

Consolidated income statements

in USD millions, for the years ended December 31	Notes	2006	2005
Revenues			
Gross written premiums and policy fees	30	46,465	46,797
Less premiums ceded to reinsurers	30	(5,811)	(6,377)
Net written premiums and policy fees	30	40,654	40,420
Net change in reserves for unearned premiums	10	(145)	37
Net earned premiums and policy fees	30	40,509	40,457
Farmers management fees	14	2,133	2,058
Net investment income	7	10,283	9,765
Net capital gains on investments and impairments	7	10,739	13,382
Net loss on divestments of businesses	4	(43)	(2)
Other income		1,379	1,526
Total revenues		65,000	67,186
Benefits, losses and expenses			
Insurance benefits and losses, gross of reinsurance	10	33,874	38,261
Less ceded insurance benefits and losses	10	(3,668)	(5,842)
Insurance benefits and losses, net of reinsurance	10	30,206	32,419
Policyholder dividends and participation in profits	10	12,906	14,432
Underwriting and policy acquisition costs, net of reinsurance	10	6,982	7,253
Administrative and other operating expense		6,393	5,860
Amortization and impairments of intangible assets	20	257	254
Interest expense on debt	22	608	446
Interest credited to policyholders and other interest		915	1,056
Total benefits, losses and expenses		58,267	61,720
Net income before income taxes		6,733	5,466
Income tax expense	18	(2,108)	(2,136)
Net income after taxes		4,625	3,330
Net income attributable to minority interests		(98)	(116)
Net income attributable to shareholders		4,527	3,214
in USD			
Basic earnings per share	23	31.07	22.04
Diluted earnings per share	23	30.89	21.80
in CHF			
Basic earnings per share	23	38.93	27.41
Diluted earnings per share	23	38.71	27.11

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

Consolidated balance sheets

Assets	in USD millions, as of December 31	Notes	2006	2005
Investments				
Cash and cash equivalents			23,122	23,482
Equity securities			109,005	90,314
Debt securities			135,357	125,297
Real estate held for investment			15,281	12,702
Mortgage loans			10,806	9,307
Policyholders' collateral and other loans			12,636	11,987
Investments in associates			153	580
Other investments			3,643	3,624
Total investments		7	310,003	277,293
Reinsurers' share of reserves for insurance contracts			20,063	20,494
Deposits made under assumed reinsurance contracts			2,022	2,450
Deferred policy acquisition costs		15	13,197	11,179
Deferred origination costs		15	815	690
Accrued investment income			2,654	2,390
Receivables		16	11,436	11,283
Other assets			3,913	1,787
Mortgage loans given as collateral		17	2,426	3,064
Deferred tax assets		18	2,336	4,393
Fixed assets		19	1,905	1,729
Goodwill		20	660	605
Other intangible assets		20	2,425	2,255
Total assets			373,855	339,612

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	2006	2005
Liabilities			
Reserve for premium refunds		655	753
Liabilities for investment contracts	12	50,705	40,999
Deposits received under ceded reinsurance contracts		2,375	2,500
Deferred front-end fees		5,395	4,659
Reserves for insurance contracts	11	240,648	219,924
Obligation to repurchase securities		6,144	5,295
Accrued liabilities		2,676	2,150
Other liabilities	21	21,368	21,040
Collateralized loans	17	2,427	3,056
Deferred tax liabilities	18	4,804	6,317
Debt related to capital markets and banking activities	22	1,889	2,139
Senior and subordinated debt	22	7,713	7,540
Total liabilities		346,799	316,372
Equity			
Share capital		10	186
Additional paid-in capital		10,448	10,315
Net unrealized gains on investments	7	819	1,139
Cumulative translation adjustment		823	(111)
Retained earnings		13,760	9,801
Common shareholders' equity		25,860	21,330
Preferred securities	23	671	1,096
Shareholders' equity		26,531	22,426
Minority interests	24	525	814
Total equity		27,056	23,240
Total liabilities and equity		373,855	339,612

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

Consolidated statements of cash flows

in USD millions, for the years ended December 31	2006	2005
Cash flows from operating activities		
Net income attributable to shareholders	4,527	3,214
Adjustments for:		
Net loss on divestments of businesses	43	2
Share of equity in income from investments in associates	(85)	(105)
Depreciation, amortization and impairments of fixed and intangible assets	460	447
Other non-cash items	1,759	(5)
Underwriting activities:	9,493	14,959
<i>Reserves for insurance contracts, gross</i>	4,989	10,629
<i>Reinsurers' share of reserves for insurance contracts</i>	1,011	43
<i>Liabilities for investment contracts</i>	4,204	6,163
<i>Deferred policy acquisition costs</i>	(890)	(1,085)
<i>Deferred origination costs</i>	(32)	(31)
<i>Deposits made under assumed reinsurance contracts</i>	434	820
<i>Deposits received under ceded reinsurance contracts</i>	(223)	(1,580)
Investments:	(14,343)	(16,586)
<i>Net capital gains on investments and impairments</i>	(10,739)	(13,382)
<i>Net change in trading securities</i>	(351)	383
Sales and maturities:		
<i>Debt securities</i>	58,544	72,771
<i>Equity securities</i>	46,044	41,585
<i>Other (primarily other investments)</i>	32,115	12,410
Purchases:		
<i>Debt securities</i>	(61,193)	(75,364)
<i>Equity securities</i>	(46,191)	(41,417)
<i>Other (primarily other investments)</i>	(32,572)	(13,572)
Movement in receivables and payables	324	779
Net changes in other operational assets and liabilities	(1,740)	(1,104)
Deferred income tax, net	305	867
Net cash provided by operating activities	743	2,468
Cash flows from investing activities		
Sales of fixed assets	79	216
Purchases of fixed assets	(280)	(339)
Investments in associates, net	243	75
Acquisitions of companies, net of cash acquired	–	(1)
Divestments of companies, net of cash balances	–	40
Dividends from associates	12	–
Net cash provided by/(used in) investing activities	54	(9)

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	2006	2005
Cash flows from financing activities		
Proceeds from sale and repurchase agreements	116	836
Dividends paid	(581)	(64)
Nominal value reduction of share capital	(276)	(449)
Redemption of preferred securities and repayments to minority interests	(802)	12
Issuance of debt	311	2,576
Payments on debt outstanding	(592)	(274)
Net change of debt for capital markets and banking activities	(219)	(1,784)
Net cash (used in)/provided by financing activities	(2,043)	853
Foreign currency translation effects on cash and cash equivalents	1,637	(1,661)
Change in cash and cash equivalents excluding change in cash received as collateral for securities lending	391	1,651
Change in cash received as collateral for securities lending	(751)	(626)
Cash and cash equivalents as of January 1, including cash received as collateral for securities lending	23,482	22,457
Cash and cash equivalents as of December 31, including cash received as collateral for securities lending	23,122	23,482
Other supplementary cash flow disclosures		
Other interest income received	7,760	7,605
Dividend income received	2,289	1,833
Other interest expense paid	(1,504)	(1,502)
Income tax paid	(2,564)	(1,234)

As of December 31, 2006 and 2005, cash and cash equivalents restricted as to use were USD 423 million and USD 331 million, respectively. Cash and cash equivalents held for the benefit of policyholders in connection with unit-linked products amounted to USD 5,696 million and USD 4,758 million as of December 31, 2006 and 2005, respectively. Cash received as collateral for securities lending was USD 3,820 million and USD 4,571 million as of December 31, 2006 and 2005, respectively.

Cash and cash equivalents	in USD millions, as of December 31	2006	2005
Cash and cash equivalents comprise the following:			
Cash at bank and in hand		7,815	5,075
Cash equivalents		11,487	13,836
Cash held as collateral for securities lending		3,820	4,571
Total		23,122	23,482

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

Consolidated statements of equity

in USD millions

	Share capital	Treasury shares	Additional paid-in capital	
Balance as of December 31, 2004	635	(1)	10,288	
Write-off of negative goodwill (IFRS 3)	–	–	–	
Change in net unrealized gains/(losses) on investments (excluding currency translation adjustments)	–	–	–	
Currency translation adjustments	–	–	–	
Change in net unrealized gains/(losses) on investments not recognized in the income statement	–	–	–	
Distribution to shareholders:				
Nominal value reduction of share capital	(449)	–	–	
Dividends	–	–	–	
Share-based payment transactions	–	–	16	
Treasury share transactions	–	1	11	
Net income after taxes	–	–	–	
Net changes in capitalization and minority interests	–	–	–	
Balance as of December 31, 2005	186	–	10,315	
Change in net unrealized gains/(losses) on investments (excluding currency translation adjustments)	–	–	–	
Currency translation adjustments	–	–	–	
Change in net unrealized gains/(losses) on investments not recognized in the income statement	–	–	–	
Issuance of share capital	1	–	103	
Distribution to shareholders:	–	–	–	
Nominal value reduction of share capital ¹	(177) ¹	–	–	
Dividends	–	–	–	
Redemption of preferred securities ²	–	–	–	
Share-based payment transactions	–	–	29	
Treasury share transactions	–	–	1	
Net income after taxes	–	–	–	
Net changes in capitalization and minority interests	–	–	–	
Balance as of December 31, 2006	10	–	10,448	

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 payment to shareholders was made on July 4, 2006. The nominal value reduction of share capital in USD is adjusted for cumulative translation adjustments.

² Zurich RegCaPS Funding Trust I repaid USD 425 million of Trust Capital Securities I to investors on March 30, 2006 and on April 11, 2006, and Zurich Financial Services (Jersey) Ltd. repaid EUR 300 million of Series A Preference Shares to investors on March 16, 2006.

The number of common shares issued was 144,749,399 as of December 31, 2006, and 144,006,955 as of both December 31, 2005 and 2004.

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	Retained earnings	Common shareholders' equity	Preferred securities	Total shareholders' equity	Minority interests	Total equity
	1,144	743	6,610	19,419	1,096	20,515	840	21,355
	-	-	23	23	-	23	-	23
	81	-	-	81	-	81	7	88
	(86)	(854)	-	(940)	-	(940)	(125)	(1,065)
	(5)	(854)	-	(859)	-	(859)	(118)	(977)
	-	-	-	(449)	-	(449)	-	(449)
	-	-	-	-	(46)	(46)	(18)	(64)
	-	-	-	16	-	16	-	16
	-	-	-	12	-	12	-	12
	-	-	3,168	3,168	46	3,214	116	3,330
	-	-	-	-	-	-	(6)	(6)
	1,139	(111)	9,801	21,330	1,096	22,426	814	23,240
	(415)	-	-	(415)	-	(415)	(6)	(421)
	95	934	-	1,029	-	1,029	23	1,052
	(320)	934	-	614	-	614	17	631
	-	-	-	104	-	104	-	104
	-	-	-	-	-	-	-	-
	-	-	-	(177)	-	(177)	-	(177)
	-	-	(524)	(524)	(44)	(568)	(6)	(574)
	-	-	-	-	(425)	(425)	(355)	(780)
	-	-	-	29	-	29	-	29
	-	-	-	1	-	1	-	1
	-	-	4,483	4,483	44	4,527	98	4,625
	-	-	-	-	-	-	(43)	(43)
	819	823	13,760	25,860	671	26,531	525	27,056

The Board of Directors of Zurich Financial Services has authorized on February 14, 2007, 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, 2007.

1. Basis of presentation

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 holding company, Zurich Financial Services, is incorporated in Zurich, Switzerland. The Group operates through subsidiaries and branch offices. 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. Significant estimates are discussed in note 5. Actual results may differ from the estimates made.

The revised accounting standards, discussed in note 3, did not result in the restatement of previously published consolidated financial statements. However, 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 format of the consolidated statements of cash flows has been changed from prior year. Cash flows relating to sales, maturities and purchases of debt and equity securities and other investments are now included in net cash provided by operating activities; these items were previously included in net cash used in investing activities. This change was made as the Group believes that the underlying transactions relate to principal revenue producing activities rather than to expenditures for resources intended to generate future income and cash flows. Without this adjustment the net cash provided by operating activities would be USD 3,996 million (2005: USD 6,055 million) and net cash used in investing activities would be USD 3,199 million (2005: USD 3,596 million).

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

The following balances are generally classified as 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, reserves for unit-linked products, liabilities for investment contracts and deferred tax liabilities.

The following balances are of a mixed nature (including both current and non-current portions): debt securities, mortgage loans, policyholders' collateral and 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, derivative trading assets and other assets, mortgage loans given as collateral, fixed assets, 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, obligation to repurchase securities, derivative liabilities and 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: debt securities (table 7.3), derivative assets and derivative liabilities (tables 9.1 and 9.2), reserves for losses and loss adjustment expenses (table 11.9), future life policyholders' benefits (table 11.9) and outstanding debt (table 22.3).

All amounts in the notes are shown in USD millions, rounded to the nearest million unless otherwise stated.

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
- Global Life
- Farmers Management Services
- Other Businesses, and
- Corporate Functions.

In 2005, the Group's primary reporting segments were defined as General Insurance, Life Insurance, Farmers Management Services, Other Businesses and Corporate Functions. The only change to the primary segments in 2006 was to rename Life Insurance as Global Life. However, to be consistent with the Group's management structure, the following transfers between primary segments have been made for 2006 financial reporting:

- Kemper Corporation and Kemper Real Estate Inc. from Corporate Functions to Other Businesses
- Zurich Compagnie d'Assurances Luxembourg, Zurich Corporate Solutions Switzerland from General Insurance to Other Businesses
- Zurich Specialties London from General Insurance to Other Businesses
- Eagle Star Insurance Company Limited. from General Insurance to Other Businesses

The 2005 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

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 realized capital gains, which are eliminated.

2. 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 the years presented unless otherwise stated.

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% of the outstanding voting rights, or which it otherwise has the power to control. 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.

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% and 50% of the outstanding voting rights.

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

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 are deemed to be possible.

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:

- 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 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 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.

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.

Premiums

Premiums from the sale of general insurance products are recorded when written and 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 recorded as 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

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.

Deferred policy acquisition costs for participating traditional life insurance contracts are 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.

Deferred policy acquisition costs 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.

Deferred policy acquisition costs for investment type 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 impact on the deferred policy acquisition cost asset of the change in unrealized gains or losses on investments is recognized through an offset to unrealized gains or losses at the balance sheet date.

Unamortized deferred policy acquisition costs 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 off.

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 deferred policy acquisition cost asset is written down by the amount of the deficiency. If, after writing down the deferred policy acquisition cost asset to nil (for the portfolio of contracts), a premium deficiency still exists, then a premium deficiency reserve is recorded to provide for the deficiency in excess of the deferred policy acquisition cost asset written down.

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 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 for traditional life insurance policies and for certain unit-linked contracts, respectively.

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.

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 adjustment to future life policyholder's benefits and related assets is 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 contract holder 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 products are recorded as 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 annuitization options (GAO), additional liabilities are recorded in proportion with 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. 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 the income statement.

Reinsurance contracts are 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 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 recorded at inception at their fair value.

Liabilities for investment contracts (unit-linked)

These represent portfolios maintained to meet specific investment objectives of policyholders who bear the investment risk. The assets are classified as fair value through profit or loss. The liabilities are carried at fair value. 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 products with capital units is measured at the funded value of those units. At issue, the difference between the funded and unfunded value of units is treated as deferred revenue.

Liabilities for investment contracts (amortized cost)

These represent contracts which are not unit-linked. Liabilities 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 reflected in the income statement.

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 less than the amount payable on surrender, discounted for the required notice period, where applicable.

For investment contracts with fixed and guaranteed terms, the amortized cost basis is used. In this case, the liability is initially measured at its fair value minus transaction costs that are incremental and directly attributable to the acquisition or issue of the contract.

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. Farmers Group, Inc. and its subsidiaries (FGI) provides the following non-claims related management services to the Farmers Exchanges: 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 are charged to the client at inception. This approach is 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. Regular charges billed in advance are 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 that is offset against the financial liability when charged to the customer.

Interest income on financial assets that are not classified as 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.

