

# 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 2002 Directive on Information Relating to Corporate Governance of the SWX Swiss Exchange. It also explains how, in 2006, the Group complied with the Swiss Code of Best Practice for Corporate Governance, issued in 2002 by the Swiss Business Federation. Furthermore, the Group continues to publish an Internal Control Statement (see page 71) in accordance with the Turnbull Guidance issued in the United Kingdom.

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 it against best practice standards and ensures compliance with corporate governance requirements.

An effective structure is in place providing for cooperation among 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 autonomy to the Board.

This report follows the recommended structure outlined by the Directive of the SWX Swiss Exchange. The chapter on compensation, shareholdings and loans is the subject of a separate report, the Remuneration Report, 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 line of business and geography, and this is mirrored in the areas of responsibilities assigned to the members of the GEC, which is headed by the CEO and includes the Chief Operating Officer, the Group Finance Director, the Chief Investment 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. The Group has created a new function of Chief Growth Officer. This function will be included in the composition of the GEC from March 1, 2007; as of the same date the function of Chief Operating Officer will desist. For further information on the GEC please refer to pages 64 to 67.

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

- General Insurance operations write substantially all lines of property and casualty business
  - General Insurance is managed through the following business divisions: Global Corporate, North America Commercial, Europe General Insurance, International Businesses and Group Reinsurance
- Global Life operations offer a broad range of life insurance, annuity and investment-type policies to individuals and groups and are managed globally, on a country-by-country operational basis
- Farmers Management Services consists of the management services provided by Farmers Group, Inc., and its subsidiaries to the Farmers Exchanges, which the Group manages but does not own
- Other Businesses includes Farmers Re, capital markets and banking activities, the Centre operations and centrally managed insurance operations
- 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 2006 and is divided as follows: North America, Europe, International Businesses and Central Region.

A detailed review of the respective business segment and division results and activities during 2006 can be found in the Financial Review of the Financial Report starting on page 2 and is available on the Web site [www.zurich.com](http://www.zurich.com) ([http://zdownload.zurich.com/main/2006\\_financial\\_report\\_en.pdf](http://zdownload.zurich.com/main/2006_financial_report_en.pdf)).

Zurich Financial Services has a primary listing on the SWX Swiss Exchange and until October 2, 2006 had a secondary listing on the London Stock Exchange, from which it delisted on that date. Certain Group companies have listed debt issues under the Euro Medium Term Note Programme and other financial instruments, while the preferred share issue was redeemed during 2006.

A list of the Group's significant subsidiaries including additional information on share listings of significant subsidiaries can be found in the Financial Report on pages 118 to 121 and is available on the Web site [www.zurich.com](http://www.zurich.com) ([http://zdownload.zurich.com/main/2006\\_financial\\_report\\_en.pdf](http://zdownload.zurich.com/main/2006_financial_report_en.pdf)). For further information on the share listings of Zurich Financial Services, see Shareholder Information on pages 96 to 98.

#### Significant shareholders

Zurich Financial Services is not aware of any person who, as of December 31, 2006, directly or indirectly, had an interest as beneficial owner in the shares of Zurich Financial Services representing 5% or more of its issued shares. It is also not aware of any persons who, as of December 31, 2006, directly or indirectly, alone or with others, exercised or were a party to any arrangements to exercise control over Zurich Financial Services.

#### 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, 2006, the ordinary share capital of Zurich Financial Services amounted to CHF 14,474,939.90 divided into 144,749,399 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, 2007 a regular dividend of CHF 11.00 per share before tax.

#### Authorized and contingent share capital

As of December 31, 2006, the Board of Directors of Zurich Financial Services had 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 had a contingent share capital of CHF 548,182.80 representing 5,481,828 registered shares with a nominal value of CHF 0.10 each. Moreover, there is an additional contingent share capital of CHF 75,755.60, representing 757,556 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 note 23 on pages 92 to 95 in the Financial Report, available on [www.zurich.com](http://www.zurich.com) ([http://zdownload.zurich.com/main/2006\\_financial\\_report\\_en.pdf](http://zdownload.zurich.com/main/2006_financial_report_en.pdf)).

#### Changes of share capital

At the Annual General Meeting on April 19, 2005, shareholders approved a share capital reduction in the form of a nominal value reduction of each share from CHF 6.50 to CHF 2.50. As a result of this reduction, the share capital was reduced by CHF 576,027,820 from CHF 936,045,207.50 to a new total of CHF 360,017,387.50. The authorized share capital was reduced to CHF 15,000,000, and the contingent share capital was reduced to CHF 13,704,570 and CHF 3,750,000, respectively. The nominal value reduction was effective as of July 1, 2005.

