group's market consistent framework, these frictional costs represent tax in respect of future investment income on total available capital plus investment management costs. In Germany, they also include the policyholders' share of investment income on the capital.

The application of frictional costs to the total capital of each life business is in line with the Group's holistic approach to the EV. The tax and costs in respect of total capital will in practice have to be met, and it is appropriate therefore that this is allowed for in the EV. For the purpose of these calculations, required capital is assumed to run down in line with existing business. Free surplus is also assumed to run down in line with existing business except where there are specific plans for the earlier distribution of the free surplus.

For any life business where part of the capital requirements can be met by free assets other than shareholders' net assets, the frictional costs allow only for the amount of capital supported by shareholders.

The allowance for frictional costs is included both in the value of business in-force, and in the new business value. For new business, frictional costs are applied to the minimum solvency margin required to be held in respect of that business.

No allowance is made for "agency costs" as these are considered to be subjective and depend on the view of each shareholder.

Time value of options and guarantees represents additional costs in excess of the intrinsic value of options and guarantees which are already allowed for in the certainty equivalent value. These are based on the variability of investment returns which need to be allowed for explicitly under the European Embedded Value Principles. The time value has been calculated on a market consistent basis using stochastic modeling techniques, and making allowance for expected management and policyholder behavior.

For products with significant guarantees, the time value has been calculated on a market consistent basis by deducting the average present value of shareholder cash flows using 1,000 stochastic economic simulations from the certainty equivalent value (both for the value of business in-force and for new business value). For most products, the average value has been calculated using Monte Carlo simulations. For a small number of products, the time value of options and guarantees has been derived using closed form solutions.

Where appropriate, the calculation of the time value of options and guarantees makes allowance for:

- dynamic actions that would be taken by Management under different economic simulations, for example to implement a life business' investment strategy; and
- dynamic policyholder behavior, for example changes in surrender behavior as interest rates rise or fall, or take-up rates of guaranteed annuity options.

Cost of non market risk is an explicit additional deduction from the value of in-force business, over and above the frictional costs, reflecting an allowance for the impact on shareholder value of variability in insurance, business and operational risks.

The Group's approach to the cost of non market risk is based on a valuation of the potential impacts on shareholder value of variance in certain best estimate assumptions to allow explicitly, at product level, for insurance (mortality, longevity and morbidity), business and operational risk.

The mortality, morbidity, persistency and expense assumptions used to calculate the value of business in-force and new business value are best estimates based on recent past experience. To the extent that the impact on shareholder value of variations in experience around the best estimate is symmetrical (for example, where the loss on a 10% increase in expenses is equal and opposite to the profit on a 10% reduction), and not correlated with investment markets, no further allowance for non market risk would be required. In such circumstances, the risk is considered to be diversifiable, and financial markets do not charge a risk premium for diversifiable risks.

However, in certain cases this symmetry does not hold, and the Group considers that it is appropriate to make explicit allowance for this within the EV.

Currently, no consensus exists in the market as to the best way to allow for non market risk, and this issue will be kept under review as best practice emerges. In the meantime, the allowance made in the EV represents Management's view of an appropriate adjustment for the costs of non market risk taking into account the different risk profiles in its life businesses.

f) New business

New business covers new contracts sold during the reporting period and includes recurring single premiums; new premiums written during the period on existing contracts; and variations to premiums on existing contracts where these premiums and variations have not previously been assumed as part of business in-force. Where recurring single premiums are projected over time to derive the corresponding new business value, they are

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treated as annual premium for the volume definition. Group Life business which is valued with a renewal assumption of the contracts is treated as annual premium.

The new business is valued as at point of sale. Explicit allowance is made for frictional costs, time value of options and guarantees, and cost of non market risk. New business value is valued consistently with new business volumes.

The value generated by new business written during the period is the present value of the projected stream of after tax distributable profits from that business.

In certain profit sharing funds, the new business written can affect the time value of options and guarantees for business written in prior years, and this effect is taken into account in the new business value.

g) New business methodology enhancement

The methodology for the new business value calculation has been enhanced so that the quarterly new business is valued on a discrete basis. From 2007, new business value has been calculated separately for each quarter using assumptions, both operating and economic, as of the start of the relevant quarter. New business strain is also calculated on a quarterly discrete basis, meaning that it takes account only of cash flows during that quarter and makes no allowance for any subsequent reduction in strain during the remainder of the period. Once calculated, the new business value will not change in local currency terms. Comparative results for 2006 have not been restated for this change.

h) Asset and liability data used

For 2007, the Group has adopted a combination of approaches for obtaining the asset and liability data and for performing the EV calculations.

- The majority of the Group's EV, has been calculated using a "hard close" approach. This means that all asset as well as liability data reflect the actual position as of the valuation date.
- Spain has used asset and liability data as of November 30 with adjustments made to asset data to reflect the change in swap curves between November 30 and December 31. New business value allows for all business written to December 31.
- Germany has used initial asset and liability data as of September 30, which have been projected to December 31 allowing for expected investment performance, new business, and policy movements. Adjustments have been made to the projected data to reflect actual positions such as policyholder bonus reserves as of December 31. New business value has been adjusted to allow for all business written to December 31.

i) Market consistent discounting

The Group has adopted a "bottom-up" market consistent approach for the projection and discounting of future cash flows in the calculation of the EV. As a result, the risks inherent in the cash flows are allowed for in a way that is consistent with the way the market is expected to allow for such risks.

In principle, this method values each cash flow using a discount rate consistent with that applied to such a cash flow in the capital markets. For example, an equity cash flow is valued using an equity risk discount rate, and a bond cash flow is valued using a bond discount rate. If a higher return is assumed for equities, the equity cash flow is discounted at this higher rate.

In practice, the Group has applied a computational method known as a "risk neutral" approach. This involves projecting the assets and liabilities using a distribution of asset returns where all asset types, on average, earn the same risk free rate.

The risk free yield curve assumptions are based on the swap curve in each major currency (US dollars, Euros, British pounds sterling and Swiss francs).

For liabilities where payouts are either independent or move linearly with markets, deterministic techniques (referred to as "certainty equivalent") have been used. In such cases, the projection and discounting are based on the same risk free yield curve.

j) Economic scenario generator

For 2007, all operations have used actual yield curves observable as of December 31 for the calculation of the certainty equivalent value of business in-force.

The calculations of the time value of options and guarantees are based on stochastic simulations using an Economic Scenario Generator ("ESG") provided by Barrie & Hibbert. The outputs ("simulations") have been calibrated to conform to the economic parameters specified by the Group. The approaches used to prepare these simulations are described below.

- For all business except Spain, the simulations used for calculation of time value of options and guarantees reflect the actual yield curves observable as of December 31, 2007 and implied volatilities quoted by a number of investment banks as of December 31.
- For Spain the simulations used for calculation of time value of options and guarantees reflect the yield curves observable as of November 30 and implied volatilities quoted by a number of investment banks as of November 30.

Simulations are produced for the economies in the US, UK, Switzerland and the Euro-Zone. In each economy, risk free nominal interest rates are modeled using a LIBOR market model. The excess return on other asset classes relative to the total returns on risk free assets are then modeled using a multi-factor lognormal model. Hong Kong uses US dollar simulations as their principal liabilities are US dollar denominated. Chile uses closed form solutions rather than simulations. The other operations not mentioned above have no significant options and guarantees. Further details are set out under "Economic assumptions" in section 5.

k) Corporate Center costs

Corporate Center costs that relate to covered business have been allocated to the relevant companies and included in the projected expenses.

l) Holding companies

Holding companies that belong to Global Life have been consolidated in the EV at their local statutory net asset value. Related expenses are small and so have been excluded from the projection assumptions. Holding companies outside Global Life are not included in the EV of the covered business.

m) Consolidation adjustments

Where a reinsurance arrangement exists between two life companies in Global Life, the value of the reinsurance is shown in the EV of the ceding company. This has no material impact on the reported results.

EV is shown net of minority holdings. Where the Group has a majority interest in a subsidiary company, the new business value and the premium information are shown gross of minority holdings. The minorities' share of new business value is eliminated through "operating variance, after tax".

n) Debt

Where a loan exists between a company in Global Life and a Group company not within Global Life, the loan is valued for EV purposes consistently with the value shown in the Group's IFRS financial statements.

o) "Look through" principle – Service companies

There are some companies within Global Life that provide administration and distribution services. These are valued on a "look through" basis. The results do not include any Group service companies outside Global Life.

In the UK, a multi-tie distribution company (Openwork) has replaced the former tied distribution network. This is included in the EV on a "look through" basis. After allowance for certain one-off expenses, profits and losses are attributed to new business value. Certain future revenue streams, mainly renewal commissions on business sold, are discounted and contribute to the new business value and to the value of business in-force.

In Germany, the majority of distribution and administration is provided by service companies. These are valued on a "look through" basis. These companies also provide limited services to companies outside Global Life, and the present value of the profits and losses on these services are included in the EV and the new business value.

In Switzerland, an investment management company provides asset management services to external pension schemes written in foundations and other pension funds. The present value of the net asset management fees, after tax, is included in the EV and the new business value.

p) Employee pension schemes

For 2007 reporting, the Group adopted the Statement of Recognized Income and Expense (SoRIE) option under IAS 19 Employee Benefits to recognize actuarial gains and losses arising from defined benefit pension and other defined benefit post-retirement plans as a liability. The adjustment to the EV for the IAS 19 Employee Benefits

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deficits is noted in section 2.b. The actuarial and economic assumptions used for this adjustment are consistent with that used for the equivalent allowance made in the Group's Consolidated IFRS Financial Statements.