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

e) Investments

Non-derivative financial instruments

Classification

Financial assets are classified into the following categories: "held-to-maturity", "fair value through profit or loss", "available-for-sale", or "loans and receivables". The classification depends on the purpose for which the investments were acquired.

Held-to-maturity financial assets are debt securities which the Group has the ability and positive intent to hold to maturity. Fair value through profit or loss has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. The fair value option is mainly used for financial assets backing unit-linked insurance and investment contracts to reduce measurement inconsistencies and certain investments that are managed on a fair value basis. Trading financial assets are debt and equity securities which the Group buys with the principal intention to resell in the near term. Derivatives are also classified as held for trading unless they are designated as hedges. The remaining debt and equity securities are classified as available-for-sale.

Loans and receivables, such as mortgage loans, policyholders' collateral and other loans, include loans where money is provided directly to the borrower, other than those that are originated with the intent to be sold in the short term, which are recorded in the trading category.

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

Measurement

Financial assets are initially recorded at fair value plus, in the case of a financial asset that is not at fair value through profit or loss, transaction costs directly attributable to the acquisition. Held-to-maturity financial assets

are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment. Fair value through profit or loss financial assets are subsequently carried at fair value, with changes in fair value recognized in the current period income. Available-for-sale financial assets are subsequently carried at fair value, with unrealized changes in fair value recorded in shareholders' equity. The cumulative unrealized gains or losses recorded in shareholders' equity are net of cumulative deferred income taxes, certain life policyholder liabilities, certain life deferred acquisition costs and minority interests. The realized gain or loss on divestment is 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 the current period income. The amortization of premium and accretion of discount on available-for-sale and held-to-maturity investments in debt securities is computed using the effective interest method and is recognized in current period income.

Investments backing certain life insurance policies with participation features are held as fair value through profit or loss in order to reduce measurement inconsistencies. Movements in the carrying value of these assets are recognized in current period income to match the offsetting amounts attributable to policyholders.

Loans and receivables are initially recorded at fair value and are subsequently measured at amortized cost using the effective interest rate method, less provision for impairment.

Investments held by investment companies are carried at fair value.

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

Impairments

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 considers an available-for-sale equity for impairment when the fair value of the security has been not insignificantly below the weighted-average cost for more than 12 months. 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 50% for any period of time.

The fair value of available-for-sale debt securities may fall temporarily below their carrying value, but, provided there is no risk resulting from changes in financial standing, an impairment is not recorded for such securities.

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 that had been recognized directly in shareholders' equity is removed from equity and recognized in current period income. 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.

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 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 is decreased through a charge to current period income. The amount of the impairment loss is the difference between the asset's carrying value and the present value of expected future cash flows discounted at the security's original effective interest rate.

The carrying amount of loans and receivables is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement.

Cash and cash equivalents

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. Cash and cash equivalents also includes cash received as collateral for securities lending. Cash and cash equivalents are stated at face value, with holdings of foreign notes and coins valued at year-end closing prices.

Real estate held for investment

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.

f) Derivative financial instruments

Derivative financial instruments are carried at fair value on the balance sheet as trading assets or liabilities. 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 (see below), changes in fair value are recognized in current period income.

Derivative financial instruments include interest rate, currency and total return swaps, futures, forwards and option contracts, all of which derive their value mainly from 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 that 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 pursuant to IAS 39.

Derivative financial instruments used for hedging

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

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 as if there was no hedging relationship.

Gains or losses from re-measuring of derivatives that are designated and qualify as fair value hedges are recognized immediately in the income statement. 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 the income statement. Where the adjustment is to the carrying amount of a hedged interest-bearing financial instrument carried at amortized cost, the adjustment is amortized to current period income such that it is fully amortized by maturity.

The effective portion of gain or loss on the re-measurement of a cash flow hedging instrument is recognized directly in shareholders' equity. The ineffective portion is recognized in current period income. When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognized, the associated gains or losses that had previously been recognized in shareholders' equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For other cash flow hedges, the gains or losses that are recognized in shareholders' equity are transferred to the income statement in the same period in which the item hedged affects the net profit and loss, for example, when the future sale actually occurs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.

g) 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 cashflows therefrom. These securities are therefore not derecognized from the Group's balance sheet.

h) Obligation to repurchase securities

Sales of securities under agreements to repurchase are accounted for as collateralized borrowing transactions and are recorded at their contracted repurchase amount plus accrued interest at the balance sheet date.

i) Debt issued

Debt issued by the Group is initially measured at cost, which is the fair value of the consideration received, net of transaction costs incurred. Subsequent measurement is at amortized cost, using the effective interest rate method to amortize cost at inception to the redemption value over the life of the debt.

For one of the Group's non-USD debt issuances fair value hedge accounting is applied. When hedge accounting is applied to debt issuances in a currency different than the functional currency of the entity, the carrying values of debt issues are adjusted for changes in fair values related to hedged exposure rather than carried at amortized cost.

j) Interest expense

Interest expense is recognized when incurred on an amortized cost basis.

k) Intangible assets

Goodwill

Acquisitions of subsidiaries and associates are accounted for under the purchase method, whereby the purchase price is allocated to the fair value of the Group's share of the identifiable assets and liabilities of the acquired subsidiary or associate at the date of acquisition with any residual amount allocated to goodwill. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to cash generating units for the purpose of impairment testing. The Group's cash generating units, on which impairment losses are assessed, are the reporting units. Goodwill is also tested for impairment whenever there is an indication that the associated cash generating unit may be impaired. For the purpose of the impairment testing, the recoverable amount of the cash generating unit will be determined. An impairment loss will be recorded if the recoverable amount is less than the carrying amount of the cash generating unit, including goodwill.

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 in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. The information considered includes 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.

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

As a result of certain acquisition of insurance businesses and the application of purchase accounting, the Group carried a customer contract intangible asset representing the present value of future profits from the acquired contracts or PVFP. 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.

Attorney-in-fact relationships (AIF)

At the date of the acquisition of FGI in 1988, a portion of the purchase price was assigned to the attorney-in-fact relationships. The asset representing the attorney-in-fact relationships reflects the ability of FGI 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. In addition, the Group considered the historical attorney-in-fact relationship between FGI and the Farmers Exchanges. The Group reviews the value of this intangible asset on an annual basis and also whenever there is a change in these circumstances.

Other intangibles

Other intangible assets have a definite useful life and are carried at cost less accumulated amortization and consist primarily of acquired brand names and software costs that meet the recognition criteria for capitalization. The costs of these assets are amortized using the straight-line method over the following estimated economic lives:

- brand names 20 years;
- software three to five years.

Impairments

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually 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 excess of the asset's carrying value over its recoverable amount. The recoverable amount is the higher of an asset's fair value less selling costs and value in use.

l) 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 recognized as deferred income taxes unless a distribution of those profits is not intended or would not give rise to a tax liability.

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 an 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 policies is included as income tax expense and an accrual for future policy fees to recover the tax charge is included in gross written premiums and policy fee revenue.

m) 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 as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are then recognized over the expected average remaining working lives of the employees participating in the plans. Contributions to defined contribution pension plans are charged to the income statement as they become due.

Other post-retirement 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 employee based upon the actuarially determined cost for the period.

n) Share-based compensation

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 the consolidated income statement 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, excluding the impact of any non-market vesting conditions (for example, profitability and premium income growth targets). Non-market vesting conditions 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 of original estimates, if any, in the income statement, and a corresponding adjustment to equity.

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.

o) Fixed assets

Real estate (buildings) held for own use and other fixed assets are carried at cost less accumulated depreciation and any necessary write-downs due to impairment. The costs of these assets are depreciated principally on a straight-line basis 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.

Real estate (land) held for own use is carried at cost less any necessary write-downs.

Maintenance and repair costs are charged to income as incurred. Costs of systems purchased from outside vendors and developed internally are deferred and amortized over expected useful lives up to five years. Gains and losses on the disposal of fixed assets and real estate held for own use are determined based on their respective carrying amounts and recorded in income.

p) 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 are charged to the income statement on a straight-line basis over the lease term.

q) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable 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.

r) Treasury shares

Zurich Financial Services shares held by the Group are classified as treasury shares and are deducted from equity at its nominal value. The differences between the nominal value and the amount paid for acquiring, or received

for disposing of treasury shares, are recorded as an adjustment to additional paid-in capital in shareholders' equity.

s) 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 US dollar. Assets and liabilities of Group companies with functional currencies other than US dollars 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, non-monetary items which are carried at historical cost denominated in a foreign currency 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.

The table below summarizes the principal exchange rates that have been used for translation purposes. Net losses on foreign currency transactions included in the consolidated income statements were USD (115) million and USD (71) million for the years ended December 31, 2006 and 2005, respectively. Foreign currency exchange forward and swap gains and (losses) included in the amounts above were USD 154 million and USD (453) million for the years ended December 31, 2006 and 2005, respectively.

Table 2

USD per foreign currency unit

Principal exchange rates

	Balance sheets as of		Income statements and cash flows for the years ended	
	12/31/06	12/31/05	12/31/06	12/31/05
Euro	1.3199	1.1849	1.2552	1.2447
Swiss franc	0.8203	0.7614	0.7980	0.8039
British pound sterling	1.9589	1.7228	1.8415	1.8200

3. Implementation of new accounting standards and amendments to published accounting standards effective in 2006 and 2005

2006 implementation of amendments to published standards

The Group has implemented several amendments to accounting standards within the International Financial Reporting Standards (IFRS) framework, which became effective January 1, 2006. However these changes did not have a material impact on the Group's Financial Statements.

In December 2004, the IASB released a revised version of IAS 19 "Employee Benefits". The amendment to IAS 19 introduces an additional option for actuarial gains and losses arising in post-employment defined benefit plans to be recognized outside profit or loss providing all of the actuarial gains and losses for all defined benefit plans are recognized in the period in which they occur. It also adds new disclosure requirements. As the Group has not changed the accounting policy adopted for recognition of actuarial gains and losses, adoption of this amendment only impacts the format and extent of disclosures presented in note 25 to the consolidated financial statements.

In June 2005, the IASB issued amendments to IAS 39 "Financial Instruments: Recognition and Measurement" in relation to the fair value option, which is effective for accounting periods beginning on or after January 1, 2006. This amendment restricts the possibility to designate instruments at fair value through profit and loss that are not held for trading or derivatives. This amendment had no implication for the Group, since the Group had already applied the restrictions of the fair value option and all instruments that it had previously designated at fair value through profit and loss meet the conditions for designation.

In December 2005, IAS 21 "The Effects of Changes in Foreign Exchange Rates" has been amended to require that exchange differences arising in consolidation on loan financings that form part of a net investment in a foreign operation and are denominated in another currency than the functional currencies of both the reporting entity and the foreign operation, are reclassified to equity in the consolidated financial statements of the reporting entity. This amendment had no significant impact on the Group's financial position or results.

IFRIC 4 "Determining whether an Arrangement Contains a Lease", which has become effective for accounting periods beginning on or after January 1, 2006, did not have a material impact on the Group's Financial Statements.

Forthcoming changes in accounting standards

In August 2005, the IASB released IFRS 7 "Financial Instruments: Disclosures". IFRS 7 is effective January 1, 2007. IFRS 7 applies to all risks arising from all financial instruments, except those covered by another more specific standard such as interests in subsidiaries, associates and joint venture, post-employment benefits, share-based payment and insurance contracts. IFRS 7 requires disclosure of:

- a) the significance of financial instruments for an entity's financial position and performance. These disclosures incorporate many of the requirements previously in IAS 32.
- b) qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The qualitative disclosures describe management's objectives, policies and processes for managing those risks. The quantitative disclosures provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Together, these disclosures provide an overview of the entity's use of financial instruments and the exposures to risks they create.

In November 2006 the IASB released IFRS 8 "Operating Segments". IFRS 8 is effective January 1, 2009. IFRS 8 sets out the requirements for disclosure of information about an entity's operating segments, as well as about the entity's products and services, the geographical areas in which it operates, and its major customers.

In September 2005, the AICPA issued Statement of Position 05-01 (SOP 05-01) "Accounting by Insurance enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts", effective for modifications or exchanges of insurance contracts in fiscal years beginning after December 15, 2006. SOP 05-01 provides guidance on accounting by insurance enterprises for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in FASB Statement of Financial Accounting Standards No. 97 "Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments".

IFRIC 8, "Scope of IFRS 2," is effective for annual periods beginning on or after May 1, 2006. IFRIC 8 requires consideration of transactions involving the issuance of equity instruments where the identifiable consideration received is less than the fair value of the equity instruments issued to establish whether they fall within the scope of IFRS 2.

IFRIC 9, "Reassessment of Embedded Derivatives," is effective for annual periods beginning on or after June 1, 2006. IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required.

IFRIC 10, "Interim Financial Reporting and Impairment," is effective for annual periods beginning on or after November 1, 2006. IFRIC 10 prohibits the impairment losses recognized in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date.

IFRIC 11, "IFRS 2 – Group and Treasury Share Transactions," is effective for annual periods beginning on or after March 1, 2007. IFRIC 11 requires that share-based transactions in which an entity receives services as consideration for its own instruments shall be accounted for as equity settled. This is regardless of whether the entity meets this obligation by purchasing the equity instruments from another party or whether the obligation is met by the entity itself or its shareholders. IFRIC 11 also requires that where share based payments to employees are met by another group entity, provided that the arrangement is accounted for as equity-settled in the consolidated financial statements of the parent, the entity shall also account for this as equity settled.

The Group has analyzed the impact of IFRS 7 on its disclosures, as well as the related data collection requirements, in preparation for adopting this standard for its financial year beginning January 1, 2007. Based on the analysis performed up to December 31, 2006, IFRS 7 will not have an impact on the Group's financial position or results.

The Group continues to analyse the impact of IFRS 8.

The Group is in the process of assessing the impact of SOP 05-01 and the IFRICs on its financial position, results or disclosures.

2005 implementation of new accounting standards and adjustments

The main restatement adjustments for the Group resulted from the adoption of IFRS 4, which relates to the definition of an insurance contract. They primarily affect the accounting treatment of the Group's life business which impacts both the Group's consolidated balance sheet and income statement. The (IASB) issued IFRS 4 "Insurance Contracts" on March 31, 2004. The standard applies to all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds, except for specified contracts covered by other IFRS standards. The most significant change as a result of the adoption of the standard is the reclassification of certain contracts as financial instruments and hence application of IAS 39 to these contracts. IFRS 4 does not provide comprehensive guidance on the accounting treatment for insurance contracts and as such the Group will continue to apply US GAAP in certain circumstances where IFRS is silent.

IAS 39, "Financial Instruments: Recognition and Measurement," was revised in December 2003 as part of the IASB's project to improve IAS 32, "Financial Instruments: Disclosure and Presentation," and IAS 39. Further amendments were made in 2005 and 2004. These changes related to Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk.

The IASB issued IFRS 3, "Business Combinations," on March 31, 2004. In accordance with the transitional provisions of the standard, the Group has applied this standard to business combinations for which the agreement date is on or after March 31, 2004. The remaining requirements of IFRS 3 were adopted as of January 1, 2005.

IAS 36, "Impairment of Assets," and IAS 38, "Intangible Assets," were revised in March 2004 by the IASB as part of the Business Combinations project. Consistent with the group's adoption of IFRS 3, the revised standards were adopted as of January 1, 2005.

The IASB issued IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations," on March 31, 2004. The standard adopts the classification "held for sale", introduces the concept of a disposal group, and specifies that assets or disposal groups that are classified as held for sale are carried at the lower of carrying amount and fair value less costs to sell. It also replaced IAS 35, "Discontinuing Operations," regarding the accounting treatment for discontinued operations.

IAS 27, "Consolidated and Separate Financial Statements," was revised in March 2004. The adoption of the revised guidance with respect to the consolidation requirements of venture capital organizations, mutual funds and similar entities resulted in an equivalent gross up of the Group's assets and liabilities to reflect the liabilities to third parties and minority interests. Also, IAS 27 revised requires the disclosure of minority interests within equity separately from shareholders' equity.