On February 15, 2006, the Board of Directors approved the issuance of a maximum of 1,000,000 dividend-paying shares from the contingent share capital to employees and consequently has submitted an application to list 1,000,000 registered shares out of contingent capital at the SWX Swiss Exchange. At the Annual General Meeting on April 20, 2006, shareholders approved a further 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 have 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.

For information on changes of share capital during 2004, see the Annual Report 2005 of Zurich Financial Services, Corporate Review, pages 114 to 115, and Financial Report, page 103.

### 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 the 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)<sup>1</sup> or American Depositary Receipts (ADRs).<sup>2</sup> Zurich Financial Services has no participation certificates issued.

### 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, including Lloyds TSB Corporate Nominee Limited, and by The Bank of New York in connection with the Zurich Financial Services' ADR program. Following the de-listing of its shares from the London Stock Exchange (LSE), effective October 2, 2006, Zurich Financial Services plans to withdraw its sponsorship of its Corporate Nominee Service administered by Lloyds TSB Registrars by the end of 2007.

### Convertible bonds and options

Zurich Financial Services had no public convertibles or options outstanding as of December 31, 2006.

For information on employee share option plans, refer to the Financial Report, note 26 on pages 101 to 103, available on [www.zurich.com](http://www.zurich.com) ([http://zdownload.zurich.com/main/2006\\_financial\\_report\\_en.pdf](http://zdownload.zurich.com/main/2006_financial_report_en.pdf)).

<sup>1</sup> 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.

<sup>2</sup> 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 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 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 as depositary 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, 2006

Name	Nationality	Age	Position held	Year of initial appointment	Expiration of current term of office
Manfred Gentz	German	64	Chairman of the Board Chairman of the Governance and Nominations Committee Member of the Remuneration Committee	2005	2008
Philippe Pidoux	Swiss	63	Vice Chairman of the Board Member of the Governance and Nominations Committee Member of the Remuneration Committee	1997 <sup>1</sup>	2009
Thomas Escher	Swiss	57	Director Member of the Audit Committee	2004	2009
Rosalind Gilmore	British	69	Director Member of the Risk Committee	1998 <sup>1</sup>	2007
Fred Kindle	Swiss	47	Director Member of the Remuneration Committee	2006	2008
Dana Mead	American	70	Director Member of the Governance and Nominations Committee Chairman of the Remuneration Committee	1997 <sup>1</sup>	2007
Armin Meyer	Swiss	57	Director Member of the Governance and Nominations Committee	2001	2007
Don Nicolaisen	American	62	Director Chairman of the Risk Committee Member of the Audit Committee	2006	2009
Vernon Sankey	British	57	Director Member of the Remuneration Committee	1998 <sup>1</sup>	2009
Gerhard Schulmeyer	German/ American	68	Director Chairman of the Audit Committee Member of the Risk Committee	1998 <sup>1</sup>	2008
Tom de Swaan	Dutch	60	Director Member of the Risk Committee	2006	2008
Rolf Watter	Swiss	48	Director Member of the Audit Committee	2002	2007

<sup>1</sup> Messrs. Pidoux and Mead have 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"), they assumed office as members 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"). Mrs. Gilmore, 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 Directors are non-executive, independent of management and have never held an executive position in the Group. With the exception of Messrs Don Nicolaisen, Fred Kindle and Tom de Swaan, who joined the Board on April 20, 2006, all of the current Directors have served on the Board throughout the year 2006.

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 May 2005 until March 2006, he was elected 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.

**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.

**Rosalind Edith Jean Gilmore** graduated with a BA degree from London University and an MA degree from Cambridge University. Her career included 26 years in the UK Treasury, where she held various senior appointments, specializing in international and domestic monetary policy and the structure of the UK financial sector. She also worked in the International Bank for Reconstruction and Development and later was marketing director of the UK Girobank. She completed her Government career as executive chairman (First Commissioner) of the regulatory commission for the UK mortgage and savings industry. She was a director of the UK Securities and Investments Board (1993–1996) and member of the Lloyds of London Regulatory Board (1994 – 2000) and of the Banking Advisory Committee of the European Union (1991 to 1994). She has held a variety of part-time directorships in the public, academic and corporate sectors (including BAT Industries from 1996 to 1998), and was a director of Trades Union Fund Managers Ltd. from 2000 to 2006. Mrs Gilmore is a court member of Cranfield University (working with its Business School) and a director of the Royal College of Music. She is a director of the International Women's Forum and chairman of the Leadership Foundation Inc. (Washington DC). She has honorary fellowships in both her former universities.

