Wachstum.
Stärke.
Führung.

Finanzbericht 2007

Zurich Financial Services Group
Geschäftsbericht 2007

ZURICH®

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Risiko, Verantwortung und Governance

Unser Ziel ist es, in den von uns ausgewählten Schaden- und Lebensversicherungsmärkten der führende globale Versicherer zu werden und dabei für unsere Aktionäre konstant erstklassige Ergebnisse zu erzielen. Damit bauen wir eine starke Beziehung zu Kunden, Agenten und Maklern auf und schaffen gleichzeitig interessante Entwicklungsperspektiven für unsere Mitarbeiterinnen und Mitarbeiter.

Operative Highlights 2007

- Die mit The Zurich Way angestrebten operativen Verbesserungen in Höhe von USD 700 Mio. wurden übertroffen, was die Grundlage für weitergehende Veränderungen schafft
- Mit unseren Kunden-, Produkt- und Vertriebsstrategien konnten wir in den anvisierten Märkten profitables Wachstum erzielen
- Dank einer soliden Risikomanagementkultur stellt die Subprime-Krise nur eine unwesentliche Belastung dar
- Standard & Poor's erhöht Kreditrating der Gruppe auf AA-
- Dank sieben Akquisitionen verfügen wir nun über mehr Möglichkeiten in den aufstrebenden Märkten, in Europa und in den USA

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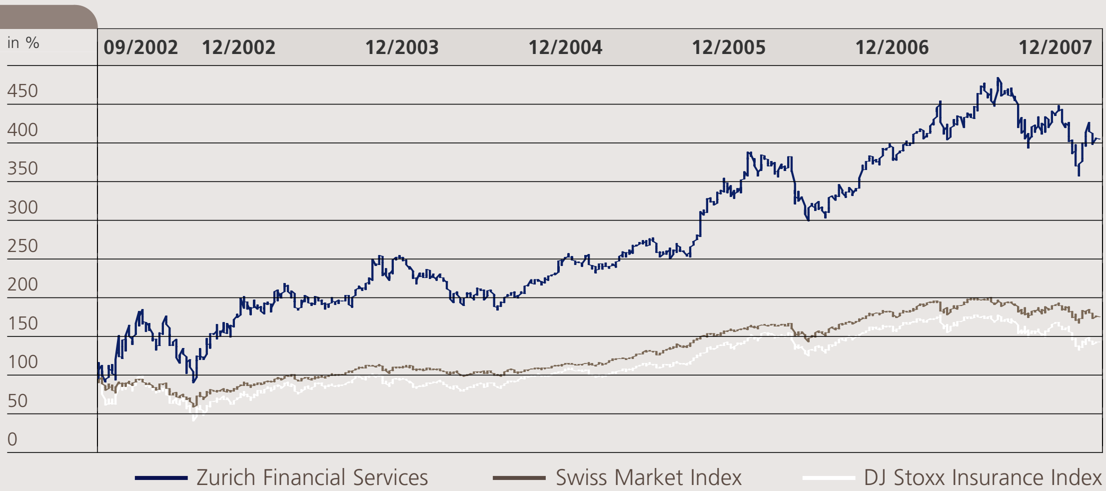
Kennzahlen (ungeprüft)

Die folgende Tabelle zeigt zusammengefasst die konsolidierten Ergebnisse der Gruppe für die per 31. Dezember 2007 und 2006 abgeschlossenen Jahre. Die Vorjahreszahlen (2006) wurden aufgrund der Einführung der SoRIE Option gemäss IAS 19 Employee Benefits (Vorsorgeleistungen an Arbeitnehmer) angepasst.

in Millionen USD, für die per 31. Dezember abgeschlossenen Geschäftsjahre	2007	2006	Veränderung [1]
Business Operating Profit	**6.614**	6.035	10%
Den Aktionären zurechenbarer Gewinn	**5.626**	4.620	22%
General Insurance – Bruttoprämien und Policengebühren	**35.650**	34.123	4%
Global Life – Bruttoprämien, Policengebühren und Beiträge mit Anlagecharakter	**21.703**	21.022	3%
Farmers Management Services – Managementgebühren und die damit verbundenen Erträge	**2.266**	2.133	6%
General Insurance – Business Operating Profit	**4.024**	3.804	6%
General Insurance – Schaden-Kosten-Satz (Combined Ratio)	**95,6%**	93,9%	(1.7 pts)
Global Life – Business Operating Profit	**1.443**	1.200	20%
Global Life – Jahresprämienäquivalent aus Neugeschäft (APE)	**2.947**	2.500	18%
Global Life – Gewinnmarge aus Neugeschäft, nach Steuern (in % des APE)	**24,7%**	21,6%	3.1 pts
Global Life – Wert des Neugeschäfts, nach Steuern	**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 – Marge aus den verdienten Bruttoprämien, die von uns verwaltet werden [2]	**6,8%**	7,3%	(0.5 pts)
Durchschnittliche Kapitalanlagen der Gruppe	**191.790**	185.371	3%
Gesamtergebnis aus Kapitalanlagen der Gruppe, netto	**10.089**	9.434	7%
Anlagerendite aus Kapitalanlagen der Gruppe (in % des durchschnittlichen Kapitalanlagebestands)	**5,3%**	5,1%	0.2 pts
Den Aktionären zurechenbares Eigenkapital	**28.804**	25.587	13%
Verwässerter Gewinn je Aktie (in CHF)	**46.37**	39.52	17%
Den Aktionären zurechenbare Eigenkapitalrendite ohne Vorzugspapiere (ROE)	**21,0%**	20,4%	0.6 pts
Den Aktionären zurechenbare Eigenkapitalrendite ohne Vorzugspapiere basierend auf dem Business Operating Profit, nach Steuern	**18,7%**	19,5%	(0.8 pts)

[1] Zahlen in Klammern stellen eine negative Abweichung dar.
[2] Die Marge aus den von Farmers Management Services verwalteten Bruttoprämien wird berechnet als Gross Operating Profit von Farmers Management Services dividiert durch die verdienten Bruttoprämien von den Farmers Exchanges, für die wir Managementdienstleistungen erbringen, die wir aber nicht besitzen.

Kursverlauf (indexiert) seit 4. September 2002



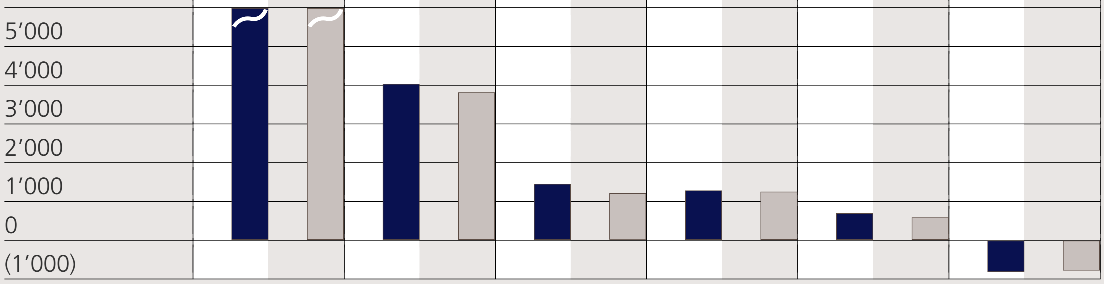
Quelle: Datastream

Wichtige Performance Kennzahlen

Business Operating Profit

in Millionen USD, für die per 31. Dezember abgeschlossenen Geschäftsjahre

	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)

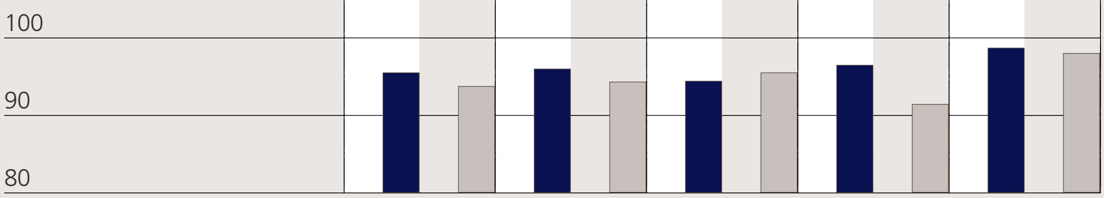


[1] Angepasst aufgrund des geänderten Rechnungslegungsgrundsatzes in Übereinstimmung mit IAS 19 Vorsorgeleistungen an Arbeitnehmer.

General Insurance – Schaden-Kosten-Satz (Combined Ratio)

in %, für die per 31. Dezember abgeschlossenen Geschäftsjahre

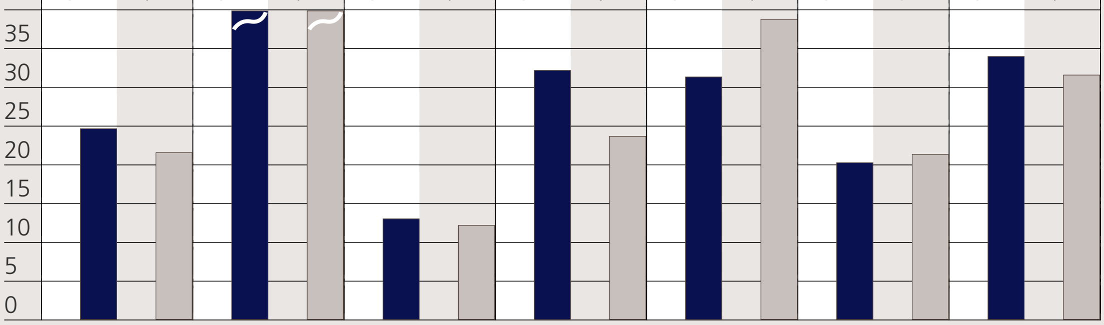
	Total [1]		Global Corporate		North America Commercial		Europe General Insurance		International Businesses	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	95,6%	93,9%	**96,1%**	94,4%	**94,5%**	95,6%	**96,6%**	91,5%	**98,8%**	98,1%



[1] Einschliesslich Group Reinsurance

Global Life – [1] Gewinnmarge aus Neugeschäft, nach Steuern (in % des APE)

	Total		Vereinigte Staaten		Gross-britannien		Deutschland		Schweiz		Übriges Europa		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%



[1] In %, für die per 31. Dezember abgeschlossenen Geschäftsjahre.

Brief an die Aktionärinnen und Aktionäre

Wir sind überzeugt, dass wir unabhängig von den Finanzmärkten, den Wetter- oder Marktbedingungen von unserer Strategie profitieren können. Darin liegt die Stärke unserer Strategie, und darum ist Zurich auf dem besten Weg, zu einem der führenden Versicherer weltweit zu werden.

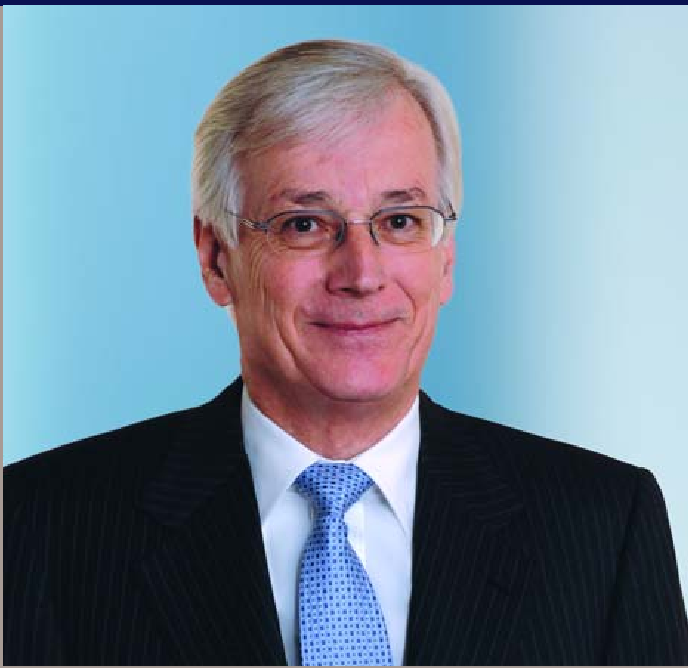
Sehr geehrte Aktionärin, sehr geehrter Aktionär,

Wir freuen uns, Ihnen mitteilen zu können, dass Ihre Zurich dank der ausgezeichneten operativen Leistungen unseres umfassenden Schadens- und Lebensversicherungsgeschäfts im Jahr 2007 sowohl beim Business Operating Profit als auch beim Reingewinn erneut ein Spitzenergebnis erzielen konnte. Dies ist unserer Fähigkeit zu verdanken, auch in schwierigen Zeiten und turbulenten Kapitalmarktphasen zu wachsen, uns operativ weiter zu verbessern und über hervorragende Kapital-, Investment- und Risikomanagement-Techniken zu verfügen.

Um in Zeiten steigender Bonitätsanforderungen, instabiler Aktienmärkte und harten Wettbewerbs erfolgreich bestehen zu können, bedarf es einer klaren Ausrichtung auf finanzwirtschaftliche Disziplin und qualifiziertes Risikomanagement. Dazu gehören genaue Kenntnisse und Analysen der einzugehenden Risiken – sowohl bezüglich der Vermögenswerte als auch der Verbindlichkeiten – und deren konsistente Umsetzung in die operativen Prozesse.

Genau dies sind die Kernkompetenzen, die sich Zurich in den vergangenen Jahren verstärkt erarbeitet hat. Die erfolgreiche Einbindung dieser Kompetenzen in die Unternehmenskultur von Zurich hat zu unserer starken Bilanz, zur kontinuierlich steigenden Profitabilität und erfolgreichen Umsetzung unserer Strategie beigetragen.

Wir werden auch in Zukunft weltweit die attraktivsten Wachstumsmöglichkeiten identifizieren und wahrnehmen, systematisch den Kundenstamm vergrössern, das Produktangebot verbessern und unsere Vertriebspotentiale erweitern. Diese Schritte wurden und werden sowohl in den aufstrebenden als auch in den reifen Märkten durch unternehmensinterne Massnahmen und durch Akquisitionen verfolgt. Daraus ergeben sich auch für 2008 vielversprechende Möglichkeiten für profitables Wachstum.



Manfred Gentz
Präsident des Verwaltungsrats

James J. Schiro
Chief Executive Officer

Wir arbeiten weiter an der Optimierung unserer internen Strukturen und Abläufe. Dabei bauen wir auf The Zurich Way und verstärken dadurch weiter unsere Ausrichtung auf die Kunden, steigern die Effizienz unserer Geschäftsmodelle und setzen die uns zur Verfügung stehenden Technologien, Talente und anderen wichtigen Ressourcen immer besser ein.

Da wir um den grossen Wert unserer soliden Bilanz in diesen schwierigen Zeiten wissen, konzentrieren wir uns auch weiterhin auf alle Bereiche des Kapitalmanagements. Um das vorhandene Kapital umsichtig einzusetzen, wenden wir differenzierte und aufeinander abgestimmte Risiko- und Investmentmanagement-Strategien an. Gleichzeitig verschlanken wir unsere Kostenstrukturen.

Jeden dieser Stellhebel wenden wir in unserem Lebens- und Schadenversicherungsgeschäft auf differenzierte Art und Weise an um unsere Rentabilität zu steigern. Dabei versuchen wir, in jenen Bereichen zu wachsen wo sich Möglichkeiten dazu ergeben, und gute Margen auch dort zu erzielen, wo dies die Marktsituation nicht unbedingt vermuten lässt. Mit diesem Ansatz unterstreichen wir unser Bestreben, den Wert unseres diversifizierten Portfolios zu maximieren, überdurchschnittliche Finanzergebnisse zu erzielen und im Interesse unserer Aktionäre den Unternehmenswert insgesamt nachhaltig zu steigern.

Zurich wird auch künftig an ihrem disziplinierten Ansatz festhalten. Wir werden die Ausrichtung auf unsere Kunden weiter verstärken, die Möglichkeiten zu nachhaltiger Wertsteigerung ausbauen und die Entwicklung unserer Mitarbeiterinnen und Mitarbeiter und ihrer Fähigkeiten weiter fördern.

Das heutige Marktumfeld stellt für den Finanzdienstleistungssektor zweifelsohne eine besondere Herausforderung dar. Doch mit unserem operativen und strategischen Fokus der auf Disziplin im Underwriting und im Kapitalmanagement gründet konnten wir auch 2007 den Wert des Unternehmens deutlich steigern. Wir sind überzeugt, dass damit die Gruppe für 2008 und die folgenden Jahre gut positioniert ist auch in der Zukunft erfolgreich zu bleiben.

Der andauernde Erfolg verlangte und verlangt viel von unseren Mitarbeiterinnen und Mitarbeitern. Wir möchten dem gesamten Team von Zurich unseren Dank für den im Jahr 2007 geleisteten Einsatz und die hervorragende Arbeit aussprechen.

Wir bedanken uns für Ihre anhaltende Unterstützung.

Manfred Gentz
Präsident des Verwaltungsrats

James J. Schiro
Chief Executive Officer

Unser Geschäft

Zurich Financial Services (Zurich) ist ein im Versicherungsgeschäft verankerter Finanzdienstleister mit einem globalen Netzwerk von Tochtergesellschaften und Filialen in Nordamerika und Europa sowie im asiatisch-pazifischen Raum, in Lateinamerika und in weiteren Märkten. Das 1872 gegründete Unternehmen mit Hauptsitz in Zürich, Schweiz, beschäftigt rund 60.000 Mitarbeiterinnen und Mitarbeiter, die Dienstleistungen in mehr als 170 Ländern erbringen.

Unser Angebot

Unser Kerngeschäft ist das Erbringen von Versicherungsdienstleistungen. Wir bieten Privatkunden, KMUs, Grossunternehmen sowie multinationalen Konzernen, die Versicherungsdeckung im In- oder Ausland benötigen, eine umfassende Palette von Schadens- und Lebensversicherungsprodukten an.

Es ist unser Ziel, unseren Kunden im Umgang mit ihren Risiken zu helfen, sodass sie heute abgesichert sind und für die Zukunft planen können.

General Insurance bietet über vier Sparten Produkte und Dienstleistungen in den Bereichen Sach-, Haftpflicht- und Unfallversicherungen für Privat- und Unternehmenskunden an. Europe General Insurance bietet in seinen Kernmärkten Deutschland, Italien, Spanien, der Schweiz und in Grossbritannien Produkte für Privatpersonen und Unternehmen an. Darüber hinaus ist die Sparte auch in Österreich, Irland und Portugal stark vertreten sowie in Israel, Marokko, Russland und der Türkei tätig. North America Commercial bietet kleinen und mittleren Unternehmen in den USA und Kanada Standard- und Spezialversicherungen an. Global Corporate ist für Risikomanagement-Dienstleistungen für Grossunternehmen und internationale Konzerne zuständig. International Businesses deckt fünf Regionen ab: Lateinamerika, Südafrika, Australien, Japan und den Grossraum China/Südostasien. Damit ist die Sparte gut positioniert, um in Zukunft weiter Wachstum zu generieren.

Das Geschäftsmodell von General Insurance basiert auf globalen Funktionen (inklusive Underwriting, Schadenbearbeitung, Risk Engineering, Rückversicherung, Kundenbeziehungen, Vertriebs- und Produktmanagement) und Practices (inklusive Spezialversicherungen weltweit), womit der Geschäftsbereich über eine globale Plattform für das Erbringen von Dienstleistungen an den lokalen Standorten verfügt.

Global Life ist auf drei Regionen ausgerichtet – Europa, die Vereinigten Staaten und die aufstrebenden Märkte. Global Life konzentriert sich weltweit auf fondsgebundene Vorsorgeprodukte. Weiter werden Kunden in den Bereichen Familienversicherung, Aktiensparen, Altersvorsorge, Vorsorgeleistungen nach der Pensionierung, Vermögensanlage und Vermögensschutz sowie Nachlassplanung bedient. Entsprechende Lösungen werden durch Agenten, Makler, unabhängige Finanzberater, Banken und Kreditgenossenschaften unterbreitet. Global Life profitiert von einer starken Stellung in allen Schlüsselmärkten sowie von weitreichenden Vertriebsnetzwerken in Grossbritannien und den Vereinigten Staaten. In Deutschland, Italien und Spanien arbeiten wir mit der Deutschen Bank zusammen, was Zurich zur alleinigen Anbieterin von Lebensversicherungsprodukten für dieses Unternehmen macht. In den wichtigen aufstrebenden Märkten ist Global Life einer der am schnellsten wachsenden Anbieter von Lebensversicherungs- und Vorsorgeprodukten – dies insbesondere für internationale Anleger und für im Ausland tätige Arbeitnehmende (expatriates) weltweit.

Farmers ist die Hauptmarke der Gruppe im Privatversicherungsgeschäft in den USA und bietet Eigenheim-, Motorfahrzeug- sowie Lebensversicherungen an. Farmers zählt mehr als 20 Millionen Policen. Ferner bietet Farmers Unternehmensversicherungen mit Ausrichtung auf Kleinunternehmen an. Farmers Management Services sind für die Managementdienstleistungen zuständig, welche die Farmers Group, Inc. und ihre Tochtergesellschaften für die Farmers Exchanges erbringen, die Zurich führt aber nicht besitzt.

Unsere Präsenz

Wir sind mit allen Versicherungszweigen global vertreten, und unsere Kunden profitieren von unserem vielseitigen Dienstleistungsangebot. Das sowohl geografisch als auch nach Versicherungszweigen diversifizierte Portfolio ist ein Schlüsselelement unserer Strategie. Auf diese Weise sorgen wir für ein weniger volatiles Risikoprofil und können uns vor dem Einfluss konjunktureller Schwankungen schützen.

Die Grundlage unserer Kerngeschäfte Schaden- und Lebensversicherung ist ein globaler Ansatz. Wir verfügen über eine starke Präsenz in den attraktivsten Versicherungsmärkten der Welt und nutzen unsere Reichweite und Finanzkraft, um unsere Dienstleistungen international anbieten zu können.

Unsere wichtigsten Marktsegmente

Zurich hat starke Marktpositionen im Privatkunden-, Firmenkunden- und Unternehmenskunden-Geschäft auf beiden Seiten des Atlantiks mit zunehmend stärkeren Positionen in Asien, Russland, Lateinamerika und anderen wichtigen aufstrebenden Märkten.

Weltweite Präsenz

Mit unserem internationalen Netzwerk und unserer Fähigkeit, Dinge umzusetzen, verfügen wir über einen bedeutenden Vorteil, der durch weltweite Betriebsplattformen, über die wir Know-how und Best Practices austauschen können, noch zusätzlich verstärkt wird.

Unser Fokus

Profitables Wachstum

In der ganzen Gruppe gelangt eine strikte operative und finanzielle Disziplin zur Anwendung, die profitables Wachstum unterstützt.

Optimierte Strukturen zum Nutzen unserer Kunden

In der ganzen Gruppe findet immer mehr Austausch von Know-how und Best Practices statt. Wir entwickeln zudem weitere globale Plattformen, steigern die Datenqualität und verbessern den Kostensatz.

Kapitalmanagement

Wir verteilen risikobasiertes Kapital diszipliniert und dynamisch auf Geschäftsbereiche und Märkte. So können wir flexibel auf sich verändernde Marktbedingungen reagieren.

Mitarbeiterförderung

Wir sind bestrebt, unsere Mitarbeitenden zu unterstützen und weiterzubilden, Talente innerhalb unseres Unternehmens zu erkennen und zu fördern und ein motivierendes und anerkennendes Umfeld zu bieten.

Herausforderung und Chance

Vor dem Hintergrund erhöhter Marktvolatilität und Unsicherheiten setzt Zurich weiterhin auf nachhaltiges und profitables Wachstum.

Als innovativer Versicherer haben wir in unserer 135-jährigen Geschichte stets nach vorn geschaut und auch beobachtet, was um uns herum geschieht. Über die Jahre haben wir unsere Reichweite ausgebaut und sind heute beidseits des Atlantiks sowie in den Regionen Asien/Pazifik, Lateinamerika und in anderen Märkten sehr gut positioniert.

Aufstrebende Märkte

Wir sind entschlossen, unsere Führungsposition in den bestehenden Märkten zu stärken und verfolgen gegenüber den aufstrebenden Märkten weltweit einen fokussierten Ansatz, wobei das langfristige Ziel darin besteht, in ausgewählten Geschäftsbereichen eine starke Marktstellung zu erlangen. Die Präsenz in diesen aufstrebenden Märkten ist eine strategische Priorität. Sie soll uns dabei unterstützen, künftig einen hohen Mehrwert zu generieren und wie geplant zu einem der grössten globalen Versicherer zu werden.

Wir sind bereits in zahlreichen dieser Märkte präsent, zum Beispiel in China, wo wir seit 1993 geschäftlich tätig sind. Eine Volkswirtschaft wie China, die in den vergangenen zwanzig Jahren ein jährliches Wachstum von 10% aufweisen konnte, bietet ein enormes Potenzial. Mit einer Zweigniederlassung für Schadenversicherungen in Peking, einer wesentlichen Beteiligung an einem grossen Lebensversicherer und einer unlängst erworbenen Beteiligung an einer lokalen Vertriebsorganisation für Privatkunden sind wir im Grossraum China gut positioniert, um die sich bietenden Wachstumschancen voll auszuschöpfen. Dies insbesondere, da wir die umfassenden Erfahrungen unserer Niederlassungen in Hongkong und Taiwan nutzen können, um unser Know-how über die Region hinweg auszutauschen.

Ferner verstärken wir unsere Stellung in Osteuropa, und darüber hinaus sind wir 2007 in den russischen Privatkundenmarkt eingetreten und haben im Januar 2008 den türkischen Schadenversicherer TEB Sigorta A.S. übernommen.

Mikroversicherung

In Lateinamerika sind wir mit Unternehmen in Argentinien, Bolivien, Brasilien, Chile, Mexiko und Venezuela vertreten und arbeiten nun sogenannte Mikroversicherungs-Programme aus, um auch den ärmeren Menschen in diesen Ländern Versicherungsschutz für ihre Einkommen und ihre Zukunft bieten zu können.

Die Globalisierung führt in vielen Regionen zu Migrationsströmen, und wir können davon mit unserem internationalen Lebensversicherungsgeschäft vor allem in Südostasien in den Geschäftsbereichen für internationale Investoren und im Ausland tätige Personen profitieren.

Mit unserer höheren Präsenz in diesen Märkten können wir auch unsere gruppenübergreifenden Möglichkeiten, Fähigkeiten und Geschäftsmodelle nutzen. Darüber hinaus bauen wir bei der Evaluation der sich bietenden Möglichkeiten auf die unschätzbaren lokalen Kenntnisse und das Fachwissen unserer Geschäftsbereiche. Weitere selektive Akquisitionen könnten uns beim Erreichen unserer Ziele helfen, vorausgesetzt, diese erfüllen unsere strengen Vorgaben.

The Zurich Way stellt ein gemeinsames Leitbild für unser Geschäft und unsere Kunden dar und ist ein unabdingbares und grundlegendes Element, das unser Unternehmen bei seiner künftigen Weiterentwicklung noch stärker zusammenbringt.

Unser Growth Office hat für die Expansion Prioritäten festgelegt, um eine koordinierte und effiziente Ressourcenverwendung sicherzustellen. In den aufstrebenden Märkten Asiens, Lateinamerikas und Osteuropas strebt General Insurance hohe Wachstumsraten und den Aufbau strategischer Marktpositionen an, womit ein deutlicher Umsatz- und Gewinnbeitrag erzielt werden soll. Global Life wuchs 2007 in den aufstrebenden Märkten um 50%. Die Sparte wird an ihrer Strategie festhalten, Top-Produkte über innovative Vertriebskanäle in anvisierten

Marktsegmenten zu vertreiben und damit das geplante Jahresprämienäquivalent und Wachstum des Neugeschäfts sicherzustellen.

Die Ausrichtung auf die aufstrebenden Märkte – zusammen mit unserer traditionell starken Präsenz beidseits des Atlantiks – unterstützt uns dabei, viele der grossen Probleme, mit denen die Welt von heute konfrontiert ist, zu verstehen. Der Global Risks Report 2008 des World Economic Forum – der auch von Zurich unterstützt wird – zeigt, dass die Unsicherheit bezüglich der kurz- und mittelfristigen Zukunft in den vergangenen zehn Jahren noch nie so gross war wie heute.

Im Bericht wird auf vier auftauchende Problempunkte hingewiesen, die das globale Risikoumfeld beeinflussen werden: systemisches Finanzrisiko, Lebensmittelsicherheit, Versorgungsketten sowie die Bedeutung der Energieversorgung. All diese Punkte sind für das Funktionieren der Weltwirtschaft und für das Wohlbefinden der Weltbevölkerung entscheidend.

Das systemische Finanzrisiko wird als das dringlichste Problem betrachtet und ist bezüglich der wirtschaftlichen Kosten auch das grösste. Da viele der möglichen Konsequenzen der Liquiditätskrise von 2007 noch nicht bekannt sind, ist der Ausblick auf die Zukunft Anfang 2008 ungewisser als vor einem Jahr.

Unterbrechungen von Versorgungsketten

Die Lebensmittelsicherheit, die bei zahlreichen Problemen wie Energieversorgungssicherheit, Klimawandel und Wasserknappheit im Zentrum steht, könnte zu einem der Hauptrisiken des 21. Jahrhunderts werden. Kurz- und langfristige Einflussfaktoren wie Bevölkerungswachstum, ein sich verändernder Lebensstil, Klimawandel und die zunehmende Verwendung von Kulturpflanzen zur Produktion von Biokraftstoffen könnten den Beginn einer Periode volatilerer und auf längere Sicht höherer Preise markieren. Die Auswirkungen könnten insbesondere für die schwächsten Bevölkerungsschichten gravierend sein.

Die erweiterten Versorgungsketten, dank denen sich die weltweite wirtschaftliche Integration in den vergangenen zwei Jahrzehnten rasch entwickelte, verschleiern möglicherweise eine erhöhte Anfälligkeit des globalen Wirtschaftssystems auf Störfaktoren. Die geografische Risikokonzentration an wirtschaftlich effizienten Standorten mag zwar zu einem erhöhten globalen Wohlstand geführt haben, doch die Frage bleibt, ob Unternehmen und Regierungen auf die Konsequenzen eines Risikoereignisses in diesen Regionen vorbereitet sind. Der Aufbau einer Kultur des Supply-Chain-Risikomanagements im öffentlichen und privaten Sektor könnte ein erster Schritt in Richtung einer umfassenderen globalen Risikominimierung sein.

Auch die Energieversorgung und deren langfristige Zukunft lassen Bedenken aufkommen, und zwar insbesondere Risiken im Zusammenhang mit der Energiesicherheit und dem globalen Klimawandel. Die Energie ist eine Schlüsselgrösse in der Weltwirtschaft, doch eine sichere und nachhaltige Versorgung stellt sich als immer problematischer heraus. Aus diesem Grund ist Zurich in der Klimafrage aktiv geworden, und deshalb sind wir auch an einer engen Zusammenarbeit mit allen Kundensegmenten interessiert. Dabei wollen wir untersuchen, welche Rolle das Risikomanagement beim Umgang mit diesen bedeutenden Problemen spielen kann.

Was das Verständnis und den Umgang mit den globalen Risiken betrifft, so werden Fortschritte erzielt. Und mit zunehmendem Verständnis können auch Lösungen gefunden werden, zu denen die gesamte Gesellschaft einen Beitrag leistet. Doch einmal mehr richtet sich bezüglich zahlreicher dieser Probleme das Augenmerk auf die aufstrebenden Märkte, wo grosse Volkswirtschaften immer deutlicher zeigen, welchen Einfluss sie auf die globale Wirtschaft haben und dass sie bereit sind, eine Führungsrolle zu übernehmen.

Strategie für profitables Wachstum

Es ist unser strategisches Ziel, in den von uns ausgewählten Schaden- und Lebensversicherungsmärkten die führende globale Versicherungsgruppe zu werden und dabei für unsere Aktionäre konstant erstklassige Ergebnisse zu erzielen.

Zu unseren Zielen gehört es, zu einer der fünf grössten globalen Versicherungsgesellschaften mit einer mittelfristig stabilen Eigenkapitalrendite von 16% zu werden. Darüber hinaus möchten wir unsere Führungsposition am Markt stärken, die wenig kapitalintensiven Bereiche sowie das Kommissionsgeschäft ausbauen und als Unternehmen zu einem der attraktivsten Arbeitgeber avancieren. Neben Talent Management und Disziplin beim Kapitalmanagement, die sich in den vergangenen Jahren als die tragenden Säulen unseres Erfolgs erwiesen haben, werden wir uns auf optimierte Strukturen zum Nutzen unserer Kunden sowie auf rentables Wachstum konzentrieren, um diese Ziele zu erreichen.

Unser profitables Wachstum basiert auf Spitzenleistungen im Kundenservice, bei der Produktentwicklung sowie im Vertrieb. Unterstützt werden unsere Anstrengungen durch selektiv ausgewählte Fusionen und Akquisitionen.

Die operativen Verbesserungen werden getragen von einer ganzheitlichen Sicht für die geschäftliche Entwicklung durch Integration von The Zurich Way-Initiativen, Projekte zur Effizienzsteigerung, Massnahmen für eine stärkere Ausrichtung auf die Kunden und Kenntnisse von Risiken sowie die Entwicklung eines optimalen Geschäftsmodells.

Die Stärken unserer Gruppe und die sich bietenden Synergien, insbesondere Kapital- und Risikomanagement, die Rekrutierung talentierter Mitarbeitenden, Mitarbeiterförderung und der Ausbau unserer globalen Marke sind die Basis unserer Strategie.

Unsere Strategie

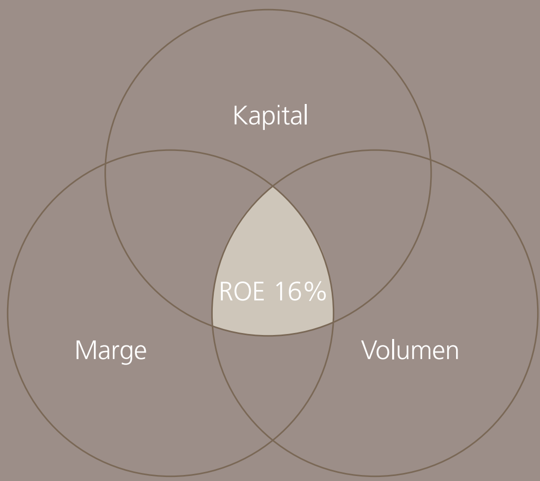
Mit erstklassigen finanziellen Ergebnissen und profitablem Wachstum streben wir eine Maximierung des Shareholder Value an. Unsere finanziellen Ergebnisse der letzten fünf Jahre zeugen von der Effektivität dieser Strategie und unserer Fähigkeit, diese mithilfe eines diversifizierten Risikoportfolios auch in finanziell schwierigen Zeiten und turbulenten Marktphasen umzusetzen. Wir sind nach wie vor dabei, unsere Bilanzen zu optimieren und die Kapitaleffizienz zu steigern.

Innerhalb unseres Lebens- und Schadenversicherungsgeschäfts versuchen wir dort zu wachsen, wo die Möglichkeiten gegeben sind oder bei restriktiveren Marktbedingungen eine Margenerhöhung zu erzielen. Damit steigern wir den Wert unseres diversifizierten Portfolios, wodurch nachhaltiger Shareholder Value und überdurchschnittliche Finanzergebnisse erzielt werden.

Wir sind entschlossen, die Effizienz und Effektivität wie wir die Dienstleistungen für unsere Kunden erbringen durch operative Verbesserungen weiter zu optimieren. Wir werden unsere Kernprozesse weiterhin systematisch überprüfen, um noch effizienter und leistungsfähiger zu werden.

Profitables Wachstum ist ein Hauptziel. Dies spiegelt sich in der Entscheidung , ein Mitglied der Konzernleitung (GEC) zum Chief Growth Officer zu ernennen, um so den Wachstumsplan der Gruppe voranzutreiben. Ferner ist der Chief Growth Officer für die fünf Regionen zuständig, in denen International Businesses tätig ist. Dazu zählen viele aufstrebende Märkte, denen beim Ausmachen und Verfolgen von Wachstumschancen eine grosse Bedeutung zukommt. Durch die Investition von Zeit und Ressourcen wollen wir unsere Präsenz in diesen Gebieten festigen und auch unser Know-how und Fachwissen zur Verfügung zu stellen.

Darüber hinaus bauen wir unser intellektuelles Kapital systematisch aus, um so künftiges



Wir wollen dort wachsen, wo die Möglichkeiten gegeben sind oder bei restriktiveren Marktbedingungen eine Margenausweitung erzielen. Wir setzen Kapital dort ein, wo wir eine höhere Rendite erwarten können.

Wachstum anzukurbeln. Wir wollen ein führender Anbieter sein, der für innovative Ideen und die Entwicklung von Produkten und Dienstleistungen bekannt ist, die für eine sich schnell verändernde Welt relevant sind. Neben der Ausrichtung auf ausgewählte Zielmärkte (inklusive aufstrebende Märkte) erhöhen wir die Zahl der exklusiv tätigen und unabhängigen Agenten, erweitern und stärken unsere Geschäftspartnerschaften und pflegen eine Kultur des Cross-Sellings zwischen unseren Geschäftsbereichen und -segmenten.

Bei General Insurance können wir dank unseres Geschäftsmodells auf die Schwankungen innerhalb der Versicherungsbranche reagieren. Dabei helfen uns vier Faktoren:

- Weltweite Underwriting-Disziplin, globale Risk-Pricing-Modelle und Ausrichtung auf Mikrosegmente
- Verschiedene Märkte mit unterschiedlichen Konjunkturzyklen
- Mehr Effizienz dank The Zurich Way
- Differenzierte interne Massnahmen und hoch entwickeltes Portfoliomanagement

Global Life erreichte ein zweistelliges Wachstum und rechnet auch in den kommenden Jahren mit einem nachhaltigen Wachstum. Unterstützt wurde diese Entwicklung durch eine Anzahl Initiativen für profitables Wachstum und operative Verbesserungen, sowie die Bereitschaft nach strategischen Übernahmen, wenn sich attraktive Gelegenheiten bieten. Mit der seit 2003 geschaffenen soliden Plattform für künftiges Wachstum verfügt Global Life heute über ein gut diversifiziertes Portfolio und wachsende Marktanteile in den meisten seiner Hauptmärkte. Es kam zu einer Neuausrichtung im Vertrieb, zu einer Erhöhung des Engagements im schnell wachsenden Banken- und Maklerbereich sowie zu einer zunehmenden Ausrichtung des Geschäfts auf die Steigerung des Neugeschäftsvolumens bei gleichzeitigem Halten attraktiver Margen.

Durch neu lancierte Produkte, Produktverbesserungen und Kampagnen beschleunigte sich die Wachstumsdynamik von Global Life im Jahr 2007.