As previously reported, expense assumptions for each life business include expected pension scheme costs in respect of future service entitlements.

q) Employee share options

The costs of share options granted to employees are not included in the EV, other than to the extent that they are allowed for in the local statutory accounts upon which the shareholders' net assets are based. Further information on the costs of share options is given in the Group's IFRS financial statements.

r) Change in legislation or solvency regime.

The impacts of changes in legislation or solvency regime are included in economic variance for the purpose of the analysis of movement.

s) Conversion to Group presentation currency

To align embedded value reporting with the Group's consolidated IFRS Financial Statements, 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. This approach has also been applied to the analysis of movement. Previously these results were converted to Group presentation currency, US dollar, using start of year exchange rates. Valuations continue to be converted at end-of-period exchange rates.

5. Embedded Value assumptions

Projections of future shareholder cash flows expected to emerge from covered business are determined using best estimate operating assumptions. These assumptions, including mortality, morbidity, persistency and expenses, reflect recent experience and are actively reviewed. Allowance is made for future improvements in annuitant mortality based on experience and externally published data. Favorable changes in operating experience are not anticipated until the improvement has been observed – in particular for expenses.

Future economic assumptions, for example, investment returns and inflation, are based on period end conditions and assumed risk discount rates are consistent with these. For new business, from 2007, the future economic (and operating) assumptions are based on start of the relevant quarter assumptions.

a) Economic assumptions

Market consistent framework

The Group has adopted a computational method known as “risk neutral”. With this method the key economic assumptions are:

- the risk free rates;
- the implied volatilities of different assets; and,
- the way that different asset returns are correlated with each other.

Expected asset returns in excess of the risk free rate have no bearing on the calculated EV other than the expected return for the analysis of movement.

Choice of “risk free yield curve”

The risk free yield curve is derived from mid-market swap rates applicable to each economy as of December 31, 2007. 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 the risk free yield curves, expressed as annualized spot rates, used at various terms for the main economies covered by the EV. These have been derived from interest rate swaps, and extrapolated where necessary.

The risk free yield curves as of September 31, 2007 were derived using a similar procedure. The assumptions as of September 31, 2007 are required to determine the new business value for policies written during the fourth quarter of 2007.

Table 5.1

as of December 31, 2007

Risk free yield curves – Annualized spot rates	Table 5.1 as of December 31, 2007						
	1 Year	2 Year	5 Year	10 Year	20 Year	40 Year	
Economy							
United States	4.2%	3.8%	4.2%	4.8%	5.1%	5.1%	
United Kingdom	5.7%	5.2%	5.1%	5.0%	4.7%	4.5%	
Euro Zone	4.7%	4.5%	4.6%	4.7%	5.0%	4.9%	
Switzerland	3.0%	2.9%	3.1%	3.4%	3.7%	3.7%	

Table 5.2

as of September 30, 2007

Risk free yield curves – Annualized spot rates	Table 5.2 as of September 30, 2007						
	1 Year	2 Year	5 Year	10 Year	20 Year	40 Year	
Economy							
United States	4.9%	4.6%	4.9%	5.3%	5.5%	5.6%	
United Kingdom	6.2%	5.7%	5.6%	5.4%	5.0%	4.7%	
Euro Zone	4.7%	4.5%	4.5%	4.7%	4.9%	4.9%	
Switzerland	3.0%	2.9%	3.2%	3.5%	3.8%	3.8%	

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

Implied asset volatility

The volatility statistics shown below are based on analysis of the 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 EV 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.

Table 5.3

as of December 31, 2007

**At-the-money-
forward equity
implied volatility
(capital index)**

	1 Year	2 Year	5 Year	10 Year	20 Year	40 Year
Index						
United States (S&P 500)	23.0%	23.3%	24.7%	26.4%	28.6%	32.1%
United Kingdom (FTSE 100)	23.9%	25.4%	26.3%	27.5%	28.1%	29.2%
Euro Zone (Eurostoxx)	20.7%	23.4%	26.5%	27.6%	28.8%	29.3%
Switzerland (SMI)	20.5%	21.5%	22.4%	23.5%	24.2%	25.0%

Table 5.4

as of September 30, 2007

**At-the-money-
forward equity
implied volatility
(capital index)**

	1 Year	2 Year	5 Year	10 Year	20 Year	40 Year
Index						
United States (S&P 500)	20.3%	22.0%	23.7%	26.1%	28.9%	32.5%
United Kingdom (FTSE 100)	21.5%	22.3%	23.8%	26.0%	26.9%	29.1%
Euro Zone (Eurostoxx)	22.8%	24.7%	26.8%	28.2%	29.5%	30.4%
Switzerland (SMI)	18.9%	20.3%	21.4%	22.6%	23.6%	24.3%

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 the term of the underlying swap contract. The following tables show swaption implied volatilities, based on the simulations used for the EV calculation:

Table 5.5
as of December 31, 2007

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

	1 year option	2 year option	5 year option	10 year option	20 year option	40 year option
US dollar						
1 year swap	24.4%	23.6%	22.4%	20.7%	16.4%	13.7%
2 year swap	23.9%	23.1%	21.9%	20.3%	16.1%	13.6%
5 year swap	22.3%	21.6%	20.6%	19.1%	15.1%	13.4%
10 year swap	20.0%	19.4%	18.7%	17.4%	13.7%	13.1%
20 year swap	17.0%	16.4%	16.0%	15.0%	11.8%	12.4%
British pound sterling						
1 year swap	16.5%	15.1%	14.6%	13.6%	12.3%	11.2%
2 year swap	16.0%	14.7%	14.3%	13.3%	12.1%	11.1%
5 year swap	14.9%	13.8%	13.5%	12.7%	11.7%	10.9%
10 year swap	13.5%	12.8%	12.6%	11.9%	11.2%	10.6%
20 year swap	12.2%	11.8%	11.7%	11.1%	10.6%	10.2%
Euro						
1 year swap	15.4%	14.8%	14.1%	13.7%	11.9%	10.5%
2 year swap	15.1%	14.5%	13.8%	13.5%	11.7%	10.4%
5 year swap	14.4%	13.8%	13.2%	12.9%	11.3%	10.1%
10 year swap	13.3%	12.8%	12.3%	12.3%	10.7%	9.7%
20 year swap	11.9%	11.5%	11.2%	11.4%	9.9%	9.1%
Swiss Franc						
1 year swap	22.0%	21.4%	19.5%	16.7%	13.1%	9.5%
2 year swap	21.2%	20.6%	18.8%	16.1%	12.6%	9.1%
5 year swap	18.9%	18.4%	16.9%	14.4%	11.4%	8.2%
10 year swap	15.9%	15.4%	14.2%	12.4%	9.7%	7.0%
20 year swap	12.0%	11.8%	11.2%	10.0%	7.6%	5.5%

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Table 5.6
as of September 30, 2007

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

	1 year option	2 year option	5 year option	10 year option	20 year option	40 year option
US dollar						
1 year swap	21.5%	20.4%	19.0%	17.4%	13.9%	12.8%
2 year swap	21.1%	20.0%	18.6%	17.0%	13.7%	12.6%
5 year swap	19.7%	18.7%	17.4%	15.9%	12.9%	12.1%
10 year swap	17.8%	16.9%	15.7%	14.4%	11.8%	11.4%
20 year swap	15.1%	14.4%	13.4%	12.4%	10.2%	10.4%
British pound sterling						
1 year swap	15.6%	14.6%	13.7%	12.4%	11.9%	12.0%
2 year swap	15.0%	14.1%	13.3%	12.2%	11.8%	11.9%
5 year swap	13.7%	13.0%	12.5%	11.7%	11.5%	11.6%
10 year swap	12.4%	11.9%	11.7%	11.2%	11.2%	11.3%
20 year swap	11.3%	11.1%	11.2%	11.0%	10.7%	10.7%
Euro						
1 year swap	13.5%	14.4%	13.2%	12.2%	11.4%	9.3%
2 year swap	13.3%	14.2%	13.0%	12.0%	11.2%	9.2%
5 year swap	12.7%	13.6%	12.5%	11.5%	10.8%	8.9%
10 year swap	11.9%	12.7%	11.7%	10.9%	10.2%	8.4%
20 year swap	10.7%	11.5%	10.7%	10.0%	9.2%	7.7%
Swiss Franc						
1 year swap	20.8%	20.2%	18.2%	15.9%	13.0%	9.8%
2 year swap	20.1%	19.6%	17.6%	15.4%	12.6%	9.6%
5 year swap	18.3%	17.9%	16.1%	14.1%	11.6%	8.8%
10 year swap	15.8%	15.5%	14.1%	12.5%	10.3%	7.8%
20 year swap	12.6%	12.5%	11.6%	10.4%	8.4%	6.4%

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:

Table 5.7
as of December 31, 2007

**At-the-money-
forward property
implied volatility
(capital index)**

	1 Year	2 Year	5 Year	10 Year	20 Year	40 Year
Economy						
United States	15.5%	15.7%	16.1%	17.7%	20.4%	21.5%
United Kingdom	16.0%	15.5%	16.6%	16.9%	18.3%	19.3%
Euro Zone	15.2%	14.8%	15.2%	15.9%	18.5%	21.2%
Switzerland	15.0%	14.8%	15.2%	16.2%	17.4%	18.3%