The accounting policy for securities lending was changed, primarily driven by the revised IFRS which led the Group to review its previous policy and make changes to the criteria for recognizing collateral received as part of securities lending arrangements. As a result of the Group having future economic benefits and retaining significant risk and rewards of the cash collateral received, the Group now recognizes both cash collateral and an equal and offsetting liability related to the cash collateral. No income effect resulted from the change in this policy.

All changes in accounting policies have been made in accordance with transitional provisions in the respective standards.

4. Changes in the scope of consolidation

During the years ended December 31, 2006 and 2005, the Group completed divestments of several businesses and recognized post-completion adjustments on divestments made in the previous year.

Table 4

in USD millions, for the years ended December 31

Net loss on divestments	2006	2005
Consideration received	–	129
Less: net assets divested	–	(138)
Fair value adjustment for portfolio transfer	(66)	–
Other income related to divestments	23	7
Net loss on divestments before tax	(43)	(2)
Tax effect	(9)	(1)
Net loss on divestments after tax	(52)	(3)
Net assets divested		
Cash and cash equivalents	–	89
Other assets	–	236
Insurance liabilities	–	(54)
Other liabilities	–	(133)
Net assets divested	–	138

Changes in 2006

For the year ended December 31, 2006, the Group recorded the 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.

On December 19, 2006, the Group announced the signing of an agreement for the purchase of all remaining shares in the insurance intermediary Endsleigh Limited in the United Kingdom. Since 2002 the Group has held 45% of Endsleigh's stock. The transaction was closed on January 2, 2007. On December 22, 2006, the Group announced the signing of an agreement for the purchase of 100% of the Spanish surety writer ACC Seguros y Reaseguros de Danos, S.A. The transaction is expected to be closed in the first quarter 2007. As both transactions did not close in 2006, they did not have an impact on the scope of consolidation.

Changes in 2005

The Group completed the following sales: 100% of the share capital of Claims Management Group Limited, the Group's equity stake in ZC Sterling Corporation, 10% of the total issued share capital of South African Eagle Insurance Company Limited (SA Eagle) and the Group's interest in Zurich National Life Assurance Company Limited in Thailand. Additionally, the Group acquired the life business portfolio of ING Insurance Argentina.

In 2005, the companies and businesses divested did not materially contribute to the Group's net income attributable to shareholders.

5. 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, deferred policy acquisition costs, deferred taxes and pension benefits. 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.

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 10 and 11 for further information on reserves for losses and loss adjustment expenses.

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 10 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. The extent that actual surrenders are different from the Group's estimates is the most critical factor in the fair valuation process. 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 7, 8, 9 and 21 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. Impairments are measured as the difference between the cost (or amortized cost) of a particular asset and the current fair value or the recoverable amount.

For quoted available-for-sale financial assets the decision to make an impairment provision is based on a review of the issuer's current financial position and future prospects and an assessment of the probability that the current market price will recover to former levels within the foreseeable future. The recoverable amount is determined by reference to the market price. For non-quoted available-for-sale financial assets, the Group takes into consideration the issuer's current financial position and future prospects in determining whether an impairment provision is required. The recoverable amount is determined by applying recognized valuation techniques.

Impairments are recorded in the current period income statement when they occur.

Refer to notes 7, 16, 18, 19 and 20 for further information on impairments of assets.

e) 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 15 for further information on deferred policy acquisition costs.

f) 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 18 for further information on deferred taxes.

g) Pension plans

The Group operates a number of defined benefit pension 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 25 for further information on defined benefit pension plans.

6. Analysis of risk

As a major, global insurance carrier, the Group helps customers around the world to manage a broad range of business and personal risks. In turn, the Group faces a number of risks. These risks include, but are not limited to:

- Insurance risk – risk transferred to us by customers through the underwriting process.
- Credit risk – risk associated with a loss or potential loss from a counterparty failing to fulfill its financial obligations related to the investment portfolio, reinsurance assets and other exposures.
- Financial market and asset / liability (ALM) mismatch risk – risk associated with the Group's investment portfolio, the relative duration of assets and liabilities and currency fluctuations.

There are other risks such as operational risk. Information regarding operational risk is contained in the risk management section of the Corporate Review.

The Board of Directors establishes the Group's corporate risk management framework. Zurich's enterprise risk management framework was further strengthened in 2006 through the establishment of a Risk Committee at Board level. The Risk Committee serves as a focal point for oversight regarding risk management. It reviews the Group's enterprise-wide risk governance framework, including risk management methodologies, policies, models and reporting and risk strategy. To facilitate information exchange between the Audit Committee of the Board and the Risk Committee, the chairperson of the Audit Committee is a member of the Risk Committee and vice versa. The Risk Committee of the Board assesses whether management is addressing risk issues in a timely and appropriate manner. The Group Chief Risk Officer regularly reports to the Risk Committee of the Board regarding the Group's risk profile and mitigation actions.

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

The Chief Executive Officer, together with the Group Executive Committee, oversees the Group's performance with regard to its risk management policies as well as the further development of these policies when required. The Group Chief Risk Officer reports to the Chief Executive Officer. The Group also benefits from the cooperation of its network of risk management and functional specialists within each business as well as at Corporate Center, where it has dedicated managers for various types of risk.

Group-wide risk management policies specify risk limits and authorities, reporting requirements, and procedures for referring risk issues to senior management. The Group regularly monitors its risks through analyses and reports, and through relevant risk modeling.

The Group systematically and regularly assesses risks through its proprietary Total Risk Profiling process, which allows the Group to evaluate the probability of a risk scenario occurring and the severity of the consequences should it occur. The Group then develops, monitors and implements appropriate improvement actions.

In addition to risk-specific monitoring and modeling the Group deploys a risk based capital (RBC) model to assess the economic capital consumption of its business. The Group defines risk-based capital as the capital needed to protect the Group's policyholders against the worst-case loss (which the Group calibrates according to its financial strength target of AA at a one-in-2000 probability of occurring over a one year time horizon; this translates to a 99.95% confidence level). The Group continues to embed RBC modeling into its organization and decision-making, such as allocating capital to its General Insurance lines of business for pricing purposes. The Group also builds on the internal RBC model to fulfill new regulatory requirements regarding the Swiss Solvency Test, which establishes risk based economic solvency requirements.

a) Insurance risk

The Group assumes certain customer risks, and therefore must manage that transfer of risk including the establishment of limits for underwriting authority and 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 across industries and geographic regions in which the Group operates.

The Group uses a variety of reserving and modeling methods to address the various insurance risks inherent in its general and life insurance business.

The Group has centralized the management of treaty reinsurance for General Insurance and closely monitors emerging issues that may affect its overall risk exposures, such as new areas of liability. The Group models and estimates risk associated with natural catastrophes and monitors potential exposures to man-made catastrophes.

General insurance risks

General insurance risk includes the reasonable possibility of significant loss due to uncertainty of the frequency of insured events occurring and the uncertainty of the severity of the resulting claims.

The table below shows the Group's concentration of risk within the General Insurance segment by region based on direct written premiums. The Group's exposure to general insurance risks varies significantly by geographic region and may change over time.

Table 6.1

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

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

	Motor	Property	Third Party Liability	Accident and Health	Other ²
North America	1,967	2,541	4,974	354	4,459
Europe	6,278	4,228	2,890	1,171	913
International Businesses ¹	898	623	204	746	432
Total	9,143	7,392	8,068	2,271	5,804

¹ Including intercompany eliminations

² Including policy fees of USD 44 million (Europe USD 27 million and International Businesses USD 17 million)

Table 6.2

in USD millions,
for the year ended December 31, 2005

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

	Motor	Property	Third Party Liability	Accident and Health	Other ²
North America	1,912	2,322	5,242	391	4,291
Europe	6,235	4,167	2,934	1,077	844
International Businesses ¹	880	570	231	743	352
Total	9,027	7,059	8,407	2,211	5,487

¹ Including intercompany eliminations

² Including policy fees of USD 44 million (Europe USD 27 million and International Businesses USD 17 million)

The main risks in each line of business are as follows:

- Motor includes, but is not limited to, auto physical damage and auto third party liability risks;
- Property includes, but is not limited to, fire and flood risks;
- Third Party Liability includes, but is not limited to, the liability risks, such as workers injury, from the Group's customers. Premiums underwritten in this line of business have included cover for risks such as asbestos and environmental risks. The reserves arising from these risks are shown in note 11;
- Accident and Health includes, but is not limited to, the accident and health insurance risks from the Group's personal customer segment; and
- Other includes, but is not limited to, other risks such as credit and surety, marine and aviation.

In addition to the specific risks insured, the lines of business 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, earthquakes, and river floods.

Man-made catastrophes include 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.

Life insurance risk

The risks associated with life insurance include:

- biometric risk, that is the reasonable possibility of significant loss due to uncertainty of rates of deaths and rates of disability among policyholders;
- risk due to movements in financial markets, i.e. investment returns and interest rate risk. These are managed under the market and ALM risk;
- risk due to financial policyholder behavior, for instance surrenders or lapses. This may be associated with the risks described above or may be independent; and
- risk due to adverse development of expenses.

The table below shows the Group's concentration of risk within the Global Life segment by region based on direct written premiums. The Group's exposure to life insurance risks varies significantly by geographic region and may change over time.

Table 6.3

Life Insurance – Direct written premiums and policy fees by line of business and by region	in USD millions, for the year ended December 31, 2006			
	Individual ²	Group	Accident and Health	Unit-Linked ³
North America	368	–	–	260
Europe	4,612	1,822	1	2,491
International Businesses ¹	273	68	105	153
Total	5,253	1,890	106	2,904

¹ Including intercompany eliminations

² Including individual annuity and individual life

³ Including policy fees of USD 2,333 million (North America USD 260 million, Europe USD 1,920 million and International Businesses USD 153 million)

Table 6.4

Life Insurance – Direct written premiums and policy fees by line of business and by region	in USD millions, for the year ended December 31, 2005			
	Individual ²	Group	Accident and Health	Unit-Linked ³
North America	328	–	11	256
Europe	4,895	2,053	54	2,334
International Businesses ¹	243	58	92	123
Total	5,466	2,111	157	2,713

¹ Including intercompany eliminations

² Including individual annuity and individual life

³ Including policy fees of USD 2,060 million (North America USD 256 million, Europe USD 1,681 million and International Businesses USD 123 million)

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. Longevity risk is the risk that an annuitant may live longer than expected. Individual life includes, but is not limited to, mortality, morbidity and interest rate risks arising on personal life insurance contracts. Mortality risk is the risk that a policyholder dies sooner than expected. Morbidity risk is the risk that a policyholder suffers disability.
- Group includes, but is not limited to, mortality, morbidity, longevity and interest rate risks arising on commercial death, disability and annuity insurance contracts.
- Accident and Health includes, but is not limited to, mortality, morbidity and interest rate risks arising on accident and health insurance contracts.
- Unit-linked includes, but is not limited to, significant 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 insured, all these lines expose the Group to lapse, surrender and expense risks.

Certain of the products above 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 03-01 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.

Refer to note 11 for details of the carrying value of the liability relating to these products and its development.

b) Credit risk

The Group has identified reinsurance assets and debt securities as its main sources of credit risk.

As part of its overall risk management strategy, the Group cedes insurance risk via proportional, non-proportional and specific risk reinsurance treaties. While these cessions mitigate insurance risk, the recoverable from reinsurers exposes the Group to credit risk.

The Group typically cedes new business to authorized reinsurers that are rated at least BBB. The premiums ceded shown in the table below, that are below investment grade or not rated, relate mainly to former transactions, pools and captives.

The reinsurance assets in the table below include USD 8,974 million for which the Group has collateral. Included in the collateral are credit default swaps that the Group bought to mitigate credit risk with some of its large reinsurers. The Group only accepts high quality collateral such as cash or letters of credit from banks rated A and above. The average credit quality of the net reinsurance assets (including Receivables but after the deduction of collateral) was A- at December 31, 2006.

Table 6.5

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

Reinsurance premiums ceded and assets by rating of reinsurer	Amounts ceded	as % of total	Reinsurance assets ¹	as % of total
	Rating			
AAA	272	4.7%	606	2.8%
AA	1,817	31.3%	8,045	37.8%
A	1,768	30.4%	7,572	35.5%
BBB	618	10.6%	2,761	13.0%
BB	149	2.6%	189	0.9%
B	119	2.0%	221	1.0%
Unrated	1,068	18.4%	1,910	9.0%
Total	5,811	100.0%	21,304²	100.0%

¹ Including receivables from reinsurers.

² Including collateral of USD 8,974 million.

The Group is also exposed to credit risk from third party counterparties where the Group holds debt and/or equity in those companies. Counterparty concentrations are managed by issuer, industry, country, seniority and credit rating. Credit risks related to the debt issuers are assessed and monitored. The Group's credit risk policy stipulates single counterparty limits and a minimum average rating of the debt portfolio as well. Credit exposure to counterparties rated below investment grade requires specific approval.

Table 6.6
in USD millions, as of December 31, 2006

Debt securities by rating of issuer

Rating	Debt securities	as % of total
AAA	77,122	61.0%
AA	16,905	13.4%
A	24,318	19.2%
BBB	6,851	5.4%
BB	491	0.4%
B	130	0.1%
Unrated	618	0.5%
Total	126,435¹	100.0%

¹ Excluding debt securities for unit-linked contracts.

The overall average rating of our debt portfolio is AA+. The largest concentration in our debt portfolio is in governments and supranationals at 44.3%. A total of 59.1% of the non-government and non-supranational debt securities are secured by government guarantee or other collateral.

The Group routinely manages credit exposures by individual counterparty and by individual sources of credit risk. In addition the Group monitors the accumulation of credit risk and limits the aggregated exposure across related counterparties and significant types of credit risk. The exposure from parent companies and subsidiaries across such sources of credit risk as reinsurance assets, various types of investments and certain insurance products, derivatives and treasury instruments is added together. Best estimates, based on statistics and experience are used, to assign loss-given-default percentages and factors for the likelihood that a default would occur. The aggregated exposure information is compared to the Group's limits. The Group Chief Risk Officer regularly reports the 20 largest exposures in every rating category to the Risk Committee of the Board.

In the case of 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. The Group controls the credit risk of its outstanding positions with external counterparties through approval processes 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. Almost all derivatives have CSA (Credit support annex) in place which will require the counterparties to post collateral when the derivative position is beyond an agreed threshold.

In addition to reinsurance assets and debt securities, another source of credit risk for the Group is third party brokers, agents and other intermediaries. The Group's credit risk exposures to third party brokers, agents and other intermediaries arises where those intermediaries collect premiums from customers to be paid to the Group or pay claims to customers on behalf of the Group. For details of the amounts receivable from brokers, agents and other intermediaries refer to note 16.

c) Financial market and ALM risk

The Group is exposed to changes in interest rates, currency exchange rates, equity and real estate markets, as these changes can affect the value of assets and liabilities and margins depending on the pricing structure.

The Group regularly measures and manages its financial market and ALM risk exposure. The Group has limits in place on 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 determines the Group's Strategic 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 and ALM

risks both on a Group and a local business level. Risk assessment includes quantification of the contributions to financial market and ALM risk from all major risk drivers. Risk reviews include the analysis of three 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.

Breakdowns of total investments are shown in note 7.

Table 6.7 below shows, both for the General Insurance Businesses and Life Insurance Businesses, the estimated impacts on total investments, reserves for insurance contracts and liabilities for investment contracts (including unit-linked contracts) and net assets of a one percentage point increase in yield curves and a 10% decline in all stock markets as of December 31, 2006. All amounts shown are before taxation effects.

Table 6.7

in USD millions, as of December 31, 2006

Interest rate and equity market sensitivities for the Group's general insurance and life insurance businesses		
	General Insurance Business	Life Insurance Business
1% increase in the interest rate yield curves		
Total investments	(2,205)	(4,432)
Reserves for insurance contracts and liabilities for investment contracts	–	(3,328)
Net assets	(2,205)	(976)
10% decline in stock markets		
Total investments	(446)	(8,383)
Reserves for insurance contracts and liabilities for investment contracts	–	(7,718)
Net assets	(446)	(642)

Negative values indicate a decrease to the balance. Positive values indicate an increase to the balance.