Farmers ist bestrebt, das gegenwärtige Margenniveau zu halten und gleichzeitig das Geschäft und seine Profitabilität zu vergrössern. Farmers ist einer der am schnellsten wachsenden Privat- und Kleinbetriebs-Versicherer in den USA und legt seinen Schwerpunkt auf herausragende Kundenbetreuung, Produktmanagement und Vertrieb.

The Zurich Way

Im Rahmen der Umsetzung unserer strategischen Ziele werden wir von The Zurich Way unterstützt und geleitet. Mit diesem Programm sollen einheitliche Methoden, Messgrössen und Instrumentarien für die Kernprozesse innerhalb der Gruppe geschaffen werden. Es verändert unser Tagesgeschäft und hilft uns dabei, für unsere Kunden in unverwechselbarer „Zurich-Art“ bessere Dienstleistungen zu erbringen.

Seit der Einführung von The Zurich Way im Jahr 2004 konnten wir Hunderte von Prozessen verbessern, was zu quantifizierbaren und nachhaltigen operativen Erträgen führte. Wir haben damit die für 2007 angestrebten USD 700 Mio. nach Steuern übertroffen, und die mehr als 500 Initiativen in den kommenden drei Jahren dürften zu weiteren operativen Verbesserungen von USD 2,4 Mrd. nach Steuern führen. All das zusammen schafft eine solide Grundlage für profitables Wachstum.

Für Kerngeschäftsaktivitäten wie Underwriting, Schadenbearbeitung, Verkauf, Vertrieb, Proposition Management und Rückversicherung wurden Prozesse entwickelt und gruppenweit eingeführt. Diese wurden durch die Umsetzung eines Zurich Way of Finance, Human Resources und Compliance ergänzt. Die mit diesen Initiativen erzielten Gewinne werden überwacht und monatlich bewertet. The Zurich Way für Wachstum wird ebenso diszipliniert vorgehen, um profitables Wachstum durch Fokus auf Kunden, Produkte und Vertrieb zu erzielen.

Strategie für profitables Wachstum

Ueberall in unserem Unternehmen zeigen die Mitarbeitenden Unternehmergeist und weisen auf Wachstumsgebiete, Verbesserungsmöglichkeiten und Innovationen hin. Dabei beachten sie stets die Grundlagen von Zurich *Basics* – unsere Kernwerte, auf denen The Zurich Way aufbaut. Dies führt zu einem wertvollen globalen Austausch von Ideen.

Finanzielle Disziplin

Finanzielle Disziplin steht nach wie vor im Vordergrund. Wir haben in den vergangenen fünf Jahren unsere Performance rigoros und genau gemessen, und werden das auch weiter tun. Nirgends war dieses Prinzip 2007 besser sichtbar als im Bereich Investment Management – eine wichtige Funktion, welche die Anlagen von Zurich im Gesamtwert von mehr als USD 190 Mrd. verwaltet. Der Schlüssel zu unserem Erfolg liegt darin, dass Zurich ihre Vermögenswerte zentral verwaltet und dabei strukturiert und diszipliniert vorgeht. Das Fundament unserer Anlagestrategie liegt darin, dass wir unsere Vermögenswerte in Relation zu den Verbindlichkeiten bewirtschaften, und dass Zurich nur Risiken eingeht, wenn diese verstanden werden und das Unternehmen glaubt, dafür angemessen entschädigt zu werden.

So versuchen wir für unsere Versicherungsnehmer und Aktionäre die Wertschöpfung zu verbessern. Wir folgen dieser Philosophie in all unseren Funktionen und gewährleisten einen konsistenten und zurückhaltenden Risikoansatz. Dieser zentralisierte Risikoansatz lässt sich nur mit modernsten technologischen Lösungen verwirklichen. In den letzten acht Jahren hat das Investment Management an der Entwicklung und Verbesserung seines Anlageinformations-Systems gearbeitet. In diesem System werden Daten zu Aktien, Anleihen und anderen Anlagen mit über 43.000 Positionen in mehr als 200 Bilanzen weltweit vereint.

Bei der Verwaltung unseres Kapitals und unserer Vermögenswerte gehen wir mit ähnlich grosser Sorgfalt vor. In den vergangenen Jahren haben wir unsere Unternehmensstruktur vereinfacht, um Kapital freisetzen zu können, das in renditestärkeren Bereichen der Gruppe eingesetzt werden kann. Gleichzeitig halten wir an unserer Flexibilität fest, um interessante und innovative Ideen wie neue Vertriebskanäle, Produkte oder Geschäftsmöglichkeiten zu verfolgen. In Europa werden beispielsweise aus fast 80 kapitalaufwendigen Rechtssubjekten 34, womit eine komplexe Struktur einer deutlich einfacheren Platz macht. Damit können wir unsere Geschäftstätigkeit verbessern und die Kundendienstleistungen optimieren. Wir schöpfen so die Prinzipien der Dienstleistungs- und Niederlassungsfreiheit der Europäischen Union aus, was uns deutlich mehr Flexibilität, ein besseres Liquiditätsmanagement sowie die Erstellung einer einzigen Bilanz ermöglicht.

Bei Group Finance haben wir uns von mehreren lokalen Einheiten in Richtung einer weltweit tätigen Organisation mit besserer Performance und effizienteren Kernprozessen bewegt. Teile des Treasurygeschäfts wurden in Dublin zusammengefasst. Wir haben die Buchhaltungsabläufe von sechs

Spitzenleistung im Kundenservice

Innerhalb des nächsten Jahrzehnts dürften alternative Energien 10 bis 20% der globalen Energieproduktion ausmachen. Zurich Global Energy will sich auf dieses Marktsegment konzentrieren. Wir haben bereits eine erhebliche Zahl an Versicherungen insbesondere in den Bereichen Wasser- und Windkraft sowie Biokraftstoffe abgeschlossen. Global Energy hat ein Team aufgebaut, das Makler und Kunden dabei unterstützt, ihr Geschäft voranzubringen.

Spitzenleistung in der Produktentwicklung

Zurich Global Corporate hat ein neues Versicherungsprodukt entwickelt, mit dem die Auswirkungen eines Unterbruchs in der Lieferkette eines Kunden gedeckt werden sollen. Es bietet Deckung für Ertragseinbussen und/oder dadurch verursachte höhere Kosten. Ein innovativer Ansatz der Schadenregulierung wird zudem mehr Gewissheit bezüglich des forderbaren Betrags bieten und die für die Untersuchung eines Schadens notwendige Zeit verkürzen.

Spitzenleistung im Vertrieb

In den USA zeitigt die Integration von Bristol West und seinen 10.400 Agenten bei Farmers bereits konkrete Ergebnisse. Der Rollout der Produkte über die Vertriebsplattform von Farmers wurde in 20 der 29 Staaten, in denen exklusiv tätige Agenten beschäftigt sind, abgeschlossen.

Geschäftseinheiten in Europa und den USA an eine gemeinsame, vielsprachige Dienstleistungsplattform in Krakau, Polen, ausgelagert.

Ferner erreichen wir durch den Austausch von Dienstleistungen in verschiedenen Bereichen des Unternehmens eine Effizienzsteigerung. In Europa möchten wir in den acht Bereichen Recht, Compliance, Beschaffungswesen, Kommunikation, Risikomanagement, Human Resources, Marketingkommunikation sowie Unternehmensimmobilien und Facility Management Best Practices, gemeinsame Plattformen sowie Infrastrukturen voll nutzen.

In Nordamerika haben wir 2007 mit der Einführung gemeinsamer Dienstleistungsplattformen für die Bereiche IT, Rechnungswesen, Finanzen, Human Resources, Kommunikation, Beschaffungswesen, Immobilien und Revision eine neue Ebene der Zusammenarbeit zwischen Zurich und Farmers erreicht. Die aus der Zusammenlegung und dem Austausch von Know-how und Technologien resultierenden Synergien dürften bis 2010 Einsparungen von USD 93 Mio. bringen. Diese Veränderungen werden auch eine Verbesserung der operativen Leistung von Farmers und North America Commercial bringen und sie dabei unterstützen, ihre geschäftlichen Ziele in immer stärker umkämpften Märkten zu erreichen.

Thought Leadership

Die Tradition, die unsere Entwicklung seit mehr als 135 Jahren geprägt hat, verpflichtet uns der Thought Leadership in unserer Branche. Eine unserer Prioritäten besteht darin, Einblicke in verschiedene Risikobereiche zu gewinnen, sodass wir für die Herausforderungen von heute und morgen innovative und geeignete Lösungen bieten können. Unser stetes Anpassen an die sich ändernden Gegebenheiten widerspiegelt unser Bestreben, den Kunden beim Verstehen und im Umgang mit ihren Risiken zu helfen und ihnen in einer sich schnell verändernden Welt nützlich zu sein.

Gleichzeitig versuchen wir, Gelegenheiten auszumachen, die mit Risiken verbunden sind, um so den Kunden zu helfen, diese zu verstehen und zu nutzen. Die Risikobeurteilung ist nicht nur für das Funktionieren der heutigen vernetzten Geschäftswelt und Wirtschaft von Bedeutung, sondern spielt auch im Privatleben eine wichtige Rolle. Menschen fühlen sich wohler und sicherer, wenn sie in der Lage sind, mit den stetigen Veränderungen in ihrem Leben, ihrem Unternehmen und um sie herum umzugehen.

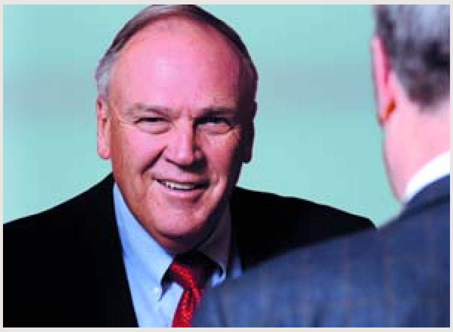
Risiken können heute globaler, lokaler, geopolitischer, wirtschaftlicher, finanzieller oder kommerzieller Natur sein. Einige sind bekannt, andere werden nur als kleine „Lichtpunkte" auf dem Radarschirm wahrgenommen und wieder andere sind vielleicht versteckt und kaum vorhersehbar – zumindest aus heutiger Sicht. Unsere Herausforderung besteht darin, ein besseres Verständnis für die Probleme und gegenseitigen Abhängigkeiten zu schaffen, die zu den künftigen Risiken führen können.

Von einem funktionierenden Risikomanagement profitiert sowohl unser Geschäft als auch das Geschäft unserer Kunden. Wir betrachten es als grundlegenden Teil jeder Unternehmensstrategie und nicht nur als Reaktion auf Einflüsse von aussen.

Verwaltungsrat

Manfred Gentz
Präsident des Verwaltungsrats,
Präsident des Governance-
und Nominationsausschusses,
Mitglied des Entschädigungsausschusses

Philippe O. Pidoux
Vizepräsident des Verwaltungsrats,
Mitglied des Governance-
und Nominationsausschusses,
Mitglied des Entschädigungsausschusses



Don Nicolaisen
Mitglied des Verwaltungsrats,
Präsident des Risikoausschusses,
Mitglied des Prüfungsausschusses

Vernon L. Sankey
Mitglied des Verwaltungsrats,
Präsident des Entschädigungsausschusses

Thomas K. Escher
Mitglied des Verwaltungsrats,
Mitglied des Prüfungsausschusses

Fred Kindle
Mitglied des Verwaltungsrats,
Mitglied des Entschädigungsausschusses

Armin Meyer
Mitglied des Verwaltungsrats,
Mitglied des Governance-
und Nominationsausschusses,
Mitglied des Risikoausschusses

Gerhard H. Schulmeyer
Mitglied des Verwaltungsrats,
Präsident des Prüfungsausschusses,
Mitglied des Risikoausschusses

Tom de Swaan
Mitglied des Verwaltungsrats,
Mitglied des Risikoausschusses,
Mitglied des Governance-
und Nominationsausschusses

Rolf U. Watter
Mitglied des Verwaltungsrats,
Mitglied des Prüfungsausschusses

Konzernleitung

James J. Schiro
Chief Executive Officer

John J. Amore
Chief Executive Officer
General Insurance

Paul N. Hopkins
Chief Executive Officer
Farmers Group, Inc.

Axel P. Lehmann
Chief Executive Officer
North America Commercial[1]
Group Chief Risk Officer[2]

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 Commercial[2]

Mario Greco
Designierter 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] Bis 31. Dezember 2007
[2] Per 1. Januar 2008

Risiko, Verantwortung und Governance

Inhalt

Risikomanagement

Ein effektives Management derjenigen Risiken, die Zurich betreffen könnten, ist die Voraussetzung dafür, dass wir unsere Kunden im Umgang mit ihren eigenen Risiken unterstützen können. Obwohl das Risikomanagement für Versicherer bereits seit Langem im Mittelpunkt steht, kommt dieser Funktion heute sowohl für uns als auch für unsere Kunden eine noch grössere Bedeutung zu, da sich das Risikoumfeld verändert und zunehmend komplexer wird.

Wir definieren unternehmensweites Risikomanagement als einen strukturierten, konzernweiten Ansatz, mit dem wir Risiken, welche die Erreichung unserer strategischen und finanziellen Ziele tangieren, identifizieren, messen, managen, melden sowie auf sie reagieren. Dabei betrachten wir die Risiken und Chancen auf beiden Seiten der Bilanz.

Ziel unseres Risikomanagements ist es, unsere Kapitalbasis zu sichern, die Wertschöpfung zu steigern, Entscheidungsprozesse zu unterstützen sowie unsere Marke und Reputation zu schützen, indem wir in unserer Gruppe eine Kultur des Risikobewusstseins schaffen.

Zu unseren wichtigsten Risikokategorien zählen:

- Versicherungsrisiken: Risiken, die uns von den Kunden im Rahmen des Underwriting-Prozesses übertragen werden.
- Operationelle Risiken: Risiken, die von Mitarbeitenden, Prozessen und Systemen des Unternehmens sowie von externen Ereignissen ausgehen.
- Reputationsrisiken: Risiken, dass eine Handlung oder eine Unterlassung seitens des Unternehmens oder einer/eines unserer Mitarbeitenden zur Schädigung unserer Reputation oder zu einem Vertrauensverlust unserer Stakeholder führen könnte.
- Strategierisiken: Unbeabsichtigte Risiken, die als Nebenprodukt der Planung oder der Umsetzung der Unternehmensstrategie entstehen können.
- Kreditrisiken: Risiken im Zusammenhang mit dem möglichen Ausfall einer Gegenpartei, die ihren finanziellen Verpflichtungen nicht mehr nachkommen kann.
- Marktrisiken: Risiken im Zusammenhang mit Bilanzpositionen, deren Wert von bestimmten Finanzmarktanlagen abhängt.

Einzelheiten zu den Kredit- und den Marktrisiken sowie weitere Aspekte des Versicherungsrisikos sind in Note 26 (Risk Management) der Consolidated Financial Statements.

Risk Governance

Der Verwaltungsrat legt das Rahmenkonzept des Risikomanagements der Gruppe fest. Dem Risikoausschuss des Verwaltungsrats obliegt als zentrale Kontrollstelle die Überwachung des Risikomanagements. Er überprüft den gruppenweiten Ansatz der Risk Governance, einschliesslich Risikomanagementmethoden und -modellen, Richtlinien zum Risikomanagement sowie Berichts- und Risikostrategie. Der Risikoausschuss hat im Berichtsjahr 2007 sechsmal getagt. Um einen lückenlosen Informationsaustausch zwischen dem Risiko- und dem Prüfungsausschuss des Verwaltungsrats sicherzustellen, ist der Vorsitzende des Prüfungsausschusses gleichzeitig Mitglied des Risikoausschusses und umgekehrt.

Der Risikoausschuss des Verwaltungsrats beurteilt, ob die Konzernleitung rechtzeitig und angemessen auf Risiko- und Kontrollfragen reagiert. Dem Ausschuss werden regelmässig Berichte über das Risikoprofil des Konzerns sowie Massnahmen zur Risikobegrenzung vorgelegt.

Die Gruppe verfügt über weitere Prüfungs- und Risikoausschüsse auf allen Unternehmensebenen, die regelmässig und systematisch die Risiken der verschiedenen Geschäftsbereiche überprüfen und sicherstellen, dass die entsprechende Managementstufe angemessene Aufmerksamkeit auf diese Risiken richtet.

Der Chief Executive Officer und das Group Executive Committee (GEC) beaufsichtigen gemeinsam die Einhaltung der Risikomanagementpolitik und sind, falls erforderlich, für deren Weiterentwicklung zuständig. Ende 2007 wurde ein Mitglied des GEC als Group Chief Risk Officer bestimmt. Dies ist Ausdruck der zunehmenden Bedeutung des Risikomanagements im heutigen komplexen Geschäftsumfeld sowie des strategischen Stellenwerts, den wir dieser Funktion beimessen.

Wir betreiben Risikomanagement im Einklang mit unserer Matrixorganisation in der gesamten Gruppe, angefangen beim Chief Executive Officer bis in alle Geschäfts- und Funktionsbereiche. Für gewisse Risikoarten wie Kredit- und Marktrisiken sind im Corporate Center entsprechende Kompetenzzentren angesiedelt, während das Management der Risiken, die vor allem auf lokaler Ebene auftreten, dezentral erfolgt.

Darüber hinaus verfügt die Gruppe über ein koordiniertes Netzwerk von Risikomanagement- und funktionellen Spezialisten in jedem Geschäftsbereich sowie im Corporate Center, wo für verschiedene Risiken spezialisierte Manager zur Verfügung stehen.

In den für die ganze Gruppe verbindlichen Richtlinien zum Risikomanagement sind Risikoobergrenzen, Zuständigkeiten, Berichtsanforderungen sowie das Vorgehen zur Meldung von Risikobelangen an die Unternehmensführung festgelegt. Wir überwachen die Risiken regelmässig mithilfe verschiedener Analysen und Berichte sowie anhand entsprechender Risikomodellierung. Mit unserer Total-Risk-Profiling®-Methode werden die Risiken systematisch und aus strategischer Sicht bewertet. Diese Methode erlaubt es, Risikoszenarien zu identifizieren, Eintrittswahrscheinlichkeiten einzuschätzen und– sollten sie eintreten – die Schwere der Folgen zu ermitteln. Auf dieser Basis entwickeln wir angemessene Massnahmenpläne, die in der Folge umgesetzt und überwacht werden. Die Risk-Profiling-Methode ist ein wichtiges Element unseres Umgangs mit Veränderungen und eignet sich insbesondere zur Bewertung von Strategie- und Reputationsrisiken.

Externe Meinungen

Zahlreiche externe Stakeholder, darunter auch Ratingagenturen und Rechnungslegungsinstitutionen, legen in unserer Branche immer grösseren Wert auf ein gut funktionierendes Risikomanagement.

Ratingagenturen messen dem Risikomanagement als Kriterium bei der Bewertung von Unternehmen zunehmende Bedeutung bei. Standard & Poor's vergibt als bisher einzige Ratingagentur ein separates Rating für Enterprise Risk Management. Unser Standard & Poor's Rating für Enterprise Risk Management wurde von „adequate" 2006 auf „strong" im Berichtsjahr angehoben. Nur 13 Prozent der europäischen Versicherer wurden als „strong" eingestuft.

Neue International Financial Reporting Standards (IFRS) erfordern den Einbezug bestimmter Risikomanagementinformationen in die jährliche Prüfung der Consolidated Financial Statements. Nähere Informationen zu Kredit- und Marktrisiken sowie zu weiteren Aspekten des Versicherungsrisikos findet sich in Note 26 (Risk Management) der Consolidated Financial Statements.

Wir suchen den Austausch mit externen Fachleuten, um vor allem in den Bereichen, in denen komplexe Umwälzungen stattfinden, unsere Risiken besser erfassen und bewerten zu können. Erläuterungen zum International Advisory Council, Natural Catastrophe Advisory Council sowie zum Climate Change Advisory Council finden Sie im Jahresbericht 2007. Der Investment Management Advisory Council unterstützt zudem die Geschäftsleitung mit Ratschlägen zur Anlagetätigkeit der Gruppe. Ziel ist es, die risikobereinigte Rendite der Anlagen im Verhältnis zu den Verbindlichkeiten zu optimieren.

Wir engagieren uns auch intensiv im CRO Forum. Diese Organisation, der die Chief Risk Officers von wichtigen europäischen Versicherern und Finanzkonglomeraten angehören, konzentriert sich auf die Entwicklung und Förderung branchenspezifischer Best Practices im Bereich Risikomanagement. Besonders stark eingebracht haben wir uns 2007, als sich das Forum dafür einsetzte, an der Mitgestaltung der europäischen Solvabilitätsvorschriften mitzuwirken.

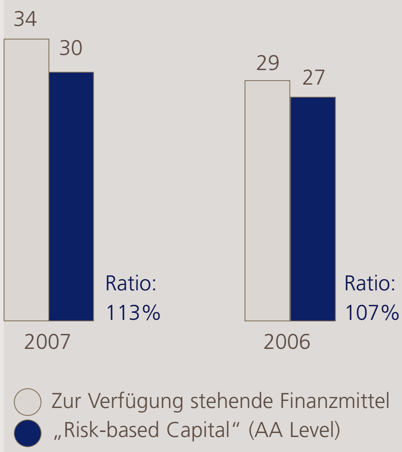
Risikomanagement

Kapitalmanagement

Wir wollen sicherstellen, dass alle dem Aufsichtsrecht unterstellten Tochtergesellschaften jederzeit die lokalen Kapitalvorschriften einhalten. Unser wichtigstes Werkzeug im Rahmen des Kapitalmanagements ist unser internes „Risk-based Capital" (RBC)-Modell. Mithilfe des RBC-Modells bewerten wir den wirtschaftlichen Wert des von unseren Geschäftsbereichen benötigten Kapitals aus der Perspektive einer gemeinsamen Bilanz. Wir definieren „Risk-based Capital" als das Kapital, das erforderlich ist, um unsere Versicherungsnehmer gegen einen Worst-Case-Verlust abzusichern. Wir kalibrieren diesen Verlust, abgestimmt auf unser angestrebtes Financial Strength Rating von „AA", über einen einjährigen Zeithorizont mit einer Eintrittswahrscheinlichkeit von 1:2000. Dies entspricht einem Sicherheitsniveau von 99,95 Prozent. Das RBC-Framework ist ein integraler Bestandteil unserer Steuerung der gesamten Gruppe. Es ist eingebettet in unsere Organisation und unsere Entscheidungsprozesse, im Rahmen von Kapitalallokation, Business Performance Management, Pricing, Einkauf von Rückversicherung, Transaktionsbewertung, Risikooptimierung und Kommunikation mit Aufsichtsbehörden und Ratingagenturen.

Die Grafik gibt einen Überblick über das benötigte RBC-Kapital der Gruppe im Vergleich zu den verfügbaren Finanzmitteln (Available Financial Resources, AFR). Zur Berechnung der AFR wird die IFRS-Bilanz in eine Darstellung überführt, die ökonomisch der RBC-Methode entspricht. Die AFR widerspiegeln die finanziellen Ressourcen, die unsere Versicherungsnehmer im Fall eines Worst-Case-Verlustes absichern. Ausgehend von der Eigenkapitalposition nach IFRS werden sie ermittelt, indem immaterielle Vermögenswerte und Verbindlichkeiten ausgeklammert sowie vorgeschlagene Dividenden bzw. Aktienrückkäufe in Abzug gebracht werden. Schliesslich werden der Wert künftiger Gewinne aus operativer Geschäftstätigkeit, wobei zukünftiges Neugeschäft nicht berücksichtigt wird, sowie vor- und nachrangige Darlehen und Anleihen mit Laufzeiten von mehr als einem Jahr addiert und weitere, RBC-bezogene Berichtigungen (z.B. um Minderheitsbeteiligungen) vorgenommen, um so die Finanzmittel zu ermitteln, die im Beobachtungszeitraum tatsächlich für die Absicherung der Versicherungsnehmer vorhanden sind. Die Zahlen in der Grafik zeigen die AFR zum jeweiligen Jahresbeginn (auf Basis der IFRS-Bilanz zum 31. Dezember des Vorjahrs), die zur Deckung der während des angezeigten Jahres potenziell auftretenden Risiken bereitstehen (RBC).

Zur Verfügung stehende Finanzmittel vs. „Risk-based Capital"
(USD Mrd. per 1. Januar)



Unser Ziel ist es, zur Frage der Beurteilung der Angemessenheit unserer Kapitalausstattung in ständigem Dialog mit Ratingagenturen zu bleiben.

Die Ratings der Finanzstärke der wichtigsten operativen Einheiten der Gruppe sind ein wichtiger Faktor unserer Wettbewerbsposition. Zudem wirken sich die aus den Finanzstärke-Ratings abgeleiteten Kredit-Ratings auf die Kapitalkosten der Gruppe aus. Im Juni 2007 stufte Standard & Poor's das Rating der Finanzstärke der «Zürich» Versicherungs-Gesellschaft und anderer wichtiger Geschäftseinheiten der Gruppe auf „AA-" herauf. Im Oktober bzw. Dezember 2007 änderten Fitch und A.M. Best den Ausblick für ihre Finanzstärke-Ratings der «Zürich» Versicherungs-Gesellschaft – „A+" bzw. „A (excellent)" – von bisher „stabil" auf „positiv".

Nähere Informationen zum Kapitalmanagement und zur Solvabilität finden sich in Note 27 (Capital Management) der Consolidated Financial Statements.

Risikomanagement in der Lebensversicherung

Im Lebensversicherungsgeschäft haben wir lokale Produktentwicklungsausschüsse gebildet und auf Gruppenebene für neue Produkte, die unsere Risikosituation deutlich steigern oder verändern könnten, einen Produktgenehmigungsausschuss geschaffen. Dank eines solchen Prüfungsprozesses können wir im Rahmen des Ausbaus unserer Geschäftstätigkeit kalkulierte Risiken eingehen. Wir überprüfen unsere bestehenden Produkte regelmässig im Hinblick auf ihre Angemessenheit sowie auf potenzielle Risiken.

Die Anwendung der Grundsätze für die Berichterstattung zum European Embedded Value ermöglicht ein besseres Verständnis und eine umfassendere Information über das Risikoprofil unserer Lebensversicherungsprodukte sowie darüber, wie sich Risiken bei unterschiedlichen Marktbedingungen verändern. Der Embedded Value ist die Messgrösse, mit der die Märkte das Lebensversicherungsgeschäft bewerten. Der von uns verfolgte marktkonforme Ansatz gilt als Best Practice der Branche. Nähere Angaben dazu finden sich im Bericht zum Embedded Value.

Eine Erläuterung unserer Emerging Risks Group, die das Risikomanagement in den Segmenten Life wie auch General Insurance beeinflusst, findet sich im Jahresbericht 2007. Das Management neu auftretender Risiken betrifft sowohl Life als auch General Insurance.

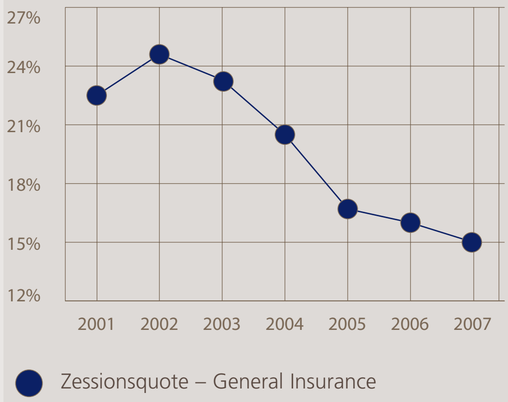
Risikomanagement in General Insurance

Ein fundamentaler Bestandteil unseres Risikomanagements ist die Disziplin im Underwriting. Wir legen Limits für die Underwriting-Kapazität fest und delegieren Kompetenzen entsprechend dem jeweiligen Know-how der einzelnen Mitarbeiter. Im Rahmen der Initiative The Zurich Way definieren wir angemessene Preisgestaltungsrichtlinien mit speziellem Fokus auf einen einheitlich ermittelten versicherungstechnischen Preis für die gesamte Gruppe. Mittels technischer Überprüfungen bestätigen wir, dass unsere Underwriter ihre Kompetenzen einhalten und unsere Underwriting-Grundsätze befolgen. Dank unserer globalen Netzwerke können unsere Geschäftssegmente weltweit Best Practices nutzen und von zusätzlicher Anleitung und Governance profitieren. Wie bei den Lebensversicherungsprodukten bestehen auch hier Verfahren, um potenzielle neue Produkte im Hinblick darauf zu prüfen, ob die damit verbundenen Risiken verstanden werden und ob sie in einem angemessenen Verhältnis zu den möglichen Chancen stehen.

Ein weiteres wichtiges Element des Risikomanagements ist eine angemessene Rückversicherung, durch die das Versicherungsrisiko reduziert wird. Unsere Hauptziele beim Einkauf von Rückversicherungen sind die Bereitstellung marktführender Kapazitäten für unsere Kunden, der Schutz unserer Bilanz sowie die Optimierung der Kapitaleffizienz der Gruppe. Im Segment General Insurance verfolgen wir – ebenso wie seit September 2007 in der Lebensversicherung – eine Strategie des zentralisierten Einkaufs und bemühen uns darum, Versicherungsprogramme nach Bedarf zu bündeln, um eine höhere Diversifizierung und Grössenvorteile zu erzielen. Wir prüfen und nutzen weiterhin sowohl traditionelle Rückversicherungsmärkte als auch andere Möglichkeiten, wie beispielsweise Catastrophe-Bonds, um Zurich sowohl gegen extreme Einzelereignisse als auch gegen eine Häufung von Ereignissen abzusichern, die in unseren Selbstbehalt fallen. Das Corporate Reinsurance Security Committee ist mit dem Management der Kreditqualität unserer Aktiven aus Zessionen und Rückversicherungen betraut. Dank unseres verbesserten Underwriting-Prozesses und der Flexibilität aufgrund der erhöhten Eigenkapitalposition konnten wir unsere Rückversicherungsprogramme restrukturieren, um ein besseres Risiko-Ertrags-Verhältnis zu erreichen.

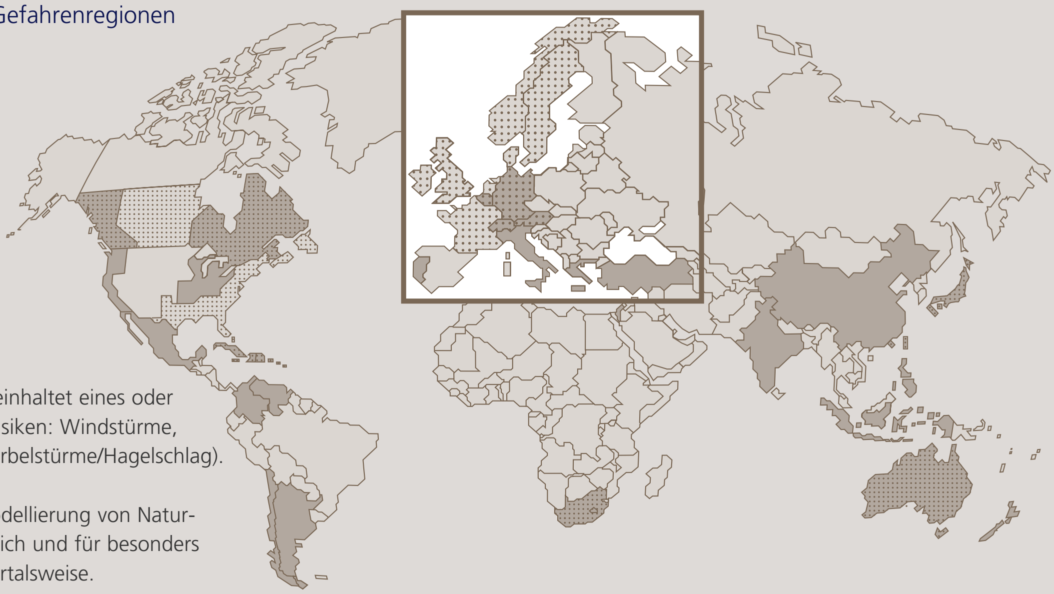
Zedierte Prämien – Entwicklung

(% der an die Rückversicherer zedierten Prämien des Bereichs General Insurance)



Risikomanagement

2007 im Modell erfasste Gefahrenregionen



Georisiken (Erdbeben)

Klimabedingte Risiken (beinhaltet eines oder mehrere der folgenden Risiken: Windstürme, Überschwemmungen, Wirbelstürme/Hagelschlag).

Unsere gruppenweite Modellierung von Naturkatastrophen erfolgt jährlich und für besonders gefährdete Regionen quartalsweise.

Modellierung von Naturkatastrophen

Die Abschätzung der möglichen Auswirkungen von Naturkatastrophen ist ein zentrales Element unseres Risikomanagements im Geschäftssegment General Insurance. Zwar lassen sich Katastrophen nicht vorhersagen, doch hilft uns die Modellierung, die voraussichtlichen Schäden für den Eintrittsfall einer Katastrophe zu ermitteln. Wir nutzen sowohl extern als auch intern entwickelte Modelle zur Kontrolle unserer Underwriting-Aktivitäten und der Risikokumulationen in modellierten Zonen, um die vorgesehenen Limits einzuhalten. Sie liefern auch Kriterien, die uns beim Einkauf von Rückversicherung behilflich sind.

Sowohl lokal als auch auf Gruppenebene nutzen wir Modellierungen für die Risikobemessung und -aggregation. Dabei überwachen wir die Modellierungen zentral im Hinblick auf Konsistenz sowie auf die Einhaltung einer globalen Perspektive hinsichtlich unserer Risikokumulationen. Wir haben technische Zentren in unsere Geschäftseinheiten integriert, mit deren Hilfe wir die allgemeine Qualität unserer Daten verbessern. Wir bemühen uns, unsere Modellierung laufend weiter zu optimieren und den Detaillierungsgrad unserer Daten zu erhöhen, um auf diese Weise die Genauigkeit und Nützlichkeit unserer Informationen zu verbessern. So haben wir 2007 beispielsweise in einer speziellen Initiative die Datenbasis für Versicherungsverträge mit Gemeinden in Grossbritannien verfeinert und dabei die Anzahl lokaler Detailinformationen von 700.000 auf drei Millionen erhöht. Zudem haben wir folgende Länder neu als Gefahrenregionen bezüglich Georisiken definiert: Deutschland, Schweiz, Österreich, Belgien, Türkei, Griechenland, China, Indien, Neuseeland, Guam und Kolumbien. Zudem haben wir Norwegen und Guam in die Modellierung klimabedingter Risiken aufgenommen.

Risikomanagement bei von Menschen verursachten Katastrophen

Das Know-how, das Zurich durch die Überwachung von Risiken aus Naturkatastrophen erworben hat, ist auch auf von Menschen verursachte Katastrophen (insbesondere Terroranschläge) anwendbar. Aufgrund der hohen Unsicherheit über die Art der möglichen Ereignisse enthalten die Analyse und Überwachung unserer Risikokumulation eine Reihe von Annahmen über potenzielle Gefahren. Wir überprüfen dazu unsere Risiken in der Sach- und der Berufsunfallversicherung und identifizieren Bereiche mit hoher Risikokonzentration. Anhand der daraus gewonnenen Daten können unsere Underwriter – insbesondere in Nordamerika – beurteilen, inwieweit das spezifische Risiko eines einzelnen Kunden das Gesamtrisiko der Gruppe beeinflussen würde. Unsere Analyse hat gezeigt, dass die Risiken in anderen Gebieten weit geringer sind, was grösstenteils auf die von den jeweiligen Regierungen zur Verfügung gestellten Pools zurückzuführen ist. Die Risikokumulationslimits für diese Gebiete werden periodisch kontrolliert.

Management von operationellen Risiken

Generell enthalten alle Risiken einen bestimmten Anteil an operationellem Risiko. Mit den Initiativen von The Zurich Way wird das Management operationeller Risiken durch die Standardisierung von Prozessen unterstützt. Durch Anwendung eines einheitlichen Ansatzes in der gesamten Gruppe und die zusätzliche Nutzung von Risikoinformationen aus anderen Quellen, wie z.B. internen Kontrollen oder Total Risk Profiling®, haben wir uns ausserdem bemüht, die wichtigsten operationellen Risiken genauer zu identifizieren. Wir beurteilen operationelle Risiken anhand einer qualitativen Bewertung und erstellen eine Datenbank über Schadenereignisse. Durch Analyse dieser Schäden können wir bei Bedarf Anpassungen durchführen.

2007 haben wir unser Rahmenkonzept für operationelle Risiken in den wichtigsten Geschäftseinheiten eingeführt. Überdies haben wir Anfang Jahr auch einen Szenario-basierten Ansatz zur Quantifizierung operationeller Risiken getestet und die Methode anschliessend bei der RBC-Berechnung eingesetzt.

Bei der Entwicklung eines Konzepts zum integrierten operationellen Risikomanagement konzentrieren wir uns weiterhin auf operative Bereiche von hoher Priorität wie Outsourcing, Informationstechnologie und Business-Continuity-Management. Eine Schlüsselaufgabe besteht darin, unsere Business-Continuity-Pläne auf dem aktuellsten Stand zu halten, wobei wir auf Ereignisse wie Naturkatastrophen oder potenzielle Pandemien unsere Schwerpunkte legen. Wir haben unsere Einsatzbereitschaft für Pandemien weiter verbessert und uns auf Trainingsmassnahmen im Bereich Krisenmanagement konzentriert.

Unsere mehrjährige Initiative zur Verbesserung der Konsistenz, Dokumentation und Erfassung unserer internen Kontrollen wurde fortgesetzt und auf wichtige Kontrollfunktionen und Standorte ausgeweitet. Obwohl die Initiative hauptsächlich auf wichtige Kontrollaspekte der Finanzberichterstattung ausgerichtet ist, werden auch die damit zusammenhängenden operativen Steuerungsfunktionen berücksichtigt. Einzelheiten hierzu finden sich im Bericht zur internen Kontrolle im Corporate Governance Report.

Management von Reputations- und Strategierisiken

Wie das operationelle Risiko haben auch alle anderen Risikoarten potenzielle Auswirkungen auf die Reputation von Zurich. Aus diesem Grund können wir durch ein effektives Management aller Risikoarten auch die Gefährdung unserer Reputation verringern. Zudem sind wir bestrebt, unsere Reputation dadurch zu schützen, dass wir die relevanten Gesetze und Bestimmungen einhalten und uns gemäss den Kernwerten und Prinzipien der Zurich Basics verhalten, wozu auch Integrität und gutes Geschäftsgebaren zählen. Das Management gewisser Aspekte des Reputationsrisikos wie z.B. Kommunikation erfolgt zentral durch Funktionsträger mit entsprechendem Know-how.