Table 5.8

as of September 30, 2007

At-the-money-forward property implied volatility (capital index)	Table 5.8					
	1 Year	2 Year	5 Year	10 Year	20 Year	40 Year
Economy						
United States	15.5%	15.5%	15.5%	17.1%	19.2%	22.1%
United Kingdom	16.2%	16.3%	17.6%	17.4%	17.8%	18.8%
Euro Zone	15.0%	14.8%	15.3%	15.5%	16.9%	19.9%
Switzerland	15.7%	15.5%	15.9%	16.9%	17.9%	18.9%

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 stochastically modeled economies, derived from the simulations used in the EV:

Table 5.9

as of December 31, 2007

Inflation assumptions (annualized forward inflation)	Table 5.9					
	1 Year	2 Year	5 Year	10 Year	20 Year	40 Year
Economy						
United States	2.5%	2.0%	2.2%	2.5%	2.6%	2.5%
United Kingdom	2.6%	2.3%	2.6%	3.0%	3.4%	3.8%
Euro Zone	2.4%	2.2%	2.1%	2.2%	2.3%	2.2%
Switzerland	0.9%	0.8%	0.8%	1.1%	1.6%	1.9%

Table 5.10

as of September 30, 2007

Inflation assumptions (annualized forward inflation)	Table 5.10					
	1 Year	2 Year	5 Year	10 Year	20 Year	40 Year
Economy						
United States	2.1%	1.8%	2.1%	2.4%	2.6%	2.6%
United Kingdom	3.4%	2.9%	2.9%	3.1%	3.3%	3.9%
Euro Zone	1.9%	1.9%	2.0%	2.2%	2.2%	2.0%
Switzerland	1.0%	0.8%	0.9%	1.1%	1.5%	1.8%

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.

"Expected return" for the analysis of movement – Investment return assumptions

The expected return for the analysis of movement is based on a projection from beginning of period to end-of-period. This requires assumptions regarding the investment returns expected to be achieved over the period on different asset classes. The investment return assumptions (for this purpose only) are based on the "real world" returns expected by the Group. The use of real world investment assumptions gives a more realistic basis for the expected return calculation and allows for the risk underlying each asset. Any under or over performance will be reported through economic variance.

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For fixed interest assets, the “real world” investment return assumptions are based on the gross redemption yield on the assets, less an allowance for defaults where appropriate, together with an adjustment to reflect the change over the year implied in the yield curve assumptions.

For equity and property assets, the investment return assumptions are based on the 10 year swap rate at the beginning of period plus a margin to reflect the additional risk associated with investment in these asset classes.

These assumptions have been set by asset class and separately for each sub-fund in each life business in order to best reflect the actual assets held.

Participating business

Rates of future bonus or crediting rates have been set at levels consistent with the risk neutral investment return assumptions and current bonus plans. In the UK, bonus rates have been set so as to exhaust any remaining assets in the relevant long-term funds. In other European life businesses and in the US, bonuses have been set to be consistent with the investment return assumptions and with the book value approach used by these life businesses in practice.

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

EV for December 31, 2007 and December 31, 2006 have been converted to the Group presentation currency; US dollar, using the respective balance sheet exchange rates. The rates can be found on page 13 of the Financial Supplement. The analysis of movements, including new business, has been translated at average exchange rates over the period.

b) Operating assumptions

Demographic assumptions

The assumed future mortality, morbidity and lapse rates have been derived from recent operating experience and relevant industry statistics. Where operating experience or industry statistics are limited, the assumptions are derived from a best estimate of future developments and are subject to regular review as more experience emerges. Where appropriate, surrender and option take-up rate assumptions that vary according to the investment simulation under consideration have been used, based on our assessment of likely policyholder behavior.

Expense assumptions

Management expenses have been analyzed between expenses related to acquisition of new business, the maintenance of in-force business and, where appropriate, one-off project costs. Future expense assumptions allow for expected levels of maintenance expenses. In addition, Corporate Center expenses relating to covered business have been allocated to business units and are reflected in assumed future expenses.

The maintenance expense assumptions allow for the expected cost of providing future service benefits in respect of the Group staff pension schemes. An adjustment to the EV is noted in section 2.b for pension scheme liabilities under IAS 19 and no allowance is made in the expense assumptions for any contributions as a result of past service benefits.

No allowance has been made for future productivity improvements in the expense assumptions.

None of the life companies included in the EV is considered to be in a “start-up” situation and so no allowance has been made for future development expenses.

Where service companies have been valued on a look through basis, the value of profits or losses arising from these services have been included in the EV and new business value.

c) Dynamic decisions

To reflect more realistically the outcome of stochastic simulations, the assumptions for each simulation make allowance for the behaviors of policyholders and management actions in response to the investment conditions modeled.

In many life businesses, policyholders can exercise an option against the life company in certain circumstances, such as to surrender a policy. This leads to an increase in the assumed lapse rates when interest rates rise (or a corresponding reduction when interest rates fall). This dynamic effect in relation to lapse rates has been allowed for in the stochastic models.

As investment conditions change, where a business unit's investment policy indicates that management would expect to alter the investment portfolio (e.g. the mix between equities and fixed interest for profit sharing sub-funds), this expected action has been included in the stochastic models.

Embedded Value Report

6. Statement of External Review

Zurich Financial Services, Mythenquai 2, CH-8002 Zurich, Switzerland

Dear Sirs,

Independent report on Embedded Value methodology and assumptions

In accordance with our letter of engagement dated 7 January 2008, we have performed a limited assurance engagement on Zurich Financial Services' process for preparing Embedded Value Information for the year ended 31 December 2007 ("Embedded Value Information"), including methodology and assumptions.

The Board of Directors of Zurich Financial Services is responsible for the Embedded Value Information, including the methodology and the assumptions. Our responsibility is to provide conclusions on the subject matter based on our work.

We have reviewed the methodology and assumptions used for preparing the Embedded Value Information and the process of compilation of the Embedded Value Information.

Our engagement was carried out in accordance with International Standard on Assurance Engagements (ISAE) 3000. This standard requires that we comply with ethical requirements and plan and perform the engagement to obtain limited assurance on the subject matter of the review. In the engagement, we performed analytical procedures to assess whether the methodology and assumptions utilized are in accordance with the European Embedded Value ("EEV") principles. In addition we undertook procedures to assess the consistent application of the methodologies. We did not carry out an audit or review of the Embedded Value Information or of the models or of the underlying data.

In our opinion nothing has come to our attention which indicates that the methodology as applied by Zurich Financial Services does not comply with EEV principles and has not been implemented consistently, or that the assumptions determined by Zurich Financial Services are not reasonable to derive the Embedded Value Information.

Yours faithfully,

PricewaterhouseCoopers AG

R Marshall

M Humphreys

Zurich, February 13, 2008

Embedded Value Report

Embedded Value – Global Life

**Embedded Value
Results –
Global Life**

in USD millions, for the years ended December 31

	United States		United Kingdom	
	2007	2006	2007	2006
New business premiums including deposits, of which:	194	186	6,221	5,921
Annual premiums	110	105	338	253
Single premiums	84	80	5,883	5,668
New business annual premium equivalent (APE)	119	113	926	820
Present value of new business premiums (PVNBP)	1,053	1,039	8,087	7,192
Embedded value information:				
Opening Embedded Value, as previously reported	2,326	2,167	5,133	4,619
Operating profit expected from in-force business and shareholders' net assets, after tax	159	152	315	288
New business value, after tax	108	59	121	100
Operating variance, after tax	19	56	25	(321)
Total operating profit, after tax	286	267	461	67
Economic variance	(48)	(7)	(172)	(128)
Embedded Value profit/(loss), after tax	237	260	289	(61)
Dividends and capital movements	(131)	(100)	(613)	(51)
Foreign currency translation effects	0	0	71	626
Closing Embedded Value after foreign currency translation effects, of which:	2,432	2,326	4,880	5,133
Shareholders' net assets	645	652	2,383	2,536
Value of business in-force	1,787	1,675	2,498	2,597
Adjusted operating return on opening EV	12.3%	12.3%	8.8%	1.3%
Adjusted return on opening EV	10.2%	11.9%	5.5%	(1.2%)
Adjusted expected return on opening EV	6.8%	7.0%	6.0%	5.8%
New business margin, after tax (as % of APE)	90.8%	52.0%	13.1%	12.2%
New business margin, after tax (as % of PVNBP)	10.2%	5.7%	1.5%	1.4%

¹ Comparative 2006 figures for Switzerland have been restated. More details can be found in section 2g.