**Fred Kindle** graduated from the Swiss Federal Institute of Technology (ETH) in Zurich with a master in engineering degree. 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 gained 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. He is a director of the Swiss American Chamber of Commerce and also serves on the board of VZ Holding Ltd., Zurich.

**Dana George Mead** graduated from the US Military Academy at West Point and has a PhD from Massachusetts Institute of Technology. After serving in the US Army from 1957 to 1978, he held various senior management positions and was a member of the board of International Paper Company in New York. In 1992, he was appointed president and member of the board of directors of Tenneco Inc., becoming its chairman and chief executive officer two years later. After a spin-off of Tenneco subsidiaries in 1999, he was chairman of Tenneco Automotive and Pactiv Corporation until March 2000. He serves on the board of Pfizer Inc. and has been chairman of the MIT Corporation since 2003. Mr. Mead is past president of the Royal Shakespeare Company (RSC) America and a member of the board of RSC London. He also serves on the boards of the Boys and Girls Clubs of America and the Citizens Development Corps.

**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 and has been its chief executive officer and chairman since 2001. 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 BA 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.

**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 CEO of that company from 1991 to 1999. Since 2000 he has been chairman of Photo-Me International plc, a director of Cofra AG, Switzerland, since 2001, of Taylor Woodrow plc since 2004 and 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 also 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. He is a non-executive director on the public boards of Alcan Inc., Ingram Micro Inc. and Korn/Ferry International. He is also a board member of the German Industrial Investment Council 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. Since January 1999, he has been a member of the managing board and chief financial officer of ABN AMRO Bank. He retired from ABN AMRO on May 1, 2006, but agreed to continue his services for this bank as an advisor to the managing board, specifically on the topics of economic and financial affairs, and sustainable development. Mr de Swaan is a non-executive member of the board of GlaxoSmithKline, a member of the supervisory board of Royal DSM, a Netherland-based chemical group, and Buhmann, a Netherland-based distributor of office products. He has been nominated as a member of the supervisory board of Royal Ahold, a global retail chain. 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, and 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 the chairman of the board of the Netherlands Opera and treasurer of the board of the Royal Concertgebouw Orchestra and the Netherlands Cancer Institute. 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 Baer and Karrer in Zurich and has been a member of its executive board since 2000. He also teaches as a part-time professor at the University of Zurich's Law School. He is non-executive chairman of Cablecom Holding AG. He is further a member of the boards of directors of Syngenta AG, UBS Alternative Portfolio AG and A.W. Faber-Castell (Holding) AG. He is also non-executive chairman of Almea Stiftung, the foundation presently holding a majority in Swiss International Airlines. In addition, he is a member of the SWX Admission Board and of the Disclosure Commission of Experts of the SWX Swiss Exchange.

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

#### Cross-involvement

There are no arrangements whereby any of the Directors of Zurich Financial Services serves on another company's board in return for Zurich Financial Services agreeing that any of that other company's directors serves on the Board of Zurich Financial Services.

#### 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 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, 2007, the terms of office of Mrs. Gilmore and Messrs. Mead, Meyer and Watter will expire. While Mrs. Gilmore and Mr. Mead will retire from the Board, Messrs. Meyer and Watter have been proposed for re-election by the Board. They will stand for re-election for a term of three years each.

#### 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 at least once a year. In 2005, the Board's self-assessment was carried out under the guidance of an external expert on the basis of a comprehensive questionnaire. This assessment was deepened in 2006 by conducting comprehensive interviews with all Board members, the Board Secretary, the CEO and the members of the GEC. A 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. Were the roles not separated, the Vice Chairman would assume the role of lead director to ensure an orderly evaluation process of the Chairman and of the Chief Executive Officer and to serve as a contact to whom the concerns of the other members of the Board could be communicated.

The CEO attends the Board meetings ex officio. Upon invitation, the 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 the 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; however, during 2006 it held 11 meetings (of which three were partly attended by phone). On the occasion of three of the 11 meetings the Board conducted separate, full-day visits to businesses in the US and the UK. Six meetings lasted on average six hours, and the remaining five meetings about two hours. In addition, the Board unanimously approved five circular resolutions.