Strategische Geschäftsentscheidungen sind naturgemäss mit Risiken verbunden. Durch Einsatz unserer Risikobewertungstools, einschliesslich Total Risk Profiling®, wollen wir die mit unseren Geschäftsentscheidungen einhergehenden unbeabsichtigten Risiken reduzieren. Das Group Executive Committee bewertet regelmässig die wichtigsten strategischen Risikoszenarien für die Gruppe als Ganzes. Die Risiken einzelner Merger&Acquisition-Transaktionen werden ebenfalls bewertet. Zusätzlich wird das Management dieser Risiken durch die Festlegung eindeutiger Zuständigkeiten, Kompetenzen und Limits für die Prüfung und Genehmigung strategischer Entscheidungen unterstützt.

Corporate Responsibility

Nach unserer Überzeugung zeichnen sich verantwortungsvolle Unternehmen dadurch aus, dass sie für sich und für die Gesellschaft als Ganzes Werte schaffen, indem sie sich aktiv in den Bereichen Soziales, Umwelt und Governance engagieren.

Zur weiteren Verbesserung unserer Corporate Responsibility wollen wir künftig wichtige Themen und damit verbundene Erwartungen unserer Stakeholder noch stärker in unser Kerngeschäft integrieren und die konzernweite Nutzung von Best Practices fördern.

Die Aufsicht über Corporate-Responsibility-bezogene Aktivitäten und Performance wie auch die Beratung in Fragen der Strategieentwicklung und der Prioritätensetzung obliegt dem Corporate Responsibility Council, welchem Vertreter aus dem Top-Management und aus Schlüsselfunktionen angehören.

Die Priorisierung von Themen wird nach drei Kriterien erfolgen: Nach der potenziellen geschäftlichen Auswirkung, nach der gesellschaftlichen Bedeutung sowie danach, ob wir etwas Nachhaltiges bewirken können. Zu den wichtigsten Themenbereichen für 2008 zählen die Verbesserung unserer Performance in DJSI und FTSE4Good, Mikroversicherungen, der Klimawandel, die Spendenpolitik des Konzerns sowie das Engagement unserer Mitarbeitenden.

Bei Corporate Responsibility geht es darum, wie wir unser Geschäft tätigen. Relevante Informationen finden sich deshalb im ganzen Jahresbericht 2007, einschliesslich Informationen über unser Engagement für hervorragende Leistungen zugunsten unserer Kunden und unserer Mitarbeitenden, zwei wichtigen Stakeholdern.

DJSI und FTSE4Good

Zurich gehört den Dow Jones Nachhaltigkeitsindizes (Dow Jones Sustainability Indexes, DJSI) sowie den FTSE4Good Index Series seit deren Schaffung in den Jahren 1999 respektive 2001 an und hat seither die damit verbundene unternehmerische Verantwortung wahrgenommen. DJSI und FTSE4Good haben sich nicht nur zu einflussreichen Kriterien für die wachsende Zahl von Anlegern entwickelt, welche starke Leistungen im Bereich Corporate Responsibility als unerlässlich für einen langfristigen Anlageerfolg halten, sondern sie dienen uns auch als Erfolgsindikatoren für unser eigenes Management von sozialen Fragen sowie Umwelt- und Governance-Themen.

Zurich verbessert die Gesamtperformance Jahr für Jahr und erreicht in den sozialen, umweltbezogenen und wirtschaftlichen Kategorien des DJSI überdurchschnittliche Ergebnisse. Verbesserungspotenzial sehen wir namentlich in den Kategorien Soziales und Umwelt, insbesondere bei der gesellschaftsbezogenen Berichterstattung, der Berücksichtigung umweltspezifischer Chancen und Risiken sowie der Einbeziehung von Interessengruppen. Wir berücksichtigen die Ergebnisse und Erkenntnisse aus den Ratings bei der Entwicklung unserer Konzernaktivitäten und wir werden sie auch künftig nutzen, um unsere Stärken weiter auszubauen und unsere Schwächen zu eliminieren.

Mikroversicherung

Für viele Hundert Millionen einkommensschwacher Familien weltweit waren Versicherungen und die gesamte Welt der Finanzdienstleistungen bislang allzu häufig unbekannt, nicht angemessen oder ausserhalb ihrer Reichweite.

In der Mikroversicherung werden unsere Kernkompetenzen und der hohe Entwicklungsstand des Versicherungsgeschäfts und des Risikomanagements mit Weiterbildung, Forschung und Innovation vereint, um so einkommensschwache Bevölkerungsschichten angemessen und zweckmässig zu betreuen. Angestrebt wird in erster Linie Nachhaltigkeit. Die Produkte und Dienstleistungen müssen den Kunden Nutzen bieten und sie müssen vom Anbieter kommerziell erbracht werden können.

Anfang 2007 gründete Zurich ein globales Mikroversicherungsteam, welches das Versicherungs-Know-how und die weltweite Präsenz des Unternehmens nutzt, um das Mikroversicherungsgeschäft und die damit verbundenen Fähigkeiten verstärkt zu fördern.

Im Februar 2007 unterzeichnete Zurich eine öffentlich-/privatrechtliche Partnerschaft mit der Direktion für Entwicklung und Zusammenarbeit (DEZA) in der Schweiz sowie der Internationalen Arbeitsorganisation (ILO). Im Rahmen dieser Vereinbarung wurde direkte technische Unterstützung für laufende Projekte in Bolivien, Südafrika und Venezuela erbracht sowie Unterstützung für die strategische Planung für andere Geschäftseinheiten geboten, die nach Möglichkeiten suchten, Mikroversicherungen zu entwickeln. Zu den erwähnenswerten Projekten zählen Produktentwicklungs- und Vertriebsprojekte in der Royal Bafokeng Nation in Südafrika, Nachfrageforschung in Südafrika und Venezuela und eine Überprüfung wichtiger Erkenntnisse in Bolivien.

In diesem Jahr sind wir Partnerschaften mit staatlichen und nichtstaatlichen Behörden, multilateralen Organisationen und akademischen Institutionen eingegangen, um die auf diesem Gebiet besten und vielversprechendsten Entwicklungen zu eruieren. Wir haben uns aktiv an der Arbeitsgruppe zur Mikroversicherung beteiligt, die von der Consultative Group to Assist the Poor und der International Association of Insurance Supervisors gegründet wurde. Zudem lancierten wir ein Pilotprojekt für Finanzausbildung mit Microfinance Opportunities in Südafrika, da die Schulung eine wichtige Komponente für den Erfolg der Mikroversicherung ist.

In den Geschäftseinheiten in Lateinamerika, Afrika und dem Grossraum China wuchs das Geschäft mit Mikroversicherungen 2007 weiter. Es wurden Versuche mit neuen Versicherungsdeckungen und Vertriebsformen gestartet, so in der Sach- und Unfallversicherung, der Krankenversicherung sowie der Lebensversicherung, dem Vertrieb mit Auslandüberweisungen sowie dem Direktvertrieb. Bei einigen davon handelte es sich um schrittweise Innovationen, andere waren radikalerer Natur. Zurich hat erkannt, dass laufende Verbesserungen und stetiges Lernen fundamentale Elemente dieser Initiative sind und dass die Chancen, Quantensprünge zu erzielen, dadurch steigen.

Eine vollständige Beschreibung der Mikroversicherungsinitiative von Zurich finden Sie im Jahresbericht 2007.

Corporate Responsibility

Klimawandel

Als ein global führender Anbieter im Bereich Risikomanagement haben wir eine Initiative für die Entwicklung von speziell auf die Risiken des Klimawandels zugeschnittenen Produkten und Dienstleistungen gestartet. Gleichzeitig versuchen wir auch, unsere eigenen CO_2-Emissionen zu reduzieren.

Obwohl unsere weltweiten Geschäftsstellen sich bereits mit den Anforderungen und Erwartungen unserer Kunden in Bezug auf klimatische Risiken beschäftigt haben, ermöglicht uns die neue Initiative ein einheitlicheres und fokussierteres Vorgehen. Sie besteht aus drei Elementen:

- Einem internen Climate Office, das in unsere Underwriting-Infrastruktur integriert wird und das zur Motivierung unserer 60.000 Mitarbeitenden beiträgt wie auch die Entwicklung von Risikoprodukten und -lösungen unterstützt.
- Einem Climate Change Advisory Council (CCAC), dem interne Manager sowie externe Experten angehören und der das Management von Zurich in strategischen und operativen Fragen in Zusammenhang mit dem Klimawandel berät.
- Einem anwendungsorientierten Forschungsprogramm in Zusammenarbeit mit Organisationen und Institutionen zur Untersuchung der bedeutenden wirtschaftlichen, finanziellen und politischen Fragestellungen in Verbindung mit dem Klimawandel.

In einer ersten Partnerschaft im Rahmen des letztgenannten dritten Punkts wird Zurich ein spezielles Besucherprogramm an der Donald Bren School of Environmental Science and Management der Universität von Kalifornien finanzieren. Im Gegenzug wird die Schule den Kohlendioxidausstoss von Zurich analysieren und uns dabei helfen, unsere CO_2-Emissionen auf sinnvolle und nachhaltige Weise zu steuern.

Diese neue Dynamik baut auf bereits bestehende Initiativen innerhalb unseres Unternehmens. In Europa, den USA und Australien gibt es bereits Produkte, die bestimmte Gesichtspunkte klimarelevanter Risiken berücksichtigen. In Kanada, den USA und Europa bestehen enge Kontakte zu Experten auf diesem Gebiet. Einzelne Geschäftseinheiten, darunter auch die Schweiz, haben bereits aus eigener Initiative individuelle Strategien zur Senkung der CO_2-Emissionen ausgearbeitet und implementiert. Farmers in den USA bietet beispielsweise Fahrern von Hybridfahrzeugen Prämienverbilligungen an.

Ein Beispiel, wie sich unsere Mitarbeiterinnen und Mitarbeiter sowohl praktisch als auch privat für den Klimaschutz einsetzen, sind die sechs Angestellten, die sich im Jahr 2007 nach Sri Lanka begaben, um dort beim Wiederaufbau der Mangrovenwälder zu helfen, die im verheerenden Tsunami vom Dezember 2004 zerstört worden waren. Mehr als 100 Menschen aus 16 Ländern meldeten sich zur Teilnahme an diesem Projekt, das vom Earthwatch Institute of Europe organisiert wurde. Die schliesslich ausgewählten sechs Teilnehmenden kamen aus Australien, Kanada, Spanien, der Schweiz, Grossbritannien und den USA. Für 2008 wurden noch weitere Freiwillige gesucht, die sich nach der Rückkehr in ihre Heimatländer jeweils als Champions in Corporate Responsibility einsetzen.

Eine vollständige Beschreibung der Klimawandelinitiative von Zurich finden Sie im Jahresbericht 2007.

Spendenpolitik des Unternehmens

Wir sind sehr stolz auf unsere Spendenaktivitäten und Bemühungen, Menschen mit dem notwendigen Know-how und den Ressourcen auszustatten, um die Veränderungen und Risiken in ihrem eigenen Leben und ihrer Umgebung besser bewältigen zu können. Überall, wo wir tätig sind, stellen wir dem jeweiligen Umfeld beträchtliche finanzielle Mittel sowie Sachleistungen zur Verfügung. Je nach den jeweiligen lokalen Bedürfnissen und Prioritäten decken wir bei unserem Engagement ein breites Spektrum von Aktivitäten ab.

Um die positiven gesellschaftlichen Wirkungen weiter zu steigern, wollen wir die konzernweiten Spenden- und Stiftungsaktivitäten künftig weiter vereinheitlichen und stärker in den Mittelpunkt rücken. Dadurch wird auch sichergestellt, dass unsere konzernweiten Spendeneinsätze im Einklang mit unserer Gesamtstrategie für den Bereich Corporate Responsibility stehen. Ein wichtiges Element unserer Spendenpolitik ist auch künftig die aktive Beteiligung der Mitarbeitenden.

Weitere Informationen finden Sie unter www.zurich.com.

Bericht über die Corporate Governance

Zurich Financial Services ist bestrebt, zum Wohl ihrer Aktionäre, Kunden, Mitarbeiterinnen und Mitarbeiter sowie anderer Stakeholder-Gruppen eine effiziente Governance im Einklang mit den Prinzipien der Fairness, Transparenz und Verantwortlichkeit zu gewährleisten. Die Strukturen, Regeln und Betriebsabläufe in der Gruppe wurden im Hinblick auf eine geeignete Unternehmensorganisation und entsprechendes Geschäftsverhalten sowie eine klare Festlegung der Befugnisse und Verantwortlichkeiten der Organe und Mitarbeitenden ausgestaltet.

Der vorliegende Bericht beschreibt, wie die Gruppe in Bezug auf die Corporate Governance vorgeht und zeigt die wichtigsten Elemente der Corporate Governance innerhalb der Zurich Financial Services Group. Er enthält die erforderlichen Angaben gemäss der Richtlinie betreffend Informationen zur Corporate Governance der SWX Swiss Exchange (Stand 1. Januar 2007). Dieser Bericht erläutert auch, wie die Gruppe im Jahr 2007 den von der economiesuisse 2002 veröffentlichten und im Oktober 2007 angepassten Swiss Code of Best Practice for Corporate Governance eingehalten hat. Darüber hinaus veröffentlicht die Gruppe weiterhin eine Erklärung zur internen Kontrolle (siehe Seite 51) entsprechend den Vorgaben der britischen Turnbull-Richtlinie.

Die oben beschriebenen Prinzipien der Corporate Governance und Standards finden sich in zahlreichen Dokumenten, insbesondere in den Statuten, dem Organisationsreglement und den Regularien der Verwaltungsratsausschüsse. Der Governance- und Nominationsausschuss des Verwaltungsrats, der die Governance der Gruppe überwacht, vergleicht diese regelmässig mit Best-Practice-Standards und stellt die Einhaltung der Corporate-Governance-Bestimmungen sicher.

Es besteht eine wirkungsvolle Firmenstruktur, welche die Zusammenarbeit zwischen dem Verwaltungsrat, der Geschäftsleitung und internen Kontrollorganen unterstützt. Diese Struktur ermöglicht Kontrollmechanismen und dient dazu, dem Verwaltungsrat institutionelle Unabhängigkeit vom Group Chief Executive Officer (CEO) und dem Group Executive Committee (GEC), die für die Führung der Gruppe im täglichen Geschäft verantwortlich sind, zu gewährleisten. Im Verwaltungsrat von Zurich Financial Services sind nur Mitglieder vertreten, die nicht mit der Geschäftsführung betraut sind. Die Positionen von Verwaltungsratspräsident und CEO sind getrennt, was eine Gewaltentrennung zwischen diesen Funktionen gewährleistet und die Unabhängigkeit des Verwaltungsrats sicherstellt.

Dieser Bericht folgt dem in der Richtlinie der SWX Swiss Exchange empfohlenen Aufbau. Das Kapitel über die Entschädigungen, Beteiligungen und Darlehen der Verwaltungsräte und der Mitglieder des GEC wird separat als „Bericht über Honorare und Entschädigungen" (siehe Seiten 54 ff) als Ergänzung zu diesem Bericht publiziert.

Konzernstruktur und Aktionäre

Operative Konzernstruktur

Zurich Financial Services ist die Holdinggesellschaft der Gruppe und eine Aktiengesellschaft nach schweizerischem Recht.

Die Gruppe wird als eine auf Geschäftssegmenten und Regionen basierende Matrixorganisation geführt. Den Mitgliedern des GEC werden die entsprechenden Verantwortlichkeiten zugeteilt. An der Spitze des GEC steht der CEO. Zu den weiteren Mitgliedern gehören der Chief Financial Officer, der Chief Investment Officer, der Chief Growth Officer, der Group Chief Risk Officer, die Leiter der Geschäftsbereiche General Insurance, Global Life und Farmers Management Services sowie die Leiter von North America Commercial, Global Corporate und Europe General Insurance. Weitere Informationen zum GEC finden Sie auf den Seiten 42 bis 47.

Ausgehend von dieser Managementstruktur basiert die primäre Berichterstattung der Gruppe auf den folgenden Geschäftssegmenten:

- General Insurance deckt die Haftpflicht- und Unfallversicherungsbedürfnisse zahlreicher Kunden ab, darunter Privatkunden, Kleinbetriebe, mittlere und grosse Unternehmen sowie multinationale Gesellschaften.
- Global Life verfolgt eine kundenorientierte Strategie mit marktführenden Lösungen bei fondsgebundenen und Vorsorgeprodukten sowie im Mehrkanalvertrieb, um Führungspositionen in den von uns ausgewählten Segmenten zu belegen und überdurchschnittliche Renditen für unsere Aktionäre zu erzielen.
- Farmers Management Services, welche über die Farmers Group, Inc. und ihre Tochtergesellschaften (FGI) nicht schadenbezogene Managementdienstleistungen für die Farmers Exchanges erbringen. Letztere zeichnen Versicherungsverträge für Privatkunden und kleine Firmenkunden in den Vereinigten Staaten. FGI erzielt Einnahmen für die Erbringung von Dienstleistungen für die Exchanges, für die wir Managementdienstleistungen erbringen, die wir aber nicht besitzen, und für deren Kunden.
- Other Businesses umfasst Farmers Re, die Rückversicherungen für die Farmers Exchanges erbringen, Centre sowie Kapitalmarkt- und Bankgeschäftsaktivitäten. Dieses Segment umfasst zudem bestimmte Geschäfte, die zentral verwaltet werden und nicht als Kerngeschäft angesehen werden.
- Corporate Functions umfasst die Holding- und Finanzgesellschaften der Gruppe, die Aktivitäten des Corporate Center sowie gewisse alternative Kapitalanlagen.

Das sekundäre Format der Berichterstattung der Gruppe folgte auch 2007 einer geografischen Struktur und umfasste die folgenden Bereiche: Nordamerika, Europa, International Businesses und Central Region.

Ein detaillierter Bericht zu den Ergebnissen und Aktivitäten der jeweiligen Segmente und Geschäftsbereiche im Jahr 2007 befindet sich im Financial Review der Gruppe ab Seite 70. Weiter ist ein Überblick über die Stärken und Tätigkeiten der Gruppe im Jahresbericht enthalten, der auch auf der Website der Zurich unter www.zurich.com (http://zdownload.zurich.com/main/reports/business_review_2007_de.pdf) abrufbar ist.

Zurich Financial Services ist an der Schweizer Börse SWX Swiss Exchange kotiert. Schuldverschreibungen im Rahmen von Euro-Medium-Term-Note-Programmen und andere Finanzinstrumente verschiedener Gruppengesellschaften sind ebenfalls kotiert.

Eine Aufstellung der wichtigen Tochterunternehmen der Gruppe sowie weitere Informationen über kotierte Aktien von wichtigen Tochterunternehmen finden sich in diesem Financial Report auf den Seiten 204 bis 207. Weitere Informationen über die Kotierung der Aktien von Zurich Financial Services sind den Aktionärsinformationen auf den Seiten 259 bis 261 zu entnehmen.

Bedeutende Aktionäre

Seit dem 1. Dezember 2007 gelten neue Richtlinien bezüglich der Offenlegung bedeutender Beteiligungen an Schweizer Unternehmen mit Börsenkotierung in der Schweiz. Ab diesem Datum sind Beteiligungen bereits ab 3% und nicht wie zuvor erst ab 5% offenzulegen. Ferner sind ab dem 1. Juli 2007 auch Call-Optionen und andere Finanzinstrumente zu den Beteiligungen zu rechnen, selbst wenn diese nur eine Barabgeltung ermöglichen. Unter der neuen Regelung hat die Offenlegung für Kaufpositionen (inkl. Aktien, Long-Call-Optionen und Short-Put-Optionen) und Verkaufspositionen (inkl. Long-Put-Optionen und Short-Call-Optionen) separat zu erfolgen. Die Prozentschwellen lassen sich auf Basis der Stimmrechte gemäss Eintrag im Handelsregister berechnen.

Der Zurich Financial Services ist niemand bekannt, der per 30. November 2007 direkt oder indirekt ein Aktienpaket hielt, das 5% oder mehr der ausgegebenen Aktien, Optionsrechte und/oder Umwandlungsrechte von Zurich Financial Services entsprach. Per 1. Dezember 2007 hielt Barclays Plc, 1 Churchill Place, London, E14 5HP, UK, zusammen mit ihren Tochtergesellschaften, eine Kaufposition von 4,25% an Namenaktien von Zurich Financial Services. Abgesehen von Barclays Plc, ist der Zurich Financial Services niemand bekannt, der am 31. Dezember 2007 direkt oder indirekt ein Aktienpaket hielt, das 3% oder mehr der ausgegebenen Aktien, Optionsrechte und/oder Umwandlungsrechte von Zurich Financial Services entsprach. Ferner ist Zurich Financial Services nicht bekannt, dass per 30. November 2007 oder 31. Dezember 2007 irgendwelche Personen direkt oder indirekt, gemeinsam oder allein, Kontrolle über Zurich Financial Services ausübten oder aufgrund einer Vereinbarung ausüben konnten.

2007 erhielt Zurich Financial Services unter dem alten Offenlegungssystem keine Meldungen.

Bericht über die Corporate Governance

Darüber hinaus wurden die nachfolgenden Meldungen nach dem 1. Dezember 2007 gemacht:

- JP Morgan Chase & Co, 270 Park Avenue, New York, NY 100017, USA und ihre Tochtergesellschaften gaben am 1. Dezember 2007 eine Kaufposition von 3,62% sowie eine Verkaufsposition von 1,43% an Namenaktien von Zurich Financial Services bekannt. Am 28. Dezember 2007 meldete das Unternehmen, dass sowohl die Kauf- als auch die Verkaufsposition unter 3% gesunken waren.
- Credit Suisse Group, Paradeplatz 8, Postfach, 8070 Zürich, Schweiz, und ihre Tochtergesellschaften gaben am 1. Dezember 2007 eine Kaufposition von 3,32% und eine Verkaufsposition von 3,4% an Namenaktien von Zurich Financial Services bekannt. In der Folge liess das Unternehmen verlauten, dass sowohl die Kauf- als auch die Verkaufsposition per 21. Dezember 2007 bzw. 27. Dezember 2007 unter 3% gesunken waren.

Kreuzbeteiligungen

Zurich Financial Services hat keine Kreuzbeteiligungen, die 5% des Aktienkapitals oder der Stimmrechte auf beiden Seiten übersteigen.

Kapitalstruktur

Aktienkapital

Per 31. Dezember 2007 betrug das ordentliche Aktienkapital der Zurich Financial Services CHF 14.554.682,00, aufgeteilt in 145.546.820 voll liberierte Namenaktien mit einem Nennwert von je CHF 0,10. Der Verwaltungsrat wird den Aktionären an der ordentlichen Generalversammlung vom 3. April 2008 eine Bruttodividende von CHF 15,00 je Aktie vorschlagen.

Am 15. Februar 2007 wurde bekannt gegeben, dass der Verwaltungsrat für 2007 einen Rückkauf von Aktien der Zurich Financial Services im Wert von CHF 1,25 Mrd. genehmigt hat. Dieses Aktienrückkaufprogramm wurde am 2. Juli 2007 abgeschlossen. An der ordentlichen Generalversammlung vom 3. April 2008 wird den Aktionären die Vernichtung von 3.432.500 unter diesem Programm zurückgekaufter Aktien von Zurich Financial Services und die entsprechende Reduktion des ordentlichen Aktienkapitals zur Annahme vorgelegt.

Genehmigtes und bedingtes Aktienkapital

Per 31. Dezember 2007 war der Verwaltungsrat von Zurich Financial Services ermächtigt, das Aktienkapital bis spätestens zum1. Juni 2008 um CHF 600.000 zu erhöhen, was 6.000.000 Namenaktien zu nominal CHF 0,10 entspricht. Zurich Financial Services verfügt überdies über ein bedingtes Kapital von CHF 548.182,80, was 5.481.828 Namenaktien zu nominal CHF 0,10 entspricht, um so ihr Aktienkapital zu erhöhen, und zwar durch Ausübung von (1.) Wandel- und/oder Optionsrechten, die in Verbindung mit auf nationalen oder internationalen Kapitalmärkten begebenen Anleihen oder ähnlichen Obligationen der Gesellschaft oder einer ihrer Konzerngesellschaften eingeräumt werden, und/oder (2.) durch Ausübung von Optionsrechten, die den Aktionären eingeräumt werden. Das Unternehmen verfügte weiter über ein bedingtes Kapital in Höhe von CHF 320.257,90 bzw. 3.202.579 Namenaktien mit einem Nennwert von je CHF 0,10, die an Mitarbeiterinnen und Mitarbeiter der Gruppe ausgegeben werden können.

Weitere Informationen über die Kapitalstruktur sowie über das genehmigte und bedingte Aktienkapital finden Sie in Note 21 auf den Seiten 160 bis 162 der Consolidated Financial Statements.

Änderungen des Aktienkapitals im Verlauf von 2006

Am 15. Februar 2006 stimmte der Verwaltungsrat der Ausgabe von maximal 1.000.000 der 1.500.000 dividendenberechtigten Aktien des bedingten Aktienkapitals an die Mitarbeiterinnen und Mitarbeiter zu und beantragte daher die Kotierung von 1.000.000 Namenaktien des bedingten Kapitals an der SWX Swiss Exchange.

An der Generalversammlung vom 20. April 2006 stimmten die Aktionäre einer Reduktion des Aktienkapitals in Form einer Herabsetzung des Nennwerts je Namenaktie von CHF 2,50 auf CHF 0,10 zu. Am 3. Juli 2006, d.h. dem Tag der Nennwertreduktion, verfügte Zurich Financial Services über 144.565.255 ausgegebene und voll einbezahlte Aktien, einschliesslich 558.300 ausgegebener Aktien des bedingten Kapitals. Aufgrund dieser Reduktion wurde das Aktienkapital von CHF 361.413.137,50 um CHF 346.956.612 auf neu CHF 14.456.525,50 herabgesetzt. Das genehmigte Kapital wurde auf CHF 600.000 und das bedingte Kapital auf CHF 548.182,80 respektive auf CHF 94.170 gesenkt.

Per 31. Dezember 2006 waren insgesamt 742.444 Aktien des bedingten Aktienkapitals an die Mitarbeiterinnen und Mitarbeiter ausgegeben. Somit belief sich das Aktienkapital am 31. Dezember 2006 auf CHF 14.474.939,90 und das bedingte Aktienkapital auf CHF 548.182,80 bzw. CHF 75.755,60.

Änderungen des Aktienkapitals im Verlauf von 2007

Gemäss dem Vorschlag des Verwaltungsrats von Zurich Financial Services vom 14. Februar 2007 stimmten die Aktionärinnen und Aktionäre anlässlich der ordentlichen Generalversammlung vom 3. April 2007 der Erhöhung des bedingten Aktienkapitals für die Ausgabe neuer Namenaktien an die Mitarbeiterinnen und Mitarbeiter der Gruppe von CHF 75.755,60 um CHF 324.244,40 auf ein neues Maximum von CHF 400.000 zu. Dazu werden bis zu 4.000.000 voll zu liberierende Namenaktien mit einem Nennwert von je CHF 0,10 begeben. Am 5. März und 7. Mai 2007 wurden 500.000 bzw. 3.242.444 neue Namenaktien aus dem bedingten Aktienkapital mit einem Nennwert von je CHF 0,10 an der SWX Swiss Exchange kotiert. Die Aktien werden künftig so ausgegeben, damit den Verpflichtungen der Gruppe bezüglich der verschiedenen Aktien- und Optionspläne für Mitarbeiterinnen und Mitarbeiter nachgekommen werden kann.

2007 wurden 797.421 Aktien an die Mitarbeiterinnen und Mitarbeiter ausgegeben. Somit belief sich das Aktienkapital am 31. Dezember 2007 auf CHF 14.554.682,00 (145.546.820 Aktien) und das bedingte Aktienkapital auf CHF 548.182,80 (5.481.828 Aktien) bzw. CHF 320.257,90 (3.202.579 Aktien).

Veränderung des ordentlichen Aktienkapitals während der letzten zwei Jahre

	Aktienkapital in CHF	Anzahl Aktien	Nennwert in CHF
Stand per 31. Dezember 2005	360.017.387.50	144.006.955	2.50
Neu ausgegebene Aktien aus bedingtem Kapital	1.395.750.00	558.300	2.50
Herabsetzung des Nennwerts je Namenaktie von CHF 2,50 auf CHF 0,10 am 3. Juli 2006	(346.956.612.00)	144.565.255	–
Neu ausgegebene Aktien aus bedingtem Kapital	18.414.40	184.144	0.10
Stand per 31. Dezember 2006	14.474.939.90	144.749.399	0.10
Neu ausgegebene Aktien aus bedingtem Kapital	79.742.10	797.421	0.10
Stand per 31. Dezember 2007	14.554.682.00	145.546.820	0.10

Informationen zu Kapitalveränderungen im Jahr 2005 sind im Geschäftsbericht 2006, Finanzbericht, von Zurich Financial Services auf den Seiten 32 und 33 sowie auf Seite 151 enthalten.

Bericht über die Corporate Governance

Aktien und Partizipationsscheine

Bei den Aktien der Zurich Financial Services handelt es sich um Namenaktien mit einem Nennwert von je CHF 0,10. Die Aktien sind voll liberiert. Gemäss Artikel 14 der Statuten gibt jede Aktie das Recht auf eine Stimme an den Generalversammlungen und ermöglicht es dem eingetragenen Eigentümer, alle übrigen mit einer solchen Aktie verbundenen Gesellschaftsrechte auszuüben, sofern die Registrierung im Aktienbuch erfolgt ist.

Einige Anteile werden von den Anlegern in Form von CREST Depository Interests (CDIs)[1] oder American Depositary Receipts (ADRs)[2] gehalten. Per 31. Dezember 2007 hielten Anleger 639.596 CDIs (dies entspricht 639.596 Aktien von Zurich Financial Services) und 24.212.600 ADRs (dies entspricht 2.421.260 Aktien von Zurich Financial Services).

Zurich Financial Services hat keine Partizipationsscheine emittiert.

Genussscheine

Zurich Financial Services hat keine Genussscheine emittiert.

Übertragungsbeschränkungen und Nominee-Registrierungen

Mit Ausnahme der Formalitäten zur Übertragung von nicht verurkundeten Aktien sehen die Statuten keine Übertragungsbeschränkungen vor.

Die Registrierung als Aktionär erfordert eine Erklärung, dass der Aktionär die Aktien in eigenem Namen und für eigene Rechnung erworben hat. Nominees, die Aktien von Zurich Financial Services halten, können zugunsten von oder als Nominee für eine andere Person für bis zu 200.000 Aktien mit Stimmrecht registriert werden, auch wenn sie die Identität des Eigentümers nicht offenlegen. Halten sie mehr als 200.000 Aktien, können sie nur als Aktionär mit Stimmrecht registriert werden, wenn sie die Identität jedes Eigentümers offenlegen und den Eigentümer über die Tätigkeiten des Unternehmens informieren, Instruktionen betreffend der Ausübung der Stimmrechte und der Bezugsrechte einholen, Dividenden übertragen und im Interesse und in Übereinstimmung mit den Anweisungen des Eigentümers handeln.

Spezielle Vorschriften bestehen bezüglich der Registrierung und Ausübung von Rechten an Aktien im Namen von CDI-Inhabern durch CREST International Nominees Ltd. Spezielle Vorschriften werden auch von der Bank of New York Mellon bezüglich des ADR-Programms von Zurich Financial Services erlassen. Nach der Dekotierung von der London Stock Exchange (LSE) per 2. Oktober 2006 stellte Zurich Financial Services seinen Corporate Nominee Service, der von Lloyds TSB Registrars erbracht wurde, per Ende 2007 ein.

[1] Bei der Vereinheitlichung der Holdingstruktur im Jahr 2000 erhielten frühere Inhaber von Stammaktien der Allied Zurich p.l.c. Aktien der Zurich Financial Services in Form von CREST Depository Interests (CDIs). CREST ist das System für die papierlose Abwicklung des Wertschriftenhandels und Aufbewahrungsstelle für nicht zertifizierte Wertpapiere in Grossbritannien. CREST verwahrt die Aktien und emittierte dematerialisierte Depository Interests, sogenannte CDIs, die Ansprüche auf Aktien der Zurich Financial Services darstellen. Da die Inhaber von CDIs nicht die rechtmässigen Besitzer der dadurch verbrieften Aktien sind, können sie nicht wie Inhaber von Namenaktien direkt Rechte durchsetzen oder ausüben. Inhaber von CDIs haben jedoch Anrecht auf die Aktien und können daher der CREST Anweisungen betreffend der Ausübung gewisser mit den Aktien verbundener, nicht wirtschaftlicher Rechte geben. Jeder CDI entspricht einer Aktie von Zurich Financial Services.

[2] Zurich Financial Services hat in den Vereinigten Staaten ein American-Depositary-Share-Programm (Stufe 1) aufgebaut. In diesem Programm emittiert die Bank of New York Mellon American Depository Shares oder ADSs. Jedes ADS verbrieft das Recht, ein Zehntel einer Aktie von Zurich Financial Services zu erhalten. Jedes ADS verbrieft auch Wertpapiere, Bargeld und andere Vermögenswerte, die bei der Bank of New York Mellon hinterlegt, aber nicht an die Inhaber von ADSs ausgegeben werden. ADSs werden ausserbörslich (Over the Counter) gehandelt und durch American Depositary Receipts (ADRs) verbrieft. Inhaber von ADSs werden nicht als Aktionäre von Zurich Financial Services behandelt und können Aktionärsrechte nicht direkt durchsetzen oder ausüben. Lediglich die Bank of New York Mellon als Depotstelle kann Stimmrechte gemäss den von den Inhabern von ADRs erhaltenen Anweisungen ausüben.

Wandelanleihen und Optionen

Zurich Financial Services hatte per 31. Dezember 2007 keine öffentlich gehandelten Wandelanleihen oder Optionen ausstehend. Informationen über die Aktienoptionspläne für Mitarbeiterinnen und Mitarbeiter finden Sie in Note 23 der Consolidated Financial Statements auf den Seiten 168 bis 171.

Verwaltungsrat

Mitglieder des Verwaltungsrats per 31. Dezember 2007

Name	Nationalität	Alter	Funktion	Ernennungsjahr	Ende der aktuellen Amtszeit
Manfred Gentz	Deutsch	65	Präsident Präsident des Governance- und Nominationsausschusses Mitglied des Entschädigungsausschusses	2005	2008
Philippe Pidoux	Schweiz	64	Vizepräsident Mitglied des Governance- und Nominationsausschusses Mitglied des Entschädigungsausschusses	1997 [1]	2009
Thomas Escher	Schweiz	58	Mitglied des Verwaltungsrats Mitglied des Prüfungsausschusses	2004	2009
Fred Kindle	Schweiz	48	Mitglied des Verwaltungsrats Mitglied des Entschädigungsausschusses	2006	2008
Armin Meyer	Schweiz	58	Mitglied des Verwaltungsrats Mitglied des Governance- und Nominationsausschusses Mitglied des Risikoausschusses	2001	2010
Don Nicolaisen	USA	63	Mitglied des Verwaltungsrats Präsident des Risikoausschusses Mitglied des Prüfungsausschusses	2006	2009
Vernon Sankey	Grossbritannien	58	Mitglied des Verwaltungsrats Präsident des Entschädigungsausschusses	1998 [1]	2009
Gerhard Schulmeyer	Deutschland/ USA	69	Mitglied des Verwaltungsrats Präsident des Prüfungsausschusses Mitglied des Risikoausschusses	1998 [1]	2008
Tom de Swaan	Niederlande	61	Mitglied des Verwaltungsrats Mitglied des Governance- und Nominationsausschusses Mitglied des Risikoausschusses	2006	2008
Rolf Watter	Schweiz	49	Mitglied des Verwaltungsrats Mitglied des Prüfungsausschusses	2002	2010

[1] Philippe Pidoux war seit 1997 Mitglied des Verwaltungsrats der «Zürich» Versicherungs-Gesellschaft. Im Jahr 1998, nach der Fusion von B.A.T. Financial Services und der «Zürich» Versicherungs-Gesellschaft (die „Fusion"), war er Mitglied in einem oder mehreren Verwaltungsräten der Holdingstruktur der Gruppe, die aus der Zurich Group Holding (damals Zurich Financial Services), Allied Zurich p.l.c. und Zurich Allied AG bestand. Die Gruppenstruktur wurde im Oktober 2000 reorganisiert (die „Vereinheitlichung"). Vernon L. Sankey und Gerhard H. Schulmeyer waren ebenfalls Mitglieder von einem oder mehreren Verwaltungsräten der nach der Fusion entstandenen Holdingstruktur der Gruppe. Seit der Vereinheitlichung sind sie alle Mitglieder des Verwaltungsrats von Zurich Financial Services.

Alle derzeitigen Verwaltungsratsmitglieder waren während des ganzen Jahres 2007 im Verwaltungsrat tätig. Frau Gilmore und Herr Mead legten ihre Ämter anlässlich der ordentlichen Generalversammlung vom 3. April 2007 nieder.

Alle Verwaltungsräte von Zurich Financial Services sind auch Mitglieder des Verwaltungsrats der «Zürich» Versicherungs-Gesellschaft. Manfred Gentz ist zudem Präsident des Verwaltungsrats dieser Gesellschaft.

Fritz Gerber ist Ehrenpräsident von Zurich Financial Services. Er war Präsident des Verwaltungsrats der «Zürich» Versicherungs-Gesellschaft von 1977 bis 1995 und CEO von 1977 bis 1991. In Anerkennung seiner Leistungen und Verdienste für die Zurich wurde er zum Ehrenpräsidenten ernannt. Dieses Amt verleiht weder das Recht auf eine Mitgliedschaft im Verwaltungsrat oder Rechte und Pflichten eines Verwaltungsrats, noch einen Anspruch auf ein Verwaltungsratshonorar.

Bericht über die Corporate Governance

Angaben zur Person

Manfred Gentz studierte Rechtswissenschaften an den Universitäten von Berlin und Lausanne und schloss sein Studium an der Freien Universität Berlin mit einem Doktorat ab. 1970 stiess er zur Daimler-Benz AG, wo er in verschiedenen Positionen tätig war. 1983 wurde er zum Vorstandsmitglied der Daimler-Benz AG gewählt, wo er zunächst für den Bereich Human Resources zuständig war. Von 1990 bis 1995 war er CEO von Daimler-Benz Interservices (debis) in Berlin und wurde 1995 Chief Financial Officer der Daimler-Benz AG. Im Dezember 1998 wurde Manfred Gentz zum Vorstandsmitglied der DaimlerChrysler AG gewählt, wo er bis Dezember 2004 den Bereich Finanzen und Controlling leitete. Von 1987 bis 1995 war er im Aufsichtsrat der Agrippina Versicherung AG tätig und von 1996 bis 2005 Mitglied des Aufsichtsrats der Zürich Beteiligungs-Aktiengesellschaft (Deutschland). Von 1985 bis 2005 war er im Aufsichtsrat der Hannoverschen Lebensversicherung (ab 1990 als stellvertretender Aufsichtsratspräsident). Von Mai 2005 bis März 2006 war er Präsident des Aufsichtsrats der Eurohypo AG. Neben seiner Tätigkeit im Aufsichtsrat von adidas AG, der Deutschen Börse AG und DWS Investment GmbH ist er Präsident der Internationalen Handelskammer (IHK), Deutschland. Er ist Mitglied zahlreicher wissenschaftlicher und kultureller Institutionen und ist unter anderem Vorsitzender des Kuratoriums der Technischen Universität Berlin.