Germany		Switzerland ¹		Rest of Europe		International Businesses		Total ¹	
2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
971	1,434	406	332	4,429	3,838	562	402	12,783	12,112
526	466	70	63	595	407	215	138	1,854	1,432
445	968	336	269	3,834	3,431	347	264	10,929	10,680
570	563	104	90	979	750	249	164	2,947	2,500
5,292	4,970	989	810	7,047	5,636	1,314	951	23,781	20,598
1,296	846	1,570	1,045	2,667	2,017	1,099	987	14,092	11,680
59	39	135	91	165	116	55	64	889	750
184	133	33	35	198	160	85	52	729	539
41	54	187	66	40	57	(34)	71	277	(17)
283	226	354	192	404	334	106	187	1,895	1,272
95	156	(6)	97	(9)	62	57	(29)	(83)	150
378	382	349	289	395	396	163	157	1,811	1,422
235	(46)	(153)	143	(3)	(6)	14	(64)	(651)	(123)
178	114	130	93	238	261	67	19	683	1,112
2,087	1,296	1,895	1,570	3,297	2,667	1,344	1,099	15,935	14,092
1,410	960	256	125	1,471	1,277	817	675	6,982	6,224
676	336	1,639	1,445	1,825	1,391	527	424	8,953	7,868
20.0%	26.4%	22.2%	17.3%	14.7%	15.6%	9.5%	19.7%	13.1%	10.5%
26.6%	44.6%	21.8%	26.1%	14.3%	18.5%	14.6%	16.6%	12.5%	11.7%
4.1%	4.6%	8.5%	8.2%	6.0%	5.4%	5.0%	6.8%	6.1%	6.2%
32.3%	23.7%	31.4%	38.8%	20.3%	21.4%	34.0%	31.6%	24.7%	21.6%
3.5%	2.7%	3.3%	4.3%	2.8%	2.8%	6.5%	5.5%	3.1%	2.6%

Embedded Value Report

Embedded Value – Rest of Europe by country

Embedded Value Results – Rest of Europe	Italy	
	2007	2006
in USD millions, for the years ended December 31		
New business premiums including deposits, of which:	806	881
Annual premiums	43	16
Single premiums	763	866
New business annual premium equivalent (APE)	119	102
Present value of new business premiums (PVNBP)	1,011	951
Embedded Value information:		
New business value, after tax	22	22
Total operating profit, after tax	63	4
Adjusted operating return on opening EV	14.3%	1.1%
New business margin, after tax (as % of APE)	18.3%	21.2%
New business margin, after tax (as % of PVNBP)	2.2%	2.3%

Spain		Ireland		ZIS		Other European Countries		Rest of Europe	
2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
523	630	1,501	1,077	1,457	1,104	142	146	4,429	3,838
16	20	167	114	342	231	28	26	595	407
507	610	1,334	963	1,115	873	115	120	3,834	3,431
66	81	301	210	453	319	39	38	979	750
619	744	2,240	1,593	2,861	2,033	316	314	7,047	5,636
14	17	69	49	93	65	1	7	198	160
37	64	130	106	160	140	14	21	404	334
9.3%	24.1%	12.5%	13.0%	23.2%	25.9%	7.4%	14.6%	14.7%	15.6%
20.8%	21.1%	23.0%	23.2%	20.4%	20.5%	2.1%	19.7%	20.3%	21.4%
2.2%	2.3%	3.1%	3.1%	3.2%	3.2%	0.3%	2.4%	2.8%	2.8%

Holding Company

Principal activity and review of the year

Zurich Financial Services is the holding company of the Group with a listing on the SWX Swiss Exchange. Zurich Financial Services was incorporated on April 26, 2000, with a share capital of CHF 100,000. As of December 31, 2007, the shareholders' equity totaled CHF 17,352,291,968 (December 31, 2006: CHF 16,779,678,184).

Its principal activity is the holding of subsidiaries. Revenues consist mainly of dividends and interest. The net income of Zurich Financial Services was CHF 1,973,433,008 for 2007 (CHF 1,187,995,724 for 2006).

On February 14, 2007 the Board of Zurich Financial Services authorized a share buyback of up to CHF 1.25 billion over the course of 2007. As of June 30, 2007, 3,432,500 fully paid shares, with nominal value CHF 0.10, have been bought back at an average price of CHF 364.00 per share. A proposal to cancel all repurchased shares will be submitted to shareholders at the Annual General Meeting on April 3, 2008.

Zurich Financial Services Holding Company – Financial Statements

Income statements

in CHF thousands, for the years ended December 31

	Notes	2007	2006
Revenues			
Interest income		217,530	222,442
Dividend income		1,911,973	1,000,000
Other financial income		20,380	1,138
Total revenues		2,149,883	1,223,580
Expenses			
Administrative expense	3	(12,497)	(10,892)
Other financial expense	4	(141,757)	(1,965)
Tax expense	5	(22,196)	(22,727)
Total expenses		(176,450)	(35,584)
Net income		1,973,433	1,187,996

Balance sheets

in CHF thousands, as of December 31		Notes	2007	2006	
Assets	Non-current assets				
	Investments in subsidiaries	6	10,953,361	10,662,917	
	Subordinated loans to subsidiaries		4,000,000	4,000,000	
	Total non-current assets		14,953,361	14,662,917	
	Current assets				
	Cash and cash equivalents		1,960,745	1,771,345	
	Loans to subsidiaries		640,870	271,777	
	Own shares		1,140,448	–	
	Accrued income from third parties		3,526	550	
	Accrued income from subsidiaries		99,341	100,430	
	Total current assets		3,844,930	2,144,102	
	Total assets		18,798,291	16,807,019	
	Liabilities and shareholder's equity	Short-term liabilities			
		Loans from subsidiaries		1,408,167	1,230
		Other liabilities to subsidiaries		8,618	2,848
		Other liabilities to third parties		22,281	23,050
		Other liabilities to shareholders		167	213
Accrued liabilities			6,767	–	
Total short-term liabilities			1,446,000	27,341	
Shareholders' equity (before appropriation of available earnings)					
Share capital		8	14,555	14,475	
Legal reserves:					
<i>General legal reserve</i>			9,523,631	9,345,159	
<i>Reserve for treasury stock</i>		9	2,028,863	42,799	
Free reserve			3,424,968	5,411,032	
Retained earnings:					
<i>Beginning of the year</i>			1,966,213	1,443,217	
<i>Dividends paid</i>			(1,579,371) ¹	(665,000) ²	
<i>Beginning of the year, adjusted for appropriations</i>			386,842	778,217	
Net income			1,973,433	1,187,996	
Retained earnings, end of year			2,360,275	1,966,213	
Total shareholders' equity (before appropriation of available earnings)			17,352,292	16,779,678	
Total liabilities and shareholders' equity			18,798,291	16,807,019	

¹ Dividends paid in the year, proposed in association with the 2006 result

² Dividends paid in the year, proposed in association with the 2005 result

Zurich Financial Services Holding Company – Financial Statements

Notes to the financial statements

1. Basis of Presentation

Zurich Financial Services presents its financial statements in accordance with Swiss law.

We have changed our presentation for rounding numbers. All amounts in the notes are shown in Swiss franc thousands, rounded to the nearest thousand unless otherwise stated.

2. Summary of significant accounting policies**a) Exchange rates**

Unless otherwise stated, assets and liabilities expressed in currencies other than Swiss francs are translated at year-end exchange rates. Revenues and expenses are translated using the exchange rate at the date of the transaction. Unrealized exchange losses are recorded in the statement of income and unrealized exchange gains are deferred until realized.

b) Investments in subsidiaries

Investments in subsidiaries are equity interests, which are held on a long-term basis for the purpose of the holding company's business activities. They are carried at a value no higher than their cost price less adjustments for impairment.

c) Own shares

Own shares are held at lower of cost or market value.

3. Administrative expense

Administrative expense consists mainly of directors' fees of CHF 3,745,570 (prior year CHF 2,936,941), see note 11 page 249, and overhead fees of CHF 7,000,000 (prior year CHF 8,000,000). With effect from January 1, 2007 the directors' fees paid for their work in connection with Zurich Financial Services and the Zurich Insurance Company were combined into a single fee.

4. Other financial expense

Other financial expense includes a CHF 109 million write-down in the value of own shares to market value.

5. Taxes

The tax expense consists of income, capital and other taxes.

6. Investments in subsidiaries

Investments in subsidiaries include a 57.7% interest in Zurich Group Holding with a carrying value of CHF 6,354,745,913 (prior year CHF 6,064,302,120) and a 100% interest in Allied Zurich Limited, with a carrying value of CHF 4,595,865,096 (prior year CHF 4,595,865,096). Allied Zurich Limited holds the remaining 42.3% interest in Zurich Group Holding. During 2007 Zurich Financial Services has purchased from Allied Zurich Limited, 0.7% of Zurich Group Holding's shares, for a value of CHF 290,443,793. Additionally, Zurich Financial Services holds 49,000 shares of Zurich Insurance Company with a book carrying value of CHF 2,750,190 (prior year CHF 2,750,190).

7. Commitments and contingencies

Zurich Financial Services has provided unlimited guarantees in support of various entities belonging to the Zurich Capital Markets group of companies and to Farmers Group Inc. In addition, Zurich Financial Services has agreed with the Superintendent of Financial Institutions, Canada, to provide additional capital in case the applicable capital adequacy tests for the Canadian business are not met and to provide assistance in case of liquidity issues.

Furthermore, Zurich Financial Services has entered into various support agreements and a guarantee for the benefit of certain of its subsidiaries. These contingencies amounted to CHF 5,501 million as of December 31, 2007 (CHF 4,061 million as of December 31, 2006).

Zurich Financial Services knows of no event that would require it to satisfy the guarantees or to take action under a support agreement.

8. Shareholders' equity

a) Issued share capital

As of December 31, 2007, Zurich Financial Services had 145,546,820 issued and fully paid registered shares of CHF 0.10 par value, amounting to a share capital of CHF 14,554,682.00. As of December 31, 2006, the share capital amounted to CHF 14,474,939.90, divided into 144,749,399 fully paid registered shares of CHF 0.10 par value.