Until April 19, 2006, on average, 96% of the members of the Board attended the Board meetings. After that date, and taking into consideration that as per April 20, 2006 the number of Board members increased from nine to 12, average attendance at Board meetings was 95%. The members of the Board spend additional time to prepare for the meetings and 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 the reporting back. The committees assist the Board to perform its duties. To the extent 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 to four 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 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. Final decisions for nominations and appointments are made by the Board, subject to shareholder approval, where so warranted. During 2006, 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 87%.

The **Remuneration Committee** comprises five members of the Board and proposes to the Board the principles of remuneration for the Group and the level of directors' fees. Based on the remuneration principles, it determines the remuneration of the CEO and approves the remuneration of the members of the GEC and the GMB. The Remuneration Committee also determines the metrics and reviews performance relating to the senior management short-term and long-term incentive plans. The Remuneration Committee met six times (once by teleconference and once together with the Governance and Nominations Committee) in 2006, with an average attendance of 90%. Details of the Group's remuneration principles are given in the Remuneration Report on pages 75 to 76.

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 six times in 2006 (of which one was a joint meeting with the Risk Committee). Average attendance at meetings of the Audit Committee was 92.5%.

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. The Audit Committee 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 70).

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 71.

The **Risk Committee**, which was newly established on April 20, 2006, has four members. Since its establishment the Risk Committee met three times in 2006 (of which one was a joint meeting with the Audit Committee); 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. The Group Chief Risk Officer regularly reports to the Risk Committee regarding 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 Chairperson of the Audit Committee is a member of the Risk Committee and the Chairperson 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 (subject to the matters reserved for the shareholders' meeting by law). 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 develops and implements management tools for the Group 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 occasionally also meet with the Group Finance Director and other executives outside regular Board meetings. In addition, the Chairman occasionally participates in meetings of the GEC and GMB in an advisory capacity.

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. The 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 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 on page 50 and in note 6 of the Consolidated Financial Statements in the Financial Report, which is available on Zurich's Web site [www.zurich.com](http://www.zurich.com) ([http://zdownload.zurich.com/main/2006\\_financial\\_report\\_en.pdf](http://zdownload.zurich.com/main/2006_financial_report_en.pdf)).

The process and the results of this approach are further described on page 71 under 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 69 to 71.

## 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.

The GEC is headed by the CEO. As of December 31, 2006 members of the GEC included the Chief Operating Officer, the Group Finance Director, the Chief Investment 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. From March 1, 2007, the newly created function of Chief Growth Officer will become part of the GEC. Following the retirement of the current Chief Operating Officer end of February 2007, this function will no longer be represented in the GEC.

A standing committee of the GEC is the Group Balance Sheet Committee, chaired by the CEO. This committee attends to key financial matters resulting from implementation of the strategy, developments in the financial environment and the financial condition of the Group and is charged with approving specific transactions or business changes not reflected in the Group financial plan that impact the Group's balance sheet under delegations approved by the Board of Directors.

Further special committees, such as the Group Finance Committee and the Asset/Liability Management (ALM) and Investment Committee, each chaired by a member of the GEC, are 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. The Group Finance Committee is chaired by the Group Finance Director and the ALM/Investment Committee is chaired by the Chief Investment Officer. The Group Finance Committee monitors the implementation of finance-related matters decided by the Board, the CEO and/or the GEC and gives recommendations for future course of action, while the ALM/Investment Committee monitors and deals with issues relating to investment decisions. Effective January 1, 2006, the Group Pension Committee, chaired by the CEO Global Life, was established to oversee and monitor the Group's pension and post-employment benefit plans. It deals principally with matters related to pension plan design, funding, investments and accounting and makes recommendations in these areas and on appropriate governance structures.

In addition, to enhance its understanding and assessment of the challenges and risks Zurich may face, the Group increasingly seeks external expertise and perspective. The Group has established 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 power. The International Advisory Council is mandated to provide an external perspective and expertise to the CEO and the members of the GEC and GMB on the Group's growth and public policy strategies. The Investment Advisory Board offers feedback on Zurich's investment results and strategy and on achieving superior risk-adjusted returns versus liabilities for the Group's invested assets. The Natural Catastrophe Advisory Board provides insight into the patterns of occurrence, predictability and destructiveness of catastrophes, and feedback about Zurich's approach in order to help improve the effectiveness of its underwriting and reinsurance purchasing.