Philippe Olivier Pidoux schloss das Jurastudium mit dem Doktorat an der Universität Lausanne, Schweiz, ab und verfügt über einen Master of Comparative Jurisprudence der University of Texas. Philippe Pidoux war von 1986 bis 1994 Regierungsrat des Kantons Waadt und von 1983 bis 1999 Mitglied des Schweizerischen Nationalrats. Von 1991 bis 2003 war er Direktionsmitglied und ab 1999 Vizepräsident der Schweizerischen Nationalbank. Er ist zudem Präsident des Verwaltungsrats der Publigroupe AG.

Thomas Konrad Escher schloss sein Studium an der Eidgenössischen Technischen Hochschule (ETH) als diplomierter Elektroingenieur und Betriebsingenieur ab und stiess 1974 zu IBM. In den folgenden Jahren hatte er verschiedene Führungspositionen inne, wobei ihm in Übersee, in mehreren Ländern Europas sowie in der Schweiz die Verantwortung für Märkte und Kundenbeziehungen übertragen wurde. Ab 1996 war er Mitglied der Geschäftsleitung des Schweizerischen Bankvereins und für verschiedene Regionen in der Schweiz sowie für Information Technology verantwortlich. 1998 – nach der Fusion des Schweizerischen Bankvereins mit der Schweizerischen Bankgesellschaft – leitete er bis Mitte 2005 den IT-Bereich der Division Privat- und Firmenkunden der UBS AG und wurde zum Mitglied der erweiterten Geschäftsleitung ernannt. Per 1. Juli 2005 übernahm er das Amt des Vizepräsidenten von Wealth Management UBS.

Fred Kindle schloss sein Maschinenbau-Studium an der Eidgenössischen Technischen Hochschule in Zürich ab. 1984 stiess er als Marketing-Projektmanager zur Hilti AG in Liechtenstein und zwei Jahre später schrieb er sich an der Northwestern University, Evanston, USA, ein, wo er mit einem MBA abschloss. Von 1988 bis 1992 war er Associate und Engagement Manager bei McKinsey & Company in New York und Zürich. Danach trat er in die Sulzer Chemtech AG in der Schweiz ein und war zunächst Leiter des Profit Center Stoffaustausch und ab 1996 Leiter der Product Division. 1999 wurde er zum CEO von Sulzer Industries ernannt, einer der zwei operativen Einheiten der Sulzer AG. Zwei Jahre später wurde er CEO von Sulzer. Nach seinem Wechsel zur ABB Ltd. im Herbst 2004 wurde Fred Kindle im Januar 2005 zum CEO der ABB Group weltweit ernannt; in dieser Funktion war er bis Februar 2008 tätig. Er ist Direktor der schweizerisch-amerikanischen Handelskammer sowie Mitglied des Verwaltungsrats der VZ Holding Ltd. Zürich.

Armin Meyer erwarb einen Doktortitel in Elektrotechnik an der Eidgenössischen Technischen Hochschule (ETH) und stiess 1976 als Entwicklungsingenieur zur damaligen BBC Brown Boveri AG. 1980 wurde er Leiter der Forschung und Entwicklung von Elektromotoren und 1984 Leiter der internationalen Geschäftseinheit für elektrische Generatoren. 1988 wurde er Geschäftsleiter der ABB Drives AG und 1992 Präsident und CEO der ABB Kraftwerke AG. Von 1995 bis 2000 war er Executive Vice President der ABB AG und Mitglied der Konzernleitung. Armin Meyer wurde in den Verwaltungsrat der Ciba Spezialitätenchemie gewählt, als dieses Unternehmen 1997 von Novartis abgespalten wurde. Im Herbst 2000 wurde er zum Verwaltungsratspräsidenten von Ciba Spezialitätenchemie ernannt und war vom 1. Januar 2001 bis zum 31. Dezember 2007 als Chief Executive Officer dieses Unternehmens tätig. Er ist Mitglied des Stiftungsrats des International Institute for Management Development (IMD) in Lausanne, Schweiz, und im Verwaltungsrat des European Chemical Industry Council (Cefic) in Brüssel, Belgien.

Don Nicolaisen schloss das Studium an der University of Wisconsin mit einem BA ab und stiess danach zu Price Waterhouse (in der Folge PricewaterhouseCoopers), wo er 1978 Partner wurde. Er war in verschiedenen Funktionen tätig, unter anderem als Revisor und Präsident der Financial Services Practices von PricewaterhouseCoopers. Er leitete die US-amerikanische Abteilung für Rechnungslegung und SEC-Dienstleistungen (von 1988 bis 1994) und war Mitglied des US-amerikanischen und internationalen Verwaltungsrats von 1994 bis 2001. Von September 2003 bis November 2005 war er Chefbuchhalter der US-Börsenaufsicht; zudem war er leitender Berater der Kommission für Rechnungslegungs- und Revisionsangelegenheiten. Er ist Mitglied des Verwaltungsrats von Verizon Communications Inc., von Morgan Stanley und von MGIC Investment Corporation. Ferner ist er Mitglied des Beirats der University of Southern California Leventhal School of Accounting.

Vernon Louis Sankey erwarb einen MA am Oriel College in Oxford und trat 1971 in die Firma Reckitt & Colman in Grossbritannien ein, für die er in Frankreich, Dänemark, Grossbritannien und in den USA arbeitete. Er wurde 1989 zum Verwaltungsratsmitglied ernannt und war von 1991 bis 1999 CEO dieses Unternehmens. Von 2000 bis September 2007 war er Verwaltungsratspräsident von Photo-Me International plc. Ab 2001 bis Juni 2007 und von 2004 bis Juli 2007 war er als Verwaltungsrat von Cofra AG, Schweiz bzw. Taylor Woodrow plc. tätig. Seit 2005 ist er im Aufsichtsrat der Vividas Group plc und seit 1. Januar 2006 ist er zudem Mitglied des Aufsichtsrats von Atos Origin SA, Paris, und seit dem 10. Oktober 2006 Verwaltungsrat von Firmenich SA, Genf. Bis August 2000 war er Präsident des Verwaltungsrats von Thompson Travel Group plc, bis Februar 2003 von Gala Group Holdings plc und bis März 2006 von The Really Effective Development Company Ltd. Ferner war er bis April 2006 Mitglied des Verwaltungsrats von Pearson plc, und ist ehemaliger Verwaltungsrat des britischen Instituts für Lebensmittelstandards (UK's Food Standards Agency). Zusätzlich zu seinen Verwaltungsratsmandaten ist er für verschiedene Unternehmen als Berater tätig.

Gerhard Hans Schulmeyer erwarb einen BSc in Elektrotechnik an der Fachhochschule Frankfurt und einen BSc in International Business an der Universität Frankfurt. Zudem verfügt er über einen MSc in Managementwissenschaften des Massachusetts Institute of Technology. Nach diversen Führungspositionen bei Braun, Sony, Wega und Motorola wurde er 1989 Präsident und CEO von ABB USA und Mitglied des Verwaltungsrats der ABB AG. Von 1994 bis 1998 war er Präsident und CEO von Siemens Nixdorf in Deutschland und von 1999 bis Dezember 2001 hatte er dieselbe Funktion bei Siemens Corporation in den USA inne. Von Januar 2002 bis März 2006 war er ordentlicher Professor an der Sloan School of Management des Massachusetts Institute of Technology und bis Oktober 2007 Verwaltungsratsmitglied von Alcan Inc. Gerhard Schulmeyer ist Verwaltungsratsmitglied von Ingram Micro Inc. und von Korn/Ferry International. Er ist zudem im Verwaltungsrat von Invest In Germany und Mitglied des Stiftungsrats der US National Chamber Foundation.

Tom de Swaan schloss sein Studium der Wirtschaftswissenschaften an der Universität von Amsterdam mit einem Masters Degree ab. 1972 stiess er zur De Nederlandsche Bank N.V., wo er von 1986 bis 1998 Mitglied des Direktoriums war. Im Januar 1999 wurde er Mitglied der erweiterten Geschäftsleitung und Chief Financial Officer der ABN AMRO Bank. Er verliess ABN AMRO am 1. Mai 2006, stand aber der erweiterten Geschäftsleitung in beratender Funktion bis Juni 2007 weiterhin zur Verfügung. Tom de Swaan ist nicht geschäftsführendes Mitglied des Verwaltungsrats von GlaxoSmithKline sowie Vorsitzender des Prüfungsausschusses dieses Unternehmens. Er ist Mitglied des Aufsichtsrats des niederländischen Chemiekonzerns Royal DSM sowie von Corporate Express, einem niederländischen Anbieter von Büroprodukten. Seit dem 3. Mai 2007 ist er Vizepräsident des Aufsichtsrats von Royal Ahold, einem weltweit tätigen Einzelhandelsunternehmen, und seit dem 10. Mai 2007 ebenfalls Vizepräsident des Aufsichtsrats von Van Lanschot NV, der Holdinggesellschaft von F. van Lanschot Bankiers, einer unabhängigen niederländischen Bank. Von 1987 bis 1988 war er Chairman des Amsterdam Financial Center und von 1995 bis 1997 Vorsitzender des Unterausschusses der Bankenaufsicht des Europäischen Währungsinstituts. Überdies war er Mitglied (1991 bis 1996) und Vorsitzender (1997 bis 1998) des Basler Ausschusses für Bankenaufsicht. Tom de Swaan war zudem von Januar 2001 bis Ende 2006 nicht geschäftsführendes Mitglied des Board der Financial Services Authority in Grossbritannien. Er ist ausserdem Direktor mehrerer Non-Profit-Organisationen. Unter anderem ist er Treasurer des Verwaltungsrats des Royal Concertgebouw Orchestra, des Netherlands Cancer Institute sowie der International Franz Liszt Piano Competition. Ferner ist er Vorsitzender des Advisory Board der Rotterdam School of Management.

Rolf Urs Watter schloss das Jurastudium mit Doktorat an der Universität Zürich ab und verfügt über einen Master of Law der Georgetown University in den USA. Er ist im Kanton Zürich als Rechtsanwalt zugelassen. Seit 1994 ist er Partner der Anwaltskanzlei Bär & Karrer in Zürich und seit 2000 Mitglied der Geschäftsleitung. Zudem ist er seit der Gründung der Bär & Karrer AG im Jahr 2007 geschäftsführendes Mitglied des Verwaltungsrats. Seit 2004 ist er nicht geschäftsführender Präsident des Verwaltungsrats der Cablecom Holding AG und seit April 2007 nicht geschäftsführendes Verwaltungsratsmitglied der Nobel Biocare Holding AG. Weiter ist er Mitglied der Verwaltungsräte von Syngenta AG (seit 2000), UBS Alternative Portfolio AG (seit 2000) und

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A.W. Faber-Castell (Holding) AG (seit 1997). Zuvor war er im Verwaltungsrat von Centerpulse AG (2002–2003), Forbo Holding AG (1999–2005) und Feldschlösschen Getränke AG (2001–2004). Zudem unterrichtet er nebenamtlich als Professor der Rechtswissenschaften an der Universität Zürich. Darüber hinaus ist er Mitglied der Zulassungsstelle und der Fachkommission der Offenlegungsstelle der SWX Swiss Exchange. Ferner ist er Verwaltungsratspräsident von zwei Wohltätigkeitsorganisationen.

Die Geschäftsadresse aller Verwaltungsratsmitglieder lautet: Mythenquai 2, 8002 Zürich, Schweiz.

Wahlen und Amtszeiten

Gemäss den Statuten besteht der Verwaltungsrat aus mindestens sieben und maximal dreizehn Mitgliedern. Die ordentliche Amtsdauer beträgt drei Jahre. Nach Ablauf ihrer Amtszeit können sich die Verwaltungsräte zur Wiederwahl stellen. Die Statuten verlangen, dass die Wahlen so organisiert werden, dass an einer ordentlichen Generalversammlung nie mehr als vier Verwaltungsratsmandate gleichzeitig enden. Die Verwaltungsratsmitglieder werden einzeln und durch Mehrheitsbeschluss gewählt. Das Organisationsreglement von Zurich Financial Services bestimmt, dass keine Person, die älter als 70 Jahre ist, in den Verwaltungsrat gewählt wird. Unter speziellen Umständen sind jedoch Ausnahmen zulässig.

An der Generalversammlung vom 3. April 2008 enden die Verwaltungsratsmandate der Herren Gentz, Kindle, Schulmeyer und de Swaan. Herr Schulmeyer wird sein Amt niederlegen, während die Herren Gentz, Kindle und de Swaan vom Verwaltungsrat zur Wiederwahl vorgeschlagen wurden. Sie stehen für eine Amtsdauer von je drei Jahren zur Wiederwahl.

Susan Bies und Victor Chu werden als zusätzliche Mitglieder zur Wahl in den Verwaltungsrat von Zurich Financial Services für eine Amtsdauer von je zwei Jahren vorgeschlagen.

Susan Bies Amerikanerin, hält einen BS des State University College at Buffalo, New York, sowie einen MA der Northwestern University, Evanston, wo sie später einen Doktortitel erlangte. Sie begann ihre Karriere 1970 als Ökonomin bei der Federal Reserve Bank von St. Louis, Missouri, und wurde zwei Jahre später Assistenzprofessorin an der Wayne State University, Detroit, Michigan. 1977 ging sie in einer ähnlichen Position an das Rhodes College, Memphis, Tennessee, und stiess 1979 zur First Tennessee National Corporation in Memphis, wo sie bis 2001 blieb. Während der ersten Jahre war sie unter anderem für taktische Planung und Unternehmensentwicklung verantwortlich. 1984 wurde sie Chief Financial Officer und Präsidentin des Asset-Liability-Ausschusses. 1995 wurde sie Executive Vice President des Risikomanagements sowie Revisorin und Präsidentin des Exekutivausschusses für Risikomanagement und setzte ihre Aufgaben im Rahmen des Asset-Liability-Ausschusses fort. Von 2001 bis 2007 war sie Mitglied des Board of Governors des Federal Reserve System. Von 1996 bis 2001 war Susan Bies Mitglied der Emerging Issues Task Force des Financial Accounting Standards Board (FASB). Sie ist derzeit Mitglied des Beratungsausschusses der US-Börsenaufsicht (SEC), der sich mit Fragen zur Verbesserung der Finanzberichterstattung beschäftigt, und Präsidentin des Unterausschusses für substanzielle Komplexität.

Victor L.L. Chu schloss das Studium am University College London im Jahr 1979 mit einem LL.B. ab. Er ist als Anwalt in England und Hongkong zugelassen. Seit 1982 ist er auf dem Gebiet des Unternehmens-, Handels- und Wertpapierrechts tätig, mit besonderem Schwerpunkt auf China und regionalen Anlagegeschäften. Von 1995 bis 2000 war Victor Chu Deputy Secretary-General der International Bar Association. Seit 1988 ist er als Vorsitzender der First Eastern Investment Group, ein führendes Direktanlageunternehmen, das sich auf China konzentriert, tätig. Er ist zudem Vorsitzender der First Eastern Investment Bank Limited und der FE Securities Limited. Während der letzten 20 Jahre war er verschiedentlich als Direktor und Ratsmitglied der Hongkonger Börse tätig, Mitglied des Hong Kong Takeovers and Mergers Panel, Mitglied des Beratungsausschusses der Hong Kong Securities and Futures Commission und zeitweise Mitglied der Central Policy Unit der Regierung von Hongkong. Er ist derzeit Mitglied des Stiftungsrats des Weltwirtschaftsforums (WEF) und Vizepräsident des International Business Council des Forums. Er ist zudem Mitglied der Geschäftsleitung der Internationalen Handelskammer, wo er die Kommission für Finanzdienstleistungen und Versicherungen präsidiert. Victor Chu ist Treuhänder der International Crisis Group in Brüssel und des WWF in Hongkong. Er ist Mitglied des Kontrollausschusses des University College, London, Berater des Vorsitzenden der Kennedy School in Harvard und des Vorstands der Foreign Affairs University von China. Zu den weiteren Aktivitäten in gemeinschaftlichen Verbänden zählen sein Einsitz in den Beratungsgremien von Asia House, Asia Foundation, Beijing Music Festival Foundation, East Asia Institute of Cambridge University und Atlantic Council der USA.

Interne Organisationsstruktur

Der Verwaltungsratspräsident ist Vorsitzender des **Verwaltungsrats**. Falls er diese Funktion nicht ausüben kann, übernimmt der Vizepräsident den Vorsitz. Der Verwaltungsrat erstellt eine Liste von Traktanden, die im Lauf des Jahres behandelt werden. Damit die Erfüllung der in Artikel 717 des Schweizerischen Obligationenrechts erwähnten Sorgfaltspflicht möglich ist, wird er regelmässig, rechtzeitig und in angemessener Art und Weise über die Entwicklungen im Zusammenhang mit der Gruppe informiert.

Die Verwaltungsratsmitglieder gehören nicht dem Management an, sind vom Management unabhängig und hatten nie eine Management-Funktion in der Gruppe inne. Der Governance- und Nominationsausschuss überprüft jährlich die Unabhängigkeit der Verwaltungsratsmitglieder und teilt seine Erkenntnisse dem Verwaltungsrat mit, welcher für die definitiven Entscheidungen zuständig ist. Für die Verwaltungsratsmitglieder gelten zudem die Vorschriften und Regeln zur Vermeidung von Interessenkonflikten und zur Verwendung von Insider-Informationen. Einmal jährlich erfolgt eine Selbstbeurteilung des gesamten Verwaltungsrats. 2007 erfolgte diese basierend auf einem umfassenden Fragebogen. Für den Verwaltungsrat wurde ein detaillierter Bericht verfasst, der von diesem erörtert wurde.

Da die Funktionen des Verwaltungsratspräsidenten und des Chief Executive Officer (CEO) getrennt sind und keiner der Verwaltungsräte mit der Geschäftsleitung betraut ist, bedarf es keines „Lead Director“ gemäss dem Swiss Code of Best Practice.

Der CEO nimmt ex officio an den Verwaltungsratssitzungen teil, und auf Einladung nehmen auch die Mitglieder der Konzernleitung regelmässig daran teil. Andere Führungskräfte sind hin und wieder bei diesen Sitzungen anwesend. Die Mehrzahl der Verwaltungsratssitzungen beinhaltet separate Sitzungen des Verwaltungsrats, an denen die Geschäftsleitung nicht teilnimmt.

Der Verwaltungsrat bestimmt unter seinen Mitgliedern den Präsidenten, den Vizepräsidenten und ernennt den Sekretär oder die Sekretärin des Verwaltungsrats.

Der Verwaltungsrat ist verpflichtet, sich mindestens sechsmal pro Jahr zu treffen. Im Jahr 2007 wurden elf Sitzungen abgehalten; bei vier dieser Sitzungen waren einzelne Teilnehmende via Telefon zugeschaltet und zwei Sitzungen fanden über zwei Tage statt. Anlässlich von zwei der elf Sitzungen unternahm der Verwaltungsrat separate Besuche bei Tochtergesellschaften in den USA und Spanien. Bei einer Sitzung widmete man sich ausschliesslich Themen strategischer Natur. Fünf Sitzungen dauerten zwischen fünf und neun Stunden pro Tag, und die übrigen sechs Sitzungen nahmen je rund zwei Stunden in Anspruch. Darüber hinaus hat der Verwaltungsrat einstimmig drei Zirkulationsbeschlüsse getroffen.

2007 nahmen bis zur ordentlichen Generalversammlung vom 3. April 2007 im Durchschnitt 83% der Verwaltungsratsmitglieder an den Sitzungen teil. Nach der ordentlichen Generalversammlung verringerte sich die Zahl der Verwaltungsräte von zwölf auf zehn und durchschnittlich nahmen 94% der Verwaltungsratsmitglieder an den Sitzungen teil. Die Verwaltungsratsmitglieder wenden zusätzlich Zeit auf für die Teilnahme an Sitzungen der Verwaltungsratsausschüsse, die Vorbereitung der Sitzungen und die Erfüllung ihrer Pflichten.

Der Verwaltungsrat kann für spezifische Bereiche aus Verwaltungsratsmitgliedern bestehende Ausschüsse ernennen und Regeln über Kompetenzen und Berichterstattung des entsprechenden Ausschusses erlassen. Die Ausschüsse unterstützen den Verwaltungsrat bei der Erfüllung seiner Aufgaben und Pflichten. Soweit die Ausschüsse nicht zur Beschlussfassung ermächtigt sind, beraten sie die betreffenden Angelegenheiten, bevor sie dem Verwaltungsrat unterbreitet werden, und machen dem Verwaltungsrat Vorschläge für die zu treffenden Massnahmen und Beschlüsse. Der Verwaltungsrat verfügt über die nachfolgend erwähnten ständigen Ausschüsse, die regelmässig Bericht erstatten und dem Verwaltungsrat Anträge zur Entscheidung unterbreiten. Im Durchschnitt dauerten die Sitzungen der Ausschüsse zwischen zwei und drei Stunden.

Der **Governance- und Nominationsausschuss** besteht aus vier Verwaltungsratsmitgliedern. Der Ausschuss überwacht die Governance der Gruppe und misst diese anhand von Best-Practice-Ansätzen, wobei sichergestellt wird, dass die Rechte der Aktionäre in vollem Umfang geschützt werden. Weiter entwickelt er Richtlinien zur Corporate Governance, schlägt diese dem Verwaltungsrat vor und überprüft sie von Zeit zu Zeit. Der Governance- und Nominationsausschuss ist ferner mit der Nachfolgeplanung des Verwaltungsrats und des CEO sowie der Mitglieder des GEC und des Group Management Board („GMB“) betraut. Er schlägt die Grundsätze für die Ernennung und die kontinuierliche Qualifikation der Verwaltungsratsmitglieder vor und unterbreitet dem Verwaltungsrat Vorschläge zu dessen Zusammensetzung und zur Ernennung des Präsidenten und des Vizepräsidenten des Verwaltungsrats sowie des CEO und der übrigen Mitglieder des GEC und des GMB. Der Ausschuss überwacht auch die Heranbildung des Führungsnachwuchses und prüft die Fortschritte bezüglich der Nachfolgeplanung. Abschliessende Entscheidungen über Nominationen und Ernennungen werden vom Verwaltungsrat getroffen, vorbehaltlich der Zustimmung der Aktionäre, sofern diese erfor-

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derlich ist. Der Governance- und Nominationsausschuss tagte 2007 fünfmal (einmal zusammen mit dem Entschädigungsausschuss). Insbesondere wurden dabei die Ernennung und die laufende Überprüfung der Qualifikationen der Verwaltungsratsmitglieder sowie die Nachfolgeplanung der Mitglieder der Unternehmensführung behandelt. Durchschnittlich nahmen 90% der Mitglieder des Governance- und Nominationsausschusses an den Sitzungen teil.

Der **Entschädigungsausschuss** besteht aus vier Mitgliedern des Verwaltungsrats. Er beurteilt und schlägt dem Verwaltungsrat die Grundsätze der Vergütung der Mitglieder des Verwaltungsrats und des GEC vor. Ferner schlägt er dem Verwaltungsrat das Honorar der Mitglieder zur Genehmigung vor. Der Ausschuss verhandelt, gestützt auf die Vergütungsgrundsätze, die Anstellungsbedingungen des CEO und prüft dieselben der Mitglieder der Geschäftsleitung – die durch den CEO ausgehandelt werden –, bevor er sie dem Verwaltungsrat zur Genehmigung unterbreitet. Der Entschädigungsausschuss genehmigt die durch den CEO ausgehandelten Anstellungsvereinbarungen für die zusätzlichen Mitglieder des GMB und arbeitet mit ihm bei wichtigen Fragen bezüglich Anstellung, Entlöhnung und Gewinn zusammen. Im Übrigen überprüft der Ausschuss die Performance im Zusammenhang mit den kurz- und langfristigen Incentive-Programmen für die Führungskräfte. Für die Unterstützung der Überprüfung der Kompensationssysteme und der Vorgehensweisen hat der Entschädigungsausschuss mit Hewitt Associates seinen eigenen unabhängigen Berater. Der Entschädigungsausschuss tagte 2007 sechsmal (einmal zusammen mit dem Governance- und Nominationsausschuss), wobei im Durchschnitt 97% der Mitglieder anwesend waren. Einzelheiten zu den Vergütungsgrundsätzen der Gruppe finden Sie im Bericht über Honorare und Entschädigungen auf den Seiten 54 bis 56.

Der **Prüfungsausschuss** setzt sich aus vier Mitgliedern zusammen, die bestimmte Voraussetzungen hinsichtlich Unabhängigkeit und Qualifikation erfüllen müssen. Gemäss den internen Richtlinien des Prüfungsausschusses muss der Prüfungsausschuss als Gremium: (i) ein Verständnis für die International Financial Reporting Standards (IFRS) und die Jahresrechnungen haben, (ii) die Fähigkeit besitzen, die allgemeine Anwendung dieser Standards im Hinblick auf Schätzungen, Abgrenzungen und Rückstellungen zu beurteilen, (iii) Erfahrung in der Vorbereitung, Prüfung, Analyse und Bewertung von Jahresrechnungen aufweisen, die bezüglich Breite und Komplexität der Rechnungslegungsfragen mit denjenigen von Zurich Financial Services und der Gruppe vergleichbar sind, oder Erfahrung in der aktiven Überwachung einer oder mehrerer Personen, die in diesen Bereichen tätig sind, besitzen, (iv) ein Verständnis der internen Kontrollen und Verfahren im Rahmen der finanziellen Berichterstattung haben sowie (v) ein Verständnis für die Funktionen des Prüfungsausschusses besitzen. Der Prüfungsausschuss tagte 2007 siebenmal. Durchschnittlich nahmen 89% der Mitglieder an den Sitzungen teil.

Der Prüfungsausschuss ist die zentrale Anlaufstelle für die Kommunikation und Beaufsichtigung in Bezug auf Rechnungslegung und Berichterstattung, interne Kontrolle, Versicherungsmathematik und Compliance innerhalb des Managements. Der Ausschuss ist verantwortlich für die Kontrolle des Prüfungsprozesses der Gruppe (einschliesslich der Festlegung der Grundsätze und der Unterbreitung von Vorschlägen für die Rechnungsprüfung der Zurich Financial Services und der Gruppe). Der Ausschuss überprüft ferner die internen Kontrollsysteme. An Sitzungen zur Besprechung der Revisionsberichte, zur Überprüfung und Auswertung des Prüfungskonzepts sowie des Prüfungsablaufs und zur Beurteilung der Tätigkeiten von externen und internen Revisoren nehmen die externen Revisoren, Vertreter der internen Revision und die jeweiligen Mitglieder des GEC und des GMB sowie weitere Führungskräfte teil. Weitere Informationen zur Überwachung und Kontrolle des externen Prüfungsprozesses finden sich auf Seite 49. Der Prüfungsausschuss überprüft die Standards der internen Kontrolle, einschliesslich der Tätigkeit, Planung, Organisation und Qualität der internen Revision und von Group Compliance mindestens einmal jährlich.

Der Prüfungsausschuss kontrolliert die Jahres-, Halbjahres- und Quartalsabschlüsse, bevor sie dem Verwaltungsrat vorgelegt werden. Für die meisten Sitzungen des Prüfungsausschusses sind separate Treffen mit externen und internen Revisoren sowie mit dem Gruppenaktuar vorgesehen, um Diskussionen ohne Anwesenheit der Konzernleitung zu ermöglichen.

Erläuterungen zur internen Kontrolle und zu den bestehenden internen Kontrollmechanismen gemäss der britischen Turnbull-Richtlinie finden sich auf Seite 51.

Der **Risikoausschuss** setzt sich aus vier Mitgliedern zusammen. 2007 tagte er sechsmal und im Durchschnitt nahmen 83% der Mitglieder an den Sitzungen teil. Der Risikoausschuss überwacht das Risikomanagement von Zurich, insbesondere die Risikofähigkeit der Gruppe. Dazu gehören nach Risikokategorie festgelegte Obergrenzen, die vom Verwaltungsrat als für die Gruppe tragbar erachtet werden, die Aggregation festgelegter Obergrenzen auf Gruppenebene, die quantitative Überwachung der Einhaltung festgesetzter Risikofähigkeiten sowie die Risikofähigkeit der Gruppe in Bezug auf die erwartete Höhe des Risikokapitals. Darüber hinaus prüft er die gruppenweite Governance in diesem Bereich, einschliesslich des Risikomanagements, der Risikopolitik und deren Umsetzung sowie der Risikostrategie und der Überwachung der operativen Risiken.

Ferner kontrolliert der Risikoausschuss die bei der Risikobemessung angewendeten Methoden und die Einhaltung des Risikoprofils der Gruppe, und er überprüft die Performance der Risikomanagement-Funktion von Zurich. Darüber hinaus prüft er zusammen mit der Geschäftsleitung und dem Group Risk Management die allgemeinen Richtlinien und Vorgehensweisen der Gruppe und überzeugt sich davon, dass ein funktionierendes Risikomanagementsystem besteht und aufrechterhalten wird. Der Group Chief Risk Officer informiert halbjährlich über das Risikoprofil der Gruppe und die Massnahmen zur Risikobegrenzung.

Um einen lückenlosen Informationsaustausch zwischen Risiko- und Prüfungsausschuss sicherzustellen und mögliche Kommunikationslücken zu verhindern, welche die Finanzergebnisse und das Risikomanagement der Gruppe beeinträchtigen könnten, ist der Vorsitzende des Prüfungsausschusses gleichzeitig Mitglied des Risikoausschusses und der Vorsitzende des Risikoausschusses ist Mitglied des Prüfungsausschusses.

Verantwortungsbereiche des Verwaltungsrats und Management

Zusätzlich zur Bestimmung der Gesamtstrategie der Gruppe und der Überwachung des Managements ist der Verwaltungsrat für bedeutende Fragestellungen im Zusammenhang mit der Strategie, den Finanzen, der Struktur und der Organisation sowie mit der Geschäftsentwicklung zuständig. Der Verwaltungsrat genehmigt den strategischen Plan der Gruppe sowie die von der Geschäftsleitung erarbeiteten jährlichen Finanzpläne und überprüft und genehmigt die Jahres-, Halbjahres- und Quartalsabschlüsse der Zurich Financial Services und der Gruppe. Er erstellt Richtlinien für die gesamte Geschäftspolitik und die Kapitalzuweisung und genehmigt grössere Änderungen in der Geschäftstätigkeit der Gruppe, einschliesslich grösserer Lending- und Borrowing-Transaktionen. Der Verwaltungsrat befasst sich auch mit Fragen im Zusammenhang mit wichtigen Geschäftsentwicklungen wie Akquisitionen oder Veräusserungen von Geschäften oder Vermögenswerten, Kapitalanlagen, neuen Geschäften, Fusionen, Joint Ventures und Kooperationen. Darüber hinaus ist er für Belange, die für die Gruppe von strategischer Bedeutung sind, zuständig.

Abgesehen von den oben erwähnten Kompetenzen hat der Verwaltungsrat die Leitung der Gruppe dem CEO übertragen. Der CEO und – unter seiner Aufsicht – das GEC sind verantwortlich für die Entwicklung und Umsetzung der vom Verwaltungsrat genehmigten Strategie- und Finanzpläne. Dem CEO obliegen spezifische Aufgaben und Pflichten hinsichtlich strategischer, finanzieller und weiterer Angelegenheiten sowie bezüglich der Struktur und Organisation des Unternehmens. Er leitet, überwacht und koordiniert die Aktivitäten der Mitglieder des GEC. Er stellt sicher, dass für die Gruppe angemessene Management-Tools entwickelt und implementiert werden und vertritt die Gesamtinteressen der Gruppe gegenüber Dritten. Der CEO hat die Kompetenz, Akquisitionen und Devestitionen von Geschäften oder Vermögenswerten, Kapitalanlagen, die Gründung neuer Geschäfte, Fusionen, Joint Ventures und Beteiligungen zu genehmigen.

Informations- und Kontrollinstrumente gegenüber der Konzernleitung und des Group Management Board

Der Verwaltungsrat beaufsichtigt die Konzernleitung und überwacht ihre Leistungen mit einem entsprechenden Berichtswesen und mit entsprechenden Controlling-Prozessen. Eine regelmässige Berichterstattung durch den CEO und andere Führungskräfte an den Verwaltungsrat beinhaltet angemessene Informationen und Status-Berichte. Dazu gehören wichtige Daten über die Kerngeschäfte, Finanzinformationen, Informationen über bestehende und drohende Risiken, Entwicklungen in wichtigen Märkten und bei wichtigen Konkurrenten sowie Informationen über andere bedeutende Ereignisse. Der Verwaltungsratspräsident trifft sich regelmässig mit dem CEO. Er sowie weitere Verwaltungsratsmitglieder treffen sich ausserhalb der regulären Sitzungen auch mit dem Chief Financial Officer und anderen Führungskräften. 2007 nahm der Verwaltungsratspräsident am Leadership Meeting der Zurich Teil, an dem verschiedene Wachstumsstrategien und Projekte sowie deren Einbettung innerhalb der Gruppe im Zentrum standen.

Die Gruppe verfügt über ein Informations- und Finanzberichterstattungssystem. Der Jahresplan der Gruppe, der gewisse finanzielle und operative Messgrössen umfasst, wird vom GEC im Detail geprüft und vom Verwaltungsrat verabschiedet. Monatlich werden Updates erstellt, um die tatsächliche mit der geplanten Performance zu vergleichen. Die Gesamtjahresprognosen werden bei Bedarf revidiert, um Veränderungen in sensitiven und risikoreichen Bereichen Rechnung zu tragen, welche das Gruppenergebnis beeinflussen könnten. Kommt es zu Abweichungen vom Plan, werden wenn nötig entsprechende Vorkehrungen getroffen. All diese Informationen werden vom GEC monatlich und vom Verwaltungsrat quartalsweise geprüft.

Ferner besitzt die Gruppe ein koordiniertes und formalisiertes Konzept für das Risikomanagement und die Risikokontrolle. Informationen zum Risikomanagementprozess der Gruppe sind im Abschnitt über das Risikomanagement ab Seite 20 und in Note 26 der Consolidated Financial Statements auf Seite 176 zu finden.

Bericht über die Corporate Governance

Das Verfahren und die Ergebnisse dieses Vorgehens werden nachstehend auf Seite 51 unter „Erklärung zur internen Kontrolle" beschrieben.

Die interne Revision und die externen Revisoren sowie die Compliance-Funktion unterstützen den Verwaltungsrat darin, seine Kontroll- und Überwachungsaufgaben wahrzunehmen. Informationen zu den wichtigsten Tätigkeiten dieser Funktionen finden sich auf den Seiten 48 bis 51.

Konzernleitung

Konzernleitung

Jene Bereiche der Konzernleitung, die nicht in den Zuständigkeitsbereich des Verwaltungsrats fallen, werden dem CEO übertragen. Der CEO und – unter seiner Aufsicht – das GEC sind für die wichtigen strategischen, finanziellen und politischen Aspekte der Gruppe verantwortlich, einschliesslich Performance, Eigenkapitalzuteilung sowie Fusionen und Akquisitionen.

An der Spitze des GEC steht der CEO. Zu den weiteren Mitgliedern gehörten per 31. Dezember 2007 der Chief Operating Officer, der Chief Investment Officer, der Chief Growth Officer und die Leiter der Geschäftsbereiche General Insurance, Global Life und Farmers Management Services. Ebenfalls Mitglieder des GEC sind die Leiter der folgenden Geschäftsbereiche: North America Commercial, Global Corporate und Europe General Insurance. Ab dem 1. März 2007 bildete die neu geschaffene Funktion des Chief Growth Officer Teil des GEC. Nach der Pensionierung des aktuellen Chief Operating Officer Ende Februar 2007 ist diese Funktion nicht mehr im GEC vertreten. Weiter wurde der designierte CEO von Global Life ab 1. Oktober 2007 ebenfalls Mitglied des GEC.

Zur Vereinfachung der Koordination und Abstimmung der dem CEO zur Genehmigung vorzulegenden Empfehlungen zu spezifischen Themen, die oft bereichs- und funktionsübergreifende Fragen betreffen, wurden für Schlüsselbereiche spezielle Ausschüsse ins Leben gerufen.

Das Group Balance Sheet Committee ist ein vom CEO geleiteter ständiger Ausschuss des GEC. Dieser Ausschuss überprüft wichtige finanzielle Angelegenheiten im Zusammenhang mit der Umsetzung der Strategie, der Entwicklung des finanziellen Umfelds und der Finanzlage der Gruppe. Er befasst sich mit Kapitalmanagement und -zuteilung und auf Grundlage eines entsprechenden Delegationsentscheids des Verwaltungsrats erörtert er spezifische Transaktionen oder Änderungen in der Geschäftstätigkeit, die nicht im Finanzplan der Gruppe enthalten sind. Ferner überwacht der Ausschuss die Risikobereitschaft der Gruppe und befasst sich mit Themen, die sich auf die Bilanz des Unternehmens auswirken könnten. Ein weiterer Ausschuss des GEC ist das Group Finance and Risk Committee (ehemals Group Finance Committee) mit dem Chief Financial Officer als Vorsitzendem. Das Group Finance and Risk Committee überwacht die Umsetzung finanziell relevanter Projekte, die vom Verwaltungsrat, dem CEO und/oder dem GEC beschlossen wurden und gibt Empfehlungen für künftige Massnahmen in Zusammenhang mit möglichen M&A-Transaktionen sowie bezüglich Finanz-, Risikomanagement- und Rückversicherungsfragen ab.

Zu den eher mit technischen Fragen befassten Ausschüssen gehören zudem das Asset/Liability Management (ALM) unter der Leitung des Chief Investment Officer, das Group Reinsurance Committee unter Führung des Head of Group Reinsurance sowie das Group Pension Committee unter dem Vorsitz des CEO von Global Life.