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. Some of the above impacts have been estimated after taking into account changes that would be absorbed by policyholders.

In addition to the interest rate risk exposure for debt securities, the Group is exposed to interest rate risk on its reserves for insurance contracts, liabilities for investment contracts and floating rate borrowings.

General insurance reserves are not discounted other than for settled claims with fixed payment terms, therefore interest rate risks to the Group on these reserves are not significant.

Returns on unit-linked contracts, whether classified as insurance or investment contracts, are for the risk of the policyholder, therefore interest rate risks to the Group on these liabilities are not significant.

Most of the Group's debt is subject to fixed interest rates, which may be adjustable during the course of the term. No adjustments are made to the principal value of the debt for changes in the yield curve. However, an increase in interest rates would result in an increase to the Group's interest expense on floating rate debt.

Currency risk

As an international group, the Group is exposed to various currency risks. Most prominently, those risks can affect its liquidity, its reported profits and losses, its reported equity and its regulatory capital position. The Group attempts to minimize its currency risk by matching foreign currency positions on local balance sheets within prescribed limits. Because the Group holds a portfolio of risks from its businesses denominated in various currencies, the Group also holds its available capital in various currencies. 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.

The table below shows the Group's top three functional currencies, other than the US dollar, and the approximate effect on net assets and on shareholders' equity of an instantaneous adverse movement in currency exchange rates of 10%.

Table 6.8

Effect of a 10% adverse movement in the exchange rate on the net assets of the Group's top 3 functional currencies other than the US dollar	Effect on net assets of a 10% movement
Functional currency	
Euro	1.7%
Swiss Francs	0.6%
British Pounds	2.1%

The effect on shareholders' equity of a 10% movement in the exchange rate, is similar to that of the effect on the movements on net assets.

Net gains and losses on foreign currency transactions included in the consolidated income statements for the years ended December 31, 2006 and 2005 are shown in note 2 s).

Derivative financial instruments

The Group uses derivative financial instruments to manage risks related to its capital, assets and liabilities and its commitments to third parties. The Group uses derivative financial instruments to mitigate the risks posed by changes in foreign currency rates, interest rates and credit quality. The Group addresses the risks posed by derivatives through a stringent policy that requires approval of a derivative program before transactions are initiated, and by monitoring open positions. If the Group were required to settle outstanding derivative positions, the sum of gains and losses would not be material to the Group as of December 31, 2006.

Zurich Capital Markets (ZCM) has portfolios of derivative products, including total return swaps, for the benefit of their customers and their investment books. ZCM's positions on derivative financial instruments are separately reported in note 9.

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.

Table 6.9

Effective interest rates on selected assets and liabilities

for the years ended December 31	2006	2005
Debt securities	4.4%	4.3%
Liabilities for investment contracts (amortized cost)	3.6–8.0%	5.0%–7.9%
Future policyholders' benefits reserves	2.3–4.8%	2.6%–4.8%
Debt related to capital markets and banking activities	7.3%	3.8%
Senior and subordinated debt	6.0%	5.1%

7. Investments

A summary of net investment income and net capital gains, losses and impairments is given below:

Investment result	Table 7.1		Net capital gains/		Investment result	
	in USD millions, for the years ended December 31		(losses) on investments and impairments ¹			
	Net investment income					
	2006	2005	2006	2005	2006	2005
Cash and cash equivalents	661	644	6	4	667	648
Equity securities	2,275	1,818	9,850	11,150	12,125	12,968
Debt securities	5,666	5,573	(416)	1,142	5,250	6,715
Real estate held for investment	836	809	1,130	645	1,966	1,454
Mortgage loans	475	480	3	23	478	503
Policyholders' collateral and other loans	594	629	(18)	82	576	711
Investments in associates	85	105	(23)	(1)	62	104
Other investments	417	339	207	337	624	676
<i>Short-term investments</i>	117	109	1	–	118	109
<i>Investments held by investment companies</i>	5	6	283	264	288	270
<i>Other</i> ²	295	224	(77)	73	218	297
Investment result, gross	11,009	10,397	10,739	13,382	21,748	23,779
Investment expenses ³	(726)	(632)	–	–	(726)	(632)
Investment result, net	10,283	9,765	10,739	13,382	21,022	23,147

¹ Impairments on total investments amounted to USD 26 million and USD 64 million for the years ended December 31, 2006 and 2005, respectively.

² Including net capital gains/(losses) on derivative financial instruments of USD (65) million and USD 56 million for the years ended December 31, 2006 and 2005, respectively.

³ Including rental operating expenses for real estate held for investment of USD 163 million and 146 million for the years ended December 31, 2006 and 2005, respectively.

Details of the investment balances as of December 31, 2006 and 2005 are given in the tables below by measurement category.

Table 7.2
as of December 31

Breakdown of total investments

	Total investments			
	2006		2005	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	23,122	7.5%	23,482	8.5%
Equity securities (including trading equity portfolios in capital markets and banking activities):				
Fair value through profit or loss	95,049	30.7%	78,692	28.4%
<i>of which: trading</i>	2,778	0.9%	2,180	0.8%
<i>of which: trading equity portfolios in capital markets and banking activities</i>	2,260	0.7%	2,026	0.7%
Available-for-sale	13,956	4.5%	11,622	4.2%
Total equity securities	109,005	35.2%	90,314	32.6%
Debt securities:				
Fair value through profit or loss	17,572	5.7%	15,876	5.7%
<i>of which: trading</i>	547	0.2%	663	0.2%
Available-for-sale	112,128	36.2%	104,144	37.6%
Held-to-maturity	5,657	1.8%	5,277	1.9%
Total debt securities	135,357	43.7%	125,297	45.2%
Real estate held for investment	15,281	4.9%	12,702	4.6%
Mortgage loans	10,806	3.5%	9,307	3.3%
Policyholders' collateral and other loans	12,636	4.1%	11,987	4.3%
Investments in associates	153	0.0%	580	0.2%
Other investments:				
Short-term investments	1,703	0.5%	1,600	0.6%
Investments held by investment companies	1,861	0.6%	1,928	0.7%
Other	79	0.0%	96	0.0%
Total other investments	3,643	1.1%	3,624	1.3%
Total investments	310,003	100.0%	277,293	100.0%

As of December 31, 2006 and 2005, investments included USD 11,512 million and USD 12,486 million, respectively, of loaned securities. Cash and cash equivalents included USD 3,820 million and USD 4,571 million of cash received as collateral for loaned securities as of December 31, 2006 and 2005, respectively. Non-cash collateral received for loaned securities was USD 7,654 million and USD 8,262 million as of December 31, 2006 and 2005, respectively.

As of December 31, 2006 and 2005, respectively, debt securities with a carrying value of USD 6,144 million and USD 5,295 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 and an obligation to repurchase them is included in liabilities.

Cash and investments with a carrying value of USD 4,469 million and USD 4,786 million were deposited with regulatory authorities as of December 31, 2006 and 2005, respectively.

The table below presents the carrying value of debt securities by maturity.

Table 7.3

in USD millions, as of December 31

**Debt securities
maturity schedule
(total investments)**

	Held-to-maturity		Available-for-sale		Fair value through profit or loss	
	2006	2005	2006	2005	2006	2005
Less than one year	668	215	7,043	6,199	1,475	1,671
One year through five years	1,218	1,456	32,196	32,787	3,527	3,046
Six years through ten years	816	313	24,346	23,449	4,103	3,597
Over ten years	2,955	3,293	23,294	19,940	6,156	5,577
Subtotal	5,657	5,277	86,879	82,375	15,261	13,891
Mortgage and asset-backed securities	–	–	25,249	21,769	2,311	1,985
Total	5,657	5,277	112,128	104,144	17,572	15,876

The amortized cost and estimated fair values of debt securities held-to-maturity, available-for-sale and fair value through profit or loss are shown by contractual maturity. Actual maturities may differ from contractual maturities because certain borrowers have the right to call or pre-pay certain obligations with or without call or pre-payment penalties.

Table 7.4

in USD millions,
as of December 31
**Available-for-sale
(afs) securities**

	Cost or amortized cost		Gross unrealized gains		Gross unrealized losses		Estimated fair value	
	2006	2005	2006	2005	2006	2005	2006	2005
Equity securities, afs								
Common stock	6,804	6,432	1,846	1,407	(230)	(300)	8,420	7,539
Unit trusts	4,958	3,710	432	214	(53)	(67)	5,337	3,857
Non-redeemable preferred stock	160	182	39	45	–	(1)	199	226
Total equity securities, afs	11,922	10,324	2,317	1,666	(283)	(368)	13,956	11,622
Debt securities, afs								
Swiss federal and cantonal governments	5,378	6,849	101	314	(6)	(3)	5,473	7,160
United Kingdom government	8,602	6,600	86	146	(104)	5	8,584	6,751
United States government	6,083	7,559	89	112	(140)	(114)	6,032	7,557
Other governments and supra-nationals	26,203	24,114	313	968	(322)	(56)	26,194	25,026
Corporate securities	40,290	34,666	1,020	1,537	(732)	(333)	40,578	35,870
Mortgage and asset-backed securities	25,434	21,872	92	139	(277)	(242)	25,249	21,769
Redeemable preferred stocks	18	10	–	1	–	–	18	11
Total debt securities, afs	112,008	101,670	1,701	3,217	(1,581)	(743)	112,128	104,144

Fair value through profit or loss securities	Total Investments			
	2006		2005	
	USD millions	% of total	USD millions	% of total
Common stock	66,460	59.0%	58,640	62.0%
<i>thereof: Trading equity portfolios in capital markets and banking activities</i>	2,260	2.0%	2,026	2.1%
<i>thereof: Common stock portfolios backing participating with-profit policyholder contracts</i>	1,604	1.4%	1,691	1.8%
Non-redeemable preferred stock	21	0.0%	–	0.0%
Unit trusts	28,568	25.4%	20,052	21.2%
Debt securities	17,572	15.6%	15,876	16.8%
Total	112,621	100.0%	94,568	100.0%

Realized capital gains/(losses) and impairments on available-for-sale debt and equity securities	Equity securities		Debt securities		Total	
	2006	2005	2006	2005	2006	2005
Gross realized capital gains	1,142	757	345	963	1,487	1,720
Gross realized capital losses	(167)	(286)	(397)	(205)	(564)	(491)
Impairments	(6)	(51)	(13)	(7)	(19)	(58)
Total	969	420	(65)	751	904	1,171

Net capital gains/(losses) on trading debt and equity securities	Equity securities		Debt securities		Total	
	2006	2005	2006	2005	2006	2005
Total	188	77	(1)	(2)	187	75

Net capital gains/(losses) on fair value through profit or loss debt and equity securities	Equity securities		Debt securities		Total	
	2006	2005	2006	2005	2006	2005
Total	8,693	10,653	(350)	393	8,343	11,046

Table 7.9

in USD millions

Real estate held for investment

	Total	
	2006	2005
Carrying value as of January 1	12,702	12,541
Additions and capital improvements	537	1,537
Disposals	(224)	(508)
Market value revaluation	1,052	521
Transfer from/(to) assets held for own use	(132)	3
Foreign currency translation effects	1,346	(1,392)
Carrying value as of December 31	15,281	12,702

Real estate held for investment consists of investments in commercial, residential and mixed-use properties primarily located in Switzerland, Germany and the United Kingdom.

Table 7.10

in USD millions, for the years ended December 31

Investments in associates

	Carrying value		Share in profit/(loss)		Ownership interest	
	2006	2005	2006	2005	2006	2005
MCIS Zurich Insurance Berhad	37	37	1	–	40.00%	40.00%
Capital Z Financial Services Fund II ¹	–	401	40	100	18.41%	29.43%
Other	116	142	44	5	nm	nm
Total	153	580	85	105	nm	nm

¹ During 2006, the Group divested part of its interest in Capital Z Financial Services Fund II. As a result of this transaction, the Group no longer has significant influence over this associate. The remaining investment was reclassified as available-for-sale equity securities, common stock, as of December 31, 2006.

Table 7.11

in USD millions, as of December 31

Unrealized net gains on investments included in shareholders' equity

	Total	
	2006	2005
Equity securities: available-for-sale	2,034	1,298
Debt securities: available-for-sale	120	2,474
Other	136	73
Less amount of net unrealized (gains) on investments attributable to:		
Life policyholder dividends and other policyholder liabilities	(1,038)	(2,131)
Life deferred acquisition costs	(95)	(159)
Deferred income taxes	(312)	(384)
Minority interests	(26)	(32)
Total	819	1,139

8. Fair value of financial instruments and other investments

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.

Real estate held for investment: fair value is determined on a regular basis with reference to current market conditions.

Policyholders' collateral and other loans: fair values are estimated on the basis of discounted cash flow, pricing models, or other recognized valuation techniques.

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.

Investments in associates: these investments are accounted for using the equity method. Accordingly, these participations are effectively carried at the Group's proportional interest of shareholders' equity of the associate. The fair value of these entities, particularly for publicly traded entities, may differ from the carrying value.

Investments held by investment companies: estimated fair values are determined by the investment managers and reviewed by management.

Short-term investments: carrying amounts approximate fair values.

Derivative trading assets and liabilities: fair values are based on quoted market prices, dealer price quotations, discounted cash flow models and option pricing models.

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.

Liabilities for unit-linked investment contracts: fair values for financial liabilities for unit-linked contracts are determined based on the fair value of the financial investments held for such products.

Obligations to repurchase securities: carrying amounts approximate fair value.

Table 8.1

in USD millions, as of December 31

**Fair value and
carrying value
of financial
instruments**

	Total fair value		Total carrying value	
	2006	2005	2006	2005
Cash and cash equivalents	23,122	23,482	23,122	23,482
Equity securities (including trading equity portfolios in capital markets and banking activities)	109,005	90,314	109,005	90,314
Debt securities	134,649	125,591	135,357	125,297
Real estate held for investment	15,281	12,702	15,281	12,702
Mortgage loans	10,860	9,314	10,806	9,307
Policyholders' collateral and other loans	13,206	13,011	12,636	11,987
Investments in associates	150	580	153	580
Other Investments, of which:	3,643	3,624	3,643	3,624
<i>Short-term investments</i>	1,703	1,600	1,703	1,600
<i>Investments held by investment companies</i>	1,861	1,928	1,861	1,928
<i>Other</i>	79	96	79	96
Derivative assets	844	523	844	523
Total of financial instruments (assets)	310,760	279,141	310,847	277,816
Liabilities for investment contracts	(50,464)	(41,001)	(50,705)	(40,999)
Obligation to repurchase securities	(6,144)	(5,295)	(6,144)	(5,295)
Derivative liabilities	(415)	(589)	(415)	(589)
Total debt	(9,889)	(9,945)	(9,602)	(9,679)
Total of financial instruments (liabilities)	(66,912)	(56,830)	(66,866)	(56,562)

9. Derivative financial instruments

The Group uses derivative financial instruments for economic hedging purposes. In limited circumstances these instruments may also meet the definition of an effective hedge for accounting purposes. Where this is the case, hedge accounting is applied. Derivatives that do not meet the definition of an effective hedge for accounting purposes are classified as derivative financial instruments held at fair value through profit or loss. For further details of the Group's derivative financial instruments refer to table 9.1 and 9.2.

a) Outstanding positions of the Group (excluding ZCM)

Maturity profile of notional principal amounts and market values of derivative financial instruments (excluding ZCM)	Table 9.1 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	2006	2005	2006	2005		
Swaps									
Interest rate swaps	383	113	480	976	868	(6)	20		
Currency swaps	–	200	1,417	1,617	1,608	194	92		
Total return equity swaps	–	906	75	981	1,157	(13)	19		
Other swaps	594	114	–	708	–	(29)	(35)		
Options									
Purchased call options	243	2,407	5,501	8,151	2,730	320	191		
Purchased put options	1,415	135	809	2,359	1,033	126	60		
Written call options	30	887	306	1,223	1,404	(207)	(308)		
Written put options	–	(13)	–	(13)	(11)	(10)	(11)		
Futures/forwards									
Purchased futures/forwards	6,340	–	–	6,340	7,088	47	(24)		
Written futures/forwards	5,337	–	–	5,337	3,053	(49)	(20)		
Total	14,342	4,749	8,588	27,679	18,930	373	(16)		
<i>of which:</i>									
<i>Derivative trading assets</i>						713	413		
<i>Derivative trading liabilities</i>						(340)	(429)		
<i>Fair value hedge assets/ (liabilities) ¹</i>						24	(15)		