## Members of the GEC, as of December 31, 2006

Name	Nationality	Age	Position held
James J. Schiro	American	60	Chief Executive Officer
John Amore	American	58	Chief Executive Officer General Insurance
Peter Eckert	Swiss	61	Chief Operating Officer
Paul Hopkins	American	50	Chief Executive Officer Farmers Group, Inc.
Axel Lehmann	Swiss	47	Chief Executive Officer North America Commercial
Patrick O'Sullivan	Irish	57	Group Finance Director
Geoff Riddell	British	50	Chief Executive Officer Global Corporate
Martin Senn	Swiss	49	Chief Investment Officer
Paul van de Geijn	Dutch	60	Chief Executive Officer Global Life
Dieter Wemmer	German	49	Chief Executive Officer Europe General Insurance

With the exception of Martin Senn, who joined the GEC on April 1, 2006, succeeding David Wasserman, who stepped down as Chief Investment Officer and member of the GEC effective March 31, 2006, all other members of the GEC served throughout the year 2006.

For information on contractual termination benefits, see page 69.

## 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, and a member of the board of trustees of the Lucerne Festival as vice chairman of the American Friends 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. Mr. Amore is chairman of the board of directors of the American Insurance Association.

**Peter Eckert** graduated with a diploma in Business Administration and worked in various areas of both insurance and reinsurance before joining Zurich in 1980, in charge of the Group's Portuguese subsidiary, Companhia de Seguros Metr pole SA, Lisbon. In 1988 he was appointed chief executive officer of Zurich's operations in Australia. He was appointed to the former Group Executive Board in 1991, and two years later became CEO for Zurich Switzerland. In July 2001, he became head of the Continental Europe Business Division and in March 2002, he was appointed Chief Operating Officer. Mr. Eckert is currently vice chairman of the board of Deutsche Bank (Suisse) S.A. He was a member of the board of "economiesuisse" until August 2006 and a member of the board of the foundation "Avenir Suisse" until December 2006. He was previously a member of the boards of the respective insurance associations in Portugal, Australia and Switzerland. From 1995 to 2004, he was a member of the Presidential Council of the European Insurance Association (CEA), being its president from 1998 to 2001.

**Paul Hopkins** holds a bachelor of science degree in business of the Eastern Illinois University and is a graduate of the Advanced Executive Education program of the Wharton Business School. He joined the Farmers organization in 1978 as an agent and subsequently 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 1994, and Senior Vice President Agencies three 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 assumed his current role as CEO of Zurich North America Commercial in Schaumburg/Chicago. Mr. Lehmann is an honorary professor and lecturer for business administration and service management 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 master 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 the US investment bank 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 BZW (former investment banking subsidiary of Barclays Bank p.l.c.) as head of International Banking & Structured Finance, and in 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. He became Group Finance Director of Zurich Financial Services and a member of the GEC in December 2002.

**Geoff Riddell** graduated with a MA degree in chemistry from The Queen's College, Oxford, 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. Two years later he became CEO of the General Insurance business in the UK. In 2004, he became CEO Global Corporate and was appointed to the GEC. Mr. Riddell is a former member of the General Insurance Council of the Association of British Insurers and was for three years chair of its 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. He is also a member of the Foundation Board of IMD, Lausanne.

**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 board of directors of Maerki Baumann & Co. AG, a private bank in Zurich, and the Technopark Zurich Foundation. In addition he serves as Honorary Consul of the Republic of Korea in Zurich.

**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. Since November 2004, he has been CEO Europe General Insurance and a member of the GEC.

#### Changes to the GEC after January 1, 2007

On February 28, 2007 Peter Eckert, the Chief Operating Officer will have stepped down from all his functions, as he reaches retirement age. Effective March 1, 2007, Patrick O'Sullivan, the Group Finance Director, will have assumed the new positions of Vice-Chairman of the Group Management Board and Chief Growth Officer. In this function as Chief Growth Officer he remains a member of the GEC. Dieter Wemmer, the CEO of Europe General Insurance, will have succeeded Mr O'Sullivan as the Group's Chief Financial Officer as from March 1, 2007. As from the same date, Annette Court will have taken over as CEO of Europe General Insurance and will have become a member of the GEC.

**Annette Court**, 44, British, 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 CEO of Direct Line Group the following year, responsible for all retail, partnerships and international businesses. In 2003, Annette Court became CEO 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.

Members of the GEC are also part of the Group Management Board (GMB), which includes the heads of certain business divisions, 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, 2006

Name	Nationality	Age	Position held
Thomas Buess	Swiss	49	Chief Operating Officer, Global Life
Peter Goerke	Swiss	44	Group Head Human Resources
Richard Kearns	American	56	Chief Administrative Officer
John Lynch	American	55	Head of US Small Business
Michael Paravicini	Swiss	45	Chief Information Technology Officer
Franz Wipfli	Swiss	55	Head of Organizational Transformation Management

Monica Maechler-Erne, General Counsel and Company Secretary, resigned from the GMB as of September 13, 2006  
 Martin South, CEO of the International Businesses division (IBD), resigned from the GMB as of December 4, 2006.