The shareholders at the Annual General Meeting of April 3, 2007 approved the increase of the contingent share capital for the issuance of new registered shares to employees of the Group from CHF 75,755.60 by CHF 324,244.40 to a new maximum of CHF 400,000 by issuing up to 4,000,000 registered shares payable in full with a nominal value of CHF 0.10 each. During the year 2007, a total of 797,421 shares have been issued to employees. As a result, 145,546,820 fully paid shares with a nominal value of CHF 0.10 were issued as of December 31, 2007, amounting to a share capital of CHF 14,554,682.00.

In the previous year, the Board of Directors approved on February 15, 2006, the issuance of a maximum of 1,000,000 out of the 1,500,000 dividend-paying shares from the contingent share capital to employees. At the Annual General Meeting on April 20, 2006, shareholders approved a share capital reduction in the form of a nominal value reduction of each share from CHF 2.50 to CHF 0.10. At the effective date of the nominal value reduction on July 3, 2006, Zurich Financial Services had 144,565,255 issued and fully paid shares, including 558,300 shares issued out of the contingent capital. As a result of this reduction, the share capital was reduced by CHF 346,956,612 from CHF 361,413,137.50 to a new total of CHF 14,456,525.50. As of December 31, 2006 a total of 742,444 shares were issued to employees from contingent share capital. As a consequence, 144,749,399 fully paid shares with a nominal value of CHF 0.10 were issued as of December 31, 2006, amounting to a share capital of CHF 14,474,939.90.

b) Authorized share capital

Until June 1, 2008, the Board of Zurich Financial Services is authorized to increase the share capital by an amount not exceeding CHF 600,000 by issuing up to 6,000,000 fully paid registered shares with a nominal value of CHF 0.10 each. An increase in partial amounts is permitted. The Board determines the date of issue of such new shares, the issue price, type of payment, conditions for exercising pre-emptive rights, and the beginning of the dividend entitlement. The Board may issue such new shares by means of a firm underwriting by a banking institution or syndicate with subsequent offer of those shares to the current shareholders. The Board may allow the expiry of pre-emptive rights which have not been exercised, or it may place these rights as well as shares, the pre-emptive rights of which have not been exercised, at market conditions.

The Board is further authorized to restrict or withdraw the pre-emptive rights of shareholders and to allocate them to third parties if the shares are to be used for the take-over of an enterprise, or parts of an enterprise or of participations or if issuing shares for the financing including re-financing of such transactions; or for the purpose of expanding the scope of shareholders in connection with the quotation of shares on foreign stock exchanges.

c) Contingent share capital

Capital market instruments and option rights to shareholders:

The share capital of Zurich Financial Services may be increased by an amount not exceeding CHF 548,182.80 by the issuance of up to 5,481,828 fully paid registered shares with a nominal value of CHF 0.10 each (1) by exercising of conversion and/or option rights which are granted in connection with the issuance of bonds or similar debt instruments by Zurich Financial Services or one of its Group companies in national or international capital markets; and/or (2) by exercising option rights which are granted to the shareholders. When issuing bonds or similar debt instruments connected with conversion and/or option rights, the pre-emptive rights of the shareholders will be excluded. The current owners of conversion and/or option rights shall be entitled to subscribe for the new shares. The conversion and/or option conditions are to be determined by the Board.

The Board of Directors is authorized, when issuing bonds or similar debt instruments connected with conversion and/or option rights, to restrict or withdraw the right of shareholders for advance subscription in cases where such bonds are issued for the financing or re-financing of a takeover of an enterprise, of parts of an enterprise, or of participations. If the right for advance subscription is withdrawn by the Board, the convertible bond or warrant issues are to be offered at market conditions (including standard dilution protection provisions in accordance with market practice) and the new shares are issued at then current convertible bond or warrant issue conditions. The conversion rights may be exercisable during a maximum of 10 years and option rights for a

Zurich Financial Services Holding Company – Financial Statements

maximum of 7 years from the time of the respective issue. The conversion or option price or its calculation methodology shall be determined in accordance with market conditions, whereby for shares of Zurich Financial Services the quoted share price is to be used as a basis.

Employee participation:

Subject to shareholder approval to increase the contingent share capital for the issuance of new registered shares to employees of the Group from CHF 75,755.60 by CHF 324,244.40 to a new maximum of CHF 400,000 by issuing up to a maximum of 4,000,000 registered shares payable in full with a nominal value of CHF 0.10 each, the Board of Directors of Zurich Financial Services decided on February 14, 2007, to allow the issuance of up to 4,000,000 shares out of the contingent share capital to employees of the Group. A respective proposal for the increase of the contingent share capital was made by the Board of Directors to the shareholders and was approved at the Annual General Meeting of April 3, 2007. Until December 31, 2007, 797,421 shares of this contingent share capital have been issued. Consequently, as of the same date, the remaining contingent capital, which can be issued to employees of Zurich Financial Services and Group companies, amounts to CHF 320,257.90 or 3,202,579 fully paid registered shares with a nominal value of CHF 0.10 each. The pre-emptive rights of the shareholders, as well as the right for advance subscription, are excluded. The issuance of shares or respective option rights to employees shall be subject to one or more regulations to be issued by the Board of Directors and shall take into account performance, functions, levels of responsibility and criteria of profitability. Shares or option rights may be issued to the employees at a price lower than that quoted on the stock exchange.

9. Reserve for treasury shares

This reserve fund corresponds to the purchase value of all Zurich Financial Services shares held by Group companies of Zurich Financial Services as shown in the table below.

Reserve for treasury shares	Number of shares 2007	Purchase value 2007 ¹	Number of shares 2006	Purchase value 2006 ¹
As of January 1	161,451	42,799	192,027	49,623
Additions during the year	5,907,200	2,057,251	110,000	35,008
Sales during the year	(229,497)	(71,186)	(140,576)	(41,448)
Decrease due to nominal value reduction of common stock				(384)
As of December 31	5,839,154	2,028,863	161,451	42,799
Average purchase price of additions, in CHF		348		318
Average selling price, in CHF		367		281

¹ in CHF thousands

10. Shareholders

The shares registered in the share ledger as of December 31, 2007, were owned by 107,660 shareholders of which 102,074 were private individuals holding 18.7% of the shares (or 11.7% of all outstanding shares), 2,124 were foundations and pension funds holding 7.1% of the shares (or 4.4% of all outstanding shares), and 3,462 were other legal entities holding 74.2% of the shares (or 46.3% of all outstanding shares).

According to the information available to us on December 31, 2007, no shareholder of Zurich Financial Services held more than 5% of the voting rights of the issued share capital.

Information required by art. 663c paragraph 3 of the Swiss Code of Obligation on the share and option holdings of the members of the Board of Directors and the members of the Group Executive Committee are disclosed in note 12.

11. Remuneration of the Board of Directors and the Group Executive Committee for 2007

This note sets out details of the compensation of the Board of Directors and of the members of the Group Executive Committee (GEC) in accordance with the information required by art. 663b^{bis} of the Swiss Code of Obligations, effective for the first time for the business year 2007. This information should be read in connection with the unaudited Remuneration Report, set out on pages 54 to 67, in which additional details of the remuneration principles and plans can be found.

The compensation paid to the Board of Directors is paid entirely by Zurich Financial Services, the holding company of the Group. The compensation paid to the members of the GEC is not paid by Zurich Financial Services but by the Group entities where they are employed. The compensation shown below includes the compensation of the members of the Board and the GEC received for all their functions in the Group. As the financial statement of the holding company is presented in Swiss francs, all figures are shown in Swiss francs, despite the fact that the fees paid by Zurich Financial Services to the Directors are defined in US dollars. To be consistent with the figures in the unaudited Remuneration Report the totals of the remuneration paid to the members of the Board and the GEC are also presented in US dollars, as set out in that report.

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Remuneration of Directors

The following table sets out the total fees paid to the Directors of Zurich Financial Services. All the Directors are also Directors of the Zurich Insurance Company and with effect from January 1, 2007 the fees paid for their work in connection with Zurich Financial Services and the Zurich Insurance Company were combined into a single fee. Further, in 2007 a fixed portion of the total fee was allocated towards the provision of sales-restricted Zurich Financial Services shares. The portion for the Chairman was set at USD 193,500 (CHF 234,616) and the portion for the other members at USD 68,500 (CHF 83,055). The overall fees are set out in the following table:

Directors' fees	2007 ²							
	in CHF ¹	Basic Fee	Committee Fee ³	Chair Fee ⁴	US Residence Fee ⁵	Total Fee	Of which paid in Cash ⁶	Of which allocated in Shares ^{7,8}
M. Gentz, Chairman ⁹		703,242	–	–	–	703,242	468,626	234,616
Ph. Pidoux, Vice Chairman ⁹		400,120	–	–	–	400,120	317,065	83,055
Th. Escher, Member		248,560	48,499	–	–	297,059	214,004	83,055
R.E.J. Gilmore, Member ^{10,11}		64,212	12,529	–	–	76,741	76,741	–
F. Kindle, Member		248,560	48,499	–	–	297,059	214,004	83,055
D.G. Mead, Member ¹⁰		64,212	12,529	6,265	3,131	86,137	86,137	–
A. Meyer, Member		248,560	48,499	–	–	297,059	214,004	83,055
D. Nicolaisen, Member		248,560	48,499	24,249	12,125	333,433	250,378	83,055
V.L. Sankey, Member ¹²		248,560	48,499	17,985	–	315,044	231,989	83,055
G. Schulmeyer, Member		248,560	48,499	36,374	12,125	345,558	262,503	83,055
T. de Swaan, Member		248,560	48,499	–	–	297,059	214,004	83,055
R. Watter, Member		248,560	48,499	–	–	297,059	214,004	83,055
Total in CHF ¹³		3,220,266	413,050	84,873	27,381	3,745,570 ¹	2,763,459	982,111
Total in USD		2,655,918	340,666	70,000	22,583	3,089,167 ¹	2,279,167	810,000

¹ The total fees (including the portion allocated in shares) provided to Directors in 2007 by Zurich Financial Services amounted to CHF 3,745,570, calculated on the basis of the exchange rates at the dates of payment. This amount is reflected in the income statement of the holding company. As the fees of the Directors are actually defined in US dollars and the total of fees in US dollars amounts to USD 3,089,167, the average exchange rate for the year is USD/CHF 1.2125. All figures shown in Swiss francs in the above table have been translated from US dollars using this average exchange rate.