¹ This hedging instrument mitigates the Group's foreign currency risk exposure to the 4.5% EUR 500 million bond under the EMTN programme. For further details refer to note 22.

b) Outstanding positions of Zurich Capital Markets (ZCM)

Table 9.2

in USD millions, as of December 31

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

	Remaining life			Notional principal amounts		Market values	
	Up to 1 year	1 to 5 years	Over 5 years	2006	2005	2006	2005
Swaps							
Interest rate swaps	643	23	263	929	779	26	33
Currency swaps	–	–	–	–	17	–	3
Total return equity swaps	–	–	–	–	37	(2)	(13)
Other swaps	–	–	–	–	–	–	–
Options							
Purchased call options	–	12	–	12	–	12	–
Purchased put options	–	–	510	510	923	(52)	16
Written call options	210	12	–	222	210	(27)	(62)
Written put options	–	109	1,846	1,955	2,205	75	(13)
Futures/forwards							
Purchased futures/forwards	–	–	–	–	17	–	1
Sold futures/forwards	–	–	–	–	26	–	–
Total	853	156	2,619	3,628	4,214	32	(35)
<i>of which:</i>							
<i>Derivative trading assets</i>						107	110
<i>Derivative trading liabilities</i>						(75)	(145)

10. Gross and ceded insurance revenues and expenses

Table 10.1
in USD millions, for the years ended December 31

Insurance benefits and losses

	Gross		Ceded		Net	
	2006	2005	2006	2005	2006	2005
Losses and loss adjustment expenses	24,505	28,124	(3,276)	(5,518)	21,229	22,606
Life insurance death and other benefits	10,787	10,811	(293)	(275)	10,494	10,536
Decrease in future life policyholders' benefits	(1,418)	(674)	(99)	(49)	(1,517)	(723)
Total insurance benefits and losses	33,874	38,261	(3,668)	(5,842)	30,206	32,419

Table 10.2
in USD millions, for the years ended December 31

Policyholder dividends and participation in profits

	Gross		Ceded		Net	
	2006	2005	2006	2005	2006	2005
Total policyholder dividends and participation in profits	12,906	14,432	-	-	12,906	14,432

Table 10.3
in USD millions, for the years ended December 31

Underwriting and policy acquisition costs

	Gross		Ceded		Net	
	2006	2005	2006	2005	2006	2005
Underwriting and policy acquisition costs	7,823	7,962	(841)	(709)	6,982	7,253

Table 10.4
in USD millions, for the years ended December 31

Net change in reserves for unearned premiums

	Gross		Ceded		Net	
	2006	2005	2006	2005	2006	2005
Net change in reserves for unearned premiums	(231)	407	86	(370)	(145)	37

11. Reserves for insurance contracts and reinsurers' share of reserves for insurance contracts

Reserves for insurance contracts		2006	2005
Table 11.1			
in USD millions, as of December 31			
Gross			
Reserves for losses and loss adjustment expenses		64,535	60,425
Reserves for unearned premiums		14,668	13,531
Future life policyholders' benefits		76,503	71,292
Policyholders' contract deposits and other funds		18,934	18,985
Reserves for unit-linked contracts		66,008	55,691
Total reserves for insurance contracts, gross		240,648	219,924
Ceded			
Reserves for losses and loss adjustment expenses		(13,722)	(14,231)
Reserves for unearned premiums		(1,837)	(1,675)
Future life policyholders' benefits		(1,485)	(1,305)
Policyholders' contract deposits and other funds		(3,258)	(3,504)
Total ceded reserves for insurance contracts (reinsurers' share of reserves for insurance contracts, gross) ¹		(20,302)	(20,715)
Net			
Reserves for losses and loss adjustment expenses		50,813	46,194
Reserves for unearned premiums		12,831	11,856
Future life policyholders' benefits		75,018	69,987
Policyholders' contract deposits and other funds		15,676	15,481
Reserves for unit-linked contracts		66,008	55,691
Total reserves for insurance contracts, net		220,346	199,209

¹ Gross of allowance for uncollectible amounts of USD 239 million and USD 221 million as of December 31, 2006 and 2005, respectively.

Development of reserves for losses and loss adjustment expenses

Table 11.2

in USD millions

	Gross		Ceded		Net	
	2006	2005	2006	2005	2006	2005
As of January 1	60,425	57,765	(14,231)	(14,278)	46,194	43,487
Losses and loss adjustment expenses incurred:						
Current year	23,919	27,047	(2,472)	(4,582)	21,447	22,465
Prior years	586	1,077	(804)	(936)	(218)	141
Total	24,505	28,124	(3,276)	(5,518)	21,229	22,606
Losses and loss adjustment expenses paid:						
Current year	(7,858)	(8,401)	374	665	(7,484)	(7,736)
Prior years	(15,374)	(13,979)	3,951	4,515	(11,423)	(9,464)
Total	(23,232)	(22,380)	4,325	5,180	(18,907)	(17,200)
Divestments of companies and businesses	(66)	(47)	–	10	(66)	(37)
Foreign currency translation effects	2,903	(3,037)	(540)	375	2,363	(2,662)
As of December 31	64,535	60,425	(13,722)	(14,231)	50,813	46,194

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 are reflected in the consolidated income statement in the period in which estimates are changed.

Significant delays occur in the notification 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.

Deferred charges relating to retrospective reinsurance assumed totaling USD 121 million and USD 129 million as of December 31, 2006 and 2005, respectively, and have been deducted from reserves for losses and loss adjustment expenses.

The table below presents changes in the historical general insurance reserves net of reinsurance, that the Group established in 2001 and subsequent years. The top line of the table shows the estimated reserves for unpaid losses and loss adjustment expenses as of each balance sheet date, which represents the estimated amount of future payments for losses occurring in that year and in prior years. The upper, or 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 lower or reserve re-estimated, portion of the table shows the re-estimation of the initially recorded reserve as of each succeeding year end. 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, 2006. 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 tables below.

The table below presents our consolidated loss and loss adjustment expense reserve development as of December 31 for the years indicated.

Table 11.3

in USD millions, as of December 31

**Development of
insurance losses,
net**

	2001	2002	2003	2004	2005	2006
Gross reserves for losses and loss adjustment expenses	37,695	45,306	51,068	57,765	60,425	64,535
Reinsurance recoverable	(13,605)	(14,940)	(14,055)	(14,278)	(14,231)	(13,722)
Initial net reserves for losses and loss adjustment expenses	24,090	30,366	37,013	43,487	46,194	50,813
Cumulative paid as of:						
<i>One year later</i>	(7,976)	(8,923)	(9,930)	(9,464)	(11,423)	
<i>Two years later</i>	(12,855)	(14,471)	(15,550)	(16,273)		
<i>Three years later</i>	(16,698)	(18,001)	(20,407)			
<i>Four years later</i>	(19,255)	(21,390)				
<i>Five years later</i>	(21,634)					
Net reserves re-estimated as of:						
<i>One year later</i>	26,908	32,240	38,977	43,628	45,976	
<i>Two years later</i>	28,471	34,471	40,413	45,006		
<i>Three years later</i>	30,636	36,118	42,004			
<i>Four years later</i>	31,784	37,691				
<i>Five years later</i>	33,326					
Cumulative (deficiency) / redundancy	(9,236)	(7,325)	(4,991)	(1,519)	218	
Cumulative (deficiency) / redundancy as a percentage of initial net reserves	(38.3%)	(24.1%)	(13.5%)	(3.5%)	0.5%	
Gross reserves re-estimated as of December 31, 2006	50,499	55,253	58,114	60,324	61,011	
Cumulative deficiency	(12,804)	(9,947)	(7,046)	(2,559)	(586)	
Cumulative deficiency as a percentage of initial gross reserves	(34.0%)	(22.0%)	(13.8%)	(4.4%)	(1.0%)	

Reserves for losses and loss adjustment expenses for asbestos and environmental claims

Table 11.4

in USD millions

	2006		2005	
	Gross	Net	Gross	Net
Asbestos				
As of January 1	2,957	2,529	2,964	2,524
Losses and loss adjustment expenses incurred	515	533	309	262
Losses and loss adjustment expenses paid	(180)	(131)	(144)	(86)
Divestments, commutations, settlements and other	(29)	(29)	–	–
Foreign currency translation effects	236	240	(172)	(171)
As of December 31	3,499	3,142	2,957	2,529
Environmental				
As of January 1	462	378	500	395
Losses and loss adjustment expenses incurred	4	18	6	8
Losses and loss adjustment expenses paid	(34)	(32)	(43)	(24)
Divestments, commutations, settlements and other	–	–	–	–
Foreign currency translation effects	1	2	(1)	(1)
As of December 31	433	366	462	378

Management has considered 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 claims were USD 3,508 million and USD 2,907 million as of December 31, 2006 and 2005, respectively.

Roll forward of future life policyholders' benefits

Table 11.5

in USD millions

	Gross		Ceded		Net	
	2006	2005	2006	2005	2006	2005
As of January 1	71,292	81,350	(1,305)	(1,418)	69,987	79,932
Premiums and claims	(4,747)	(3,897)	(16)	(55)	(4,763)	(3,952)
Interest and bonuses credited to policyholders	3,040	2,758	(67)	(50)	2,973	2,708
Change in assumptions	311	466	(18)	119	293	585
Divestments/transfers	(37)	(166)	–	16	(37)	(150)
(Decrease)/increase recorded in shareholders' equity	(508)	40	14	(10)	(494)	30
Foreign currency translation effects	7,152	(9,259)	(93)	93	7,059	(9,166)
As of December 31	76,503	71,292	(1,485)	(1,305)	75,018	69,987

Table 11.6

in USD millions, as of December 31

Policyholders' contract deposits and other funds (gross of reinsurance)

	2006	2005
Annuities	2,136	1,997
Universal life and other investment contracts	10,594	10,628
Policyholder dividends	6,204	6,360
Total	18,934	18,985

Table 11.7

in USD millions

Roll forward of policyholders' contract deposits and other funds

	Gross		Ceded		Net	
	2006	2005	2006	2005	2006	2005
As of January 1	18,985	22,763	(3,504)	(3,594)	15,481	19,169
Premiums and claims	(1,557)	(4,233)	393	224	(1,164)	(4,009)
Interest and bonuses credited to policyholders	1,010	1,353	(134)	(136)	876	1,217
Change in assumptions	–	(10)	(4)	6	(4)	(4)
Acquisitions	–	4	–	–	–	4
(Decrease)/increase recorded in shareholders' equity	(624)	427	2	(5)	(622)	422
Foreign currency translation effects	1,120	(1,319)	(11)	1	1,109	(1,318)
As of December 31	18,934	18,985	(3,258)	(3,504)	15,676	15,481

Table 11.8

in USD millions

Roll forward of reserves for unit-linked contracts

	Gross		Ceded		Net	
	2006	2005	2006	2005	2006	2005
As of January 1	55,691	51,920	–	–	55,691	51,920
Premiums and claims	(382)	913	–	–	(382)	913
Interest and bonuses credited to policyholders	6,184	6,897	–	–	6,184	6,897
Change in assumptions	(17)	7	–	–	(17)	7
Acquisitions	–	43	–	–	–	43
Foreign currency translation effects	4,532	(4,089)	–	–	4,532	(4,089)
As of December 31	66,008	55,691	–	–	66,008	55,691

Maturity schedule of reserves for insurance contracts

Table 11.9

in USD millions, as of December 31, 2006

	Reserves for losses and loss adjustment expenses, gross	Reserves for losses and loss adjustment expenses, ceded	Reserves for losses and loss adjustment expenses, net	Future life policyholders' benefits, gross	Future life policyholders' benefits, ceded	Future life policyholders' benefits, net
< 1 year	18,888	(3,657)	15,231	7,029	(95)	6,934
1 to 5 years	27,183	(6,180)	21,003	18,920	(167)	18,753
6 to 10 years	9,005	(1,869)	7,136	15,383	(145)	15,238
11 to 20 years	6,903	(1,503)	5,400	13,284	(178)	13,106
> 20 years	2,556	(513)	2,043	21,887	(900)	20,987
Total	64,535	(13,722)	50,813	76,503	(1,485)	75,018

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 liability for future life policyholder benefits has been established based upon the following:

- interest rates which vary by country, year of issuance and product;
- mortality rates based on published mortality tables adjusted for actual experience by geographic area and modified to allow for variations in policy form; and
- surrender rates based upon actual experience by geographic area and modified to allow for variations in policy form.

The amount of policyholder dividends to be paid is determined annually by each Group 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.

Future life policyholders' benefits increased by USD 293 million after reinsurance (USD 585 million in 2005) due to the recognition of changes in assumptions. In particular, the 2006 net changes include the following significant movements:

- USD 150 million related to changes in interest rate assumptions; and
- USD 103 million related to changes in modeling.

In 2005 net changes include the following significant movements:

- USD 177 million related to changes in interest rate assumptions;
- USD 205 million related to changes in morbidity assumptions, primarily related to termination rate experience on disability; and
- USD 116 million related to a change in the United Kingdom pensions legislation.

As of January 1, 2006, the policyholders' participation for the individual life business in Switzerland became subject to regulatory guidelines whereby the statutory policyholders' dividend fund must be distributed to the policyholders at least in the amount of 20% of the account balance on the statutory accounts.

Guarantees arising from minimum death benefits (GMDB), retirement income benefits (GRIB) and annuitization options (GAO)

The Group sells products for which policyholders bear the full investment risk associated with the underlying invested funds selected by them. Certain of these products 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 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 purposes of amortizing deferred policy acquisition costs.

Table 11.10		2006	2005
in USD millions (except average age)			
Information on guarantee liabilities arising from minimum death benefits (GMDB), retirement income benefits (GRIB) as well as annuitization options (GAO)	Account balance for products with guarantee features as of December 31		
	Gross	4,403	4,165
	Ceded	(486)	(545)
	Net	3,917	3,620
	Amount at risk as of December 31		
	Gross	600	723
	Ceded	(230)	(280)
	Net	370	443
Average attained age of policyholders (in years)	63	62	

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. As we do not consider this a likely scenario we did not provide for this amount but followed the accretion guidance in SOP 03-01.

12. Liabilities for investment contracts (with and without DPF)

Table 12.1		2006	2005
in USD millions, as of December 31			
Liabilities related to investment contracts	Liabilities related to unit-linked investment contracts	44,269	34,871
	Liabilities related to investment contracts (amortized cost)	121	133
	Liabilities related to investment contracts with discretionary participation features (DPF)	6,315	5,995
	Total	50,705	40,999

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.

The fair value of financial liabilities at amortized cost is based on a discounted cash flow valuation technique and is shown in note 8. The discount rate is determined by current market assessment of the time value of money and risk specific to the liability.

Table 12.2

in USD millions		2006	2005
Roll forward of investment contract liabilities	As of January 1	40,999	39,260
	Premiums and claims	(595)	(296)
	Interest and bonuses credited to policyholders	5,115	5,832
	Change in assumptions	–	(1)
	Divestments/transfers	(4)	–
	Increase/(decrease) recorded in shareholders' equity	(31)	8
	Foreign currency translation effects	5,221	(3,804)
	As of December 31	50,705	40,999

13. Equity component relating to contracts with DPF

Certain investment and insurance contracts sold by the Group contain benefit features for which the amount and timing of declaration and payment are at the discretion of the Group. Where that discretion has not been exercised, the total amount of undeclared funds surplus is included in shareholders' equity. Mandated allocations related to unrealized gains and earnings are included in policyholder liabilities and upon declaration discretionary bonuses are allocated to policyholders. The changes in the table below represent the increase or decrease in unallocated gains and retained earnings after charging discretionary bonuses.