Darüber hinaus legt die Gruppe vermehrt Wert auf externe Experten und Meinungen, um so mögliche Herausforderungen und Risiken besser verstehen und beurteilen zu können. Ende 2007 besass die Gruppe drei Gremien mit führenden Akademikern, Unternehmens- sowie Branchenexperten, die Feedback und Erkenntnisse liefern. Dabei handelt es sich nicht um Organe der Zurich und sie verfügen auch über keinerlei Entscheidungsbefugnisse. Sie stehen der Geschäftsleitung oder gewissen Funktionen der Gruppe mit Know-how oder als Berater zur Seite. Das International Advisory Council hat die Aufgabe, dem CEO und den Mitgliedern des GEC und des GMB seine Sicht und Expertenmeinung zu Wachstum und Public-Policy-Strategien der Gruppe darzulegen. Das Investment Management Advisory Council gibt Feedback zu den Anlageergebnissen und -strategien der Gruppe und äussert sich zur Frage der Erzielung hochwertiger risikobereinigter Anlagerenditen (unter Berücksichtigung der Risiken der Verbindlichkeiten). Das Natural Catastrophe Adivsory Council bietet Erkenntnisse zu Häufigkeit, Vorhersehbarkeit und Zerstörungskraft von Katastrophen und liefert Feedback zu den Massnahmen von Zurich, die zur Verbesserung der Effizienz des Underwriting und des Einkaufs von Rückversicherungsdeckung in diesem Bereich von Zurich getroffen werden.

Im Januar 2008 wurde ein weiteres Gremium mit führenden Akademikern und Experten gegründet: Das Climate Change Advisory Council, welches die Geschäftsleitung bei Problemstellungen in Zusammenhang mit der Klimaveränderung berät.

Mitglieder der Konzernleitung per 31. Dezember 2007

Name	Nationalität	Alter	Funktion
James J. Schiro	USA	61	Chief Executive Officer
John Amore	USA	59	CEO General Insurance
Annette Court	Gross-britannien	45	CEO Europe General Insurance
Mario Greco	Italien	48	Designierter Chief Executive Officer Global Life
Paul Hopkins	USA	51	Chief Executive Officer Famers Group, Inc.
Axel Lehmann	Schweiz	48	CEO North America Commercial
Patrick O'Sullivan	Irland	58	Chief Growth Officer
Geoff Riddell	Gross-britannien	51	CEO Global Corporate
Martin Senn	Schweiz	50	Chief Investment Officer
Paul van de Geijn	Niederlande	61	CEO Global Life
Dieter Wemmer	Deutschland	50	Chief Financial Officer

Mit Ausnahme von Annette Court und Mario Greco, die am 1. März bzw. am 1. Oktober 2007 zum GEC stiessen, waren alle Mitglieder während des ganzen Jahres 2007 im GEC tätig.

Per 28. Februar 2007 legte Chief Operating Officer, Peter Eckert, all seine Aufgaben nieder, da er in den Ruhestand trat. Per 1. März 2007 übernahm der frühere Group Finance Director, Patrick O'Sullivan, das Amt des Vizepräsidenten im Group Management Board und jenes des Chief Growth Officer. Als Chief Growth Officer blieb er weiterhin Mitglied des GEC. Per 1. März 2007 übernahm Dieter Wemmer, der frühere CEO von Europe General Insurance, die Aufgaben von Patrick O'Sullivan als Chief Financial Officer der Gruppe. Gleichzeitig trat Annette Court die Nachfolge von Dieter Wemmer als CEO von Europe General Insurance an und nahm im GEC Einsitz. Mario Greco kam am 1. Oktober 2007 als designierter CEO von Global Life zur Gruppe und und wurde zum selben Zeitpunkt Mitglied des GEC; er wird 2008 das Amt von Paul van de Geijn als CEO von Global Life übernehmen, wenn dieser wie geplant in den Ruhestand tritt.

Weitere Informationen zu vertraglichen Abfindungen sind Seite 48 zu entnehmen.

Angaben zur Person

James J. Schiro schloss das Studium an der St. John's University in New York mit einem Bachelor of Business Administration ab. Von derselben Universität erhielt er auch den Ehrendoktortitel in Commercial Science. Nachdem er sich als öffentlicher Wirtschaftsprüfer qualifiziert hatte, stiess er 1967 zu Price Waterhouse und erfüllte dort verschiedene Managementfunktionen, bevor er 1994 Präsident des Verwaltungsrats und Senior Partner wurde. Nach der Fusion von Price Waterhouse mit Coopers & Lybrand wurde er 1998 CEO von PricewaterhouseCoopers. Im März 2002 wechselte er zur Zurich Financial Services Group, wo er zunächst die Funktion des Chief Operating Officer – Group Finance übernahm. Zwei Monate später wurde er zum CEO ernannt. Er ist Mitglied des Verwaltungsrats von PepsiCo und des Aufsichtsrats von Royal Philips Electronics. Ferner ist er Präsident der Swiss American Chamber of Commerce, Mitglied des Verwaltungsrats der Geneva Association, Mitglied des European Financial Services Round Table sowie Mitglied des Business Council des World Economic Forum und seit Februar 2008 Mitglied des Verwaltungsrats des Institute of International Finance (IIF). Als Vizepräsident der amerikanischen Freunde des Lucerne Festivals ist er auch Mitglied des Beirats dieses Festivals. Überdies ist er Mitglied des Beirats der St. John's University, New York, und des Institute of Advanced Study, Princeton, New Jersey. Daneben ist er in verschiedenen weiteren Gremien tätig.

John J. Amore hat einen Hochschulabschluss in Management der Embry-Riddle Aeronautical University in Daytona Beach, USA, und einen MBA in Finanzwissenschaft der New York University. Bevor er zu Zurich stiess, war er Vizepräsident des Verwaltungsrats der Commerce and Industry Insurance Company, einer Tochtergesellschaft der American International Group (AIG). Später wurde er CEO der Geschäftseinheit Spezialversicherungen von Zurich in den USA und wurde im Dezember 2000 zum CEO von Zurich US ernannt. Bis zum 31.

Bericht über die Corporate Governance

August 2004 war er CEO des Geschäftsbereichs North America Corporate gewesen. Im April 2004 wurde er CEO des Geschäftsbereichs General Insurance, und seit September 2004 lag sein Hauptfokus auf dieser globalen Führungsaufgabe. John Amore ist ehemaliger Verwaltungsratspräsident der American Insurance Association und war seit 2001 im Verwaltungsrat tätig. Er ist als Direktor des Inspektorenvorstands der School of Risk Management, Insurance and Actuarial Science an der St. John's University in New York tätig. Er ist gewählter Partner für die Partnership for New York City, einer Organisation, die sich dem Erhalt der Stellung von New York als globalem Handels- und Innovationscenter widmet und ist Mitglied des Verwaltungsrats der US-Handelskammer.

Annette Court schloss ihre Studien an der Universität Oxford mit einem „Honors Degree" in Engineering ab. 1983 stiess sie zu IBM UK Ltd. und hatte verschiedene Positionen im Bereich Systemtechnik und als Kundenmanagerin im Banken- und Versicherungssegment inne. 1994 kam sie als Central Planning Manager zur Direct Line Group und wurde drei Jahre später zur Leiterin des Bereichs Motorfahrzeugversicherung ernannt. 2000 wurde sie zur Managing Director von Direct Line Insurance ernannt und im darauffolgenden Jahr ins Amt des CEO der Direct Line Group berufen, wo sie für die Gesamtheit des Retailgeschäfts, der Partnerschaften und der internationalen Geschäftstätigkeit verantwortlich war. Nach der Übernahme der Churchill Group und deren erfolgreichen Integration in Direct Line wurde Annette Court im Jahr 2003 CEO der Royal Bank of Scotland Insurance. Seit dem 15. Januar 2007 ist sie bei Zurich tätig und übernahm per 1. März 2007 die Funktion des CEO von Europe General Insurance. Ebenfalls per 1. März 2007 wurde sie Mitglied des GEC. Sie ist Verwaltungsratsmitglied der Association of British Insurers.

Mario Greco besitzt einen Wirtschaftsabschluss der Universität Rom sowie ein Master-Diplom in International Economics and Monetary Theory der Universität Rochester, New York (USA). Mario Greco begann seine berufliche Laufbahn im Bereich Management Consulting. Von 1986 bis 1994 arbeitete er für McKinsey & Company in Mailand, wo er 1992 zum Partner und Partner Leader im Bereich Versicherung wurde. 1995 stiess er zur RAS (Allianz Gruppe) in Mailand als Chef des Schadenversicherungsgeschäfts. Im darauffolgenden Jahr wurde er General Manager für das gesamte Versicherungsgeschäft und im Jahr 1998 zum Managing Director des Unternehmens ernannt. 2000 wurde er CEO des Unternehmens – eine Position, die er vier Jahre innehatte. 2004 wurde er zum Leiter des Life-Sustainability-Geschäfts von Allianz in München ernannt und später in diesem Jahr berief man ihn in die Geschäftsleitung der Allianz AG, wo ihm die Verantwortung für Frankreich, Italien, Spanien, Portugal, Griechenland und die Türkei übertragen wurde. Im April 2005 wechselte er zu Sanpaolo IMI Group in Mailand und arbeitete als CEO von Eurizon Vita, ehemals Aip, an einem Projekt zum Aufbau des Versicherungs- und Vermögensverwaltungsgeschäfts der Gruppe. Im Oktober 2005 wurde er zum CEO von EFG ernannt, die Gesellschaft, welche die Anlagen der Sanpaolo IMI Group an Eurizon Vita, Banca Fideuram und Eurizon Capital hielt. Am 1. Oktober 2007 kam er als designierter CEO von Global Life zu Zurich und wurde Mitglied des GEC. Mario Greco ist ebenfalls Mitglied des Verwaltungsrats von Gruppo Editoriale l'Espresso, Indesit, Saras und der Bocconi Universität.

Paul N. Hopkins verfügt über einen Bachelor of Science der Eastern Illinois University und hat die Wharton Business School abgeschlossen. Er kam 1978 als Agent zu Farmers, wurde darauf zum festen Mitarbeiter und hatte Positionen mit zunehmender Verantwortung im Sales- und Marketing-Bereich inne. 1992 wechselte er zur Niederlassung in Los Angeles, wo er als Assistant Vice President, Regional Operations tätig war. 1995 wurde er zum Vice President, Agencies und zwei Jahre später zum Senior Vice President, Agencies ernannt. Im Jahr 1998 wurde er Senior Vice President und Chief Marketing Officer – eine Position, die er bis zum 1. Januar 2000 bekleidete, als er zum Senior Vice President of State Operations ernannt wurde. Im April 2001 übernahm er die Funktion des Senior Vice President of Strategic Alliance. Im August 2002 wurde er zum Executive Vice President, Market Management, befördert und wurde zwei Jahre später Präsident von Farmer Group, Inc. Im Dezember 2004 wurde Paul Hopkins zum Mitglied des Group Management Board von Zurich ernannt. Seit April 2005 ist er Chief Executive Officer von Farmers Group, Inc. und Mitglied des GEC. Darüber hinaus ist er im Verwaltungsrat von Farmers Group, Inc. und Verwaltungsratspräsident der Farmers New World Life Insurance Company. 2006 wurde er zum Verwaltungsratspräsidenten von ZFUS Services LLC, dem gemeinsamen Servicecenter von Zurich in den USA, ernannt. Er ist Mitglied des Beirats des American Institute for Chartered Property Casualty Underwriters sowie Mitglied des Verwaltungsrats des Insurance Information Institute.

Axel P. Lehmann besitzt einen MBA sowie einen Doktortitel der Wirtschaftswissenschaften der Universität St. Gallen. Nach verschiedenen U.S. Studien- und Forschungsaufenthalten habilitierte er sich an der Universität St. Gallen und schloss zudem das Wharton-Advanced-Management-Programm ab. Er war Dozent an diversen Universitäten und Instituten und wurde zum Vizedirektor des Instituts für Versicherungswirtschaft an der Universität St. Gallen sowie des Europäischen Zentrums ernannt, wo er für die Bereiche Consulting und Management Development zuständig war. Bevor er 1996 als Mitglied der Geschäftsleitung zur Zürich Schweiz stiess und verschiedene Funktionen in den Bereichen Unternehmensentwicklung und Firmenkunden-geschäft bekleidete, war er für Corporate Planning und Corporate Controlling bei der Swiss Life zuständig. Im November 2000 wurde er Mitglied des Group Management Board und war für konzernweite Geschäftsentwicklungsbereiche der Gruppe verantwortlich. Im September 2001 erfolgte seine Ernennung zum CEO der früheren Region Nordeuropa und danach zum CEO der Zurich-Gruppe Deutschland. Im März 2002 wurde er zum CEO des Geschäftsbereichs Kontinentaleuropa und Mitglied des GEC ernannt. In 2004 war er für die Integration der Geschäftsbereiche Grossbritannien und Irland in Kontinentaleuropa und für die Leitung des neu integrierten Geschäftsbereichs Europe General Insurance verantwortlich. Seit September 2004 ist er CEO von Zurich North America Commercial in Schaumburg, Chicago. Im Januar 2008 trat er seine derzeitige Funktion als Group Chief Risk Officer an, in der er zusätzlich für Group IT verantwortlich ist. Axel Lehmann ist Titularprofessor für Betriebswirtschaftslehre und Dienstleistungsmanagement sowie Verwaltungsratspräsident des Instituts für Versicherungswirtschaft an der Universität St. Gallen.

Patrick H. O'Sullivan schloss sein Wirtschaftsstudium am Trinity College in Dublin ab. Er qualifizierte sich als Wirtschaftsprüfer und war bei Arthur Anderson tätig, bevor er an der London School of Economics einen Master of Science in Rechnungs- und Finanzwesen erwarb. Danach stiess er zur Bank of America und arbeitete in London, Miami, Los Angeles und Frankfurt. 1988 kam er als Financial Controller für den Bereich Europa zu Bank Goldman Sachs und wechselte 1990 zur Financial Guaranty Insurance Company (FGIC), einer 100-prozentigen Tochtergesellschaft von GE Capital. 1993 wurde er in den Verwaltungsrat von FGIC gewählt. Im darauffolgenden Jahr übernahm er für Barclays/BZW die Leitung des Bereichs International Banking & Structured Finance und wurde 1996 zum Chief Operating Officer von BZW ernannt. 1997 trat er als CEO dem Versicherungsunternehmen Eagle Star bei und wurde ein Jahr später zum Vorsitzenden der Geschäftsleitung für den Geschäftsbereich der allgemeinen Versicherungslösungen von Zurich in Grossbritannien ernannt. Im Dezember 2002 wurde er Group Finance Director von Zurich Financial Services und Mitglied des GEC. Seit März 2007 ist er als Vizepräsident des Group Management Board und Chief Growth Officer tätig. Ferner ist er für die Bereiche International and Centrally Managed Businesses sowie Banking der Gruppe zuständig.

Geoff Riddell schloss ein Chemiestudium am Queen's College in Oxford ab und qualifizierte sich später als Wirtschaftsprüfer. Er begann seine Laufbahn 1978 bei Price Waterhouse und wechselte vier Jahre später zur AIG, wo er in verschiedenen Positionen tätig war, einschliesslich als verantwortlicher Manager in Hongkong, Belgien und Frankreich. Er kam 2000 zur Zurich-Gruppe, anfangs als Managing Director der Zurich Commercial in Grossbritannien; danach wurde er Managing Director der Geschäftsbereiche Corporate and Government in Grossbritannien. Im November 2002 wurde er CEO des Geschäftsbereichs General Insurance in Grossbritannien, Irland und Südafrika. Seit 2004 ist er CEO des Geschäftsbereichs Global Corporate und wurde ins GEC berufen. Geoff Riddell war Mitglied des General Insurance Council der Association of British Insurers und während dreier Jahre Leiter des Liability Committee. Von 1990 bis 1995 war er Mitglied des Hong Kong Federation of Insurers Council. Im Februar 2005 wurde er Verwaltungsratsmitglied von Pool Re und 2007 ernannte man ihn zum Verwaltungsrat des Forums für Global Health Protection. Er ist Mitglied des Stiftungsrats von IMD, Lausanne. Ferner ist er Mitglied des Confederation of the British Industry International Advisory Board, des City EU Advisory Committee und des Lord Mayor of London's Advisory Committee.

Martin Senn schloss eine Bankausbildung an der Handelsschule Basel, Schweiz, ab und absolvierte ein International Executive Program am INSEAD in Fontainebleau sowie ein Advanced Management Program an der Harvard Business School. Als Bankfachmann arbeitete er von 1976 bis 1994 beim damaligen Bankverein unter anderem als Treasurer in Hongkong und Regional Treasurer für Asien und den pazifischen Raum in Singapur, bevor er schliesslich die Führung der Bankverein-Niederlassung in Tokio übernahm. 1994 wechselte er zur Credit Suisse, wo er Führungsaufgaben als Treasurer für den Hauptsitz und für Europa sowie als Chairman und Turnaround Manager der Credit Suisse Gruppe in Japan übernahm. Im Rahmen seines Mandats in Japan nahm er die Umstrukturierung und Neupositionierung der japanischen Tochtergesellschaften der Credit Suisse vor. Im Jahr 2001 wurde er zum Mitglied der Geschäftsleitung der Credit Suisse und Leiter des Bereichs Trading and Investment Services ernannt. Von 2003 bis 2006 war er Chief Investment Officer und Mitglied der Geschäftsleitung der Swiss Life Gruppe. Martin Senn stiess am 1. April 2006 als Chief Investment Officer zu Zurich und wurde gleichzeitig Mitglied des GEC. Er ist Mitglied des Stiftungsrats des Technoparks Zürich. Seit Januar 2007 ist er ebenfalls Mitglied des Leitungsausschusses von Avenir Suisse und seit April 2007 Treasurer der Zurich Association of Economics. Darüber hinaus ist er Honorarkonsul der Republik Korea in Zürich. Zuvor war er Verwaltungsrat bei verschiedenen Banken und Finanzdienstleistungsinstituten.

Paul van de Geijn schloss 1971 sein Studium in Wirtschaftsrecht an der Universität Leiden in den Niederlanden ab und trat einem der Vorgängerunternehmen von AEGON bei. Er begann seine Tätigkeit als Rechtskonsulent und arbeitete dann im Bereich Schadenversicherung, bevor er 1978 eine leitende Managementposition übernahm. Nach der Fusion, aus der 1983 AEGON hervorging, wurde er zum Mitglied und 1991 zum Präsidenten der Geschäftsleitung von AEGON Niederlande ernannt. Im darauffolgenden Jahr trat er in die Geschäftsleitung von AEGON N.V. ein und war für die Geschäfte in den Niederlanden und später auch für

Bericht über die Corporate Governance

Spanien und Ungarn verantwortlich. 2002 gab er das Geschäft in den Niederlanden ab und übernahm die Verantwortung für AEGON USA und das Corporate-Responsibility-Programm von AEGON. Von 2000 bis 2002 war er Präsident des Versicherungsverbands der Niederlande. Im November 2003 kam er als CEO Global Life zu Zurich und wurde gleichzeitig Mitglied des GEC. Er hatte Positionen in einem öffentlich-/privatrechtlichen Unternehmensverband und im Exekutivausschuss des niederländischen Arbeitgeberverbands inne.

Dieter Wemmer besitzt einen Doktortitel und einen Diplomabschluss in Mathematik der Universität Köln. Von 1983 bis 1986 war er auf dem Gebiet Reine Mathematik an den Universitäten von Köln und Oxford tätig. 1986 stiess er als Versicherungsmathematiker im Bereich Rückversicherung Leben zur Zurich Re (Köln), der damaligen Rückversicherungstochter der Agrippina Gruppe der Zürich in Deutschland. Er wurde Leiter des Bereichs Rückversicherung Leben und fünf Jahre später Chefmathematiker. Von 1992 bis 1996 hatte Dieter Wemmer verschiedene Positionen bei der Agrippina inne. 1995 trat er in die Geschäftsleitung ein und war für die Bereiche Controlling/Planung, Kommunikation und Immobilien-Management verantwortlich. 1996 wurde er als Projektleiter für die Einführung der International Accounting Standards (IAS) und der US Generally Accepted Accounting Principles (US GAAP) an das Corporate Center von Zurich entsandt und wurde ein Jahr später zum Leiter Finanzcontrolling ernannt. Von 1999 bis Mai 2003 leitete er die Abteilung Mergers and Acquisitions, mit zusätzlicher Verantwortung für das Kapitalmanagement und ab 2002 auch für das Aktuariat im Bereich Schaden und Leben. Im Mai 2003 wurde er zum Chief Operating Officer des Geschäftsbereichs Europe General Insurance befördert. Im November 2004 wurde er CEO des Geschäftsbereichs Europe General Insurance und Mitglied der Konzernleitung (GEC). Seit März 2007 ist er als Chief Financial Officer der Zurich Financial Services Group tätig. Herr Wemmer ist Mitglied des Verwaltungsrats der „economiesuisse".

Veränderungen im GEC nach dem 1. Januar 2008

Am 1. Januar 2008 nahm Axel Lehmann die Tätigkeit als Chief Risk Officer auf, eine Funktion, die neu auf der Ebene der Konzernleitung angesiedelt ist, um die verstärkte Gewichtung des Risk Managements innerhalb der Gruppe zu widerspiegeln. Ferner ist er für Group IT zuständig. In seiner neuen Funktion als Chief Risk Officer bleibt Axel Lehmann Mitglied des GEC. Zum selben Zeitpunkt wurde Mike Foley CEO des Geschäftsbereichs North America Commercial sowie Mitglied des GEC.

Mike Foley verfügt über einen Hochschulabschluss in Mathematik und Wirtschaftswissenschaften der Fairfield University, Connecticut. 1984 nahm er am Financial Management Training Program der Armtek Corporation in Connecticut teil und erwarb später einen MBA-Abschluss in Marketing und Finance der JL Kellogg Graduate School of Management der Northwestern University in Evanston, Illinois. 1989 kam Mike Foley zum Investmentbank-Unternehmen Deepath Group in Lake Forest, Illinois und war dann als Vizepräsident zuständig für die Verwaltung des Aktienanlageportfolios verschiedener übernommener Unternehmen. 1993 stiess er als Präsident zu Electrocal, Inc in Connecticut und wechselte drei Jahre später zu McKinsey & Company in Chicago, wo er die nordamerikanische Schadenversicherungssparte führte. Mike Foley kam 2006 als Chief Operating Officer von North America Commercial zu Zurich und wurde im Januar 2008 zum CEO dieses Geschäftsbereichs und zum Mitglied der Konzernleitung (GEC) ernannt.

Die Mitglieder des GEC sind auch Mitglieder des GMB, dem zusätzlich noch die Leiter bestimmter Geschäftseinheiten und Gruppen-Funktionen angehören. Das GMB konzentriert sich hauptsächlich auf die Kommunikation, Talentförderung und Entwicklung der Gruppe, es vertritt die verschiedenen Geschäftsbereiche und Funktionen und fördert so die horizontale Vernetzung innerhalb der Gruppe.

Weitere Mitglieder des GMB per 31. Dezember 2007

Name	Nationalität	Alter	Funktion
Thomas Buess	Schweiz	50	Chief Operating Officer, Global Life
Peter Goerke	Schweiz	45	Group Head Human Resources
Richard Kearns	USA	57	Chief Administrative Officer
Michael Paravicini	Schweiz	46	Chief Information Technology Officer
Reto Schiltknecht	Schweiz	47	Group General Counsel
Franz Wipfli	Schweiz	56	Leiter Organizational Transformation Management

John Lynch, Head of US Small Businesses, wurde per 30. Juni 2007 pensioniert.

Per 1. Januar 2008 stiess Inga Beale als Leiterin der Abteilung Mergers & Acquisitions und Organizational Transformation Management zur Gruppe. In ihrer neuen Funktion wurde sie auf das gleiche Datum hin Mitglied des GMB. Herr Wipfli wird seine Tätigkeit im Mai 2008 beenden.

Managementverträge

Zurich Financial Services hat keine wichtigen Teile der Konzernleitung vertraglich an andere Unternehmen (oder Einzelpersonen), die nicht zur Gruppe gehören (oder von ihr beschäftigt werden), übertragen.

Mitwirkungsrechte der Aktionäre

Stimmrechtsbeschränkungen und -vertretungen

Jede in das Aktienbuch eingetragene Aktie berechtigt zur Abgabe einer Stimme. Es gibt keine Stimmrechtsbeschränkungen.

Stimmberechtigte Aktionäre sind zur persönlichen Teilnahme an der Generalversammlung der Zurich Financial Services berechtigt. Ebenfalls dürfen sie durch schriftliche Vollmachtserteilung ihr Stimmrecht auf einen anderen stimmberechtigten Aktionär oder eine andere gemäss den Statuten und einer ausführlicheren Richtlinie des Verwaltungsrats zulässige Person übertragen, damit diese sie an der Generalversammlung vertritt. Nach Massgabe der Statuten können unmündige und bevormundete Personen sich durch ihre gesetzlichen Vertreter, verheiratete Aktionäre durch den Ehegatten und juristische Personen durch vertretungsberechtigte Personen vertreten lassen, auch wenn diese Personen selbst keine Aktionäre sind. Darüber hinaus können Aktionäre den unabhängigen Stimmrechtsvertreter, einen statutarischen Bevollmächtigten oder einen Vertreter eines Kreditinstituts bevollmächtigen, auch wenn diese selbst keine Aktionäre sind. Unter bestimmten Umständen kann Zurich Financial Services die wirtschaftlichen Eigentümer der Namenaktien, die von professionellen Dienstleistern als Nominees verwahrt werden (z.B. Treuhandgesellschaften, Banken, professionelle Vermögensverwalter, Clearingstellen, Investmentfonds und andere von Zurich Financial Services anerkannte Organisationen), zur Teilnahme an Generalversammlungen und zur Ausübung des Stimmrechts als Vertreter des jeweiligen Nominee bevollmächtigen. Weitere Einzelheiten finden Sie auf Seite 34.

Zurich Financial Services hat an der letztjährigen ordentlichen Generalversammlung sämtliche Beschlüsse mittels eines elektronischen Abstimmungsverfahrens erfasst. In Übereinstimmung mit der schweizerischen Praxis informiert Zurich Financial Services zu Beginn der ordentlichen Generalversammlung alle Aktionäre über die Gesamtzahl der in Vertretung abgegebenen Stimmen.

Statutarische Quoren

Gemäss den Statuten ist die Generalversammlung unabhängig von der Anzahl der anwesenden Aktionäre und der vertretenen Aktien beschlussfähig. Beschlüsse und Wahlen erfordern die Zustimmung einer einfachen Mehrheit der abgegebenen Stimmen, unter Ausschluss der Stimmenthaltungen, leeren und ungültigen Stimmen, es sei denn, die Statuten (was jedoch nicht der Fall ist) oder zwingende gesetzliche Bestimmungen sehen eine andere Regelung vor. Gemäss Artikel 704 des Schweizerischen Obligationenrechts sind zwei Drittel der abgegebenen Stimmen und die absolute Mehrheit der vertretenen Aktiennennwerte für bestimmte wichtige Beschlüsse erforderlich, wie beispielsweise die Änderung des Gesellschaftszwecks und des Gesellschaftssitzes, die Auflösung der Gesellschaft sowie Anträge im Zusammenhang mit der Kapitalerhöhung. Bei Stimmengleichheit entscheidet der Präsident des Verwaltungsrats.

Einberufung der Generalversammlung

Die Generalversammlungen werden vom Verwaltungsrat einberufen oder, falls erforderlich, von Revisoren und anderen Organen nach Massgabe der Artikel 699 und 700 des Schweizerischen Obligationenrechts. Aktionäre mit Stimmrecht, die zusammen 10% des Aktienkapitals ausmachen, können, unter Angabe der Verhandlungsgegenstände und der damit zusammenhängenden Anträge, eine Generalversammlung einberufen. Die Generalversammlung wird mit einer Frist von mindestens 20 Kalendertagen einberufen, wobei Zurich Financial Services die Einladungen an die Aktionäre normalerweise mindestens 20 Werktage vor der Generalversammlung verschickt und diese im Schweizerischen Handelsamtsblatt und in verschiedenen Zeitungen veröffentlicht.

Bericht über die Corporate Governance

Traktandierung

Der Verwaltungsrat ist für die Ausarbeitung der Traktandenliste und deren Versand an die Aktionäre verantwortlich. Aktionäre mit Stimmrecht, die zusammen Aktien im Nennwert von mindestens 10.000 Schweizer Franken vertreten, können schriftlich bis spätestens 45 Tage vor der Generalversammlung die Traktandierung von Verhandlungsgegenständen verlangen.

Eintragungen in das Aktienbuch

Im Hinblick auf ein ordnungsgemässes Verfahren legt der Verwaltungsrat kurz vor dem Termin der Generalversammlung einen Stichtag fest, an welchem die Aktionäre im Aktienbuch eingetragen sein müssen, um ihre Mitwirkungsrechte bei der Teilnahme an der Generalversammlung ausüben zu können. Der Stichtag wird zusammen mit der Einladung zur Generalversammlung im Schweizerischen Handelsamtsblatt und in verschiedenen Zeitungen veröffentlicht.

Kontrollwechsel und Abwehrmassnahmen

Pflicht zur Unterbreitung eines Angebots

Die Statuten von Zurich Financial Services sehen keine Opting-out- oder Opting-up-Bestimmung im Sinne von Artikel 22 und 32 des Bundesgesetzes über die Börsen und den Effektenhandel vor. Daher sind Aktionäre bzw. in gemeinsamer Absprache handelnde Gruppen von Aktionären dazu verpflichtet, ein Angebot zu unterbreiten, wenn sie über 33 1/3% des ausgegebenen Aktienkapitals halten.

Change-of-Control-Klauseln

Mit den Mitgliedern des GEC wurden Arbeitsverträge abgeschlossen, welche die Anstellungsbedingungen regeln. Was die Beendigung des Arbeitsverhältnisses betrifft, so können diese Verträge Klauseln enthalten, die Abfindungen für maximal zwei Jahre (inklusive Kündigungsfristen) vorsehen. Im Fall eines Kontrollwechsels sind keine zusätzlichen Abfindungen vorgesehen.

Die Abfindung für den CEO hängt von der zeitlichen Gestaltung seines Arbeitsvertrags ab, der am 31. Dezember 2009 ausläuft. Entsprechend wäre für den CEO per 31. Dezember 2007 eine Abfindung für zwei Jahre (inklusive Kündigungsfrist) vorgesehen; diese wird im Lauf der Zeit linear sinken. Sollte das Arbeitsverhältnis mit dem CEO nach einem Kontrollwechsel beendet werden, erhält dieser je nach verbleibender Anstellungsdauer eine zusätzliche Abfindungszahlung in der Höhe von bis zu zwei Jahresgehältern (Grundlohn und jährlicher Cash Incentive at Target). Unterliegt die gesamte Abfindungszahlung nach einem Kontrollwechsel der US-Verbrauchssteuer (Excise Tax), so hat der CEO Anrecht auf eine zusätzliche Ausgleichszahlung.

In den Aktienbeteiligungsplänen der Gruppe sind Vorschriften zu den Auswirkungen veränderter Eigentumsverhältnisse enthalten. Diese sehen vor, dass der Plan-Administrator im Falle veränderter Eigentumsverhältnisse das Recht hat, entweder bestehende Ansprüche auf Aktien in neue Rechte auf Aktien umzuwandeln oder eine Gegenleistung für nicht übertragene Ansprüche zu erbringen. Mitarbeitende, die an diesem Plan partizipieren und infolge veränderter Eigentumsverhältnisse ihre Arbeitsstelle verlieren, haben das Recht auf eine automatische Umwandlung ihrer Ansprüche in Aktien. Im Fall eines Kontrollwechsels sind für die Mitglieder der Geschäftsleitung der Gruppe keine zusätzlichen Abfindungen vorgesehen.

Für die Mitglieder des Verwaltungsrats sind im Falle eines Kontrollwechsels keine Abfindungen vorgesehen.

Externe Revision

Dauer des Mandats und Amtsdauer des leitenden Revisors

Die PricewaterhouseCoopers AG, Birchstrasse 160, in 8050 Zürich („PwC"), ist aktienrechtliche Revisionsstelle und Konzernprüferin von Zurich Financial Services. PwC übernimmt sämtliche Prüfungen, die vom Gesetz und von den Statuten von Zurich Financial Services vorgeschrieben sind. Die Revisionsstelle wird von den Aktionären von Zurich Financial Services jährlich neu gewählt. An der ordentlichen Generalversammlung vom 3. April 2007 wurde PwC von den Aktionären von Zurich Financial Services wiedergewählt. Der Verwaltungsrat beantragt, PwC als aktienrechtliche Revisionsstelle und Konzernprüferin für das Geschäftsjahr 2008 wieder zu wählen. Unter dem neuen Bundesgesetz über die Zulassung und Beaufsichtigung der Revisorinnen und Revisoren (Revisionsaufsichtsgesetz, RAG) erfüllt PwC alle notwendigen Anforderungen und wurde unter diesem Gesetz von der Schweizerischen Revisionsaufsichtsbehörde als eingetragenes Revisionsunternehmen zugelassen.

PwC bzw. die Vorgängerunternehmen Coopers & Lybrand und Schweizerische Treuhandgesellschaft AG sind seit dem 11. Mai 1983 als externe Revisionsstelle für Zurich Financial Services und deren Vorgängerunternehmen tätig. Wie bereits 2000 fand auch 2007 wieder eine Ausschreibung statt, bei der die grössten Wirtschaftsprüfungsunternehmen aufgefordert wurden, ihre Arbeitsprogramme und Angebote für 2008 und darüber hinaus zu unterbreiten. Nach genauer Prüfung befand die Gruppe das Arbeitsprogramm sowie das Angebot von PwC als am besten. Der Verwaltungsrat schlägt deshalb für das Geschäftsjahr 2008 PwC zur Wiederwahl vor.

Roger Marshall von PricewaterhouseCoopers AG war seit dem 1. Januar 2003 und bis Ende des Geschäftsjahrs 2007 der verantwortliche leitende Revisor. Gruppeninterne Richtlinien verlangen, dass der leitende Revisor alle fünf Jahre wechselt. Somit wird er in seiner Funktion per 1. Januar 2008 von Patrick Shouvlin von PricewaterhouseCoopers AG abgelöst.

Die OBT AG ist der besonders befähigte Revisor, der nach Massgabe der Artikel 652f, 653f und 653i des Schweizerischen Obligationenrechts im Zusammenhang mit der Durchführung einer Kapitalerhöhung erforderlich ist. An der ordentlichen Generalversammlung vom 19. April 2005 wurde die OBT AG von den Aktionären für eine weitere Dreijahresperiode gewählt. Die OBT AG übt das Mandat ursprünglich seit Oktober 2000 aus. Der Verwaltungsrat empfiehlt OBT anlässlich der ordentlichen Generalversammlung vom 3. April 2008 als besonders befähigten Revisor für eine weitere Dreijahresperiode zur Wiederwahl.

Revisionshonorar

Insgesamt beliefen sich die vom Konzernprüfer im Jahr 2007 in Rechnung gestellten Revisionshonorare (einschliesslich Auslagen und Mehrwertsteuer) auf USD 45,1 Mio. (USD 42,9 Mio. im Jahr 2006).

Zusätzliche Honorare

Insgesamt beliefen sich die Honorare (einschliesslich Auslagen und Mehrwertsteuer) für zusätzliche Dienstleistungen (z.B. Steuerdienstleistungen oder notwendige Sonderprüfungen aufgrund lokaler Gesetze oder behördlicher Organe), die im Jahr 2007 vom Konzernprüfer und den mit ihm verbundenen Unternehmen für Zurich Financial Services bzw. für Unternehmen der Gruppe erbracht wurden, auf USD 3,7 Mio.
(USD 3,5 Mio. im Jahr 2006).

Überwachung und Kontrolle des externen Prüfungsprozesses

Der Prüfungsausschuss des Verwaltungsrats trifft sich regelmässig und mindestens viermal jährlich mit den externen Revisoren. 2007 fanden sechs solche Treffen statt. Die externen Revisoren treffen sich regelmässig mit dem Prüfungsausschuss ohne das Beisein der Konzernleitung. Basierend auf schriftlichen Berichten bespricht der Prüfungsausschuss die Qualität des Finanz- und Rechnungswesens der Gruppe mit den externen Revisoren und nimmt Vorschläge der externen Revisoren entgegen. Diskutiert werden dabei unter anderem eine Stärkung der internen Finanzkontrollen, die massgeblichen Rechnungslegungsgrundsätze und die Management-Reporting-Systeme. Im Zusammenhang mit der Rechnungsprüfung erhält der Prüfungsausschuss von den externen Revisoren rechtzeitig einen Bericht zur geprüften Jahresrechnung von Zurich Financial Services und der Gruppe.

Der Prüfungsausschuss überwacht die Arbeit der externen Revisoren. Mindestens einmal jährlich überprüft er Qualifikation, Leistung und Unabhängigkeit der externen Revisoren sowie alle Gegebenheiten, die ihre Objektivität und Unabhängigkeit belasten könnten, und zwar basierend auf einem von den externen Revisoren erstellten schriftlichen Bericht, in dem ihre internen Qualitätskontrollprozesse, wichtige auftretende Fragen und Anliegen sowie sämtliche Beziehungen zwischen den externen Revisoren und der Gruppe und/oder ihren Mitarbeiterinnen und Mitarbeitern erläutert werden, welche die Unabhängigkeit der externen Revisoren beeinträchtigen könnten. Der Prüfungsausschuss bewertet die Zusammenarbeit mit den externen Revisoren im Zuge der Revision. Er hält die Einschätzungen des Managements zur Leistung der externen Revisoren fest und beurteilt, inwieweit diese den Bedürfnissen von Zurich Financial Services und der Konzerngruppe Rechnung getragen haben. Vor Beginn der jährlichen Revision kontrolliert der Prüfungsausschuss den Umfang und das Ausmass der externen Prüfung und weist auf Bereiche hin, die besonderer Aufmerksamkeit bedürfen.

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Der Prüfungsausschuss schlägt dem Verwaltungsrat die von den Aktionären zu wählenden externen Revisoren vor und ist für die Bewilligung ihrer Entschädigung verantwortlich. Jeweils zu Jahresbeginn unterbreitet PricewaterhouseCoopers der Konzernleitung einen Kostenvoranschlag, der von ihr geprüft und dann dem Prüfungsausschuss zur Genehmigung vorgelegt wird. Der Voranschlag berücksichtigt die Anzahl der Berichtseinheiten innerhalb der Gruppe und die erwarteten Veränderungen der rechtlichen und operativen Struktur im Lauf des Jahres.

Der Prüfungsausschuss hat für den Einsatz der externen Revisoren für nicht mit ihrer Prüfungstätigkeit in Zusammenhang stehende Dienstleistungen sowie für ähnliche Belange eine Richtlinie erlassen. Nicht mit der Revision in Zusammenhang stehende zulässige Dienstleistungen können Steuerberatung und -dienstleistungen, Unterstützungs- und Einwilligungserklärungen, Beglaubigungen und Bestätigungen, Due-Diligence- und Audit-Support im Rahmen von vorgeschlagenen Transaktionen umfassen, sofern solche Tätigkeiten im Einklang mit den geltenden gesetzlichen und regulatorischen Bestimmungen stehen und ihre Unabhängigkeit und Objektivität als externe Revisoren nicht beeinträchtigt. Alle nicht mit der Revision in Zusammenhang stehenden zulässigen Dienstleistungen müssen je nach Umfang der zu erwartenden Entschädigung zuvor vom Prüfungsausschuss (Vorsitzenden), dem Group Chief Financial Officer oder dem lokalen CFO genehmigt werden. Ferner erfordern diese Dienstleistungen unter anderem einen schriftlichen Antrag, in dem die zu erbringenden Dienstleistungen und der Hinweis an die externe Revision, die erwähnte Weisung einzuhalten, festgehalten werden müssen.