² The remuneration shown in the table does not include any business related expenses incurred in the performance of the members' services.

³ Committee members receive a cash fee of USD 40,000 (CHF 48,499) for all Committees on which they serve, irrespective of the number. The Committees on which the members serve are set out in the unaudited Corporate Governance Report, on page 35.

⁴ Committee chairs receive an annual fee of USD 20,000 (CHF 24,249) and the chair of the Audit Committee receives an additional USD 10,000 (CHF 12,125). The Committees on which the members serve and the chairs are set out in the unaudited Corporate Governance Report, on page 35.

⁵ Directors who reside in the United States receive a fee of USD 10,000 (CHF 12,125) per annum.

⁶ The cash fees are defined in US dollars, but paid in the actual currencies where the members reside, based on the relevant exchange rate at the dates of payment.

⁷ Mr Gentz was allocated 617 shares and the other members 218 shares as per June 30, 2007. The share price (CHF 389.50) and the exchange rate (USD/CHF 1.2422) as of June 15, 2007, were adopted to calculate the number of shares based on the fixed portion of the fee allocated in shares for the respective members. Where the value of the allocated shares did not equal the value of the portion of the fee to be allocated in shares, the difference was paid in cash. The amounts shown in the table above reflect the equivalents in Swiss francs of the fixed amounts in USD of the portions of the fees to be allocated in shares, calculated based on the average exchange rate as set out in footnote 1 above.

⁸ The shares allocated to the Directors are sales-restricted for three years.

⁹ Neither the Chairman nor the Vice Chairman receive any additional fees for their Committee work.

¹⁰ Mrs Gilmore and Mr Mead retired from the Board of Directors on April 3, 2007 and received pro rata fees for their Board work up to that date.

¹¹ In addition to the remuneration set out in the table, the company paid contributions for Mrs Gilmore into a group health insurance plan in the UK until her retirement in April 2007 at a cost of USD 631 (CHF 765).

¹² Mr Sankey became Chairman of the Remuneration Committee on April 3, 2007 following the retirement of Mr Mead. He received a pro rata fee for being Chair.

¹³ In line with applicable laws, Zurich paid the company related portion of contributions to social security systems, which amounted to USD 68,439 (CHF 82,981) in 2007. Any personal contributions of the Directors to social security systems are included in the amounts shown in the table above.

The Directors' fees are not pensionable. None of the Directors received any benefits-in-kind or any other compensation than set out in the table above.

During 2007, two Directors gave up their function. No termination payments were made.

As of December 31, 2007, none of the Directors had outstanding loans, advances or credits.

No benefits (or waiver of claims) have been provided to former members of the Board during the year 2007.

Neither had any former member of the Board outstanding loans, advances or credits as of December 31, 2007.

Also, no benefits (or waiver of claims) have been provided to related parties to Directors or related parties to former members of the Board during the year 2007. Neither had any related party to Directors or to former members of the Board outstanding loans, advances or credits as of December 31, 2007.

Remuneration of Group Executive Committee

The total remuneration of the members of the GEC for 2007 comprised the value of cash compensation, pensions, other remuneration and the value of the target equity grants made under the Group's Long-Term Incentive Plan in 2007. Overall compensation is set out in the following table:

Remuneration of Group Executive Committee	2007 ²	
	All GEC members (incl. the highest paid) ³	Highest paid Executive James J. Schiro Chief Executive Officer
in CHF million ¹		
Base compensation	13.5	1.8
Cash incentive awards earned for 2007	24.1	3.4
Service costs for pension benefits ⁴	4.7	1.1
Value of other remuneration ⁵	4.4	0.4
Value of the target performance share and restricted share grants ⁶	13.0	2.7
Value of target performance option grants ⁶	9.7	2.7
Total in CHF⁷	69.4	12.1
Total in USD as shown in the Remuneration Report	57.6	10.3

¹ The figures have been translated from US dollars into Swiss francs using the relevant exchange rates throughout the year.

² The remuneration shown in the table does not include any business related expenses incurred in the performance of the members' services.

³ On the basis of 12 GEC members of whom ten served during the whole year 2007.

⁴ The amounts reflect the total value of the pension benefits accruing to members of the GEC during 2007, calculated on the basis of the Service Costs for the company as assessed under IAS 19 accounting principles. Service Costs value the amount of the pension benefits accruing during the year and for defined contribution plans takes the amount of the company contribution paid during the year. Service Costs do not include the interest cost on accrued benefits, adjustments for actuarial gains and losses, nor the expected return on any assets held.

⁵ Includes employee benefits, expatriate allowances, perquisites, benefits-in-kind and any other payments due under the employment contract. Benefits-in-kind have been valued using market rates.

⁶ The share and share option grants will vest in the future according to achievement of defined performance conditions (for further details please refer to the unaudited Remuneration Report, p. 54–57). The value of the share and share options assumes that the grant will vest in the future at 100% of the target level with the valuation of the options based on the Black Scholes methodology as set out in note 23 to the consolidated financial statements, the valuation of the target performance share grants based on the share price at the day prior to the grants (CHF 355.75) and the valuation of the restricted share grants based on the share price at the date of the grants.

⁷ In line with applicable laws where the executives are employed, Zurich paid the company related portion of contributions to social security systems, which amounted to USD 2.6 million (CHF 3.1 million) in 2007. Since the contributions are based on full earnings, whereas benefits are capped, there is not a direct correlation between the costs paid to the social security system and the benefits received by the executives.

As of December 31, 2007, the total of loans, advances or credits outstanding for GEC members was CHF 1,091,000 (USD 910,000). These loans represent mortgage loans, the terms of which are similar to those available to all employees in Switzerland. Mortgage loans are issued with a reduced interest rate of up to one percentage point less than the prevailing market interest rates on mortgage balances, up to a maximum of CHF 1,500,000 (USD 1,250,000). As at December 31, 2007, the highest mortgage loan was held by Mr. Lehmann (currently Group Chief Risk Officer), in the amount of CHF 791,000 (USD 660,000) which had an overall interest rate of 2.3%.

During 2007 one of the GEC members gave up his function. No termination payments were made.

No benefits (or waiver of claims) have been provided to former members of the GEC during the year 2007. Former members of the GEC are eligible to continue their mortgage loans following retirement on similar terms as when they were employed, in line with the terms available to employees in Switzerland as stated above. In this respect, one former member, Mr. Eckert, held an outstanding mortgage loan of CHF 3,000,000 (USD 2,500,000) as at December 31, 2007, with a reduced interest rate of 2.25% applying on the first CHF 1,500,000 (USD 1,250,000). Apart from this, no former members of the GEC had any outstanding loans, advances or credits as of December 31, 2007.

Also, no benefits (or waiver of claims) have been provided to related parties to GEC members or related parties to former members of the GEC during the year 2007. Neither had any related party to GEC members or to former members of the GEC outstanding loans, advances or credits as of December 31, 2007.

Zurich Financial Services Holding Company – Financial Statements

12. Shareholdings of the Board of Directors and the Group Executive Committee as of December 31, 2007

This note sets out the share and share option holdings of the Directors and of the members of the Group Executive Committee (GEC), who held office at December 31, 2007, in accordance with the information required by art. 663c paragraph 3 of the Swiss Code of Obligations. This information is also included in the unaudited Remuneration Report, set out on pages 54 to 67, in which additional details can be found.

Shareholdings of Directors

Directors' shareholdings	Number of Zurich Financial Services shares as of December 31, 2007	Ownership of shares ¹
	M. Gentz, Chairman	2,117
	Ph. Pidoux, Vice Chairman	2,218
	Th. Escher, Member	4,218
	F. Kindle, Member	2,218
	A. Meyer, Member	1,542
	D. Nicolaisen, Member	218
	V.L. Sankey, Member	1,388
	G. Schulmeyer, Member	2,218
	T. de Swaan, Member	218
	R. Watter, Member	3,186
	Total	19,541

¹ None of the Directors together with related parties to them held more than 0.5% of the voting rights as of December 31, 2007.

All interests are beneficial, include sales-restricted shares allocated to the members as part of their fee and shares held by related parties to the Directors.

None of the Directors, nor any related party to a Director, hold any share options or conversion rights over Zurich Financial Services shares as of December 31, 2007.