### 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 the shareholders' meeting 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 57.

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 without liquidation, 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, except for the CEO, 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, 2006, the period of severance for the CEO was therefore three 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.

## 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 20, 2006, 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 2007.

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. In 2000, a request for proposal for 2001 and subsequent years was made by inviting all major auditing firms to submit work programs and tender offers, where the program and offer of PwC prevailed.

Mr. Roger Marshall of PricewaterhouseCoopers AG is the lead auditor, responsible since January 1, 2003. The Group requires a rotation every five years for the lead auditor.

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 has assumed this mandate since October 2000.

### Auditing fees

Total auditing fees (including expenses and value added taxes) charged for the Group auditors in the year 2006 amounted to USD 42.9 million (USD 42.7 million in 2005).

**Additional fees**

Total fees (including expenses and value added taxes) in the year 2006 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 3.5 million (USD 7.5 million in 2005).

## Supervision and control over the external audit process

The Audit Committee regularly meets with the external auditors, at least four times a year. During 2006, 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 of 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 Finance Director 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. 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 has in place a policy and mechanisms for employees to raise any concerns or report any breaches in respect of financial reporting, internal compliance rules and legal or other obligations. Building on the Zurich *Basics* principles which focus on the personal responsibility of Zurich's employees, a new initiative "The Zurich Way of Compliance" commenced during 2006 which will deliver a globally consistent framework, tools and metrics for:

- Embedding compliance into employees' behavior
- Ensuring key business processes, systems and controls that ensure compliance are in place and kept up to date
- Risk-based compliance monitoring throughout the Group
- Ensuring key external relationships are in place and being managed effectively.

In addition Zurich has continued to strengthen the Group's compliance function which now operates on a Group-wide basis, led by the Group Compliance Officer, and is developing the capability to provide increased assurance to the Board and to the CEO regarding the effectiveness of management of the key compliance risks within the Group.

## Internal control statement

The Board is responsible for overseeing the Group's risk management and internal control framework, 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 with primary risk and control oversight responsibilities: 1. The Risk Committee – with oversight over risk issues, which began operating as a separate Board committee in June 2006, 2. The Audit Committee – with oversight over control issues.

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 a subsequent Group-wide implementation. The principal focus of the approach is on risks that might impact the achievement of the Group's business objectives and on the activities to control and monitor these risks and contribute to control effectiveness. Several management committees at the Group and business unit levels carry out risk and control oversight activities. 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. 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 facilitating the reliability of financial reporting as well as to the effectiveness and efficiency of operations and compliance with laws and regulations. In 2006, substantial progress was made in implementing the Group's control framework to strengthen the consistency of Management's documentation and assessment of internal controls at key locations.

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 regular 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. The Board, through the Audit and Risk Committees, receives quarterly and if needed special reports from the Group Chief Risk Officer, Head of Group Audit and senior management on the adequacy of the control structure in place. These reports relate to such matters 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 effectiveness of the risk management processes and the Audit Committee has reviewed the effectiveness of the system of internal control operated by the Group for the period January 1, 2006 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. 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 people, whereby diversity and ability are the guiding principles. The Group actively encourages employee involvement in the Group's 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 over 112,000 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. An annual report is available on Zurich's Web site for shareholders, which includes the letter to the shareholders providing an overview of the Group's activities during the year and outlining the financial performance. Similar reports regarding half-year and quarterly results are available for all shareholders. However, 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 either institutional or 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 2006 focused on business divisions as well as functional topics and included Europe General Insurance (held on January 17, 2006), North America Commercial (June 29, 2006), and European Embedded Value (July 6, 2006). Further investors' days will follow in 2007 on topics of interest to the investment market, including an event on "Capital Management" (March 28, 2007) and a "Strategy Update" (May 23, 2007). 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) (<http://www.zurich.com/main/investorrelations/investorrelations.htm>).

Zurich Financial Services will hold its Annual General Meeting on April 3, 2007. As part of the agenda, the Chairman, the CEO and the Group Finance Director will present a review of the business of the Group for the year 2006. 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 20 working days prior.

For addresses and further upcoming important dates, please refer to the Financial Calendar on page 99.