Interne Revision

Aufgabe der internen Revision der Gruppe („Group Audit“) ist es, zuhanden des Verwaltungsrats, des Prüfungsausschusses, des CEO und der Konzernleitung eine unabhängige und objektive Beurteilung der internen Kontrollsysteme der Gruppe vorzunehmen. Dies erfolgt – unter Verwendung einer risikobasierten Methode – mittels Erstellung eines jährlichen Revisionsplans, der quartalsweise aktualisiert wird, um Veränderungen der Risiken und Prioritäten Rechnung zu tragen. Dieser Plan basiert auf dem Gesamtspektrum der Geschäftsrisiken der Gruppe. Group Audit setzt den Plan mithilfe eines systematischen und disziplinierten Ansatzes zur Evaluierung, Kommentierung und Verbesserung des Risikomanagements sowie der Kontroll- und Governance-Prozesse um. Es prüft die Eignung, Verlässlichkeit und das Funktionieren der Geschäftsorganisation hinsichtlich technischer und personeller Angelegenheiten und bewertet die Effizienz und Effektivität der Kontrollsysteme der Gruppe. Zudem überprüft Group Audit die finanzielle Berichterstattung und die entsprechenden Richtlinien sowie die Einhaltung der geschäftlichen und gesetzlichen Vorschriften und Regeln. Wichtige von Group Audit aufgeworfene Fragen werden dem verantwortlichen Management, dem CEO und dem Prüfungsausschuss zur Kenntnis gebracht.

Prüfungsausschuss und CEO werden regelmässig über wesentliche Revisionsergebnisse informiert, einschliesslich von Group Audit erkannte Unzulänglichkeiten und Kontrollprobleme, entsprechende Korrekturmassnahmen und deren Umsetzung durch das verantwortliche Management. Group Audit hat uneingeschränkten Zugang zu allen Zahlen, Aufzeichnungen und Dokumenten und muss mit allen benötigten Daten und Informationen beliefert werden, damit es seine Pflichten erfüllen kann. Group Audit arbeitet eng mit den externen Revisoren zusammen und tauscht mit diesen Risikobeurteilungen, Arbeitspläne, Revisionsberichte und Fortschritte bei der Umsetzung von Korrekturmassnahmen aus. Group Audit und die externe Revision treffen sich regelmässig auf allen Organisationsebenen, um den Revisionsprozess und dessen Effizienz zu optimieren.

Der Prüfungsausschuss kontrolliert die Unabhängigkeit von Group Audit und überprüft dessen Aktivitäten, Pläne, Organisation und Qualität sowie die Zusammenarbeit mit den externen Revisoren. Im Jahr 2007 beauftragte die Gruppe eine unabhängige Drittpartei, um die Effektivität von Group Audit zu überprüfen. Der Bericht ergab, dass Prozesse und Abläufe von Group Audit die Anforderungen des Institutes für Internal Audit (Institute of Internal Audit, IIA) erfüllen oder gar übertreffen und dass diese in der Mehrzahl der Fälle den Prozessen und Abläufen entsprechen, die weltweit anerkannt sind. Ungeachtet dieses erfreulichen Resultats wird Group Audit weiterhin seine Prozesse und Abläufe überprüfen, um einen effektiven, effizienten und wertsteigernden Beitrag zu gewährleisten.

Der Prüfungsausschuss genehmigt jährlich den Group Audit Plan und prüft vierteljährlich Berichte von Group Audit zu dessen Tätigkeiten sowie zu signifikanten Risiko-, Kontroll- und Governance-Themen. Der Leiter von Group Audit berichtet sowohl dem Vorsitzenden des Prüfungsausschusses als auch dem CEO.

Compliance

Die Kernwerte der Gruppe gründen auf der Einhaltung der Gesetze und korrektem Geschäftsgebaren. Dies widerspiegelt die Ansicht der Gruppe, dass jeglicher Tätigkeit eine funktionierende Compliance zugrunde liegen muss, damit Zurich ihren Ruf nicht gefährdet und die Gruppe ihre ehrgeizigen Ziele erreichen kann. Die Compliance-Teams unterstützen das Management bei der Förderung des Bewusstseins und Verständnisses für Compliance-Risiken und bieten entsprechende Schulungsprogramme an. Eine gruppenweite Richtlinie ermöglicht es den Mitarbeiterinnen und Mitarbeitern, Bedenken vorzubringen oder Zuwiderhandlungen im Bereich der finanziellen Berichterstattung, der internen Compliance-Regeln sowie rechtlicher oder anderer Verpflichtungen zu melden.

Die Compliance-Funktion überprüft auf Gruppenebene Gesetze, Richtlinien und andere Anforderungen und prüft den angemessenen Umgang der Gruppe mit ihren Compliance-Risiken. Ferner erlässt die Compliance-Funktion Richtlinien zur Sicherstellung der Einhaltung dieser Anforderungen, unterstützt und berät die verschiedenen Geschäftsbereiche bei deren Anwendung innerhalb von Zurich und überwacht, dass das Unternehmen diese einhält.

Wichtige von der Compliance-Funktion innerhalb des Unternehmens aufgeworfene Fragen und festgelegte Verbesserungsmassnahmen werden an die verantwortliche Management-Funktion sowie an die entsprechenden Kontrollausschüsse kommuniziert.

Erklärung zur internen Kontrolle

Der Verwaltungsrat überwacht das Risikomanagement der Gruppe und die internen, vom Management aufgestellten Kontrollsysteme der Gruppe, die das Risiko eines mangelnden Geschäftserfolgs kontrollieren, aber nicht ausschalten können. Diese Systeme bieten eine angemessene, jedoch keine absolute Sicherheit gegen wesentliche Fehlerfassungen und materielle Verluste. Auf Ebene des Verwaltungsrats befassen sich zwei Ausschüsse mit Themen in den Bereichen Risiko und Kontrolle:

- Der Risikoausschuss, der für Risikofragen zuständig ist und
- der Prüfungsausschuss, der für Kontrollfragen kümmert verantwortlich ist.

Auf Ebene der Unternehmensleitung wurden Management-Ausschüsse gegründet, um eine ständige Überwachung von Risiko- und Kontrollfragen zu gewährleisten. In diesen Management-Ausschüssen sind Mitglieder aus Unternehmens- und Funktionsbereichen vertreten, mit denen bei der Überprüfung eines bestimmten Geschäfts die Unabhängigkeit gewahrt werden kann. Die Ergebnisse aus solchen durch diese Management-Ausschüsse durchgeführten Überprüfungen werden entsprechend an die Verwaltungsratsausschüsse weitergeleitet.

Die Gruppe besitzt ein koordiniertes und formalisiertes Konzept für das Risikomanagement und die interne Risikokontrolle. Die wichtigen Risiko- und Kontrollsysteme und -grundsätze der Gruppe werden üblicherweise auf Gruppenebene erarbeitet und danach unternehmensweit umgesetzt. Mit diesem Ansatz wird der Fokus vor allem auf wichtige Risiken gerichtet, die das Erreichen der Unternehmensziele der Gruppe beeinträchtigen könnten, sowie auf die Aktivitäten zur Kontrolle und Überwachung dieser Risiken und zur Erhöhung der Effektivität der Kontrollen. Die Gruppe fördert ein geschärftes Risikobewusstsein und führt Kommunikations- und Trainingsseminare zur Sensibilisierung der Mitarbeiterinnen und Mitarbeiter durch.

Dem Management obliegt die Identifizierung, Abschätzung und Kontrolle der für den jeweiligen Geschäftsbereich wichtigen Risiken. Das Risikomanagement findet gruppenweit unter der Leitung der Unternehmensführung statt. Zurich hat für die gesamte Gruppe geltende Risikorichtlinien, gemeinsame Methoden und Instrumente zur Risikobewertung und -modellierung. Die Risikobewertungsprozesse sind auf die Planungsprozesse der Gruppe abgestimmt und werden vom GEC und dem Board Risk Committee überprüft. Dem Risikoausschuss des Verwaltungsrats wird regelmässig über hohe Risiken, die Ergebnisse der Risikobewertung und -modellierung sowie die daraus resultierenden jeweiligen Massnahmen Bericht erstattet. Mithilfe der Total-Risk-Profiling®-Methode von Zurich werden regelmässig lokale Risikobewertungen durchgeführt und die Geschäftseinheiten müssen mindestens einmal pro Quartal wichtige Risiken melden und Massnahmepläne zu deren Minimierung umsetzen.

Bericht über die Corporate Governance

Das interne Kontrollsystem ist auf wichtige Kontrollen im finanziellen, operativen und Compliance-Bereich ausgerichtet. Das System umfasst die Grundsätze, Prozesse und Aktivitäten, die zu erhöhter Zuverlässigkeit der finanziellen Berichterstattung sowie zur Effizienz der Geschäftstätigkeit und zur Einhaltung der gesetzlichen Vorschriften und Richtlinien beitragen. Im Jahr 2007 wurden weitere Fortschritte erzielt in der Weiterentwicklung und Verbesserung des internen Kontrollsystems der Gruppe, während gleichzeitig die Effektivität des gesamten Kontrollwesens im Fokus blieb.

Der jährliche Businessplan der Gruppe enthält Überlegungen zum Risikomanagement sowie die strategische und unternehmerische Ausrichtung, Finanzinformationen und Schlüsselindikatoren. Im Lauf des Jahres erhalten Verwaltungsrat und erweiterte Konzernleitung regelmässig zusammenfassende Berichte zur finanziellen Situation, der finanziellen und operativen Performance – jeweils verglichen mit dem Plan – und den wichtigsten Risiken.

Management, Group Audit und Group Risk Management nehmen risikobasierte Überprüfungen der Prozesse und Kontrollen innerhalb der Organisation vor. Die Kontrollen des Managements umfassen die effektive Umsetzung von Underwriting-, Schadenbearbeitungs- und versicherungsmathematischen Grundsätzen, von Rechnungslegungs- und Berichterstattungsgrundsätzen sowie die Kontrolltätigkeiten an wichtigen Standorten und Kontrollen der IT-Systeme der Gruppe. Der Verwaltungsrat erhält via Prüfungs- und Risikoausschuss regelmässig Berichte und – falls erforderlich – zusätzlich Sonderberichte des Chief Risk Officer der Gruppe, des Leiters von Group Audit und der Unternehmensleitung über die Angemessenheit der bestehenden Kontrollstruktur. Diese Berichte enthalten Erläuterungen zu Themen wie a) signifikante Veränderungen in Bezug auf Risiken sowie das unternehmerische und das externe Umfeld, b) die Überwachungs- und Kontrollsysteme der Unternehmensleitung, c) allenfalls vorhandene bedeutende Kontrollprobleme und d) die Effektivität des Prozesses der externen Berichterstattung der Gruppe.

Für den Zeitraum vom 1. Januar 2007 bis zum Datum der Erstellung des Geschäftsberichts hat der Risikoausschuss die Risikofähigkeit der Gruppe und die gruppenweite Governance in diesem Bereich geprüft, und der Prüfungsausschuss hat die internen Kontrollsysteme der Gruppe einer Prüfung auf deren Effektivität unterzogen. Beide haben dem Verwaltungsrat entsprechend darüber berichtet. Der Verwaltungsrat hat mit Befriedigung zur Kenntnis genommen, dass die Prüfungen in Übereinstimmung mit der Turnbull-Richtlinie (gemäss Anpassung vom Oktober 2005) durchgeführt wurden. Die Beurteilung umfasste Überlegungen zur Effektivität des fortlaufenden Prozesses zu Identifikation, Evaluation, Kontrolle und Management der Risiken, die mit der Geschäftstätigkeit verbunden sind; zu Umfang und Häufigkeit der Risiko- und Kontrollberichte, die der Risiko- und der Kontrollausschuss sowie der Verwaltungsrat im Lauf des Jahres erhalten und diskutiert hat; sowie zu den wichtigen diskutierten Punkten der internen Prüfung und den Massnahmen, die von der Geschäftsleitung in diesem Zusammenhang ergriffen wurden. Die im Rahmen dieses Prozesses identifizierten Fragen und Probleme wurden dem Verwaltungsrat gemeldet und werden von der Gruppe angegangen.

Unternehmensfortführung

Aufgrund der Prüfung des Geschäftsergebnisses für das Berichtsjahr sowie der Prognosen für das kommende Jahr ist der Verwaltungsrat überzeugt, dass die Gruppe über die notwendigen Mittel verfügt, um ihre Tätigkeit in absehbarer Zeit fortzuführen. Der Verwaltungsrat ist daher bei der Aufstellung der Jahresrechnung von der Annahme der Unternehmensfortführung für den absehbaren Zeitraum ausgegangen.

Mitarbeiterinnen und Mitarbeiter

Die Rekrutierungs- und Förderungspolitik der Gruppe ist darauf ausgerichtet, Mitarbeiterinnen und Mitarbeitern Chancengleichheit zu bieten, wobei Fähigkeiten, Erfahrung, Know-how und Vielfalt im Zentrum stehen. Die Gruppe fördert die Einbeziehung der Mitarbeiterinnen und Mitarbeiter in die Unternehmensprozesse, unter anderem mittels Print- und Online-Publikationen, Teamsitzungen und regelmässigen Treffen mit den Mitarbeitervertretern.

Die Gruppe ist Vertragspartnerin einer freiwilligen Vereinbarung, die im Einklang mit der Europäischen Richtlinie über den Europäischen Betriebsrat steht. In einigen Ländern besitzt die Gruppe breit abgestützte Aktienbeteiligungs- und Incentive-Programme, in deren Rahmen die Mitarbeiterbeteiligung im Unternehmen gefördert werden soll.

Informationspolitik

Zurich Financial Services hat rund 108.000 im Aktienbuch eingetragene Aktionäre, und zwar von privaten Aktionären bis hin zu grossen institutionellen Anlegern. Jeder eingetragene Aktionär erhält eine Einladung zur Generalversammlung zusammen mit dem Brief an die Aktionäre, der einen Überblick über die Geschäftstätigkeit der Gruppe in der Berichtsperiode gibt und die finanzielle Performance darlegt. Der umfassendere Geschäftsbericht, bestehend aus Finanzbericht und Jahresbericht, ist auf der Webseite von Zurich abrufbar (http://zdownload.zurich.com/main/reports/business_review_2007_de.pdf). Darüber hinaus haben die Aktionäre zu ähnlichen Berichten über die Halbjahres- und die Quartalsberichte via Webseite von Zurich Zugang. Die Aktionäre haben auch die Möglichkeit, einen oder sämtliche der oben genannten Berichte in gedruckter Form zu erhalten.

Zurich Financial Services pflegt über die Abteilung Investor Relations einen regelmässigen Dialog mit den Investoren und steht für Fragen und Anliegen der institutionellen und privaten Aktionäre zur Verfügung. Darüber hinaus organisiert Zurich Financial Services Investorentage für institutionelle Investoren, an denen ausführlich über die Geschäfte und die strategische Ausrichtung informiert wird. Solche Präsentationen können live via Webcast oder Konferenz-Telefonschaltungen mitverfolgt werden. Die drei Investorentage im Geschäftsjahr 2007 konzentrierten sich auf Kapitalmanagement (28. März 2007), Strategie-Update (23. Mai 2007) und Investment Management (6. Dezember 2007). Weitere Investorentage sind für 2008 geplant zu Themen, die für die Anleger von Interesse sind. Zahlreiche Informationen zur Gruppe und zu ihren Geschäftsbereichen – einschliesslich der oben genannten Berichte und der gesamten an den Investorentagen verteilten Unterlagen – sind auch auf der Webseite von Zurich Financial Services www.zurich.com zu finden (http://www.zurich.com/main/investorrelations/investorrelations.htm).

Die nächste ordentliche Generalversammlung von Zurich Financial Services findet am 3. April 2008 statt. Auf der Tagesordnung steht die zusammenfassende Präsentation des Präsidenten des Verwaltungsrats und des CEO sowie des Chief Financial Officer über den Geschäftsgang im Jahr 2007. Die Generalversammlung findet im Hallenstadion in Zürich-Oerlikon statt. Die entsprechende Einladung mit der Traktandenliste und den Erläuterungen zu den Anträgen wird den Aktionären von Zurich Financial Services unter Einhaltung einer Frist von 20 Tagen zugestellt.

Adressen und weitere wichtige Informationen finden Sie unter den Aktionärsinformationen ab Seite 262.

Bericht über Honorare und Entschädigungen

Dieser Bericht enthält alle Informationen gemäss dem Kapitel 5 der Richtlinie über die Informationen zur Corporate Governance der SWX Swiss Exchange (Stand 1. Januar 2007) und dem Swiss Code of Best Practice (Stand 15. Oktober 2007). Des Weiteren enthalten sind alle Informationen gemäss den erstmals für das Geschäftsjahr 2007 Anwendung findenden Art. 663b^{bis} und 663c Absatz 3 des Schweizerischen Obligationenrechts. Die Struktur des diesjährigen Berichts über Honorare und Entschädigungen wurde angepasst, um den neuen Anforderungen des Schweizerischen Obligationenrechts und den erfolgten Änderungen der oben erwähnten SWX-Richtlinie und des Swiss Code of Best Practice gerecht zu werden. Der erste Teil des Berichts beschreibt die allgemeinen Vergütungsgrundsätze und das Governance-System. Der zweite Teil enthält Einzelheiten zu den einzelnen Vergütungselementen.

Da kein Verwaltungsratsmitglied der erweiterten Konzernleitung von Zurich Financial Services angehört, werden die Einzelheiten zur Entschädigung des Verwaltungsrats und der Konzernleitung je in einem gesonderten Abschnitt erläutert.

Alle gemäss Artikel 663b^{bis} und 663c Absatz 3 des Schweizerischen Obligationenrechts erforderlichen Informationen finden sich auch im Anhang zur Jahresrechnung der Zurich Financial Services Holdinggesellschaft.

Die übrigen, gemäss der Richtlinie der SWX Swiss Exchange offenzulegenden Informationen sind im vorstehenden Bericht über die Corporate Governance enthalten.

Vergütungsgrundsätze

Vergütung der Verwaltungsräte

Die Höhe der Verwaltungsratshonorare ist darauf ausgerichtet, dass die Gruppe hochkarätige Persönlichkeiten gewinnen und halten kann und berücksichtigt dabei, dass es sich bei Zurich Financial Services um ein weltweit tätiges, versicherungsbasiertes Finanzdienstleistungsunternehmen handelt.

Ab dem 1. Januar 2007 beinhalteten die an die Verwaltungsräte von Zurich Financial Services bezahlten Vergütungen auch die Honorare, die zuvor an die Verwaltungsräte in ihrer Funktion als Verwaltungsräte der «Zürich» Versicherungs-Gesellschaft bezahlt wurden. Im Geschäftsjahr 2007 erhielten alle Verwaltungsräte somit eine Gesamtvergütung für ihre Verwaltungsratsmandate bei Zurich Financial Services und bei der «Zürich» Versicherungs-Gesellschaft. Mit Wirkung per 1. Januar 2007 wurde zudem ein Teil der Gesamtvergütung der Verwaltungsräte in Aktien der Zurich Financial Services ausgerichtet, um die Interessen des Verwaltungsrats an die der Aktionäre weiter anzugleichen. Die Aktien unterliegen einer Veräusserungsbeschränkung von drei Jahren.

Die an die Verwaltungsräte zu entrichtenden Honorare (einschliesslich des in Aktien ausgerichteten Anteils) sind nicht an das Erreichen spezifischer Leistungsziele gebunden.

Konzernleitung und alle anderen Mitarbeitenden

Für die Mitglieder der Konzernleitung und alle anderen Mitarbeitenden wurde im Rahmen der Initiativen von The Zurich Way eine Entschädigungsphilosophie eingeführt.

Die wichtigsten Elemente der Entschädigungsphilosophie werden nachstehend beschrieben.

Zurich ist bestrebt, konkurrenzfähige Gesamtvergütungspakete anzubieten, um Mitarbeitende zu gewinnen, zu halten und so zu motivieren und zu entschädigen, dass sie aus Sicht der Kunden und Aktionäre hervorragende Leistungen erbringen. Diese Entschädigungsphilosophie ist ein wesentlicher Bestandteil des Gesamtangebots an die Mitarbeitenden. Zurich verfügt über einen klar definierten Prozess für das Leistungsmanagement, der die Erreichung der Gesamtstrategie und operativen Pläne des Unternehmens unterstützt und die individuelle Entschädigung an die Performance des Unternehmens und die persönliche Leistung koppelt. Dies erfolgt über ein Entschädigungssystem, das von der Konzernleitung, dem Entschädigungsausschuss des Verwaltungsrats und dem Verwaltungsrat selbst überwacht wird.

Leitsätze

Es gelten die folgenden Leitsätze:

- Förderung einer anspruchsvollen Leistungskultur durch die Abstimmung der Gesamtentschädigung auf die Performance des entsprechenden Geschäftsbereichs und der/des einzelnen Mitarbeitenden.
- Verknüpfung der variablen Entschädigungen mit massgeblichen Performance-Faktoren, zu denen die Performance der Gruppe, der verschiedenen Geschäftsgebiete, z.B. Segmente, Bereiche, Funktionen, Einheiten, sowie die persönlichen Leistungen gehören können.
- Klare Festlegung der erwarteten Leistung anhand eines strukturierten Leistungsmanagementsystems; diese bildet die Grundlage für die Festsetzung der Entschädigung.
- Entschädigung der Mitarbeitenden basierend auf lokalen Marktpraktiken.

Gesamtentschädigung

Die Höhe der Gesamtentschädigung eines Mitarbeiters oder einer Mitarbeiterin hängt von mehreren Faktoren ab, wie dem Geschäftsverlauf, der wirtschaftlichen Situation der Gruppe, der persönlichen Leistung, der Gleichbehandlungsgrundsätze sowie den rechtlichen Anforderungen. In den Zielvereinbarungen festgelegte Aufgaben werden anhand von Medianwerten in klar definierten Märkten bewertet und berücksichtigen interne Überlegungen zur Gleichbehandlung. Die Zusammensetzung der Entschädigung aus Grundgehalt und variablem Gehalt wird zudem der gängigen Marktpraxis und den internen Verhältnissen angepasst. Zurich kommuniziert offen, wie die Entschädigungsstruktur festgelegt wird und welche Verfahren für die Entscheidungsfindung verwendet werden. Die Gesamtentschädigung setzt sich aus den folgenden Elementen zusammen:

Grundgehalt

Das Grundgehalt besteht aus dem Fixlohn für die Ausübung einer Funktion, der anhand des Kompetenzbereichs und der Komplexität der Funktion festgelegt und jährlich überprüft wird. Die Grundgehaltsstrukturen sind so festgelegt, dass die Gehälter im Bereich der relevanten Marktmediane liegen und angepasst werden können. Auf individueller Ebene wird das Grundgehalt in der Regel innerhalb einer Bandbreite von 80% bis 120% des jeweiligen Marktmedians festgelegt. Wichtigste Faktoren sind die Gesamterfahrung und -leistung der bzw. des Mitarbeitenden.

Variables Gehalt

Die Incentive-Pläne ermöglichen die Berücksichtigung einer Reihe von Entschädigungsfaktoren, die an das Leistungsniveau gekoppelt sind. Bei überdurchschnittlicher Performance können Geschäftsverlauf und persönliche Leistung der Mitarbeitenden zu hohen, über den Zielgrössen liegenden variablen Gehaltszahlungen führen. Liegt die Performance unter den Erwartungen, kann die variable Entschädigung geringer sein oder ganz entfallen. Variable Gehälter werden in Märkten, in denen sie die Norm sind, gewährt, um die Mitarbeitenden zu motivieren, wichtige kurz- und langfristige Geschäftsziele zur Steigerung des Unternehmenswertes (Shareholder Value) zu erreichen. Die variablen Gehaltskomponenten können sowohl kurzfristige als auch langfristige Incentives umfassen:

- Kurzfristige Incentive-Programme sind performanceabhängig und basieren auf verschiedenen Faktoren, wie die Performance der Zurich-Gruppe und der relevanten Geschäftsgebiete sowie die persönlichen Leistungen der betreffenden Mitarbeitenden. Die wichtigsten Leistungskennzahlen werden jährlich bestimmt und sind auf die Prioritäten des Unternehmens ausgerichtet. Sie umfassen üblicherweise Profitabilitätsmessgrössen wie den Gewinn nach Steuern (Net Income After Taxes, NIAT) und den Business Operating Profit (BOP).
- Langfristige Incentive-Programme bestehen für eine bestimmte Gruppe von Führungskräften, deren Aufgaben sich auf die für die Entwicklung des Shareholder Value massgeblichen Performance-Faktoren konzentrieren. Als Instrumente werden primär die Zuteilung von leistungsorientierten Aktien und Aktienoptionen eingesetzt. Leistungsorientierte Aktien und Aktienoptionen werden nur definitiv zugeteilt (vesting), wenn bestimmte Leistungsziele erreicht werden. Je ein Drittel dieser Aktien steht für eine definitive Zuteilung in den drei Folgejahren nach dem Zeitpunkt der bedingten Zuteilung (grant) zur Verfügung. Die definitive Zuteilung basiert auf der Performance der Gruppe, die anhand der Eigenkapitalrendite der Gruppe (ROE) und der Gesamtrendite für die Aktionäre (TSR, Total Shareholder Return) im Vergleich mit einer weltweiten Gruppe von 28 im Dow Jones Titan Insurance Index enthaltenen Versicherungsgesellschaften gemessen wird. Anhand der tatsächlich erreichten Eigenkapitalrendite der Gruppe (ROE) und der Gesamtrendite für die Aktionäre (TSR, Total Shareholder Return) kann die definitive Zuteilung (vesting) zwischen 0% und 200% der bedingten Zuteilung (grant) von leistungsorientierten Aktien und Aktienoptionen schwanken. Neu werden die im Jahr 2007 vorgenommenen bedingten Zuteilungen unter Berücksichtigung der Ent-

Bericht über Honorare und Entschädigungen

wicklung des ROE und des TSR während der jeweils vorangegangenen drei Jahre vor der definitiven Zuteilung (vesting) definitiv zugeteilt. Frühere bedingte Zuteilungen werden anhand der Performance während des jeweiligen Geschäftsjahres vor der definitiven Zuteilung (vesting) definitiv zugeteilt. Weitere Einzelheiten zu den Plänen finden sich im Abschnitt zur aktuellen Vergütung der Mitglieder des GEC.

Die variablen Gehaltspläne von Zurich werden jährlich auf Inhalt und Teilnehmerkreis überprüft. Sie können jederzeit gekündigt, geändert, angepasst oder revidiert werden.

Vorsorgeleistungen

Zurich erbringt Vorsorgeleistungen für die Mitarbeitenden, die sich an der lokalen Marktpraxis orientieren. Die Mitarbeitenden sind im Allgemeinen angehalten, sich an den Kosten für diese Leistungen zu beteiligen. Das gesamte Leistungsangebot richtet sich nach dem jeweiligen Marktmedian.

Governance der Festlegung von Honoraren und Entschädigungen

Der Verwaltungsrat legt, basierend auf den Vorschlägen des Entschädigungsausschusses des Verwaltungsrats, die Vergütungsgrundsätze fest. Der Verantwortungsbereich des Entschädigungsausschusses des Verwaltungsrats umfasst zudem, dem Verwaltungsrat gestützt auf diese Vergütungsgrundsätze jährlich Vorschläge zu unterbreiten für die Entschädigung der Verwaltungsräte, des Chief Executive Officer (CEO) und der restlichen Mitglieder des GEC. Mit Bezug auf die anderen Mitglieder des GEC basieren diese Empfehlungen des Entschädigungsausschusses des Verwaltungsrats auf Vorschlägen des CEO. Die Vergütungen werden vom Verwaltungsrat genehmigt. Dem Entschädigungsausschuss des Verwaltungsrats gehören keine Mitglieder an, die in einer Kreuzverflechtung stehen. Weitere Einzelheiten zum Verantwortungsbereich des Entschädigungsausschusses des Verwaltungsrats finden sich auf Seite 40 im Bericht über die Corporate Governance.

Um die Entscheidungsfindung zur Vergütung des Verwaltungsrats und der Konzernleitung zu unterstützen, werden regelmässig Benchmark-Studien durchgeführt. Zur Beurteilung der Marktpraktiken und der Höhe der Vergütung werden die vom Dow Jones Titan Insurance Index erfassten Unternehmen analysiert. Dieser Index umfasst die grössten Versicherungsgesellschaften mit Sitz in Europa und in den Vereinigten Staaten. Falls sinnvoll, wird diese Analyse durch weitere Benchmark-Studien ergänzt, z.B. durch Beobachten von Entschädigungspraktiken der grossen im Swiss Market Index (SMI) geführten Unternehmen in der Schweiz oder Unternehmen ähnlicher Grösse in anderen Ländern.

Die Ergebnisse der Benchmark-Studien werden bei der Festsetzung der Honorare der Verwaltungsräte und der Entschädigungsstrukturen der Mitglieder des GEC berücksichtigt. Zu den Faktoren, die bei der Analyse der Ergebnisse in Erwägung gezogen werden, gehören die Marktpraktiken in den verschiedenen Ländern und interne Vergleiche zwischen den einzelnen Funktionen. Die Gesamtausrichtung der Entschädigungsstrukturen orientiert sich an den Medianwerten.

Für die regelmässige Überprüfung der Entschädigungsstrukturen und -praktiken hat der Entschädigungsausschuss des Verwaltungsrats einen eigenen unabhängigen Berater beauftragt, Hewitt Associates. Der CEO wird durch Mercer HR Consulting unterstützt. Da beide Unternehmen in der Beratung im Bereich Ausgestaltung von Entschädigungen und sonstigen Leistungen in internationalen Verhältnissen tätig sind, haben sie auch noch weitere Mandate von Zurich.

Werden in den Sitzungen des Entschädigungsausschusses des Verwaltungsrats und des Verwaltungsrats Entscheidungen über die Entschädigung des Verwaltungsratspräsidenten getroffen, nimmt dieser nicht an der Sitzung teil. Werden Entscheidungen zur Entschädigung des CEO getroffen, ist dieser nicht anwesend. Wird über die Entschädigung der anderen Mitglieder des GEC entschieden, nehmen auch diese Mitglieder nicht an der Sitzung teil.

Honorare und Entschädigungen sowie Aktienbesitz der Mitglieder des Verwaltungsrats und der Konzernleitung

Per 31. Dezember 2007 gehörte kein Verwaltungsratsmitglied von Zurich Financial Services der erweiterten Konzernleitung an. Die Entschädigungen sowie der Aktienbesitz der Verwaltungsräte und der Mitglieder des Group Executive Committee (Executives, GEC) werden daher separat offengelegt.

Verwaltungsräte

Verwaltungsratshonorare

Um die Honorarstruktur zu vereinfachen und die Ausrichtung auf die Interessen der Aktionäre noch zusätzlich zu fördern, wurde die Vergütungsstruktur für die Mitglieder der Verwaltungsräte von Zurich Financial Services und der «Zürich» Versicherungs-Gesellschaft im Januar 2007 angepasst.

Für ihre Mitgliedschaften im Verwaltungsrat von Zurich Financial Services und im Verwaltungsrat der «Zürich» Versicherungs-Gesellschaft erhalten alle Verwaltungsräte jetzt nur noch eine Gesamtvergütung, die teilweise bar ausbezahlt und zum Teil in Aktien von Zurich ausgerichtet wird. Die zugeteilten Aktien unterliegen einer Veräusserungsbeschränkung von drei Jahren. Die Aktien bilden Bestandteil der Gesamtvergütung, deren Höhe nicht vom Erreichen spezifischer Leistungsziele abhängig ist. Abgesehen von diesen Änderungen wurden an der Struktur und den Beträgen für das Geschäftsjahr 2007 im Vergleich zum Vorjahr keine Anpassungen vorgenommen.

Mit Ausnahme des derzeitigen Präsidenten und des Vizepräsidenten erhalten alle Mitglieder des Verwaltungsrats ein Jahresgrundhonorar von USD 205.000. Davon wird ein Drittel, d.h. USD 68.500, in Form veräusserungsbeschränkter Aktien der Zurich Financial Services ausgerichtet. Mitglieder von Verwaltungsratsausschüssen erhalten für ihre Arbeit in den Ausschüssen, in denen sie Einsitz haben, unabhängig von der Anzahl der Ausschüsse, in denen sie einsitzen, eine zusätzliche Barvergütung in Höhe von USD 40.000 pro Jahr. Darüber hinaus erhält der jeweilige Präsident jedes Ausschusses eine Zusatzvergütung von USD 20.000 und der Präsident des Prüfungsausschusses erhält zudem ein zusätzliches Honorar in Höhe von USD 10.000 pro Jahr. Verwaltungsräte mit Wohnsitz in den Vereinigten Staaten erhalten zusätzlich einen Betrag von USD 10.000 pro Jahr. Informationen darüber, in welchen Ausschüssen die Mitglieder tätig sind, finden Sie im Bericht über die Corporate Governance auf Seite 35.

Das Jahreshonorar des Vizepräsidenten beträgt derzeit USD 330.000, wovon USD 68.500 in Form veräusserungsbeschränkter Aktien von Zurich Financial Services ausgerichtet werden. Das Jahreshonorar des Verwaltungsratspräsidenten von Zurich Financial Services und der «Zürich» Versicherungs-Gesellschaft im Jahr 2007 betrug USD 580.000, wovon ein Drittel, d.h. USD 193.500, in Form veräusserungsbeschränkter Aktien von Zurich Financial Services ausgerichtet wurde. Nach einer Überprüfung der Höhe der Honorare wurde das Jahresgehalt des Präsidenten mit Wirkung per 1. Januar 2008 auf USD 700.000 erhöht.

Weder der Präsident noch der Vizepräsident erhalten für ihre Arbeit in den Verwaltungsratsausschüssen zusätzliche Honorare.

Basierend auf dieser Struktur beliefen sich die gesamten an die Verwaltungsräte von Zurich Financial Services und der «Zürich» Versicherungs-Gesellschaft ausgerichteten Honorare für das per 31. Dezember 2007 abgeschlossene Geschäftsjahr auf USD 3.089.167. Davon wurden USD 2.279.167 in bar ausbezahlt und der Wert der zugeteilten Aktien mit einer Veräusserungsbeschränkung von drei Jahren belief sich zum Zeitpunkt der Zuteilung auf USD 810.000. Zum Zeitpunkt der Zuteilung betrug der Aktienkurs CHF 389.50.

Die Verwaltungsratshonorare sind nicht pensionsberechtigt.

Bericht über Honorare und Entschädigungen

In der nachstehenden Tabelle sind die 2007 an die Verwaltungsräte ausbezahlten Honorare aufgeführt:

Verwaltungsratshonorare

in USD	2007 [1]						
	Grundhonorar	Ausschussvergütung [2]	Vergütung für Präsident [3]	Wohnsitzentschädigung [4]	Total Honorar	davon in bar entrichtet [5]	davon zugeteilt in Aktien [6, 7]
M. Gentz, Präsident [8]	580.000	–	–	–	580.000	386.500	193.500
Ph. Pidoux, Vizepräsident [8]	330.000	–	–	–	330.000	261.500	68.500
Th. Escher, Mitglied	205.000	40.000	–	–	245.000	176.500	68.500
R.E.J. Gilmore, Mitglied [9, 10]	52.959	10.333	–	–	63.292	63.292	–
F. Kindle, Mitglied	205.000	40.000	–	–	245.000	176.500	68.500
D.G. Mead, Mitglied [9]	52.959	10.333	5.167	2.583	71.042	71.042	–
A. Meyer, Mitglied	205.000	40.000	–	–	245.000	176.500	68.500
D. Nicolaisen, Mitglied	205.000	40.000	20.000	10.000	275.000	206.500	68.500
V.L. Sankey, Mitglied [11]	205.000	40.000	14.833	–	259.833	191.333	68.500
G. Schulmeyer, Mitglied	205.000	40.000	30.000	10.000	285.000	216.500	68.500
T. de Swaan, Mitglied	205.000	40.000	–	–	245.000	176.500	68.500
R. Watter, Mitglied [3]	205.000	40.000	–	–	245.000	176.500	68.500
Total in USD [12]	**2.655.918**	**340.666**	**70.000**	**22.583**	**3.089.167**	**2.279.167**	**810.000**

1 Die in der Tabelle ausgewiesene Vergütung enthält keine geschäftlich bedingten Auslagen, die bei der Arbeit der Mitglieder angefallen sind.
2 Mitglieder von Verwaltungsratsausschüssen erhalten für ihre Arbeit in den Ausschüssen, in denen sie Einsitz haben, unabhängig von der Anzahl der Ausschüsse, in der sie einsitzen, eine Barvergütung in Höhe von USD 40.000 pro Jahr. Die Ausschüsse, in denen die Mitglieder tätig sind, sind im Bericht über die Corporate Governance auf Seite 35 ausgeführt.
3 Die Präsidenten der jeweiligen Ausschüsse erhalten zusätzlich USD 20.000 und der Präsident des Prüfungsausschusses darüber hinaus noch USD 10.000 pro Jahr. Die Ausschüsse, in denen die Mitglieder tätig sind, sowie deren Präsidenten sind im Bericht über die Corporate Governance auf Seite 35 ausgeführt.
4 Verwaltungsräte mit Wohnsitz in den Vereinigten Staaten erhalten einen zusätzlichen Betrag von USD 10.000 pro Jahr.
5 Die Barvergütungen sind in USD ausgewiesen, werden aber in der Landeswährung desjenigen Landes bezahlt, in dem die Mitglieder des Verwaltungsrats Wohnsitz haben. Zur Anwendung gelangt der jeweilige Wechselkurs am Tag der Auszahlung.
6 Per 30. Juni 2007 wurden Manfred Gentz 617 Aktien und den anderen Mitgliedern des Verwaltungsrats 218 Aktien zugeteilt. Die Anzahl Aktien, die den Mitgliedern aufgrund des ihnen zustehenden Honoraranteils, der in Aktien auszurichten ist, zugeteilt wurden, berechnet sich anhand des am 15. Juni 2007 gültigen Aktien- (CHF 389.50) und Wechselkurses (USD/CHF 1.2422). Wenn der Wert der zugeteilten Aktien nicht dem Wert des in Aktien auszurichtenden Honoraranteiles entsprach, wurde die Differenz in bar ausbezahlt. Der in der vorstehenden Tabelle aufgeführte Betrag gibt den Wert des festgelegten Honoraranteils wieder, der in Aktien auszurichten ist.
7 Die den Mitgliedern des Verwaltungsrats zugeteilten Aktien unterliegen einer Veräusserungsbeschränkung von drei Jahren.
8 Weder der Präsident noch der Vizepräsident erhalten für ihre Arbeit in den Ausschüssen zusätzliche Honorare.
9 Frau Gilmore und Herr Mead legten ihre Ämter am 3. April 2007 nieder und erhielten für ihre Tätigkeit im Verwaltungsrat bis zu diesem Tag Pro-rata-Vergütungen.
10 Zusätzlich zu den in der Tabelle aufgeführten Vergütungen, zahlte die Gesellschaft für Frau Gilmore bis zu ihrer Pensionierung im April 2007 Beiträge an eine betriebliche Krankenversicherung in Grossbritannien in Höhe von USD 631.
11 Herr Sankey wurde am 3. April 2007, nach dem Rücktritt von Herrn Mead, Präsident des Entschädigungsausschusses. Für seine Funktion als Präsident erhielt er eine Pro-rata-Vergütung.
12 Entsprechend der anwendbaren Gesetze bezahlte Zurich im Jahr 2007 Arbeitgeberbeiträge an Sozialversicherungssysteme von insgesamt USD 68.439. Sämtliche persönlichen Beiträge der Verwaltungsräte an Sozialversicherungssysteme sind in den aufgeführten Beträgen in der vorstehenden Tabelle enthalten.