Share and share option holdings of the Group Executive Committee members

The following table sets out the actual share and share option holdings of the GEC members as of December 31, 2007. In addition to any shares acquired in the market, the numbers include vested shares, whether sales-restricted or not, and vested share options received under the Group's Long-Term Incentive Plan. However, the table does not include the share interests of the members of the GEC through their participation in the currently unvested performance shares, unvested restricted shares or unvested performance share options.

All interests are beneficial and include Zurich Financial Services shares or share options held by related parties to the GEC members. One vested option gives the right to one share with normal voting and dividend rights. Further details on the overall number of share options allocated under the Group's Long-Term Incentive Plan and the terms of the options are set out in the table "Summary of outstanding options".

Share and vested share option holdings of the GEC members	Ownership of shares	Ownership of vested options over shares ²
Number of shares and share options as of December 31, 2007 ¹		
J.J. Schiro, Chief Executive Officer ³	64,790	173,516
J. Amore, Chief Executive Officer General Insurance	17,220	73,880
A. Court, Chief Executive Officer Europe General Insurance ⁴	–	–
M. Greco, Designated Chief Executive Officer Global Life ⁵	–	–
P. Hopkins, Chief Executive Officer Farmers Group, Inc	4,765	26,290
A. Lehmann, Chief Executive Officer North America Commercial	10,813	39,421
P. O'Sullivan, Vice Chairman and Chief Growth Officer	19,739	49,031
G. Riddell, Chief Executive Officer Global Corporate	8,752	28,446
M. Senn, Chief Investment Officer	2,553	3,719
P. van de Geijn, Chief Executive Officer Global Life	6,993	24,889
D. Wemmer, Chief Financial Officer	5,565	19,549
Total	141,190	438,741

¹ None of the GEC members together with related parties to them held more than 0.5% of the voting rights as at December 31, 2007, either directly or through share options.

² The distribution of the vested options according to the grants identified in the table "Summary of outstanding options" is shown in the table below.

³ Includes an amount of 2,000 shares for Mr. Schiro which are held by family run charitable foundations.

⁴ Joined the Group on January 15, 2007.

⁵ Joined the Group on October 1, 2007.

The following table shows how the totals of the vested share options owned by the GEC members are distributed according to the grants identified in the table "Summary of outstanding options".

Zurich Financial Services Holding Company – Financial Statements

Distribution of vested share options

Number of vested share options as of December 31, 2007	2006	2005	2004	2003	2002	2001	Total
J.J. Schiro	29,108	71,994	24,198	32,589	15,627	–	173,516
J. Amore ¹	5,822	16,456	15,913	11,595	12,502	11,592	73,880
A. Court	–	–	–	–	–	–	–
M. Greco	–	–	–	–	–	–	–
P. Hopkins	4,367	10,284	3,779	4,746	1,718	1,396	26,290
A. Lehmann	4,367	9,874	8,632	10,363	3,961	2,224	39,421
P. O'Sullivan	5,064	12,342	11,647	15,084	2,587	2,307	49,031
G. Riddell	3,968	9,670	6,373	5,694	1,503	1,238	28,446
M. Senn	3,719	–	–	–	–	–	3,719
P. van de Geijn	4,409	10,754	9,726	–	–	–	24,889
D. Wemmer	3,719	7,710	2,628	3,290	1,231	971	19,549
Total	64,543	149,084	82,896	83,361	39,129	19,728	438,741

¹ The distribution of Mr. Amore's options for 2001 comprises 9,142 under grant b and 2,450 under grant a.

The following table sets out additional details of the options outstanding for members of the GEC as at December 31, 2007. Further details can be found in the unaudited Remuneration Report, pages 54 to 67.

Summary of outstanding options

Year of grant	Number of options vested	Number of options unvested	Total number of shares under option	Exercise price per share CHF	Year of expiry
2007	–	142,690	142,690	355.75	2014
2006	64,543	76,359	140,902	308.00	2013
2005	149,084	46,269	195,353	206.40	2012
2004	82,896	–	82,896	213.25	2011
2003	83,361	–	83,361	120.50	2010
2002	39,129	–	39,129	331.10	2009
2001b	9,142	–	9,142	322.30	2012
2001a	10,586	–	10,586	492.55	2008
Total	438,741	265,318	704,059		

Proposed appropriation of available earnings

	2007	2006
Registered shares eligible for dividends		
Shares eligible as of December 31, 2007 and 2006, respectively	145,546,820	144,749,399

in CHF thousands	2007	2006
Appropriation of available earnings as proposed by the Board of Directors		
Net income	1,973,433	1,187,996
Balance brought forward	386,842	778,217
Retained earnings	2,360,275	1,966,213
Dividend	(2,183,202) ²	(1,579,371) ¹
Transfer to general legal reserve	–	–
Balance carried forward	177,073²	386,842¹

¹ These figures are based on the issued and outstanding share capital on April 9, 2007. The proposed dividend published in the Annual Report 2006 was CHF 1,592,243 thousand resulting in a balance carried forward of CHF 373,970 thousand. The difference is due to the purchase of treasury shares and the share buyback program and a resolution of the Board of Directors on February 14, 2007, according to which, contingent capital share for employees has been issued (as described in note 8).

Treasury shares and shares held for cancellation by Zurich Financial Services are not entitled to dividends.

² These figures are based on the issued and outstanding share capital as of December 31, 2007. They may change following a resolution of the Board of Directors dated February 14, 2007, according to which the remaining contingent capital shares for employees may be issued (as described in note 8). Treasury shares and shares held for cancellation by Zurich Financial Services are not entitled to dividends.

The Board of Directors proposes a dividend of CHF 15.00 per share to the Annual General Meeting on April 3, 2008.

If this proposal is approved, a payment of CHF 9.75 per share, after deductions of 35% Swiss withholding tax, is expected to be paid starting from April 8, 2008, free of charge and in accordance with dividend payment instructions.

Zurich, February 13, 2008

On behalf of the Board of Directors of Zurich Financial Services

Manfred Gentz

Report of Statutory Auditors

Report of statutory auditors

To the General Meeting of Zurich Financial Services, Zurich

As statutory auditors, we have audited the accounting records and the financial statements (income statements, balance sheets and notes on page 244 to 254) of Zurich Financial Services for the year ended December 31, 2007.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings on page 255 comply with Swiss law and the Company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

M Humphreys

C Stöckli

Auditor in charge

Zurich, February 13, 2008



Shareholder Information

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Shareholder Information

Zurich Financial Services registered share data

Key indicators	as of December 31	2007	2006
	Number of shares issued		145,546,820
Number of dividend-bearing shares		145,546,820	144,749,399
Market capitalization (in CHF millions)		48,394	47,478
Authorized capital, number of shares		6,000,000	6,000,000
Contingent capital, number of shares		5,481,828	6,239,384

Per share data	in CHF	2007	2006
	Gross dividend		15.00 ¹
Basic earnings per share		46.88	39.74
Diluted earnings per share		46.37	39.52
Book value per share, as of December 31		228.25	210.06
Nominal value per share		0.10	0.10
Price at end of period		332.50	328.00
Price period high		393.25	330.50
Price period low		296.00	251.75

¹ Proposed gross dividend, subject to approval by shareholders at the Annual General Meeting 2008; expected payment date is on April 8, 2008.



Dividend/ payout history	Financial Year	Gross amount per registered share in CHF	Payment date
Dividend	2007	15.00 ¹	April 8, 2008 ¹
Dividend	2006	11.00	April 10, 2007
Dividend/nominal value reduction	2005	7.00	July 4, 2006
Nominal value reduction	2004	4.00	July 4, 2005
Nominal value reduction	2003	2.50	July 1, 2004
Nominal value reduction	2002	1.00	July 15, 2003

¹ Proposed gross dividend, subject to approval by shareholders at the Annual General Meeting 2008; expected payment date is on April 8, 2008.

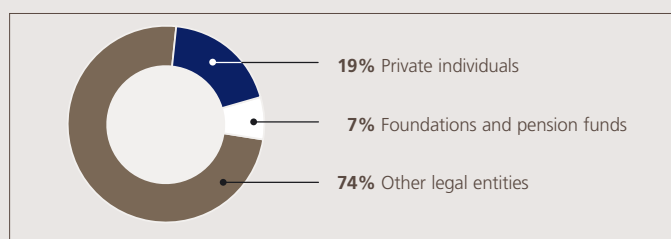
Share trading

Zurich Financial Services shares are listed on the SWX Swiss Exchange and traded on the "EU-regulated" segment of virt-x; ticker symbol: ZURN; the Swiss security number (Valorenummer) is 1107539. Trading in Zurich Financial Services shares on virt-x is conducted in Swiss francs. 100 percent of the shares are in free float.

Share buyback program 2007

Zurich Financial Services has completed the share buyback program of CHF 1.25 billion announced on February 15, 2007. Between February 22, 2007 and July 2, 2007, Zurich Financial Services bought back 3,432,500 of its registered shares via a second trading line of virt-x and at an average price of CHF 364 (rounded) per share. The number of repurchased shares reflects 2.36 percent of the share capital issued at the end of June 2007. Zurich Financial Services will submit a proposal to its shareholders at the Annual General Meeting 2008 to reduce the share capital in the amount of the repurchased shares and to cancel the shares.