Table 13.1

in USD millions		2006	2005
Equity component relating to contracts with DPF	As of January 1	1,399	1,425
	Net unrealized (losses)/gains on investments	(316)	99
	Current year period profit	62	46
	Foreign currency translation effects	117	(171)
	As of December 31	1,262	1,399

14. Farmers management fees

Table 14.1

in USD millions, for the years ended December 31		2006	2005
Farmers management fees			
	Farmers management fees and other related revenue	2,133	2,058

FGI 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, which the Group manages but does not own. In order 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 14,721 million and USD 14,380 million for the years ended December 31, 2006 and 2005, respectively.

15. Deferred policy acquisition costs and deferred origination costs

Deferred policy acquisition costs	General Insurance		Global Life		Other segments ¹		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
As of January 1	2,640	2,142	8,441	8,932	98	207	11,179	11,281
Acquisition costs deferred and transfers	2,804	2,357	1,520	1,249	37	12	4,361	3,618
Amortization ²	(2,568)	(1,696)	(774)	(878)	(46)	(121)	(3,388)	(2,695)
Divestments	–	(22)	–	(12)	–	–	–	(34)
Foreign currency translation effects	119	(141)	926	(850)	–	–	1,045	(991)
As of December 31	2,995	2,640	10,113	8,441	89	98	13,197	11,179

¹ Net of eliminations of intersegment transactions.

² Amortization recorded directly to common shareholders' equity through change in unrealized gains and losses on investments for Global Life was USD (55) million and USD 29 million for the years ended December 31, 2006 and 2005, respectively.

Deferred origination costs	2006	2005
As of January 1	690	736
Origination costs deferred	133	121
Amortization	(100)	(92)
Foreign currency translation effects	92	(75)
As of December 31	815	690

16. Receivables

Receivables	2006	2005
Receivables from policyholders	2,738	2,591
Receivables from insurance companies, agents, brokers and intermediaries	5,102	4,936
Receivables arising from ceded reinsurance	1,445	1,846
Other receivables	2,620	2,405
Allowance for impairments	(469)	(495)
Total	11,436	11,283

Receivables are generally settled within one year.

17. 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".

18. Income taxes

Table 18.1		2006	2005
Income tax expense – current/deferred split	in USD millions, for the years ended December 31		
	Current	1,766	1,324
	Deferred	342	812
	Total income tax expense	2,108	2,136

Table 18.2		2006	2005
Income tax expense – policyholder/shareholder attribution	in USD millions, for the years ended December 31		
	Total income tax expense attributable to policyholders	416	772
	Total income tax expense attributable to shareholders	1,692	1,364
	Total income tax expense	2,108	2,136

The Group is required to record taxes on policyholder earnings for life insurance policyholders in certain jurisdictions. Accordingly, the income tax expense or benefit attributable to these life insurance policyholder earnings is included in income tax expense. In certain jurisdictions an accrual for future policy fees that will cover the tax charge is included in gross written premiums and policy fees revenue.

Table 18.3		Rate	2006	Rate	2005
Expected and actual income tax expense	in USD millions, for the years ended December 31				
	Net income before income taxes		6,733		5,466
	Less: income tax expense attributable to policyholders		(416)		(772)
	Net income before income taxes attributable to shareholders		6,317		4,694
	Expected income tax expense attributable to shareholders	30.2%	1,907	32.3%	1,514
	Increase/(reduction) in taxes resulting from:				
	<i>Tax exempt and lower taxed income</i>		(636)		(419)
	<i>Non-deductible expenses</i>		133		115
	<i>Effect of tax losses</i>		10		215
	<i>Prior year adjustments and other</i>		278		(61)
	Actual income tax expense attributable to shareholders	26.8%	1,692	29.1%	1,364
	Plus income tax expense attributable to policyholders		416		772
	Actual income tax expense	31.3%	2,108	39.1%	2,136

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 30.2% and 32.3 % for the years ended December 31, 2006 and 2005, respectively. These rates were derived by obtaining a weighted average of the applicable statutory income tax rate in relation to the net income before income tax attributable to shareholders generated in the taxable territories in which the Group operates.

Table 18.4		2006	2005
Current tax receivables and payables	in USD millions, as of December 31		
	Current tax receivables	509	267
	Current tax payables	(1,846)	(1,249)
	Net current tax payables	(1,337)	(982)

Table 18.5		2006	2005
Deferred tax assets and liabilities	in USD millions, as of December 31		
	Deferred tax assets	2,336	4,393
	Deferred tax liabilities	(4,804)	(6,317)
	Net deferred tax liabilities	(2,468)	(1,924)

The 2005 numbers are shown before the netting of timing differences of USD 1,993 million.

The net deferred tax liabilities increased from USD 1,924 million to USD 2,468 million during the year ended December 31, 2006. The change can be explained as follows:

- increase of USD 342 million charged to income statement;
- decrease of USD 72 million credited to equity;
- increase of USD 299 million resulting from foreign exchange differences; and
- decrease of USD 25 million resulting from acquisitions, divestments and other movements.

Table 18.6		2006	2005
Deferred taxes – policyholders/ shareholders attribution	in USD millions, as of December 31		
	Net deferred tax liabilities attributable to policyholders	(977)	(782)
	Net deferred tax liabilities attributable to shareholders	(1,491)	(1,142)
	Net deferred tax liabilities	(2,468)	(1,924)

Deferred tax assets/(liabilities) breakdown by category

Table 18.7

in USD millions, as of December 31

	2006	2005
Net deferred tax assets/(liabilities)		
Deferred policy acquisition costs	(2,382)	(2,169)
Depreciable and amortizable assets	(1,706)	(1,392)
Reserves for life policy benefits	(504)	(441)
Unrealized (gains)/losses on investments	(312)	(384)
Other assets/liabilities	418	171
Accruals not currently deductible	257	153
Reserves for losses and loss adjustment expenses	40	217
Reserves for unearned premiums	445	464
Deferred front-end fees	766	720
Tax loss carryforwards	1,220	1,360
Net deferred tax liabilities before valuation allowance	(1,758)	(1,301)
Valuation allowance on deferred tax assets	(710)	(623)
Net deferred tax liabilities	(2,468)	(1,924)

Deferred tax charge included in shareholders' equity amounted to USD 312 million and USD 384 million for the years ended December 31, 2006 and 2005, respectively.

As of December 31, 2006 and 2005, the Group had income tax loss carryforwards of USD 4,790 million and USD 5,258 million, respectively, available (subject to various statutory restrictions) for use against future taxable income. After taking cumulative valuation allowances and current year utilizations into account, tax loss carryforwards for which deferred tax assets have been recognized amounted to USD 2,200 million and USD 3,150 million as of December 31, 2006 and 2005, respectively. The majority of the tax loss carryforwards expire in a period between five and fifteen years.

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, 2006 and 2005, the following taxpayer groups carry a net deferred tax asset position on their balance sheets.

Table 18.8

in USD millions, as of December 31

Deferred tax assets by taxpayer group

	Deferred tax assets		Deferred tax assets, net of valuation allowance and other tax liabilities	
	2006	2005	2006	2005
Taxpayer group				
Zurich Holding Company of America taxpayer group	1,500	1,381	1,224	1,252
Centre group of companies	454	557	29	122
Zurich Capital Markets companies	229	214	–	–
UK General Insurance companies	156	99	143	91
Other	88	88	74	81

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, 2006, are recoverable.

19. Fixed assets

Table 19.1

in USD millions

Fixed assets

	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other fixed assets	Total
Gross carrying value as of January 1, 2006	355	1,341	378	684	510	3,268
Less: accumulated amortization/impairments	–	(473)	(284)	(514)	(268)	(1,539)
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	283
Disposals and transfers	(4)	(3)	(15)	(2)	(10)	(34)
Depreciation	–	(50)	(28)	(74)	(51)	(203)
Foreign currency translation effects	29	77	5	9	10	130
Net carrying value as of December 31, 2006	385	963	75	182	300	1,905
Plus: accumulated amortization/impairments	–	537	323	484	277	1,621
Gross carrying value as of December 31, 2006	385	1,500	398	666	577	3,526

Table 19.2

in USD millions

Fixed assets

	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other fixed assets	Total
Gross carrying value as of January 1, 2005	457	1,688	478	747	644	4,014
Less: accumulated amortization/impairments	–	(583)	(362)	(618)	(335)	(1,898)
Net carrying value as of January 1, 2005	457	1,105	116	129	309	2,116
Additions, capital improvements and transfers	37	82	10	124	74	327
Disposals and transfers	(89)	(152)	(10)	(12)	(51)	(314)
Depreciation	–	(45)	(15)	(62)	(71)	(193)
Foreign currency translation effects	(50)	(122)	(7)	(9)	(19)	(207)
Net carrying value as of December 31, 2005	355	868	94	170	242	1,729
Plus: accumulated amortization/impairments	–	473	284	514	268	1,539
Gross carrying value as of December 31, 2005	355	1,341	378	684	510	3,268

The fire insurance value of the Group's own-use real estate, investment real estate and other fixed assets totaled USD 8,900 million and USD 8,252 million as of December 31, 2006 and 2005, respectively.

20. Goodwill and other intangible assets

Table 20.1
in USD millions

Intangible assets

	Goodwill	
	2006	2005
Gross carrying value as of January 1	605	744
Less: accumulated amortization/impairments	–	–
Net carrying value as of January 1	605	744
Additions and transfers	–	19
Divestments and transfers	–	(76)
Amortization	–	–
Impairments	(12)	–
Foreign currency translation effects	67	(82)
Net carrying value as of December 31	660	605
Plus: accumulated amortization/impairments	12	–
Gross carrying value as of December 31	672	605

¹ This intangible asset relates to insurance contracts only.

² Other intangibles include internally generated capitalized software development costs and other costs.

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to its business and geographical segment. The table below shows goodwill and other intangible assets by business segment.

Table 20.2
in USD millions, as of December 31

Intangible assets by segments

	Goodwill	
	2006	2005
General Insurance	167	152
Global Life	488	448
Farmers Management Services	–	–
Other Businesses	–	–
Corporate Functions	5	5
Net carrying value as of December 31	660	605

¹ This intangible asset relates to insurance contracts only.

² Other intangibles include internally generated capitalized software development costs and other costs.

When testing for impairment, the recoverable amount of a CGU 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. Discount rates may range from between 3.0% which is a market risk free rate where the cash flows have been adjusted for all possible outcomes, and 10.4% which is a risk adjusted discount rate.

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 which are being wound down, thus there are no operating cash flows to support the goodwill balance. Therefore, the balance was written off in full. The remaining USD 6 million of the goodwill impairment for 2006 relates to the Spanish life operations.

The impairment test for attorney-in-fact relationships is based upon the business plans and the surplus development in the Farmers Exchanges. There is no indication that the value of the attorney-in-fact intangible asset is impaired.

	Present value of profits of acquired insurance contracts ¹		Other intangible assets ²		Attorney-in-fact relationships		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	2,117	2,307	1,770	1,790	1,024	1,024	5,516	5,865
	(1,377)	(1,447)	(1,279)	(1,197)	–	–	(2,656)	(2,644)
	740	860	491	593	1,024	1,024	2,860	3,221
	–	8	352	151	–	–	352	178
	–	–	(38)	(18)	–	–	(38)	(94)
	(33)	(48)	(212)	(206)	–	–	(245)	(254)
	–	–	–	–	–	–	(12)	–
	68	(80)	33	(29)	–	–	168	(191)
	775	740	626	491	1,024	1,024	3,085	2,860
	1,554	1,377	1,415	1,279	–	–	2,981	2,656
	2,329	2,117	2,041	1,770	1,024	1,024	6,066	5,516

	Present value of profits of acquired insurance contracts ¹		Other intangible assets ²		Attorney-in-fact relationships		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	–	–	250	243	–	–	417	395
	775	740	231	115	–	–	1,494	1,303
	–	–	122	113	1,024	1,024	1,146	1,137
	–	–	8	2	–	–	8	2
	–	–	15	18	–	–	20	23
	775	740	626	491	1,024	1,024	3,085	2,860

21. Other liabilities

Table 21.1

in USD millions, as of December 31

Other liabilities	2006	2005
Amounts due to reinsurers, agents and other insurance companies	1,771	2,942
Amounts due to life policyholders	721	547
Other liabilities	10,163	8,359
Liabilities for cash collateral received for securities lending	3,918	4,714
Current tax payables	1,846	1,249
Derivative liabilities	415	589
Deferred income and other liabilities	1,564	1,526
Provision for defined post employment benefits	970	1,114
Total	21,368	21,040

Refer to note 9 for details on derivative financial instruments. Refer to note 25 for further details on the provision for defined post employment benefits.

22. Debt

Table 22.1

in USD millions, as of December 31

Debt

		2006	2005
a) Debt related to capital markets and banking activities			
Zurich Capital Markets	Notes and loans payable within 1 year	1,050	653
	Notes and loans payable in more than 1 year	44	543
Zurich Financial Services			
EUB Holdings Limited	Notes and loans payable within 1 year	738	779
	Notes and loans payable in more than 1 year	1	99
Centre Solutions (Bermuda) Ltd.	Note payable in more than 1 year	56	65
Debt related to capital markets and banking activities		1,889	2,139
b) Senior debt			
Zurich Finance (USA), Inc.	2.75% CHF 500 bond, due July 2006	–	381
	3.50% CHF 300 bond, due July 2008 ¹	246	228
	4.50% EUR 1,000 bond, due September 2014 ¹	1,309	1,173
Kemper Corporation	Various debt instruments, due in 2009	26	26
Zurich Insurance Company	3.875% CHF 1,000 bond, due July 2011	822	763
	Various borrowings and notes payable within 1 year	63	48
	Various short- and medium-term debt instruments payable within 1 year	297	18
	Various short- and medium-term debt instruments payable in more than 1 year	142	296
Senior debt		2,905	2,933
c) Subordinated debt			
Zurich Capital Trust I	8.376% USD 1,000 Capital Securities, due June 2037	990	1,000 ²
Zurich Finance (UK) p.l.c.	6.625% GBP 450 bond, undated notes	867	762
Zurich Finance (USA), Inc.	5.75% EUR 500 bond, due October 2023	651	583
	4.5% EUR 500 bond, due June 2025 ³	621	586
ZFS Finance (USA) Trust I	Series I 6.15% USD 600 ECAPS, due December 2065	593	592
ZFS Finance (USA) Trust II	Series II 6.45% USD 700 ECAPS, due December 2065	690	689
ZFS Finance (USA) Trust III	Series III Floating Rate USD 400 ECAPS, due December 2065	396	395
Subordinated debt		4,808	4,607
Total senior and subordinated debt		7,713	7,540
Total debt		9,602	9,679

¹ These bonds are economically hedged, but hedge accounting treatment has not been applied.

² In 2005 unamortized transaction costs were reported separately.

³ The bond is part of a qualifying fair value hedge relationship.

a) Debt related to capital markets and banking activities

In 2005, a restructuring was effected to combine the Zurich Bank and Dunbar Bank into a single banking unit under Zurich Financial Services EUB Holdings Limited. Debt relating to the new banking unit amounted to USD 739 million as of December 31, 2006, compared to USD 878 million as of December 31, 2005.

ZCM's debt was reduced from USD 1,196 million as of December 31, 2005 to USD 1,094 million as of December 31, 2006, which is attributable to the ongoing wind-down of ZCM's business.

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. Issuing entities under the EMTN Programme are Zurich Finance (USA), Inc. and Zurich Finance (UK) p.l.c.

No new senior debt issuances took place in 2006.

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.

No new subordinated debt issuances took place in 2006.