Abfindungsvereinbarungen für im Geschäftsjahr ausgeschiedene Mitglieder des Verwaltungsrats

An der Generalversammlung 2007 gaben R.E.J. Gilmore und D.G. Mead ihre Verwaltungsratsmitgliedschaft auf und traten aus dem Verwaltungsrat aus. Während des Geschäftsjahrs wurden keine Abfindungszahlungen an sie ausgerichtet.

Entschädigung für ehemalige Verwaltungsräte

Ehemalige Mitglieder des Verwaltungsrats erhielten im Verlauf des Jahres 2007 keine Leistungen. Es wurde auch auf keine Forderungen ihnen gegenüber verzichtet.

Aktienpläne für Verwaltungsräte

Die Mitglieder des Verwaltungsrats von Zurich Financial Services und des Verwaltungsrats der «Zürich» Versicherungs-Gesellschaft nehmen an keinem der Aktienbeteiligungsprogramme teil, die für das Management der Gruppe eingerichtet worden sind. Wie oben erwähnt wird allerdings ein Teil der Honorare der Verwaltungsräte von Zurich Financial Services mit Wirkung per 1. Januar 2007 in Form von Aktien mit einer Veräusserungsbeschränkung von drei Jahren ausgerichtet. Die den Verwaltungsräten zugeteilten Aktien sind Teil der Gesamtvergütung und nicht an das Erreichen spezifischer Leistungsziele gebunden.

Aktienbesitz der Verwaltungsräte

Im Folgenden ist aufgelistet, wie viele Aktien von Zurich Financial Services die Verwaltungsräte besitzen, die Ende des Jahres im Amt waren. Der ausgewiesene Aktienbesitz schliesst sämtliche Aktien mit ein, an denen das jeweilige Mitglied wirtschaftlich berechtigt ist (beneficial interest), inklusive der den Mitgliedern als Bestandteil ihres Honorars zugewiesenen Aktien mit einer Veräusserungsbeschränkung und der Aktien, die von ihnen nahe stehenden Personen gehalten werden.

Aktienbesitz der Mitglieder des Verwaltungsrats

Anzahl Aktien von Zurich Financial Services per 31. Dezember 2007	Aktienbesitz [1]
M. Gentz, Präsident	2.117
Ph. Pidoux, Vizepräsident	2.218
Th. Escher, Mitglied	4.218
F. Kindle, Mitglied	2.218
A. Meyer, Mitglied	1.542
D. Nicolaisen, Mitglied	218
V.L. Sankey, Mitglied	1.388
G. Schulmeyer, Mitglied	2.218
T. de Swaan, Mitglied	218
R. Watter, Mitglied	3.186
Total	**19.541**

[1] Kein Mitglied des Verwaltungsrats hielt zusammen mit ihm bzw. ihr nahe stehenden Personen per 31. Dezember 2007 mehr als 0,5% der Stimmrechte.

Aktienoptionen der Verwaltungsräte

Die Mitglieder des Verwaltungsrats von Zurich Financial Services und des Verwaltungsrats der «Zürich» Versicherungs-Gesellschaft nehmen an keinem Aktienoptionsprogramm des Managements teil. Daher wurden ihnen weder im Berichtsjahr noch in den vorhergehenden Jahren Aktienoptionen zugeteilt. Weder Mitglieder des Verwaltungsrats noch ihnen nahe stehende Personen hielten per 31. Dezember 2007 Options- oder Wandelrechte auf Aktien der Zurich Financial Services.

Zusätzliche Honorare und Vergütungen für Verwaltungsratsmitglieder

Keines der Mitglieder des Verwaltungsrats hat – abgesehen von den oben aufgeführten Vergütungen – weitere Entschädigungen oder Sachleistungen von der Gruppe oder von einem zur Gruppe gehörenden Unternehmen erhalten.

Persönliche Darlehen für Verwaltungsräte

Per 31. Dezember 2007 hatte kein Mitglied des Verwaltungsrats ausstehende Darlehen, Vorschüsse oder Kredite.

Persönliche Darlehen für ehemalige Verwaltungsräte

Per 31. Dezember 2007 hatte kein ehemaliges Mitglied des Verwaltungsrats ausstehende Darlehen, Vorschüsse oder Kredite.

Bericht über Honorare und Entschädigungen

Den Mitgliedern des Verwaltungsrats oder ehemaligen Verwaltungsratsmitgliedern nahe stehende Personen

Die den Mitgliedern des Verwaltungsrats oder ehemaligen Verwaltungsratsmitgliedern nahe stehenden Personen erhielten im Verlauf des Jahres 2007 keine Leistungen. Es wurde auch nicht auf Forderungen ihnen gegenüber verzichtet. Sie hatten per 31. Dezember 2007 auch keine ausstehenden Darlehen, Vorschüsse oder Kredite.

Konzernleitung

Entlöhnung der Konzernleitung

Der Gesamtbetrag der an die Mitglieder der Konzernleitung (Group Executive Committee, GEC) im Jahr 2007 bezahlten Vergütungen entspricht dem Wert der Barabfindungen, der Pensionen, der sonstigen Vergütungen und der im Rahmen des Group Long-Term Incentive Plans im Jahr 2007 bedingt zugeteilten Aktien und Aktienoptionen.

Die Entschädigungsstruktur und die Zusammensetzung der einzelnen Vergütungskomponenten für die Mitglieder des GEC werden unter Berücksichtigung der gängigen Marktpraxis und der internen Verhältnisse festgelegt. Die einzelnen Vergütungselemente werden nachstehend beschrieben (die Beträge schliessen die Vergütung für das höchstbezahlte Mitglied der Konzernleitung ein):

Wert der Gesamtvergütung

Der Gesamtwert der verschiedenen Vergütungskomponenten der Mitglieder des GEC belief sich 2007 auf USD 57,6 Mio. Dieser Betrag steht einem Betrag in Höhe von USD 48,2 Mio. für 2006 gegenüber, der auf derselben Basis berechnet wurde. Der Anstieg der Gesamtvergütung kann durch zwei wesentliche Faktoren erklärt werden. Erstens durch die Erhöhung der leistungsbezogenen Zahlungen im Rahmen des Short-Term Incentive Plans, die den Mitgliedern aufgrund des Rekordergebnisses 2007 gewährt wurden, und zweitens aufgrund wertmässig höherer bedingter Zuteilungen im Rahmen des Long-Term Incentive Plans für 2007.

Der Gesamtwert für das Geschäftsjahr 2007 beinhaltet die folgenden Elemente:

Für 2007 bezahltes Grundgehalt und jährliche Bonuszahlungen

Der Gesamtbetrag der Grundgehälter und der jährlichen Bonuszahlungen im Rahmen des Short-Term Incentive Plans für 2007 belief sich auf USD 31,4 Mio. Davon entfielen USD 11,3 Mio. auf die Grundgehälter und USD 20,1 Mio. auf die jährlichen Bonuszahlungen, die 2008 für die im Geschäftsjahr 2007 erzielte Performance ausbezahlt werden. Die jährlichen Bonuszahlungen sind leistungsabhängig und werden individuell festgelegt. Die zur Verfügung stehende Gesamtsumme für die Bonuszahlungen ist von dem im Geschäftsjahr 2007 erzielten Gewinnergebnis abhängig. Die Bonuszahlungen an die einzelnen Mitglieder werden anhand verschiedener Faktoren festgelegt. Dazu gehören die Geschäftsergebnisse derjenigen Geschäftseinheiten, für welche das Mitglied des GEC verantwortlich ist, die erfolgreiche Umsetzung von Wachstumsinitiativen und der individuelle Beitrag des Mitgliedes zum Erreichen der strategischen Ziele im Laufe des Jahres. Für die Mitglieder des GEC wurde das Niveau der Vergütung im Rahmen des Short-Term Incentive Plans bei Erreichen der Zielvorgaben für 2007 auf 100% des Grundgehalts festgelegt.

Wert der im Lauf des Jahres 2007 aufgelaufenen Pensionsanwartschaften

Die Mitglieder des GEC nehmen an den Pensionsplänen der Geschäftseinheiten teil, von denen sie angestellt sind. Die Gruppe verfolgt die Philosophie, Pensionsanwartschaften anzubieten, die auf einem Cash-Balance-Ansatz und/oder einem beitragsorientierten Ansatz gründen, wobei während der ganzen Berufstätigkeit Kapital für die Altersvorsorgeleistungen geäufnet wird. Die Mehrheit der Mitglieder des GEC nimmt bereits an solchen Plänen teil, und mit der Zeit werden alle Mitglieder des GEC an solchen Plänen teilnehmen. Die anderen Mitglieder des GEC partizipieren weiterhin an Leistungsprimatplänen, deren künftige Leistungen auf dem zuletzt erzielten pensionsrelevanten Gehalt und der Anzahl der Dienstjahre in der Gruppe basieren. Das normale Rentenalter variiert zwischen 60 und 65. Der Gesamtwert der für die Mitglieder des GEC im Jahr 2007 aufgelaufenen Pensionsanwartschaften, berechnet auf der Grundlage der für die Gesellschaft anfallenden „Service Costs" gemäss dem Rechnungslegungsgrundsatz IAS 19 belief sich auf USD 3,9 Mio. Die „Service

Costs” gemäss IAS 19 berechnen sich anhand des Betrags der im Laufe des Jahres aufgelaufenen Pensionsanwartschaften und bei beitragsorientierten Plänen anhand der vom Unternehmen während des Geschäftsjahrs bezahlten Beiträge.

Wert der sonstigen Vergütungen für 2007

Die Mitglieder des GEC erhielten 2007 sonstige Vergütungen in Form von Mitarbeiterrabatten (employee benefits), Aufwandsentschädigungen im Zusammenhang mit Auslandentsendungen (expatriate allowance), Nebenleistungen (perquisites) sowie Sachleistungen und anderen Leistungen, die gemäss den jeweiligen Arbeitsverträgen der einzelnen Mitarbeitenden geschuldet sind. Der Gesamtwert dieser Vergütungen belief sich 2007 auf USD 3,6 Mio. Die Sachleistungen wurden zum Marktwert bewertet.

Dem GEC im Rahmen des Group Long-Term Incentive Plans zugeteilte Aktien und Aktienoptionen für 2007

Die Vergütungskomponenten für die Mitglieder des GEC im Rahmen des Long-Term Incentive Plans umfassen eine jährliche bedingte Zuteilung von leistungsorientierten Aktien und Aktienoptionen (performance share and share option grants), deren definitive Zuteilung (vesting) vom zukünftigen Erreichen vorgegebener Leistungszielgrössen abhängig ist. Unter besonderen Umständen können zudem auch noch Aktienzuteilungen von Aktien mit einer Veräusserungsbeschränkung vorgenommen werden (restricted share grants). Für die Mitglieder des GEC wurde das Niveau des Wertes der bedingt zugeteilten, leistungsorientierten Aktien und Aktienoptionen im Rahmen des Long-Term Incentive Plans für 2007 auf 100% bis 125% des Grundgehalts festgelegt. Das entsprechende Niveau für den CEO wurde bei 300% festgesetzt.

Bedingt zugeteilte leistungsorientierte Aktien- und Aktienoptionen werden nur definitiv zugeteilt (vesting), wenn bestimmte Leistungsziele erreicht werden. Je ein Drittel dieser bedingt zugeteilten Aktien und Aktienoptionen steht für eine definitive Zuteilung in den Jahren 2008, 2009 und 2010 zur Verfügung. Diese definitive Zuteilung basiert auf der Performance der Gruppe, die anhand der Eigenkapitalrendite der Gruppe (ROE) und der Gesamtrendite für die Aktionäre (TSR, Total Shareholder Return) im Vergleich mit einer weltweiten Gruppe von 28 im Dow Jones Titan Insurance Index enthaltenen Versicherungsgesellschaften ermittelt wird. Anhand der tatsächlich erreichten Eigenkapitalrendite der Gruppe (ROE) und der Gesamtrendite für die Aktionäre (TSR, Total Shareholder Return) kann die definitive Zuteilung (vesting) zwischen 0% und 200% der bedingt zugeteilten Aktien- und Aktienoptionen (grants) schwanken. Die 2007 vorgenommenen bedingten Zuteilungen werden auf der Basis des ROE und des TSR der drei der definitiven Zuteilung vorangehenden Jahre definitiv zugeteilt werden. Frühere bedingte Zuteilungen werden anhand der Performance während des jeweiligen Geschäftsjahrs vor der definitiven Zuteilung (vesting) definitiv zugeteilt.

2007 wurden die folgenden Zuteilungen vorgenommen:

Leistungsbezogene Aktienzuteilungen

Die Gesamtzahl der an die Mitglieder des GEC 2007 bedingt zugeteilten, leistungsorientierten Aktien betrug 29.845. Diese Anzahl steht 27.409 bedingt zugeteilten Aktien für 2006 gegenüber. Zum Zeitpunkt der bedingten Zuteilung (grant) belief sich der Wert dieser an die Mitglieder des GEC 2007 bedingt zugeteilten Aktien auf USD 8,7 Mio., basierend auf der Annahme einer definitiven Zuteilung (vesting) in der Höhe von 100% und einem der Berechnung zugrunde liegenden Aktienkurs am Tag vor der bedingten Zuteilung von CHF 355.75.

Die Zahl der 2007 an die Mitglieder des GEC definitiv zugeteilten Aktien (vested performance shares) aus den bedingten leistungsorientierten Aktienzuteilungen in den Jahren 2004, 2005 und 2006 belief sich auf 44.774. Basierend auf der erzielten Eigenkapitalrendite (ROE) und der Gesamtrendite für die Aktionäre (TSR) entsprach dies einem Level für die definitive Zuteilung (vesting level) von 150%. Die Hälfte der Aktien, die im Rahmen des Plans definitiv zugeteilt werden, unterliegen ab dem Tag der definitiven Zuteilung einer dreijährigen Veräusserungsbeschränkung.

Zuteilungen von Aktien mit Veräusserungsbeschränkung

Bedingte Zuteilungen von Aktien, die einer Veräusserungsbeschränkung unterliegen (restricted share grants), ergänzen die regulären langfristigen Incentive-Zuteilungen und kommen unter besonderen Umständen zur Anwendung. Dazu zählen hauptsächlich Zuteilungen an neue Mitarbeitende zur Kompensation für den Verlust ihrer Aktienansprüche gegenüber ihrem früheren Arbeitgeber.

Bericht über Honorare und Entschädigungen

Die Gesamtzahl der an die Mitglieder des GEC im Jahr 2007 bedingt zugeteilten Aktien, die einer Veräusserungsbeschränkung unterliegen, betrug 7.280. Diese Aktien werden in den nächsten drei Jahren definitiv zugeteilt und verfallen, wenn ein Inhaber solcher Aktien das Unternehmen vor dem Datum der definitiven Zuteilung (vesting date) freiwillig verlässt und das Anstellungsverhältnis beendet.

Zum Zeitpunkt der Zuteilung belief sich der Wert der im Jahr 2007 bedingt zugeteilten Aktien, die einer Veräusserungsbeschränkung unterliegen, auf USD 2,0 Mio., unter der Annahme einer definitiven Zuteilung zu 100% und einer Bewertung zum jeweiligen Aktienkurs am Tag der bedingten Zuteilung.

Zugeteilte Aktienoptionen

Die Gesamtzahl der an die Mitglieder des GEC im Jahr 2007 bedingt zugeteilten Aktienoptionen betrug 142.690. Dieser Anzahl stehen 125.584 bedingt zugeteilte Aktienoptionen im Jahr 2006 gegenüber.

Zum Zeitpunkt der Zuteilung belief sich der Wert der 2007 zugeteilten Aktienoptionen, basierend auf der Annahme einer definitiven Zuteilung zu 100% und der Black-Scholes-Bewertung der Optionen am Tag der bedingten Zuteilung, auf USD 8,0 Mio.

Die Zahl der 2007 an die Mitglieder des GEC definitiv zugeteilten Aktienoptionen (vested shares options) aus den bedingten Zuteilungen in den Jahren 2004, 2005 und 2006 belief sich auf 191.642. Basierend auf der erzielten Eigenkapitalrendite (ROE) und der Gesamtrendite für die Aktionäre (TSR) entsprach dies einem Level für die definitive Zuteilung (vesting level) von 150%.

Zusammenfassung der Gesamtvergütung an das GEC

Unter Bezugnahme auf die oben aufgeführten Zahlen umfasst der Gesamtbetrag der an die Mitglieder des GEC im Jahr 2007 bezahlten Vergütungen, bestehend aus Barabfindungen, Pensionen, dem Wert sonstiger Vergütungen und dem Wert bedingt zugeteilter Aktien und Aktienoptionen USD 57,6 Mio. Der Gesamtbetrag teilt sich wie folgt auf:

Alle Mitglieder des GEC (einschl. des höchstbezahlten Mitglieds) [1]

in Millionen USD	2007 [2]
Grundgehalt	11.3
Bonuszahlungen für 2007	20.1
„Service Costs" für Pensionsanwartschaften [3]	3.9
Wert der sonstigen Vergütungen [4]	3.6
Wert der bedingt zugeteilten, leistungsorientierten Aktien (perfomance share grants) und der bedingt zugeteilten Aktien mit Veräusserungsbeschränkung (restricted share grants) [5]	10.7
Wert der bedingt zugeteilten, leistungsorientierten Aktienoptionen (performance option grants) [5]	8.0
Total	**57.6** [6]

[1] Auf der Grundlage von 12 Mitgliedern des GEC, von denen zehn während des ganzen Jahres 2007 tätig waren.
[2] Die in der Tabelle ausgewiesene Entschädigung enthält keine geschäftlich bedingten Auslagen, die bei der Arbeit der Mitglieder angefallen sind.
[3] Der Betrag spiegelt den Gesamtwert der aufgelaufenen Pensionsanwartschaften, berechnet auf der Grundlage der für die Gesellschaft anfallenden „Service Costs" gemäss dem Rechnungslegungsgrundsatz IAS 19. Die „Service Costs" gemäss IAS 19 berechnen sich anhand des Betrags der im Laufe des Jahres aufgelaufenen Pensionsanwartschaften und bei beitragsorientierten Plänen anhand der vom Unternehmen während des Geschäftsjahrs bezahlten Beiträge. In den "Service Costs" nicht enthalten sind der Zinsaufwand auf aufgelaufenen Leistungen, Anpassungen für aktuarielle Gewinne und Verluste und die erwartete Rendite auf gehaltenen Vermögenswerten.
[4] Enthält Mitarbeiterrabatte (employee benefits), Aufwandentschädigungen im Zusammenhang mit Auslandentsendungen (expatriate allowance), Nebenleistungen (perquisites) sowie Sachleistungen und andere Leistungen, die gemäss den jeweiligen Arbeitsverträgen der einzelnen Mitarbeitenden geschuldet sind. Die Sachleistungen wurden zum Marktwert bewertet.
[5] Die bedingt zugeteilten, leistungsorientierten Aktien und Aktienoptionen werden in der Zukunft entsprechend dem Erreichen der festgelegten Leistungsziele definitiv zugeteilt. Die Bewertung der bedingt zugeteilten Aktien (grants) basiert auf der Annahme einer definitiven Zuteilung (vesting) in der Höhe von 100%, wobei die Optionen in Übereinstimmung mit der Black-Scholes-Methode, wie in Note 23 der Consolidated Financial Statements ausgeführt, erfolgt. Der Berwertung der bedingt zugeteilten, leistungsbezogenen Aktien (performance share grants) wird der Aktienkurs am Tag vor der bedingten Zuteilung (CHF 355.75) und der Bewertung der Aktien, die einer Veräusserungsbeschränkung unterliegen (restricted share grants), der Aktienkurs am Tag der Zuteilung zugrunde gelegt.
[6] Entsprechend der am Anstellungsort der Mitglieder des GEC anwendbaren Gesetze bezahlte Zurich für das Jahr 2007 Arbeitgeberbeiträge an Sozialversicherungssysteme in der Höhe von USD 2,6 Mio. Da die Beitragszahlungen auf dem Gesamteinkommen berechnet werden, während die künftigen ausbezahlten Leistungen einer Maximalhöhe unterliegen, besteht keine direkte Korrelation zwischen den an das Sozialversicherungssystem bezahlten Beiträgen und den von den Mitgliedern des GEC künftig erhaltenen Leistungen.

Vom Wert der Gesamtvergütung für alle Mitglieder entfallen 33% auf fixe Vergütungskomponenten (bestehend aus Grundgehalt, „Service Costs" für Pensionsanwartschaften und sonstige Vergütungen) und 67% auf leistungsbezogene Komponenten (bestehend aus Bonuszahlungen im Rahmen des Short-Term Incentive Plans sowie dem Wert der bedingten, leistungsorientierten Aktienzuteilungen, der bedingt zugeteilten Aktien, die einer Veräusserungsbeschränkung unterliegen und der bedingt zugeteilten Aktienoptionen).

Höchste Gesamtvergütung für Mitglieder des GEC

Die höchste Vergütung der Mitglieder des GEC erhielt mit USD 10,3 Mio. James J. Schiro, Chief Executive Officer der Gruppe. Der Betrag umfasst das Grundgehalt, die Bonuszahlung für 2007, den Wert der aufgelaufenen Pensionsanwartschaften und der sonstigen Vergütungen sowie den Wert der bedingt zugeteilten, leistungsorientierten Aktien und Aktienoptionen im Jahr 2007.

In der nachstehenden Tabelle ist die Gesamtvergütung für das am höchsten bezahlte Mitglied des GEC aufgelistet:

Höchstbezahltes Mitglied des GEC, James J. Schiro, Chief Executive Officer

in Millionen USD	2007 [1]
Grundgehalt	1.50
Bonuszahlung für 2007	3.00
„Service Costs" für Pensionsanwartschaften [2]	0.90
Wert der sonstigen Vergütungen [3]	0.40
Wert der bedingt zugeteilten, leistungsorientierten Aktien (perfomance share grants) und der bedingt zugeteilten Aktien mit Veräusserungsbeschränkung (restricted share grants) [4]	2.25
Wert der bedingt zugeteilten, leistungsorientierten Aktienoptionen (performance option grants) [4]	2.25
Total	**10.30**

[1] Die in der Tabelle ausgewiesene Entschädigung enthält keine geschäftlich bedingten Auslagen, die bei der Arbeit des CEO angefallen sind.
[2] Der Betrag spiegelt den Gesamtwert der aufgelaufenen Pensionsanwartschaften, berechnet auf der Grundlage der für die Gesellschaft anfallenden „Service Costs" gemäss dem Rechnungslegungsgrundsatz IAS 19. Die „Service Costs" gemäss IAS 19 berechnen sich anhand des Betrags der im Laufe des Jahres aufgelaufenen Pensionsanwartschaften und bei beitragsorientierten Plänen anhand der vom Unternehmen während des Geschäftsjahrs bezahlten Beiträge. In den „Service Costs" nicht enthalten sind der Zinsaufwand auf aufgelaufenen Leistungen, Anpassungen für aktuarielle Gewinne und Verluste und die erwartete Rendite auf gehaltenen Vermögenswerten.
[3] Enthält Mitarbeiterrabatte (employee benefits), Aufwandentschädigungen im Zusammenhang mit Auslandentsendungen (expatriate allowance), Nebenleistungen (perquisites) sowie Sachleistungen und andere Leistungen, die gemäss dem Arbeitsvertrag des CEO geschuldet sind. Die Sachleistungen wurden zum Marktwert bewertet.
[4] Die bedingt zugeteilten, leistungsorientierten Aktien und Aktienoptionen werden in der Zukunft entsprechend dem Erreichen der festgelegten Leistungsziele definitiv zugeteilt. Die Bewertung der bedingt zugeteilten Aktien (grants) basiert auf der Annahme einer definitiven Zuteilung (vesting) in der Höhe von 100%, wobei die Optionen in Übereinstimmung mit der Black-Scholes-Methode, wie in Note 23 der Consolidated Financial Statements ausgeführt, erfolgt. Der Berwertung der bedingt zugeteilten, leistungsbezogenen Aktien (performance share grants) wird der Aktienkurs am Tag vor der bedingten Zuteilung (CHF 355.75) und der Bewertung der Aktien, die einer Veräusserungsbeschränkung unterliegen (restricted share grants), der Aktienkurs am Tag der Zuteilung zugrunde gelegt.

Abfindungsvereinbarungen für im Geschäftsjahr ausgeschiedene Mitglieder des GEC

2007 hat ein Mitglied des GEC seine Funktion aufgegeben. Während des Geschäftsjahrs wurden keine Abfindungszahlungen vorgenommen.

Entschädigung für ehemalige Mitglieder des GEC

Ehemalige Mitglieder des GEC erhielten im Verlauf des Jahres 2007 keine Leistungen. Es wurde auch nicht auf Forderungen ihnen gegenüber verzichtet.

Bericht über Honorare und Entschädigungen

Zusammenfassung der insgesamt ausstehenden Aktienzuteilungsverpflichtungen für Mitglieder des GEC im Rahmen der Long-Term Incentive Pläne der Gruppe

Aktienzuteilungen

Leistungsbezogene Aktienzuteilungen

Die Gesamtzahl der per 31. Dezember 2007 im Rahmen der Long-Term Incentive Pläne der Gruppe bedingt zugeteilten, leistungsbezogenen Aktien belief sich auf 56.399 (55.937 per 31. Dezember 2006). Die folgende Tabelle enthält eine Zusammenfassung der ausstehenden bedingten Zuteilungen (performance share grants):

Zusammenfassung der ausstehenden Aktienzuteilungen

Performance-Periode	Ausstehende Zuteilung leistungsbezogener Aktien	Zugewiesener Preis in CHF	Zukünftige Zuteilungsjahre
2005–2007	9.887	206.40	2008
2006–2008	16.667	308.00	2008–2009
2007–2009	29.845	355.75	2008–2010

Diese im Rahmen des Group Long-Term Incentive Plans vorgenommenen bedingten, leistungsorientierten Aktienzuteilungen (performance share grants) sind für eine definitive Zuteilung (vesting) in den drei auf die bedingte Zuteilung folgenden Jahren in Teilausrichtungen je zu einem Drittel bestimmt. Die tatsächliche Höhe der Teilausrichtungen wird in Übereinstimmung mit den auf Seite 54 ff oben aufgeführten Vergütungsgrundsätzen festgelegt.

Zuteilungen von Aktien mit Veräusserungsbeschränkung

Zusätzlich waren per 31. Dezember 2007 13.543 Aktien, die einer Veräusserungsbeschränkung unterliegen, für Mitglieder des GEC ausstehend. Dies entspricht bedingten Zuteilungen (restricted share grants) von 7.280 Aktien, die einer Veräusserungsbeschränkung unterliegen, und einer definitiven Zuteilung von 8.311 Aktien im Jahr 2007. Ende 2006 waren 14.574 Aktien, die einer Veräusserungsbeschränkung unterliegen, ausstehend. Die bedingt zugeteilten Aktien werden in den nächsten drei Jahren definitiv zugeteilt und verfallen, wenn der Inhaber dieser Aktien das Unternehmen vor dem Datum der definitiven Zuteilung freiwillig verlässt und das Anstellungsverhältnis beendet.

Zugeteilte Aktienoptionen

Gestützt auf das Aktienoptionsprogramm für das Management kann die Gruppe einzelnen Führungskräften nach Massgabe der Reglemente Optionen zum Kauf von Aktien zuteilen. Die ersten Aktienoptionen wurden im Jahr 1999 bedingt zugeteilt, und seitdem erfolgen regelmässig jährliche bedingte Zuteilungen (option grants). Vor 2003 erfolgte die Optionszuteilung grundsätzlich auf der Basis einer Laufzeit der Optionen von sieben Jahren und einer Zeitspanne für die definitive Zuteilung (vesting period) von drei Jahren, wobei der Ausübungspreis jeweils 10% über dem durchschnittlichen Marktpreis während des Monats vor der bedingten Zuteilung festgesetzt wurde. Gemäss dem Reglement des Aktienoptionsprogramms können auch andere Parameter für die bedingte Zuteilung von Optionen herangezogen werden. Im Zusammenhang mit der Neugestaltung des langfristigen Incentive-Programms im Jahr 2003, das leistungsbezogene Kriterien für die definitive Zuteilung (vesting) berücksichtigt, wurde festgelegt, dass sich der Ausübungspreis bei den seit damals bedingt zugeteilten Optionen anhand des Aktienkurses am Tag vor der bedingten Zuteilung (grant date) bestimmt. Die bedingt zugeteilten Aktienoptionen sind für eine definitive Zuteilung (vesting) in den drei auf die bedingte Zuteilung folgenden Jahren in Teilausrichtungen zu je einem Drittel bestimmt. Die tatsächliche Höhe der Teilausrichtungen wird anhand der Leistung und in Übereinstimmung mit den auf Seite 54 ff oben aufgeführten Vergütungsgrundsätzen festgelegt. Bedingte Zuteilungen von Aktienoptionen werden zurzeit jährlich jeweils am 3. Arbeitstag im April gemacht.

Die Gesamtzahl der aus Optionen resultierenden Aktien für die Mitglieder des GEC per 31. Dezember 2007 ist in der nachstehenden Tabelle aufgeführt:

Zusammenfassung der ausstehenden Optionen

Jahr der bedingten Zuteilung (grant)	Anzahl definitiv zugeteilter Optionen	Anzahl bedingt zugeteilter Optionen	Gesamtzahl der Aktien aus Optionen	Ausübungs-preis je Aktie in CHF	Verfall
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**		

Jede der oben erwähnten Optionen berechtigt den Inhaber zum Bezug einer Aktie von Zurich Financial Services zum genannten Ausübungspreis.

Besitz von Aktien und Aktienoptionen von Mitgliedern des GEC

In der nachstehenden Tabelle ist der Besitz von Aktien und Aktienoptionen von Mitgliedern des GEC per 31. Dezember 2007 ausgewiesen. Zusätzlich zu den am Markt erworbenen Aktien beinhalten die Zahlen definitiv zugeteilte Aktien, und zwar unabhängig davon, ob sie einer Veräusserungsbeschränkung unterliegen oder nicht, und definitiv zugeteilte Aktienoptionen, die im Rahmen des Group Long-Term Incentive Plans ausgerichtet wurden. In dieser Tabelle nicht berücksichtigt sind noch nicht definitiv zugeteilte Aktien, die leistungsorientiert ausgerichtet werden (unvested performance shares), nicht definitiv zugeteilte Aktien, die einer Veräusserungsbeschränkung unterliegen (unvested restricted shares) und nicht definitiv zugeteilte Aktienoptionen, die leistungsorientiert ausgerichet werden (unvested perfomance share options).

Bericht über Honorare und Entschädigungen

Der ausgewiesene Aktien- und Aktienoptionsbesitz schliesst sämtliche Aktien mit ein, an denen das jeweilige Mitglied des GEC wirtschaftlich berechtigt ist (beneficial interest) sowie den Besitz von Personen, die dem Mitglied nahe stehen. Eine definitiv zugeteilte Option verleiht Anspruch auf eine Aktie mit normalem Stimm- und Dividendenbezugsrecht.

Besitz von Aktien und definitiv zugeteilten Aktienoptionen von Mitgliedern des GEC

Anzahl definitiv zugeteilter Aktien und definitiv zugeteilter Aktienoptionen per 31. Dezember 2007 [1]	Aktienbesitz	Besitz von definitiv zugeteilten Aktienoptionen [2]
J.J. Schiro, Chief Executive Officer [3]	64.790	173.516
J. Amore, CEO General Insurance	17.220	73.880
A. Court, CEO Europe General Insurance [4]	–	–
M. Greco, designierter Chief Executive Officer Global Life [5]	–	–
P. Hopkins, CEO, Farmers Group, Inc	4.765	26.290
A. Lehmann, CEO North America Commercial	10.813	39.421
P. O'Sullivan, Vizepräsident und Chief Growth Officer	19.739	49.031
G. Riddell, CEO 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] Kein Mitglied des GEC hielt zusammen mit ihm bzw. ihr nahe stehenden Personen per 31. Dezember 2007 mehr als 0,5% der Stimmrechte, weder direkt noch indirekt in Form von Aktienoptionen.
[2] Die Verteilung der definitiv zugeteilten Optionen (vested options), anhand der in der Tabelle „Zusammenfassung der ausstehenden Optionen" identifizierten bedingten Zuteilungen (grants), wird in der nachstehenden Tabelle aufgezeigt.
[3] Beinhaltet 2.000 Aktien für James J. Schiro, die von im Familienbesitz befindlichen Wohltätigkeitsstiftungen gehalten werden.
[4] Seit 15. Januar 2007 bei der Gruppe.
[5] Seit 1. Oktober 2007 bei der Gruppe.

In der nachstehenden Tabelle ist aufgezeigt, wie die Gesamtzahl der definitiv zugeteilten Aktienoptionen anhand der in der Tabelle „Zusammenfassung der ausstehenden Optionen" dargestellten bedingten Zuteilungen (grants) auf die einzelnen Mitglieder des GEC verteilt ist.

Verteilung der definitiv zugeteilten Aktienoptionen

Anzahl definitiv zugeteilter Aktienoptionen per 31. Dezember 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] Die von John Amore gehaltenen Optionen für 2001 umfassen 9.142 Optionen aus der bedingten Zuteilung 2001 b und 2.450 Optionen aus der bedingten Zuteilung 2001 a.

Trading-Pläne

Um den Mitgliedern des GEC den Verkauf von Aktien und die Ausübung von Optionen zu erleichtern, hat der Verwaltungsrat die Einführung von Trading-Plänen genehmigt. Im Rahmen dieser Pläne können die Mitglieder anhand eines vordefinierten Transaktionsprogramms Aktien verkaufen bzw. Aktienoptionen ausüben. Trading-Pläne können nur in Zeiten eingerichtet werden, in denen das Mitglied des GEC über keine unveröffentlichten preissensitiven Informationen über die Zurich-Gruppe verfügt. Zudem kann die erste Transaktion in einem Trading-Plan erst drei Monate nach dem Errichten des Plans getätigt werden. Die Bedingungen der Transaktionen müssen vorab festgelegt werden und können danach nicht mehr geändert werden. Sämtliche Trading-Pläne der Mitglieder des GEC müssen vom Präsidenten des Verwaltungsrats bewilligt werden. Einmal errichtet, werden Transaktionen monatlich – auch während der Sperrfristen – ausgeführt. Alle im Rahmen eines Trading-Plans ausgeführten Transaktionen werden entsprechend der Richtlinie bereffend Offenlegung von Management-Transaktionen ordnungsgemäss der SWX gemeldet und als solche auf deren Website veröffentlicht.

Zusätzliche Honorare und Vergütungen für Mitglieder des GEC

Keines der Mitglieder des GEC hat neben den oben aufgeführten Vergütungen weitere Entschädigungen von der Gruppe oder von einem zur Gruppe gehörenden Unternehmen erhalten.

Persönliche Darlehen für Mitglieder des GEC

Per 31. Dezember 2007 belief sich der Gesamtbetrag ausstehender Darlehen, Vorschüsse und Kredite für Mitglieder des GEC auf USD 910.000. Bei den Darlehen handelt es sich um Hypothekardarlehen in Schweizer Franken, die zu ähnlichen Konditionen gewährt wurden, wie sie für alle Mitarbeitenden in der Schweiz gelten. Bis zu einer Höhe von maximal USD 1.250.000 werden Hypothekardarlehen zu einem Vorzugszinssatz von bis zu einem Prozentpunkt unter den geltenden marktüblichen Zinssätzen für Hypothekardarlehen gewährt. Das höchste ausstehende Hypothekardarlehen per 31. Dezember 2007 wurde Axel Lehmann (derzeit Group Chief Risk Officer) gewährt. Dieses belief sich auf USD 660.000 und ist gesamthaft mit 2,3% zu verzinsen.

Persönliche Darlehen für ehemalige Mitglieder des GEC

Ehemalige Mitglieder des GEC sind berechtigt, ihre Hypothekendarlehen nach der Pensionierung zu ähnlichen Konditionen weiterzuführen wie während der Dauer ihrer Anstellung, d.h. zu den oben aufgeführten Bedingungen für Mitarbeitende in der Schweiz. In diesem Zusammenhang bestand per 31. Dezember 2007 ein ausstehendes Hypothekendarlehen für ein ehemaliges Mitglied, Peter Eckert, in der Höhe von USD 2.500.000 mit einem Vorzugszinssatz von 2,25% auf USD 1.250.000. Abgesehen davon beanspruchte per 31. Dezember 2007 kein ehemaliges Mitglied des GEC ein Darlehen, Vorschüsse oder Kredite.

Den Mitgliedern des GEC oder ehemaligen Mitgliedern des GEC nahe stehende Personen

Den Mitgliedern des GEC oder ehemaligen Mitgliedern des GEC nahe stehende Personen erhielten im Verlauf des Jahres 2007 keine Leistungen. Es wurde auch nicht auf Forderungen ihnen gegenüber verzichtet. Sie hatten per 31. Dezember 2007 auch keine ausstehenden Darlehen, Vorschüsse oder Kredite.

Financial information

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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.

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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.

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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
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
of which:								
Ireland	*180*	*120*	*24*	*21*	*97*	*69*	*301*	*210*
ZIS	*445*	*312*	*–*	*–*	*8*	*6*	*453*	*319*
International Businesses	150	88	36	38	63	38	249	164
of which:								
Southeast Asia	*130*	*62*	*2*	*3*	*3*	*5*	*135*	*70*
Latin America	*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.