Zurich Financial Services shareholders registered in the share ledger



The shares registered in the share ledger as of December 31, 2007 were owned by 107,660 shareholders, of whom 102,074 were private individuals holding 18.7 percent of the registered shares (or 11.7 percent of all outstanding shares), 2,124 were foundations and pension funds holding 7.1 percent of the registered shares (or 4.4 percent of all outstanding shares), and 3,462 were other legal entities holding 74.2 percent of the registered shares (or 46.3 percent of all outstanding shares).

According to the information available to us, as of December 31, 2007, only Barclays Plc, 1 Churchill Place, London, United Kingdom, along with its subsidiaries, has exceeded the threshold of 3 percent by holding a purchase position of 4.25 percent of the share capital and the voting rights of Zurich Financial Services entered in the Commercial Register.

Securities custody service

Zurich offers its shareholders the opportunity to deposit a range of Zurich Financial Services securities free of charge at S A G SIS Aktienregister AG in Switzerland. The securities deposit regulations as well as the application form for a securities custody account can be downloaded from S A G's Web site: www.sag.ch.

Shareholder Information

Financial calendar

Annual General Meeting 2008

April 3, 2008

Dividend – record date

April 7, 2008

Ex-dividend date

April 8, 2008¹

Dividend payable

April 8, 2008¹

¹ Expected payment date; subject to approval by shareholders at the Annual General Meeting 2008.

Results Reporting for the Three Months to March 31, 2008

May 15, 2008

Half Year Results Reporting 2008

August 13, 2008

Results Reporting for the Nine Months to September 30, 2008

November 13, 2008

Publications

Business Review 2007

The Business Review contains information about Zurich's products, services and business performance, including a short summary of financial information. It is available in German, French and English.

Financial Report 2007

The Financial Report contains detailed information about Zurich's financial performance, its structure, executive bodies, risk management, corporate governance and remuneration. It is available in German, French and English, with the financials in English only.



For more information
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American Depositary Receipts

Zurich Financial Services has an American Depositary Receipt program with The Bank of New York (BNY), a subsidiary of The Bank of New York Mellon. For more information call BNY Mellon's Shareowner Services in the USA at +1-888-BNY-ADRs (1-888-269-2377) or outside the USA on +1-212-815-3700. ADR holder assistance may also be obtained from The Bank of New York Mellon at www.adrbny.com.

Glossary

Agent

A person acting as an independent contractor for one insurance company, called an exclusive or tied agent, or for multiple companies, called an independent agent, authorized to represent those companies to insureds. In life insurance an agent is also called a life underwriter and is responsible for sales and service of policies.

American Depositary Receipt (ADR)

Also called AD shares. They are US dollar denominated certificates representing shares of non-US companies created primarily for use by American investors as a way to invest in foreign companies using American currency.

Annual Premium Equivalent

New annual premiums plus 10 percent of single premiums. APE is an industry standard measure of life insurance new business volume.

Broker

Similar to an independent agent, however without the qualification of legal representative. Brokers advise and assign policies of their clients to insurance companies in exchange for commissions.

Business Operating Profit (BOP)

Zurich's internal metric for assessing performance. It reflects adjustments for taxes, net capital gains/losses (excluding Capital Markets & Banking), policyholders' share of investment results for the life business, and significant items attributable to special circumstances.

Business Segment

We have primary and secondary segments. Our primary segments are General Insurance, Global Life, Farmers Management Services, Other Businesses and Corporate Functions. Our secondary segments are geographic: North America, Europe, International Businesses and Central Region.

Combined Ratio

A critical measure of success for an insurance company. The sum of the loss ratio, expense ratio and policyholder dividends and participation in profit ratio for a general insurance company or a reinsurance company. A combined ratio below 100 generally indicates profitable underwriting. A combined ratio over 100 generally indicates unprofitable underwriting. An insurance company with a combined ratio over 100 may be profitable to the extent net investment results exceed underwriting losses.

Consolidated Financial Statements

Include the assets, liabilities, equity, revenues, expenses and cash flows of a company and its subsidiaries. The results of subsidiaries acquired are included from the date of acquisition. The results of subsidiaries that have been sold during the reporting period are included up to the date of disposal. All significant intercompany balances, profits and transactions are eliminated.

Distribution Channel

A way of delivering products and services to target customers, as part of a chosen market strategy. Our distribution channels include our own sales force, independent financial advisers, franchisees, brokers, banks, affinity groups and direct marketing.

Embedded Value

Method of measuring profitability commonly used by life insurance companies. It is equal to the net asset value of the company, plus the present value of the projected stream of future after-tax profits on in-force insurance contracts. In July 2006 Zurich announced the adoption of the European Embedded Value principles, using a "bottom-up" market consistent approach to allow explicitly for market risk.

Expense Ratio

The ratio of general insurance or reinsurance operating expenses (acquisition costs, plus policy administration expenses, less reinsurance commission and profit participation, plus other technical expenses) to net premiums earned. These operating expenses are also referred to as technical expenses.

Gross Written Premiums and Policy Fees (GWP)

The total premium we charge our customers for insurance, including certain fees.

Income Statement

Zurich's financial statement that summarizes revenues and expenses for a specific period. Also known as an operating statement or profit and loss statement.

International Financial Reporting Standards (IFRS)

Formerly IAS (International Accounting Standards). This is the Group's accounting standard.

Key Performance Indicators (KPIs)

Quantifiable measurements that reflect the critical success factors of an organization. They help define and measure progress toward organizational goals. Some of our KPIs are: return on equity, combined ratio and business operating profit for our General Insurance operations, new business profit margins, embedded value operating returns after tax, and business operating profit for our Global Life operations.

Net Income After Tax (NIAT)

Generally defined, this is total revenues (primarily premiums earned, fee revenue and investment result) less total benefits, losses and expenses less income tax.

Net Written Premiums (NWP)

Gross written premiums (GWP) less the portion ceded to reinsurers.

Net Underwriting Result

The remaining profit/(loss) after deducting insurance losses and other technical expenses from net earned premiums.

New Business Margin

The value added by new business at point of sale, divided by the new business premiums written over the period (measured on an Annual Premium Equivalent basis (APE)).

New Business Value

The present value of the projected after-tax stream of profits from new life insurance contracts sold in the year.

Performance Management

Process which links the Strategic Direction and Key Success Factors to organizational and individual goals, actions, measurements, performance appraisals and rewards.

Return on Equity (ROE)

ROE tells shareholders how effectively their money is being used. It also shows how a company compares with its competitors. ROE is the amount, expressed as a percentage, of the net income for a given period available to common stock shareholders, divided by the average shareholders' equity.

Shareholders' Equity

A measure of balance-sheet strength. Also known as net worth, it is a company's total assets minus its total liabilities and minority interests. It consists of common and preferred securities deducted by treasury shares (issued shares that have been reacquired by the company), additional paid-in capital, retained earnings (accumulated earnings of the company since its inception, less dividends) and valuation differences not reflected in the income statement.

Zurich Basics

Zurich's core values and basic principles. Zurich Basics, together with Zurich's General Compliance Rules for Employees, constitutes our Group's code of conduct.

The Zurich Way

A unique Zurich approach to the delivery of our products and services, and the performance of our internal business practices, designed to drive profitable growth by ensuring a consistent, best-in-class customer experience on a world-wide basis.

Disclaimer & Cautionary Statement

Certain statements in this document are forward-looking statements, including, but not limited to, statements that are predicated on or indicate future events, trends, plans or objectives. Forward-looking statements include statements regarding our targeted profit improvement, return on equity targets, expense reductions, pricing conditions, dividend policy and underwriting claims improvements. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results and Zurich Financial Services' plans and objectives to differ materially from those expressed or implied in the forward looking statements (or from past results). Factors such as (i) general economic conditions and competitive factors, particularly in our key markets; (ii) performance of financial markets; (iii) levels of interest rates and currency exchange rates; (iv) frequency, severity and development of insured claims events; (v) mortality and morbidity experience; (vi) policy renewal and lapse rates; and (vii) changes in laws and regulations and in the policies of regulators may have a direct bearing on Zurich Financial Services' results of operations and on whether Zurich Financial Services will achieve its targets. Zurich Financial Services undertakes no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information, future events or circumstances or otherwise.

This communication is directed only at persons who (i) have professional experience in matters relating to investments or (ii) are persons falling within Article 49 (2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (as amended) or to whom it may otherwise lawfully be communicated (all such persons together being referred to as relevant persons). This communication must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this communication relates is available only to relevant persons and will be engaged in only with relevant persons.

It should be noted that past performance is not a guide to future performance.

Persons requiring advice should consult an independent adviser.

THIS COMMUNICATION DOES NOT CONTAIN AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES; SECURITIES MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES ABSENT REGISTRATION OR EXEMPTION FROM REGISTRATION, AND ANY PUBLIC OFFERING OF SECURITIES TO BE MADE IN THE UNITED STATES WILL BE MADE BY MEANS OF A PROSPECTUS THAT MAY BE OBTAINED FROM THE ISSUER AND THAT WILL CONTAIN DETAILED INFORMATION ABOUT THE COMPANY AND MANAGEMENT, AS WELL AS FINANCIAL STATEMENTS.

The Financial Report is published in English, German and French. In the case of inconsistencies in the German and French translations, the English original version shall prevail.

Design by Addison Corporate Marketing Ltd., London.

Photography by David Oliver, England and Elisabeth Real, Switzerland.

Production by Management Digital Data AG, Schlieren, Switzerland.

Printed end of February 2008 by St Ives Westerham Press Ltd., England.

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