On December 9, 2005, ZFS Finance (USA) Trust I and ZFS Finance (USA) Trust II respectively issued 6.15% USD 600 million of Series I and 6.45% USD 700 million of Series II Fixed / Adjustable Rate Enhanced Capital Advantaged Preferred Securities (ECAPS), and on December 22, 2005, ZFS Finance (USA) Trust III issued USD 400 million of Series III Floating Rate ECAPS. These trust preferred securities were sold to a number of qualified institutional buyers and qualified purchasers under the exemption of rule 144A of the United States Securities Act (1933). Each Trust benefits from a subordinated support agreement of Zurich Financial Services and Zurich Group Holding. Distributions are payable quarterly or semi-annually in arrears but may at any time be deferred if certain conditions are met. Distributions will be mandatorily deferred if the Group fails to meet certain financial tests. If distributions are not paid in full after a certain period of time and during any mandatory deferral period, the Group must use commercially reasonable efforts to issue and/or sell share capital to fund accumulated and unpaid distributions. The Group has the option to call the securities after five or ten years from the issuance depending on the series. Each of the three Trusts will dissolve no later than December 15, 2065.

In 2005, under the EMTN Programme Zurich Finance (USA), Inc. issued 4.5% EUR 500 million bond due 2025 and callable in 2015, which is guaranteed by Zurich Insurance Company on a subordinated basis. The proceeds were swapped into six-month floating rate US dollars until the call date. The swap qualifies for hedge accounting under fair-value hedge accounting treatment.

The following is a summary of key contractual terms and conditions of the outstanding subordinated debt securities:

Table 22.2

in USD millions

Description and features of subordinated notes

Description of the notes	Coupon conditions	Call / Redemption date	Redemption conditions ³
8.376% USD 1,000 Capital Securities, due June 2037	8.376% payable semi-annually	At any time on or after June 1, 2007	Redeemable in whole or in part at a price of 104.188% on or after June 1, 2007 and decreasing annually to 100% on or after June 1, 2017, plus any accrued interest.
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% USD 600 ECAPS, due December 2065	6.15% payable semiannually until December 15, 2010 and then reset quarterly to the Adjustable Rate plus 1.75% ²	At any time on or after December 15, 2010	Redeemable in whole or in part at par plus any accumulated and unpaid distributions.
Series II 6.45% USD 700 ECAPS, due December 2065	6.45% payable semiannually until June 15, 2016 and then reset quarterly to the Adjustable Rate plus 2.00% ²	At any time 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%	At any time on or after December 15, 2010	Redeemable in whole or in part at par plus any accumulated and unpaid distributions.

¹ Reset rate of interest is equal to the gross redemption yield on the benchmark five-year Gilt as determined by the Calculation Bank, plus 2.85% per annum.

² Adjustable Rate is equal to the greatest of (i) the 3-month LIBOR rate; (ii) the 10-year Treasury CMT (Constant Maturity Treasury) Rate; and (iii) the 30-year Treasury CMT Rate, subject to a maximum under (ii) and (iii) of 13.25% Series I and 13% for Series II.

³ All subordinated debt instruments are also subject to mandatory redemption as a result of various tax, default or other events.

Table 22.3

in USD millions, as of

Maturity schedule of outstanding debt

	2006	2005
2007	2,148	1,883
2008	274	681
2009	74	265
2010	11	89
2011	822	21
After 2011	6,273	6,740
Total	9,602	9,679

Table 22.4		2006	2005
Interest expense on debt	in USD millions, for the years ended December 31		
	Debt related to capital markets and banking activities	147	106
	Senior debt	135	142
	Subordinated debt	326	198
	Total	608	446

Credit facilities

The Group has access to a syndicated revolving credit facility of USD 3 billion that terminates in 2011. 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, 2006.

Dunbar Bank has access to various committed credit facilities totaling GBP 430 million. No borrowings were outstanding under these facilities as of December 31, 2006.

23. Share capital

Table 23.1		2006	2005
Share capital and treasury shares	number of shares, as of December 31		
	Authorized, contingent and issued share capital, CHF 0.10 and CHF 2.50 par value, respectively	156,988,783	156,988,783
	Issued share capital, CHF 0.10 and CHF 2.50 par value, respectively	144,749,399	144,006,955
	Treasury shares	161,451	192,423

Table 23.2		2006	2005
Preferred securities	in USD millions, as of December 31		
	Preferred securities, USD 1,000 par value	700	1,125

a) Issued share capital

As of December 31, 2006, Zurich Financial Services had 144,749,399 issued and fully paid registered shares of CHF 0.10 par value, amounting to a share capital of CHF 14,474,939.90. As of December 31, 2005, the share capital amounted to CHF 360,017,387.50, divided into 144,006,955 fully paid registered shares of CHF 2.50 par value.

On February 15, 2006, the Board of Zurich Financial Services approved the issuance of a maximum of 1,000,000 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 registered 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.

In the previous year, shareholders approved, at the Annual General Meeting on April 19, 2005, a share capital reduction in the form of a nominal value reduction of each registered share from CHF 6.50 to CHF 2.50. As a

result of that reduction, the share capital was reduced by CHF 576,027,820 from CHF 936,045,207.50 to CHF 360,017,387.50.

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) through the exercise 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 the exercise of 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 maximum of seven 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

Following the decision of the Board of Directors of Zurich Financial Services of February 15, 2006, to issue up to a maximum of 1,000,000 dividend-paying shares with a nominal value of CHF 0.10 each out of the 1,500,000 shares available for employees, until December 31, 2006, 742,444 shares of this contingent share capital have been issued. Consequently, as of the same date, the share capital may be increased by an amount not exceeding CHF 75,755.60 by issuing the remaining 757,556 fully paid registered shares with a nominal value of CHF 0.10 each to employees of Zurich Financial Services and Group companies. 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.

d) Preferred securities

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%) and three have a floating rate coupon (between LIBOR +53 bps and +71 bps). These coupon rates step up after the first call dates. Payments are at management's discretion. The Group has the option to call the fixed rate securities in 2008 and the floating rate securities in 2011.

e) Additional paid-in capital

This reserve is not ordinarily available for distribution.

f) Dividend restrictions and capital and solvency requirements

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% of annual retained earnings must be allocated to the general legal reserve until such reserve in the aggregate has reached 20% of the paid-in share capital. As of December 31, 2006, the amount of the general legal reserve exceeded 20% of the paid-in share capital of Zurich Financial Services. Similarly, the company laws of many countries in which Zurich Financial Services' 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 Zurich Financial Services' subsidiaries to pay dividends may be restricted or, while dividend payments per se 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 certain of these countries such as foreign exchange control restrictions.

In the United States, restrictions on 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 twelve month period to 10% 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% 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.

Insurance enterprises in European Union member countries are required to maintain minimum solvency margins. The required minimum solvency margin for general insurers is the greater of 16% of premiums written for the year or 23% of a three-year average of claims, subject to the first tranche (EUR 50 million) of premiums being at 18% and the first tranche (EUR 35 million) of claims at 26%. Life insurance companies are required to maintain a minimum solvency margin generally of 4% of insurance reserves (up to 1% of "insurance reserves for life insurance where the investment risk is carried by policyholders") plus 0.3% of the amount at risk under insurance policies. The same minimum capital requirements are applicable for insurance enterprises operating in Switzerland. In addition, in certain European countries further requirements may apply.

Several regulatory changes came into force in Switzerland on January 1, 2006. Amongst others the capital requirements were changed to include a risk-based target capital for insurance companies and insurance groups (Swiss Solvency Test). Risk-bearing and target capital have to be determined building on a risk-based capital model by 2008 for groups, conglomerates, reinsurers and small companies. Large legal entities had to carry out calculations in 2006 as part of a compulsory field test. These may be developed using the entity's own risk-based capital model to be approved by the Federal Office of Private Insurance (FOPI). Groups, conglomerates and reinsurers use company specific internal models. The new target capital must be built up by the beginning of 2011. Zurich has built on its existing internal risk-based capital model for the Group and for Zurich Insurance Company in close consultation with FOPI and submitted field test results to FOPI for all its Swiss legal entities.

Meanwhile Zurich Financial Services continues to be subject to certain solvency requirements based on the decree concerning the placement of the Zurich Financial Services Group under the supervision of insurance conglomerates issued by FOPI on September 25, 2006. This decree has been issued based on the new Swiss insurance supervisory law mentioned above and replaces the decree issued by FOPI on April 23, 2001.

As of December 31, 2006, the Group and its subsidiaries were substantially in compliance with applicable regulatory capital adequacy requirements.

g) Earnings per share

Table 23.3

Earnings per share	Net income attributable to common shareholders (in USD millions)	Number of shares	Per share (USD)	Per share (CHF) ¹
2006				
Basic earnings per share	4,483	144,281,666	31.07	38.93
Effect of potentially dilutive shares related to share-based compensation plans	–	814,490	(0.18)	(0.22)
Diluted earnings per share	4,483	145,096,156	30.89	38.71
2005				
Basic earnings per share	3,168	143,758,294	22.04	27.41
Effect of potentially dilutive shares related to share-based compensation plans	–	1,597,527	(0.24)	(0.30)
Diluted earnings per share	3,168	145,355,821	21.80	27.11

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, 2006 and 2005, 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.

24. Minority interests

Table 24.1

Minority interests	2006	2005
in USD millions, as of December 31		
Preferred securities ¹	–	355
Minority interests	525	459
Total	525	814

¹ Zurich Financial Services (Jersey) Ltd. repaid EUR 300 million of Series A Preference Shares to investors on March 16, 2006.

Minority interests include third-party equity interests as well as preferred securities.

On March 16, 2006, Zurich Financial Services (Jersey) Limited redeemed its 12,000,000 perpetual non-voting, non-cumulative Series A Preference Shares which have a par value of EUR 25 each (EUR 300,000,000).

25. Employee benefits

The Group had 52,286 and 52,010 employees (full-time equivalents) as of December 31, 2006 and 2005, respectively. Personnel and other related costs incurred for the year ended December 31, 2006 and 2005, were USD 4,757 million and USD 4,884 million, including wages and salaries of USD 3,954 million and USD 3,903 million, respectively.

The Group operates a number of active 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.

The status of the defined benefit plans and other defined post-employment benefits is given below.

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 United Kingdom, United States, Germany and Switzerland. Certain companies run defined benefit plans, some of which provide benefits related to 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. Benefits are generally based on each employee's years of credited service and average compensation in the years preceding retirement.

Most of the Group's defined benefit 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, for example, as is usual in the case of pension plans in Germany, a liability for the accrued pension obligations is recognized in the Group's balance sheet.

For the defined benefit plans, total contributions to funded plans and benefit payments by the Group are currently expected to be about USD 344 million in 2007.

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 reduced by deductibles and other coverage. The cost of post-employment benefits is accrued during the employees' service period. The method of accounting and the frequency of valuations are similar to those for defined benefit pension plans.

The tables below show the funded status of the Group's plans; this being the pension plan assets at fair value less the pension liability based on the present value of the obligation. Plans that are wholly unfunded are shown separately from funded plans.

Table 25.1

in USD millions, as of December 31

Status of funded defined benefit plans

	Defined benefit pension plans		Other defined post-employment benefits	
	2006	2005	2006	2005
Present value of obligations	(12,190)	(10,612)	(70)	(87)
Fair value of plan assets	11,071	8,597	10	13
Funded status	(1,119)	(2,015)	(60)	(74)
Unrecognized net actuarial losses/(gains)	1,259	1,892	(27)	(12)
Unrecognized prior service cost	(4)	2	–	–
Asset/(liability)	136	(121)	(87)	(86)

Table 25.2
in USD millions, as of December 31

Status of unfunded defined benefit plans

	Defined benefit pension plans		Other defined post-employment benefits	
	2006	2005	2006	2005
Present value of obligations	(985)	(886)	(196)	(206)
Unrecognized net actuarial losses	116	126	40	59
Unrecognized prior service cost	–	–	6	–
Liability	(869)	(760)	(150)	(147)

The funded status of the Group's funded defined benefit plans moved to a deficit of USD 1,119 million as of December 31, 2006 from a deficit of USD 2,015 million as of December 31, 2005.

Pensions, however, are long-term by nature. Short-term variations between long-term actuarial assumptions and actual experience may be positive or negative, resulting in actuarial gains or losses. In accordance with IAS 19, as it is expected that such actuarial gains and losses will equalize over time, only unrecognized actuarial gains or losses exceeding certain "corridors" as defined in IAS 19 are amortized through the income statement (see table 25.3 below).

On June 16, 2005, the Boards of Trustees of the pension plans for the Group's employees based in Switzerland adopted new pension plan arrangements that reflect the changed economic and demographic environment. The principal changes to the pension plans, which became effective January 1, 2006, were the conversion from a defined benefit to a defined contribution system and the separation of the pension plan as an autonomous foundation. Employees transferred to the new arrangements, and future benefits at normal retirement for current active participants are targeted to be similar to those under the former arrangements. However, following a transition period of three years, the current additional benefits that are provided on early retirement will gradually be phased out over a nine-year period. The calculation of the reduced long-term obligation under IAS 19 resulted in a one-time non-cash gain of USD 103 million recorded in 2005.

For several of the Group's wholly unfunded defined benefit plans there are assets within the Group that are designated, but not legally isolated, to meet the liabilities in those plans. Consequently, in accordance with IAS 19 these are not yet recognized as plan assets. However, to arrive at an economic net liability these assets would have to be netted against the present value of obligations. This is predominantly relevant for Germany where we carry a defined benefit obligation of USD 767 million as of December 31, 2006 without presenting any benefit for assets designated to support the liability.

Table 25.3
in USD millions, for the years ended December 31

Components of net pension expenses

	Defined benefit pension plans		Other defined post-employment benefits	
	2006	2005	2006	2005
Current service cost	(384)	(337)	(6)	(7)
Interest cost	(613)	(527)	(14)	(14)
Expected return on plan assets	575	409	1	1
Net actuarial losses recognized in the year	(134)	(162)	(1)	(1)
Past service cost	(17)	(67)	–	–
Gains on curtailment or settlement	135	94	10	17
Net pension expense	(438)	(590)	(10)	(4)

Table 25.4

in USD millions, as of December 31

Fair value of assets held in defined benefits plans – funded plans

	Defined benefit pension plans		Other defined post-employment benefits	
	2006	2005	2006	2005
Mortgage loans	–	–	1	–
Cash and cash equivalents	126	166	4	1
Short-term investments	2	25	–	–
Equity securities	6,168	4,722	–	–
Debt securities	3,821	3,003	5	12
Real estate	924	400	–	–
Other investments	19	269	–	–
Investments held by investment companies	11	12	–	–
Total	11,071	8,597	10	13

As a matter of policy plan assets do not include equity securities issued by the Group, other financial instruments issued by the Group or property occupied by, or other assets used by the Group.

The actual returns on defined benefit pension plan assets for the years ended December 31, 2006 and 2005 were USD 1,022 million and USD 1,027 million, respectively. The actual returns on other defined post-employment plan assets were USD 1 million for both years ended December 31, 2006 and 2005.

Table 25.5

in USD millions

Movement in defined benefit plan obligations – funded and unfunded plans

	Defined benefit pension plans		Other defined post-employment benefits	
	2006	2005	2006	2005
Benefit obligation as of January 1	(11,498)	(11,534)	(293)	(325)
Current service cost	(384)	(337)	(6)	(7)
Past service cost	19	(14)	–	–
Interest cost	(613)	(527)	(14)	(14)
Plan amendments	(4)	(3)	2	(9)
Actuarial gain/(loss) on obligations	259	(626)	28	27
Contributions by plan participants	–	–	(10)	(7)
Effect of curtailments	113	103	9	17
Effect of plan settlements	–	(1)	–	–
Benefits paid	425	354	19	22
Effect of business combinations and other transfers	(337)	(18)	–	–
Foreign currency translation effects	(1,155)	1,105	(1)	3
Benefit obligation as of December 31	(13,175)	(11,498)	(266)	(293)

Movement in fair value of plan assets – funded plans	Table 25.6 in USD millions			
	Defined benefit pension plans		Other defined post-employment benefits	
	2006	2005	2006	2005
Fair value of plan assets as of January 1	8,597	6,586	13	17
Expected return on plan assets	575	409	1	1
Actuarial gain/(loss) on plan assets	447	618	–	–
Contributions by the employer	679	1,979	6	10
Contributions by plan participants	–	–	10	7
Benefits paid	(425)	(354)	(19)	(22)
Effect of curtailments	5	(1)	3	–
Effect of plan settlements	–	(1)	–	–
Effect of business combinations and other transfers	320	7	(4)	–
Foreign currency translation effects	873	(646)	–	–
Fair value of plan assets as of December 31	11,071	8,597	10	13

The summary of the balance sheet changes in relation to defined benefit plans and other defined post-employment benefits is given below.