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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%
of which:						
Ireland	*64*	*52*	*69*	*49*	*23.0%*	*23.2%*
ZIS	*27*	*41*	*93*	*65*	*20.4%*	*20.5%*
International Businesses	106	101	85	52	34.0%	31.6%
of which:						
Southeast Asia	*5*	*11*	*65*	*29*	*48.2%*	*41.9%*
Latin America	*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 expenses [1]	**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 liabilites	
	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 liabilites	
	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
of which:						
Ireland	*7,324*	*5,655*	*1,536*	*1,406*	*8,860*	*7,061*
ZIS	*6,816*	*5,559*	727	*652*	*7,543*	*6,212*
International Businesses	3,630	3,798	2,652	2,372	6,282	6,170
of which:						
Southeast Asia	*386*	*201*	*771*	*776*	*1,157*	*977*
Latin America	*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.

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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
Net income after taxes	*5,626*	*83*	*5,708*
Net other recognized income and expenses	*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.

Financial Review

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 millions	in %
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 millions	in %
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
Reserves insurance contracts, gross	*2,410*	*5,479*
Reinsurers' share of reserves for insurance contracts [1]	*(6,407)*	*966*
Liabilities for investment contracts	*2,213*	*4,204*
Deferred policy acquisition costs	*(928)*	*(890)*
Deferred origination costs	*(166)*	*(32)*
Deposits made under assumed reinsurance contracts	*715*	*434*
Deposits received under ceded reinsurance contracts	*(1,096)*	*(223)*
Investments:	(2,589)	(14,441)
Net capital gains on investments and impairments	*(5,640)*	*(10,739)*
Net change in trading securities	*(180)*	*(351)*
Sales and maturities		
Debt securities [1]	*70,307*	*58,544*
Equity securities	*70,825*	*46,044*
Other (primarily other investments)	*32,326*	*32,115*
Purchases		
Debt securities	*(64,227)*	*(61,291)*
Equity securities	*(73,614)*	*(46,191)*
Other (primarily other investments)	*(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	–	–
Net income after taxes	–	–
Net other recognized income and expenses	–	–
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.

Consolidated Financial Statements

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 amendents 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).

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.

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 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.

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 as 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 incurres 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.

Principal exchange rates

Table 3

USD per foreign currency unit, as of or for the year ended December 31

	Balance sheets		Income statements and cash flows	
	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 onan 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.

Business combinations

Table 5.1

In USD millions, for the year ended December 2007	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.

Net gain/(loss) on divestments

Table 5.2

in USD millions, for the years ended December 31	**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

Table 6.1a

in USD millions, for the years ended December 31	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	667
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
Short-term investments	115	117	1	1	116	118
Investments held by investment companies	1	5	475	283	477	288
Other [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.

Investment result for Group investments

Table 6.1b

in USD millions, for the years ended December 31	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
Short-term investments	71	87	1	1	72	88
Investments held by investment companies	1	5	475	283	477	288
Other [1]	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.

Investment result for unit-linked products

Table 6.1c

in USD millions, for the years ended December 31	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
Short-term investments	44	30	–	–	44	30
Other [1]	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

Total net capital gains, losses and impairments on equity and debt securities

in USD millions, for the years ended December 31	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
of which: trading securities						
Net capital gains/(losses) on Group investments	233	187	(10)	(1)	223	187
of which: securities designated at FV						
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
of which: trading	2,768	0.9	2,778	0.9
of which: trading equity portfolios in capital markets and banking activities	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
of which: trading	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
of which: trading	2,768	1.4	2,778	1.4
of which: trading equity portfolios in capital markets and banking activities	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
of which: trading	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 securites and securities under short-term sale and repurchase agreements. These risks and rewards include changes in market values and income earned, respectively.

Breakdown of investments for unit-linked contracts

Table 6.3c
as of December 31

	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:

Debt securities maturity schedule (total investments)

Table 6.4
in USD millions, as of December 31

	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
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.

Fair value through profit or loss securities

Table 6.6

as of December 31	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
of which: trading equity portfolios in capital markets and banking activities	1,606	12.9	2,260	17.3	–	–	1,606	2,260
of which: common stock portfolios backing participating with profit policyholder contracts	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
of which: trading debt securities in capital markets and banking activities	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

Table 6.7
as of December 31

	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

Table 6.8
in USD millions

	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

Table 6.9
in USD millions, for the years ended December 31

	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	**93** [1]	**819**

[1] The unrealized gains/(losses) include net losses arising on cash flow hedges in the amount of USD 103 milion.

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 exchanges 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)

Table 7.1

in USD millions, as of December 31	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**
of which:							
financial assets						607	713
financial liabilities						(203)	(340)

Outstanding positions of ZCM

Maturity profile of notional principal amounts and market values of derivative financial instruments (ZCM)

Table 7.2

in USD millions, as of December 31	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**
of which:							
financial assets						122	107
financial liabilities						(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

Table 7.3

in USD millions, as of December 31	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**	**–**
of which:							
assets						329	24
liabilities						–	–

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

Table 7.4

in USD millions, as of December 31	**2007**	2006
Gains/(losses)		
on hedging instruments [1]	72	38
on hedged debt issued attributable to the hedged risk	(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.

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

Reserves for insurance contracts

Table 8.1

in USD millions, as of December 31	**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, gross [2]	(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

Table 8.2
in USD millions

	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 judgements are reflected in the results of operations in the period in which estimates and judgements 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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Development of insurance losses, net

Table 8.3

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:							
One year later	(7,976)	(8,923)	(9,930)	(9,464)	(11,423)	(11,237)	
Two years later	(12,855)	(14,472)	(15,550)	(16,273)	(18,044)		
Three years later	(16,698)	(18,001)	(20,407)	(21,234)			
Four years later	(19,255)	(21,390)	(23,941)				
Five years later	(21,634)	(23,814)					
Six years later	(23,471)						
Net reserves re-estimated as of:							
One year later	26,908	32,239	38,977	43,627	45,976	49,594	
Two years later	28,471	34,471	40,413	45,006	45,827		
Three years later	30,636	36,118	42,004	45,325			
Four years later	31,784	37,691	42,254				
Five years later	33,326	37,880					
Six years later	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.

Development of reserves for losses and loss adjustment expenses for asbestos and environmental claims

Table 8.4

in USD millions	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**

Development of future life policyholders' benefits

Table 8.5

in USD millions	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.

Policyholders' contract deposits and other funds gross

Table 8.6

in USD millions, as of December 31	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**

Development of policyholders' contract deposits and other funds

Table 8.7

in USD millions	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**

Development of reserves for unit-linked contracts

Table 8.8

in USD millions	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.

Information on guaranteed liabilities

Table 8.9

in USD millions (except average attained age)	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)

Liabilities related to investment contracts

Table 9.1

in USD millions, as of December 31	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.

Development of investment contract liabilities

Table 9.2

in USD millions	2007	2006
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.

Development of equity component relating to contracts with DPF

Table 10

in USD millions	2007	2006
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

Insurance benefits and losses

Table 11.1

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 losses [1]	**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

Table 11.2

in USD millions, for the years ended December 31	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

Table 11.3

in USD millions, for the years ended December 31	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

Table 11.4

in USD millions, for the years ended December 31	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

Table 12.1

in USD millions	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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Development of deferred origination costs

Table 12.2

in USD millions	2007	2006
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

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	**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

Receivables

Table 14.1

in USD millions	2007	2006
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.

Development of allowance for impairments (deducted from receivables)

Table 14.2

in USD millions	2007	2006
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.

Maturity schedule of collateralized loans

Table 15

in USD millions, as of December 31	2007	2006
< 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

Property and equipment

Table 16.1

in USD millions	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**

Property and equipment

Table 16.2

in USD millions	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

Intangible assets – current period

Table 17.1

in USD millions	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.

Intangible assets by segment – current period

Table 17.2

in USD millions, as of December 31, 2007	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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Intangible assets – prior period

Table 17.3

in USD millions	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, 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.

Intangible assets by segment – prior period

Table 17.4

in USD millions, as of December 31, 2006	Goodwill	Present value of profits of acquired insurance contracts	Other intangible assets [1]	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

Other liabilities

Table 18

in USD millions, as of December 31	2007	2006
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

Income tax expense – current/deferred split

Table 19.1

in USD millions, for the years ended December 31	2007	2006
Current	1,515	1,766
Deferred	272	381
Total income tax expense	**1,787**	**2,148**

Income tax expense – policyholder/shareholder attribution

Table 19.2

in USD millions, for the years ended December 31	2007	2006
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.

Expected and actual income tax expense

Table 19.3

in USD millions, for the years ended December 31	Rate	2007	Rate	2006
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:				
Tax exempt and lower taxed income		(517)		(637)
Non-deductible expenses		74		133
Tax losses previously unrecognized or no longer recognized		(185)		10
Prior year adjustments and other		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.

Current tax receivables and payables

Table 19.4

in USD millions, as of December 31	2007	2006
Current tax receivables	743	509
Current tax payables	(1,643)	(1,846)
Net current tax payables	**(900)**	**(1,337)**

Deferred tax assets and liabilities

Table 19.5

in USD millions, as of December 31	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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Development of net deferred tax assets/(liabilities)

Table 19.6

in USD millions	2007	2006
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.

Deferred taxes – policyholder/ shareholder attribution

Table 19.7

in USD millions, as of December 31	2007	2006
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)**

Deferred tax assets/(liabilities) breakdown by source

Table 19.8

in USD millions, as of December 31	2007		2006	
	Assets	Liabilities	Assets	Liabilities
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.

Tax losses carryforwards and tax credits

Table 19.9

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.

Deferred tax assets/(liabilities) by taxpayer group

Table 19.10

in USD millions, as of December 31	**Deferred tax assets/(liabilities)**		**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.

20. Debt

Debt

Table 20.1

in USD millions, as of December 31		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 milion 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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Description and features of significant subordinated debt

Table 20.2

in USD millions

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.

Maturity schedule of outstanding debt

Table 20.3

in USD millions, as of December 31	**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.

Interest expense on debt

Table 20.4

in USD millions, for the years ended December 31	**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.

Financial debt

Table 20.5

in USD millions, as of December 31,	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

Share capital

Table 21.1

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 contigent 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

Preferred securities

Table 21.2

in USD millions, as of December 31	**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

Treasury shares

Table 21.3

number of shares, as of December 31	**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.

Status of funded defined benefit plans

Table 22.1

in USD millions, as of December 31	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.

Status of unfunded defined benefit plans

Table 22.2

in USD millions, as of December 31	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.

Components of net pension expense

Table 22.3

in USD millions, for the years ended December 31	Defined benefit pension plans		Other defined post-employment benefits	
	2007	2006	**2007**	2006
Current service cost	(310)	(384)	(6)	(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.

Fair value of assets held in funded defined benefit pension plans

Table 22.4

in USD millions, as of December 31	Defined benefit pension plans		Other defined post-employment benefits	
	2007	2006	**2007**	2006
Mortgage loans	383	–	–	1
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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Movement in funded and unfunded defined benefit pension plan obligation

Table 22.5

in USD millions	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)**

Movement in fair value of plan assets – funded plans

Table 22.6

in USD millions	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.

Movement in liability for funded and unfunded plans

Table 22.7

in USD millions	Defined benefit pension plans		Other defined post-employment benefits	
	2007	2006	**2007**	2006
Liability as of January 1	(2,102)	(2,899)	(257)	(280)
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:

Actuarial gain/(loss)

Table 22.8

in USD millions	**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:

Assumptions used in determining the actuarial liabilities for major defined benefit pension plans

Table 22.9

as of December 31	**2007**			2006		
	Switzer-land	**UK**	**US**	Switzer-land	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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Assumptions used in determining the actuarial liabilities for other defined post-employment benefit plans

Table 22.10

as of December 31	2007 US	2006 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:

Effect of a change in the health care cost trend

Table 22.11

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.

Expenses recognized in the income statements

Table 23.1

in USD millions, for the years ended December 31	**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

Range of exercise prices of options outstanding as of December 31, 2007

Table 23.4

in CHF	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

Options and shares granted during the period

Table 23.5

for the years ended December 31	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.

Black-Scholes assumptions for fair value of options

Table 23.6

	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.

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.

Quantifiable commitments and contingencies

Table 24.1

in USD millions, as of December 31	**2007**	2006
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.

Future payments under non-cancelable operating leases with terms in excess of one year

Table 24.2

in USD millions, as of December 31, 2007	**Rental payments**
< 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 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)**

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.

General Insurance – Direct written premiums and policy fees by line of business and by region

Table 26.1

in USD millions, for the year ended December 31, 2007	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.

General Insurance – Direct written premiums and policy fees by line of business and by region

Table 26.2

in USD millions, for the year ended December 31, 2006	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.

Insurance risk sensitivity for the Group's General Insurance business

Table 26.3

in USD millions, for the year ended December 31, 2007	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.

Insurance risk sensitivity for the Group's General Insurance business

Table 26.4

in USD millions, for the year ended December 31, 2006	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.

Life Insurance – Direct written premiums and policy fees by line of business and by region

Table 26.5

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.

Life Insurance – Direct written premiums and policy fees by line of business and by region

Table 26.6

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 inludes, 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.

Debt securities by rating of issuer

Table 26.7

as of December 31	2007		2006	
	USD millions	**% of total**	USD millions	% of total
Rating				
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

Reinsurance premiums ceded and reinsurance assets by rating of reinsurer

for the years ended December 31	**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
Rating								
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%**	**28,110** [1]	**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.

Other loans by rating of issuer

Table 26.9

as of December 31	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.

Table 26.10

Analysis of financial assets

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.

Table 26.11

Analysis of financial assets

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.

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 parellel 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.

Sensitivities for the Group's General Insurance business

Table 26.12

in USD millions, as of December 31	2007 [1]	2006 [1]
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.

Sensitivities for the Global Life business

Table 26.13

in USD millions, as of December 31	2007 [1]	2006 [1]
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.

Sensitivities for the rest of the businesses

Table 26.14

in USD millions, as of December 31	2007	
	2007 [1]	2006 [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.

Sensitivities to exchange rate movements

Table 26.15

in USD millions, for the years ended December 31	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.

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

Maturity schedule of reserves for insurance contracts

in USD millions, as of December 31, 2007	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

Maturity schedule of reserves for insurance contracts

in USD millions, as of December 31, 2006	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

Maturity schedule of liabilities for investment contracts

in USD millions, as of December 31, 2007	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

Maturity schedule of liabilities for investment contracts

in USD millions, as of December 31, 2006	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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Effective interest rates on selected assets and liabilities

Table 26.20

for the years ended December 31	**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 subsidaries 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 approriate 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.

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.

Related party transactions included in the consolidated financial statements

Table 28.1

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.

Related party transactions – key personnel

Table 28.2

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 Finanical 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.

Surplus Notes

Table 29

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.

Consolidated Financial Statements

30. Segment information

Income statements by business segment

Table 30.1

in USD millions, for the years ended December 31	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

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Assets and liabilities by business segment

Table 30.2

in USD millions, as of December 31

	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

Gross written premiums and policy fees, total revenues and total assets by geographical segment

Table 30.3

in USD millions

	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	69,407
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**

Additions and capital improvements of property/equipment and intangible assets by geographical segment

Table 30.4

in USD millions, for the years ended December 31

	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

	Domicile	Segment [1]	Voting rights %	Ownership interest %	Nominal value of common stock (in local currency millions)	
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	**Domicile**	**Segment**	**Voting rights %**	**Ownership interest %**	**Nominal value of common stock (in local currency millions)**	
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

Table 2.1

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

Table 2.2

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.

New business volumes, gross of minorities

Table 2.3

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.

New business margin, gross of minorities

Table 2.4

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.

New business value, after tax gross of minorities

Table 2.5

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:

New business value, after tax net of minorities

Table 2.6

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.

Analysis of movement in Embedded Value

Table 2.7

in USD millions, for the year ended December 31, 2007	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.

Analysis of movement in Value of business in-force

Table 2.8

in USD millions, for the year ended December 31, 2007	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

Reconciliation of Global Life IFRS net assets to Embedded Value

Table 2.9

in USD billions, as of December 31	Total 2007	Total 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.

Sensitivities

Table 2.10
In USD millions

	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.

Embedded Value

Table 2.11

in USD millions	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**

Value of business in-force

Table 2.12

in USD millions	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:

Estimated Embedded Value of life businesses in Other Businesses

Table 2.13

in USD billions, as of December 31	**2007**	2006
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

Geographical analysis of Embedded Value

Table 3.1
in USD millions, as of December 31, 2007

	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.

Geographical analysis of value of business in-force – 2007

Table 3.2a
in USD millions, as of December 31, 2007

	United States	United Kingdom	Germany	Switzer-land	Rest of Europe	Inter-national 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**

Geographical analysis of value of business in-force – 2006

Table 3.2b
in USD millions, as of December 31, 2006

	United States	United Kingdom	Germany	Switzer-land [1]	Rest of Europe	Inter-national 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

Table 3.3

in USD millions, for the years ended December 31	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

Table 3.4

in USD millions, for the years ended December 31	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%**

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New business[1] value, before tax

Table 3.5

in USD millions, for the years ended December 31	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

Geographical analysis of new business value, after tax 2007

Table 3.6a

in USD millions, for the year ended December 31, 2007	United States	United Kingdom	Germany	Switzer-land	Rest of Europe	Inter-national 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**

Geographical analysis of new business value, after tax 2006

Table 3.6b

in USD millions, for the year ended December 31, 2006	United States	United Kingdom	Germany	Switzer-land	Rest of Europe	Inter-national 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

Geographical analysis of movement in Embedded Value

Table 3.7

in USD millions, for the year ended December 31, 2007	United States	United Kingdom	Germany	Switzer-land	Rest of Europe	Inter-national 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

Geographical analysis of return on opening EV – annualized

Table 3.8

in USD millions, for the year ended December 31, 2007	United States	United Kingdom	Germany	Switzer-land	Rest of Europe	Inter-national 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.

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 reassurance arrangement exists between two life companies in Global Life, the value of the reassurance 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.

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%

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%

Embedded Value Report

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.

At-the-money-forward equity implied volatility (capital index)

Table 5.3
as of December 31, 2007

	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%

At-the-money-forward equity implied volatility (capital index)

Table 5.4
as of September 30, 2007

	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:

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

Table 5.5

as of December 31, 2007	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%

Embedded Value Report

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

Table 5.6

as of September 30, 2007	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:

At-the-money-forward property implied volatility (capital index)

Table 5.7

as of December 31, 2007	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%

At-the-money-forward property implied volatility (capital index)

Table 5.8

as of September 30, 2007	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:

Inflation assumptions (annualized forward inflation)

Table 5.9

as of December 31, 2007	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%

Inflation assumptions (annualized forward inflation)

Table 5.10

as of September 30, 2007	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.

Embedded Value Report

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

in USD millions, for the years ended December 31	Italy	
	2007	2006
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

Assets

in CHF thousands, as of December 31	Notes	2007	2006
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

	Notes	2007	2006
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:			
General legal reserve		9,523,631	9,345,159
Reserve for treasury stock	9	2,028,863	42,799
Free reserve		3,424,968	5,411,032
Retained earnings:			
Beginning of the year		1,966,213	1,443,217
Dividends paid		(1,579,371)[1]	(665,000)[2]
Beginning of the year, adjusted for appropriations		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

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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

in CHF [1]	2007 [2]						
	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

in CHF million[1]	2007[2] All GEC members (incl. the highest paid)[3]	2007[2] Highest paid Executive James J. Schiro Chief Executive Officer
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 CHF[7]	**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. 54–67). 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.

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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

Number of shares and 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".

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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	177,073 [2]	386,842 [1]

[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

Aktionärsinformationen

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Aktionärsinformationen

Die Namenaktie der Zurich Financial Services

Kennzahlen

per 31. Dezember	2007	2006
Anzahl ausgegebener Aktien	145.546.820	144.749.399
Anzahl dividendenberechtigter Aktien	145.546.820	144.749.399
Börsenkapitalisierung (in CHF Mio.)	48.394	47.478
Genehmigtes Kapital, Anzahl Aktien	6.000.000	6.000.000
Bedingtes Kapital, Anzahl Aktien	5.481.828	6.239.384

Angaben je Aktie

in CHF	2007	2006
Bruttodividende	15.00 [1]	11.00
Basis-Gewinn je Aktie	46.88	39.74
Verwässerter Gewinn je Aktie	46.37	39.52
Buchwert je Aktie per 31. Dezember	228.25	210.06
Nennwert je Aktie	0.10	0.10
Aktienkurs am Ende der Berichtsperiode	332.50	328.00
Höchster Aktienkurs während der Berichtsperiode	393.25	330.50
Tiefster Aktienkurs während der Berichtsperiode	296.00	251.75

[1] Vorgeschlagene Bruttodividende, vorbehaltlich der Genehmigung durch die Aktionäre an der Generalversammlung 2008; voraussichtlicher Auszahlungstermin ist der 8. April 2008.

Kursverlauf (indexiert) über die vergangenen zehn Jahre

Quelle: Datastream

Ausgeschüttete Dividende

	Geschäftsjahr	Bruttobetrag in CHF je Namenaktie	Ausschüttungsdatum
Dividende	2007	15.00[1]	8. April 2008[1]
Dividende	2006	11.00	10. April 2007
Dividende/Nennwertreduktion	2005	7.00	4. Juli 2006
Nennwertreduktion	2004	4.00	4. Juli 2005
Nennwertreduktion	2003	2.50	1. Juli 2004
Nennwertreduktion	2002	1.00	15. Juli 2003

[1] Vorgeschlagene Bruttodividende, vorbehaltlich der Genehmigung durch die Aktionäre an der Generalversammlung 2008; voraussichtlicher Auszahlungstermin ist der 8. April 2008.

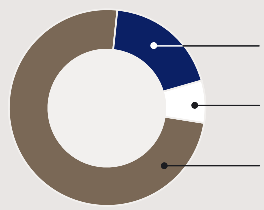
Aktienhandel

Die Aktien von Zurich Financial Services sind an der Schweizer Börse SWX Swiss Exchange kotiert. Der Handel erfolgt im „EU-Regulated“ Segment auf virt-x mit dem Ticker-Symbol: ZURN; die Schweizer Wertpapiernummer (Valorennummer) ist 1107539. Der Handel der Aktien von Zurich Financial Services an der virt-x erfolgt in Schweizer Franken. 100% der Aktien befinden sich in freiem Umlauf.

Aktienrückkaufprogramm 2007

Zurich Financial Services hat den am 15. Februar 2007 angekündigten Rückkauf eigener Aktien in Höhe von CHF 1,25 Mrd. abgeschlossen. Zwischen dem 22. Februar 2007 und dem 2. Juli 2007 hat Zurich Financial Services 3.432.500 seiner Namenaktien über eine zweite Handelslinie der virt-x zu einem durchschnittlichen Preis von CHF 364 je Aktie (gerundet) zurückgekauft. Die Anzahl der zurückgekauften Aktien entspricht 2,36% des per Ende Juni 2007 ausgegebenen Aktienkapitals. Zurich Financial Services wird den Aktionären an der Generalversammlung 2008 eine Kapitalherabsetzung im Umfang der zurückgekauften Aktien sowie deren Löschung zur Annahme unterbreiten.

Eingetragene Aktionäre von Zurich Financial Services



Die per 31. Dezember 2007 eingetragenen Namenaktien befinden sich im Besitz von 107.660 Aktionären, und zwar in folgender Verteilung: 102.074 natürliche Personen besitzen 18,7% der eingetragenen Aktien (oder 11,7% aller ausstehenden Aktien), weitere 7,1% der eingetragenen Aktien (oder 4,4% aller ausstehenden Aktien) werden von 2.124 Stiftungen und Pensionskassen gehalten, und 74,2% der eingetragenen Aktien (oder 46,3% aller ausstehenden Aktien) befinden sich im Besitz von 3.462 anderen juristischen Personen.

Gemäss den uns zur Verfügung stehenden Informationen hat per 31. Dezember 2007 nur Barclays Plc., 1 Churchill Place, London, Grossbritannien, zusammen mit ihren Tochtergesellschaften die Beteiligunslimite von 3% überschritten, indem sie eine Kaufposition von 4,25% des Aktienkapitals und der Stimmrechte von Zurich Financial Services, welche im Handelsregister eingetragen sind, hielt.

Wertpapiere Aktionärsdepot

Die Aktionäre der Zurich Financial Services haben die Möglichkeit, Wertpapiere der Zurich Financial Services gebührenfrei bei der SAG SIS Aktienregister AG in der Schweiz zu hinterlegen. Das Depotreglement und das Antragsformular für das Aktionärsdepot stehen auf der Homepage der SAG zur Verfügung: www.sag.ch.

Aktionärsinformationen

Wichtige Daten

Ordentliche Generalversammlung 2008

3. April 2008

Dividende – Stichtag

7. April 2008

Ex-Dividende-Zeitpunkt

8. April 2008[1]

Zahlung der Dividende

8. April 2008[1]

Berichterstattung über die ersten drei Monate 2008

15. Mai 2008

Halbjahresberichterstattung 2008

13. August 2008

Berichterstattung über die ersten neun Monate 2008

13. November 2008

[1] Zahlungsdatum Dividende: Diese unterliegt der Genehmigung durch die Generalversammlung 2008.

Publikationen

Jahresbericht 2007

Der Jahresbericht enthält Informationen zu den Produkten und Dienstleistungen von Zurich und der geschäftlichen Performance, einschliesslich einer kurzen Zusammenfassung der Finanzinformationen. Er ist auf Englisch, Deutsch und Französisch erhältlich.

Finanzbericht 2007

Der Finanzbericht enthält ausführliche Informationen über die Performance von Zurich, die Konzernstruktur und die Führungsorgane sowie Berichte über das Risikomanagement, die Corporate Governance sowie über die Honorare und Entschädigungen. Er ist auf Englisch, Deutsch und Französisch erhältlich (der Abschnitt Finanzen nur auf Englisch).

Weitere Informationen finden Sie unter www.zurich.com

Kontakt

Sitz

Zurich Financial Services
Mythenquai 2
8022 Zürich, Schweiz

Media Relations

Zurich Financial Services, Schweiz
Telefon: +41 (0)44 625 21 00
E-Mail: media@zurich.com

Investor Relations

Zurich Financial Services, Schweiz
Telefon: +41 (0)44 625 22 99
E-Mail: investor.relations@zurich.com

Aktienregister

Zurich Financial Services, Schweiz
Telefon: +41 (0)44 625 22 55
E-Mail: shareholder.services@zurich.com

Corporate Responsibility

Group Government and Industry Affairs
Zurich Financial Services, Schweiz
Telefon: +41 (0)44 639 20 02
E-Mail: corporate.responsibility@zurich.com

Wertpapiere Aktionärsdepot

Zurich Financial Services, Wertschriftendepot
c/o S A G SIS Aktienregister AG
Postfach, 4601 Olten, Schweiz
Telefon: +41 (0)62 311 61 45
Fax: +41 (0)62 205 39 71
Internet: www.sag.ch

American Depositary Receipts

Zurich Financial Services verfügt über ein ADR-Programm mit The Bank of New York (BNY), einer Tochtergesellschaft von The Bank of New York Mellon.
Nähere Auskünfte erteilt BNY Mellon's Shareowner Services:
Telefon: +1-888-BNY-ADRs
(1-888-269-2377, innerhalb der USA) oder
Telefon +1-212-815-3700
(ausserhalb der USA).
Weitere Informationen sind erhältlich bei The Bank of New York Mellon oder unter www.adrbny.com abrufbar.

Glossar

Agent
Eine Person, die als selbstständiger Unternehmer entweder für eine einzige Versicherungsgesellschaft agiert (exklusiv tätiger Agent) oder mit mehreren Gesellschaften zusammenarbeitet (unabhängiger Agent) und bevollmächtigt ist, diese Gesellschaften gegenüber Versicherten zu vertreten. In der Lebensversicherung wird ein Agent auch als Leben-Underwriter bezeichnet; er ist für den Verkauf und die Betreuung von Versicherungsverträgen verantwortlich.

American Depositary Receipt (ADR)
Auch als AD-Shares bezeichnet. Es handelt sich um in USD ausgestellte Zertifikate, die Aktien von Nicht-US-Unternehmen repräsentieren. Sie werden in erster Linie für amerikanische Anleger geschaffen, damit diese in US-Währung in ausländische Unternehmen investieren können.

Jahresprämienäquivalent
Summe von Jahresprämien aus Neugeschäft und zehn Prozent der Einmalprämien der Berichtsperiode. Das Jahresprämienäquivalent (APE) ist eine Standardmessgrösse der Versicherungswirtschaft für das Neugeschäftsvolumen in der Lebensversicherung.

Makler
Ähnlich wie ein unabhängiger Agent, allerdings ohne Bevollmächtigung, die Versicherungsgesellschaft zu vertreten. Makler beraten ihre Kunden und geben die mit ihnen abgeschlossenen Versicherungsverträge an Versicherungsgesellschaften weiter; als Gegenleistung erhalten sie eine Provision.

Business Operating Profit (BOP)
Interne Messgrösse von Zurich für die Bestimmung der Performance. Er berücksichtigt Anpassungen in den Bereichen Steuern, Nettogewinne und –verluste aus Kapitalanlagen (ohne Capital Markets & Banking), Anteile der Versicherungsnehmer an den Anlageergebnissen des Lebensversicherungsgeschäfts sowie bedeutende Aufwendungen und Erträge, die speziellen Ereignissen zurechenbar sind.

Geschäftssegment
Zurich kennt primäre und sekundäre Geschäftssegmente. Unsere primären Geschäftssegmente sind General Insurance, Global Life, Farmers Management Services, Other Businesses und Corporate Functions. Die sekundären Segmente sind nach Regionen ausgerichtet: Nordamerika, Europa, International Businesses und Central Region.

Schaden-Kosten-Satz (Combined Ratio)
Eine kritische Messgrösse für den Erfolg einer Schadenversicherungsgesellschaft oder eines Rückversicherers. Die Summe aus Schadensatz (inkl. Schadenbehandlungskosten), Kostensatz sowie der – in Prozent der verdienten Prämien ausgedrückten – Überschuss- und Gewinnanteile der Versicherten. Im Allgemeinen weist ein Schaden-Kosten-Satz unter 100 auf ein profitables, ein Schaden-Kosten-Satz von mehr als 100 auf nicht profitables Underwriting hin. Eine Versicherungsgesellschaft mit einem Schaden-Kosten-Satz von mehr als 100 kann in dem Masse profitabel sein, in dem das Netto-Gesamtergebnis aus Kapitalanlagen höher ist als der versicherungstechnische Verlust.

Konsolidierte Jahresrechnung
Umfasst Aktiven, Verbindlichkeiten, Eigenkapital, Ertrag, Aufwand und Geldflüsse eines Unternehmens und seiner Tochtergesellschaften. Die Ergebnisse von erworbenen Gesellschaften werden ab dem Zeitpunkt der Übernahme berücksichtigt. Die Ergebnisse von Gesellschaften, die im Laufe der Berichtsperiode verkauft wurden, werden bis zum Tag der Veräusserung berücksichtigt. Alle wesentlichen gruppeninternen Guthaben, Verpflichtungen, Gewinne und Transaktionen werden eliminiert.

Vertriebskanal
Ein Absatzweg, um im Rahmen einer gewählten Marktstrategie Produkte und Dienstleistungen an Zielkunden zu bringen. Zu unseren Vertriebskanälen zählen unsere exklusiv tätigen Agenten, unabhängige Finanzberater, Franchisenehmer, Makler, Banken, Affinitätsgruppen und Direktmarketing.

Embedded Value
Methode zur Messung der Pofitabilität, verwendet von Lebensversicherungsgesellschaften. Der Embedded Value entspricht der Summe aus Substanzwert (net asset value) eines Unternehmens und Barwert der projizierten künftigen Gewinne nach Steuern aus den Versicherungsverträgen. Im Juli 2006 kündigte Zurich die Übernahme der European-Embedded-Value-Grundsätze an; es wird ein konsistent marktorientierter Bottom-up-Ansatz verwendet, der es erlaubt, Marktrisiken explizit Rechnung zu tragen.

Kostensatz
Verhältnis von Betriebsaufwand für Schadenversicherung oder Rückversicherung (Abschlusskosten plus Policenverwaltungskosten abzüglich Rückversicherungsprovision und Gewinnbeteiligung plus andere technische Kosten) zu den verdienten Prämien für eigene Rechnung. Der Betriebsaufwand wird auch als technischer Aufwand bezeichnet.

Bruttoprämien und Policengebühren
Gesamtprämie, die wir unseren Kunden für die Versicherungsdeckung belasten, einschliesslich bestimmter Gebühren.

Erfolgsrechnung
Teil der Jahresrechnung von Zurich, in dem die Aufwendungen und Erträge für einen spezifischen Zeitraum zusammengefasst werden. Auch bekannt als Gewinn- und Verlustrechnung.

International Financial Reporting Standards (IFRS)
Früher IAS (International Accounting Standards). Die Rechnungslegungsstandards der Gruppe.

Key Performance Indicators (KPIs)
Quantifizierbare Messgrössen, welche die kritischen Erfolgsfaktoren eines Unternehmens widerspiegeln. Sie werden bei der Definition und Messung des Fortschritts bezüglich der Unternehmensziele angewendet. Einige unserer KPIs sind: Eigenkapitalrendite (ROE), Schaden-Kosten-Satz (Combined Ratio) und Business Operating Profit für unser General-Insurance-Geschäft, Gewinnmarge aus Neugeschäft, Betriebsertrag nach Steuern basierend auf dem Embedded Value und Business Operating Profit für Global Life.

Gewinn nach Steuern
Allgemein definiert handelt es sich dabei um den Gesamtertrag (insbesondere verdiente Prämien, Gebührenertrag und Ergebnis aus Kapitalanlagen) abzüglich des Gesamtaufwands und der Einkommenssteuern.

Prämien für eigene Rechnung
Bruttoprämien abzüglich des an Rückversicherer abgetretenen Anteils.

Versicherungstechnisches Ergebnis für eigene Rechnung
Der als Differenz zwischen verdienten Prämien einerseits und Schadenaufwand sowie übrigem technischen Aufwand verbleibende Gewinn/(Verlust).

Gewinnmarge aus Neugeschäft
Der durch das Neugeschäft generierte Mehrwert, bewertet zum Zeitpunkt des Policenabschlusses, dividiert durch Bruttoprämien aus Neugeschäft während der Berichtsperiode (gemessen auf der Basis des Jahresprämienäquivalents, APE).

Wert des Neugeschäfts
Barwert der projizierten künftigen Gewinne nach Steuern aus den während des Jahres verkauften neuen Lebensversicherungsverträgen.

Performance Management
Prozess, in dem die strategische Ausrichtung und die Schlüsselerfolgsfaktoren des Unternehmens mit betrieblichen und persönlichen Zielen, Massnahmen, Messungen, Performance-Beurteilungen und -entschädigungen verbunden werden.

Eigenkapitalrendite (ROE)
Die Eigenkapitalrendite orientiert die Aktionäre darüber, wie effizient ihr Geld eingesetzt wird. Sie zeigt, wie ein Unternehmen im Vergleich zu seinen Mitbewerbern abschneidet. Der ROE ist, in Prozenten ausgedrückt, der den Aktionären zurechenbare Gewinn einer bestimmten Periode dividiert durch das durchschnittliche den Aktionären zurechenbare Eigenkapital.

Den Aktionären zurechenbares Eigenkapital
Messgrösse für die Beurteilung der Stärke einer Bilanz. Gesamtwert der Aktiven eines Unternehmens abzüglich aller Verbindlichkeiten und Minderheitsanteile, auch bekannt als Nettowert. Es umfasst die ausgegebenen Aktien und Vorzugspapiere abzüglich der im Konzern gehaltenen eigenen Aktien, Kapitalreserven, Gewinnreserven (seit der Gründung des Unternehmens aufgelaufener Gewinn, abzüglich ausgeschütteter Dividenden) sowie Bewertungsdifferenzen, die nicht über die Erfolgsrechnung verbucht werden.

Zurich *Basics*
Die Kernwerte und Grundprinzipien der Gruppe. Zurich *Basics* ist der Verhaltenskodex der Gruppe.

The Zurich Way
Spezifischer Ansatz von Zurich für den Vertrieb unserer Produkte und Dienstleistungen und die Performance unserer internen Geschäftspraktiken mit dem Ziel, profitables Wachstum zu fördern, indem wir unseren Kunden weltweit Dienstleistungen auf konsistent höchstem Niveau bieten.

Disclaimer & Cautionary Statement

Diese Publikation enthält gewisse zukunftsgerichtete Aussagen, die unter anderem Voraussagen zu zukünftigen Ereignissen, Trends, Massnahmen oder Zielen beschreiben. Zukunftsgerichtete Aussagen enthalten Meinungen zu unserer angestrebten Gewinnentwicklung, zur Eigenkapitalrendite, zur Kostenreduktion, zu Preisbedingungen, zu Verbesserungen der Schadenquote sowie zu unserer Dividendenpolitik. Solche zukunftsgerichteten Aussagen sind mit der gebotenen Vorsicht zur Kenntnis zu nehmen, da sie naturgemäss bekannte und unbekannte Risiken beinhalten, Unsicherheiten bergen und durch andere Faktoren beeinträchtigt werden können. Dies könnte dazu führen, dass die Ergebnisse sowie die Pläne und Ziele von Zurich Financial Services deutlich von denjenigen (oder von früheren) Ergebnissen abweichen, die explizit oder implizit in diesen zukunftsgerichteten Aussagen beschrieben werden. Faktoren wie (i) die allgemeine Wirtschaftslage und Wettbewerbsfaktoren, insbesondere in unseren Schlüsselmärkten; (ii) die Performance der Finanzmärkte; (iii) Zinshöhe und Wechselkurse; (iv) Häufigkeit, Schwere und Entwicklung von Versicherungsschäden; (v) Sterblichkeit und Erkrankungshäufigkeit; (vi) Policenerneuerungen und Stornoraten sowie (vii) veränderte gesetzliche und regulatorische Bedingungen und veränderte Richtlinien der Aufsichtsbehörden können das Ergebnis von Zurich Financial Services sowie das Erreichen der Ziele unmittelbar beeinflussen. Zurich Financial Services ist nicht verpflichtet, diese zukunftsgerichteten Aussagen zu aktualisieren oder zu revidieren, um neuen Informationen, künftigen Ereignissen oder Umständen etc. Rechnung zu tragen.

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Personen, die hinsichtlich einer Anlage im Zweifel sind, sollten sich an einen unabhängigen Finanzberater wenden.

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Der Finanzbericht wird auf Englisch, Deutsch und Französisch publiziert.
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Zurich Financial Services Group

Mythenquai 2
8002 Zürich, Schweiz
Telefon +41 (0) 44 625 25 25
www.zurich.com

48558-08

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