Summary of balance sheet movements – funded and unfunded plans	Table 25.7 in USD millions			
	Defined benefit pension plans		Other defined post-employment benefits	
	2006	2005	2006	2005
Liability as of January 1	(881)	(2,621)	(233)	(226)
Current year expense	(438)	(590)	(10)	(4)
Contributions paid	679	1,979	6	10
Effect of business combinations and other transfers	5	–	–	–
Foreign currency translation effects	(98)	351	–	(13)
Liability in the consolidated balance sheets as of December 31	(733)	(881)	(237)	(233)

Actuarial gains and losses have arisen over 2006 due to differences between actual and expected experience on the Group's plan assets and defined benefit obligations, together with the impact of the change in actuarial assumptions to reflect economic conditions at the year end. These are summarized as follows:

Development of actuarial gains/(losses) – net	Table 25.8 in USD millions	
	2006	
Experience losses on plan liabilities	(241)	
Experience gains on plan assets	447	
Gains from changes in actuarial assumptions	528	
Total net actuarial gains	734	

The principal financial assumptions used to calculate the Group's defined benefit pension and defined post-employment benefit obligations as at December 31, 2006 and the Group's pension expense for 2007 are as follows:

Table 25.9

Weighted average assumptions used in determining the actuarial liabilities for defined benefit pension plans

as of December 31	2006	2005
Discount rate	4.7%	4.8%
Expected long-term rate of return on assets	5.7%	5.9%
Future salary increases	3.0%	3.6%
Future pension increases	1.8%	2.3%

Table 25.10

Weighted average assumptions used in determining the actuarial liabilities for other defined post-employment benefits

as of December 31	2006	2005
Discount rate	5.8%	5.7%
Expected long-term rate of return on assets	4.9%	5.0%
Future salary increases	4.1%	4.0%
Increase in long-term health cost	9.0%	9.0%

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 a significant 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 2006:

Table 25.11

Effect of a change in the health care cost trend

in USD	1% increase	1% decrease
Effect on total service cost and interest cost	181,067	(153,237)
Effect on benefit obligation	5,392,546	(4,730,506)

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% to 15% of annual pensionable salary, depending on the employees' years of service. The Group's contributions under these plans amounted to USD 34 million and USD 11 million in 2006 and 2005, respectively.

26. 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 Zurich Financial Services 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 358 million and USD 296 million for the years ended December 31, 2006 and 2005, respectively.

b) Share based compensation plans for employees

The Group encourages employees to own shares of Zurich Financial Services and has set up a framework based on the implementation of either share options and/or performance share programs. Actual plans are tailored to meet local market requirements.

Table 26.1

Expenses recognized in the income statements	in USD millions, for the years ended December 31	
	2006	2005
Total option-based expenses	40	21
Total share-based expenses	111	55
Total expenses	151	76

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% 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 569 and 864 participants in this plan as of December 31, 2006 and 2005, 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 494 and 422 participants in the partnership element of the plan as of December 31, 2006 and 2005 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% 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, 2006 and 2005 was 6,620 and 6,680, respectively.

Share Incentive Plans for employees in Switzerland

The Employee Incentive Plan introduced for employees in Switzerland continued to operate in 2006. Under this plan, employees have the option to acquire sales-restricted shares at a 30% discount to the market value, with the maximum value of the discount being CHF 1,500. During 2006, 5,811 employees participated in the Employee Incentive Plan compared with 6,002 in 2005. For the year ended December 31, 2006, 1,830 employees received shares under the 2005 employee performance share plan. For the year ended December 31, 2005, 1,870 employees received shares under the 2004 employee performance share plan.

c) 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.

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% and 150% 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 174 and 170 participants in this plan as of December 31, 2006 and 2005, 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% are sales-restricted for a further period of three years. There were a total of 640 and 787 participants in this plan as of December 31, 2006 and 2005, respectively.

d) Further information on performance share and option plans

Table 26.2

Movements in options granted under the various equity participation plans	Number of shares under option		Weighted average exercise price (in CHF)	
	2006	2005	2006	2005
Outstanding as of January 1	2,107,346	1,875,016	210	297
Options granted	706,773	705,882	266	164
Options forfeited	(54,004)	(125,480)	209	313
Options exercised	(330,907)	(161,575)	169	106
Expired during period	(157,168)	(186,497)	517	561
Outstanding as of December 31	2,272,040	2,107,346	260	210
Exercisable as of December 31	1,265,961	1,023,419	260	210

Certain plan participants elected in 2002 to take their option award in the form of Share Appreciation Rights. Included in the number of shares under option in the table above are 67,801 and 70,902 shares as of December 31, 2006 and 2005, respectively, which will be settled through cash payments rather than through delivery of shares.

The average share price for Zurich Financial Services shares in 2006 and 2005 was CHF 294.63 and CHF 221.19, respectively.

Table 26.3

in CHF

Range of exercise prices of options outstanding as of December 31, 2006

	Weighted average contractual life in years	Weighted average remaining expected life in years
100 – 400	7.0	4.6
401 – 700	7.0	1.0

Table 26.4

for the years ended December 31

Options and shares granted during the period

	Number		Weighted average fair value at grant date (in CHF)	
	2006	2005	2006	2005
Shares granted during the period	332,289	811,350	308	206
Options granted during the period ¹	706,773	705,882	67	44

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 for actual grants made.

The fair value of options granted are estimated using the Black-Scholes option pricing model, with the following assumptions.

Table 26.5

Black-Scholes assumptions for fair value of options

	2006	2005
Share price, in CHF ¹	308	206
Exercise price, in CHF	308	206
Implied volatility	24.63%	23.15%
Risk-free interest rate	2.71%	2.22%
Expected dividend rate	2.50%	2.00%
Contracted 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 2006 and 2005. The fair value of any other share options granted during the year has been determined using the same methodology.

27. 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 forth related party transactions reflected in the consolidated income statements and consolidated balance sheets.

Table 27.1		2006	2005
in USD millions			
Related party transactions included in the consolidated financial statements	Consolidated income statements for the years ended December 31		
	Net earned premiums and policy fees	–	13
	Net investment income	89	147
	Other income/(expense)	(4)	(4)
	Losses and loss adjustment expenses	(6)	(6)
	Consolidated balance sheets as of December 31		
	Policyholders' collateral and other loans	16	21
	Reinsurers' share of reserves for insurance contracts	–	3
	Other receivables	6	8
	Reserves for losses and loss adjustment expenses	(3)	(7)
	Accrued liabilities	(2)	(11)

The table below summarizes related transactions with key personnel reflected in the consolidated financial statements. Key personnel includes directors of Zurich Financial Services, directors of Zurich Insurance Company and members of the Group Executive Committee.

Table 27.2		2006	2005
in USD millions, for the years ended December 31			
Related party transactions – key personnel	Remuneration of key personnel of the Group		
	Cash compensation, current benefits and fees	30	25
	Post-employment benefits	4	4
	Termination benefits	–	–
	Share based compensation	16	9
	Total remuneration of key personnel	50	38

Outstanding loans and guarantees granted to members of the Group Executive Committee amounted to USD 4 million for the years ended December 31, 2006 and 2005. No outstanding loans or guarantees were granted to the directors of Zurich Financial Services and Zurich Insurance Company for either of the years ended December 31, 2006 and 2005. The terms "directors" and "members of the Group Executive Committee" in this context include the individual as well as members of the 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 was USD 3.2 million and USD 2.8 million, in 2006 and 2005 respectively.

No provision for non-repayment has been required in 2006 and 2005 for the loans or guarantees made to members of the Group Executive Committee.

28. 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, 2006 and 2005, FGI and other Group companies held the following surplus note and certificates of contribution issued by the Farmers Exchanges. Originally these were purchased by FGI in order to supplement the policyholders' surplus of the Farmers Exchanges.

Table 28.1

in USD millions, as of December 31

Surplus Notes

	2006	2005
6.15% surplus note, due December 2013	88	88
6.15% certificates of contribution, due December 2013	523	524
6.15% certificates of contribution, due August 2014	296	296
6.00% certificates of contribution, due September 2006	–	107
Various other certificates of contribution	23	23
Total	930	1,038

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% 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% 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% assumed by Farmers Re and 80% assumed by ZIC, a 25.8% ceding commission for acquisition expenses, and an 8.2 % 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% of premiums assumed plus 20% of the underwriting gain resulting from a combined ratio under 98%. 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% 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% All Lines Quota Share reinsurance treaty in effect since December 31, 2002, Farmers Re and ZIC assume a 2.4% and 9.6% 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% and a minimum combined ratio of 93.5%. 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 19.2 million and USD 76.8 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% of premiums for acquisition expenses, 8.8% of premiums for unallocated loss adjustment expenses and 5.3% of premiums for other expenses with additional experience commissions potentially payable depending on loss experience.

Effective December 31, 2005, the 12% All Lines agreement was amended and the quota share participation ratio was reduced to 6%. As a result, Farmers Re and ZIC assume a 1.2% and 4.8% 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 9.6 million and USD 38.4 million, respectively, of the maximum Farmers Exchanges' catastrophe losses subject to under this treaty.

For the year ended December 31, 2006, Group companies assumed USD 740 million of gross written premiums (USD 1,153 million in the prior year) from the Farmers Exchanges under the All Lines Quota Share reinsurance agreement.

29. Commitments and contingencies

The Group has provided guarantees or commitments to external parties, associates, partnerships and joint ventures. These arrangements include commitments under certain conditions to make liquidity advances to cover delinquent principal and interest payments, make capital contributions or provide equity financing.

Table 29.1

in USD millions, as of December 31

Quantifiable commitments and contingencies

	2006	2005
Commitments under investment agreements	4,289	3,917
Less funded	(3,452)	(3,184)
Remaining commitments under investment agreements	837	733
Guarantees, surety bonds, letters of credit ¹	1,646	1,645
Future rent commitments	1,538	1,415
Undrawn loan commitments (capital markets and banking activities)	589	509
Other commitments and contingent liabilities	36	312

¹ Guarantee features embedded in life insurance products are not included. For such guarantee features refer to note 11 on insurance reserves.

Commitments under investment agreements

The Group has committed to contribute capital to subsidiaries, associates 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 227 million to Capital Z Investments II, L.P., USD 86 million to Capital Z Investments, L.P. and USD 54 million to Gresham. Part of these commitments may be called at any time and in any amount, based on various criteria. The remaining commitments also include a minimum allocation for hedge fund investments.

Guarantees, surety bonds, letters of credit

The Group knows of no event of default that would require it to satisfy guarantees. Irrevocable letters of credit and surety bonds have been issued to secure certain reinsurance contracts.

Future rent commitments

The Group has entered into various operating leases as lessee for office space and certain computer and other equipment. Lease expenses totaled USD 163 million and USD 155 million for the years ended December 31, 2006 and 2005, respectively.

Table 29.2

in USD millions

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

	Rental payments
2007	213
2008	214
2009	190
2010	167
2011	131
2012 and thereafter	623
Total	1,538

The Group leases its real estate held for investment to outside parties under operating leases.

Indemnity agreements

The Group, through certain of its subsidiaries, has agreed to arrangements that cap Converium's net exposure for losses arising out of the September 11, 2001 event at USD 289 million. As of December 31, 2006, the Group has recorded in this respect provisions in the amount of USD 103 million. During 2006, the additional coverage that was provided to Converium by the Group for net losses in excess of USD 59 million related to the Amerisafe/Unicover pool business was fully and finally commuted with a payment of USD 20.6 million.

Pledged assets

Total assets pledged including securities pledged in respect of securities repurchase agreements amounted to USD 6,042 million and USD 5,679 million as of December 31, 2006 and December 31, 2005, respectively. Assets pledged were financial assets.

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 with life assurance businesses in the UK, the Group remains exposed to a number of Conduct of Business issues, some of which are currently under review by the Financial Services Authority in the UK. 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. The compensation is limited to the considerations received and the Group does not believe any such compensation to be probable.

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 Holding AG to the public. As part of the

formation of Converium Holding AG and the subsequent public offering of its shares, the Group entered into various contracts with Converium Holding AG 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. If Converium calls for such payments on July 1, 2007, the maximum amount that would be payable by the Group is estimated to be in the range of approximately USD 200 million to USD 250 million.

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.

The Group has entered into previously announced regulatory settlements (Multi-State and Three-State Agreements) 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. The class-action settlement agreement, including plaintiffs' attorney fees, is subject to final approval by the court. In addition, the Group and its subsidiaries are involved in investigations in the US regarding certain reinsurance transactions engaged in by the Group and its subsidiaries. Other Group subsidiaries are also involved in industry-wide legal proceedings regarding financing hedge funds engaged in mutual-fund market-timing activities. The Group continues to cooperate with all remaining regulatory investigations. Furthermore, Zurich Financial Services is a defendant in private class-action securities litigation relating to its divestiture of its interest in Converium Holding AG. On December 28, 2006, the Court granted Zurich Financial Services' motion to dismiss all claims filed against it in that litigation. Plaintiffs moved for reconsideration on January 12, 2007. Zurich Financial Services intends to defend this litigation vigorously.

The outcome of unresolved current legal proceedings, claims, litigation and investigations could have a material effect on operating results and/or cash flows when resolved in a future period. Management is, however, not aware that these matters would materially affect the Group's consolidated financial position.



30. Segment information

Table 30.1

in USD millions, for the years ended December 31

Income statements by business segment

	General Insurance		Global Life		
	2006	2005	2006	2005	
Revenues					
Direct written premiums and policy fees	32,678	32,191	10,153	10,447	
Assumed written premiums	1,500	1,210	100	88	
Gross written premiums and policy fees	34,178	33,401	10,253	10,535	
Less premiums ceded to reinsurers	(5,511)	(5,456)	(543)	(721)	
Net written premiums and policy fees	28,667	27,945	9,710	9,814	
Net change in reserves for unearned premiums	(208)	(376)	(5)	1	
Net earned premiums and policy fees	28,459	27,569	9,705	9,815	
Farmers management fees	–	–	–	–	
Net investment income	3,216	2,737	6,526	6,481	
Net capital gains/(losses) on investments and impairments	444	327	8,888	11,518	
Net (loss)/gain on divestments of businesses	(5)	(17)	28	(7)	
Other income	369	439	946	922	
Total revenues	32,483	31,055	26,093	28,729	
Intersegment transactions	(1,161)	(1,003)	(262)	(160)	
Benefits, losses and expenses					
Losses and loss adjustment expenses, net of reinsurance	19,860	20,963	88	109	
Life insurance death and other benefits, net of reinsurance	71	99	10,034	9,781	
(Decrease)/increase in future life policyholders' benefits, net of reinsurance	3	7	(1,467)	(790)	
Insurance benefits and losses, net of reinsurance	19,934	21,069	8,655	9,100	
Policyholder dividends and participation in profits, net of reinsurance	7	4	11,904	13,655	
Underwriting and policy acquisition costs, net of reinsurance	4,941	4,506	1,448	1,561	
Administrative and other operating expenses	3,137	2,883	1,620	1,538	
Amortization and impairments of intangible assets	88	93	114	105	
Interest expense on debt	296	205	13	20	
Interest credited to policyholders and other interest	211	204	583	716	
Total benefits, losses and expenses	28,614	28,964	24,337	26,695	
Net income/(loss) before income taxes	3,869	2,091	1,756	2,034	
Income tax expense attributable to policyholders					
Income tax expense attributable to shareholders					
Net income attributable to minority interests					
Net income attributable to shareholders					

Supplementary segment information

Purchases of fixed and intangible assets	213	219	238	122	
Significant non-cash expenses:					
Depreciation and impairments of fixed assets	76	83	47	42	
Amortization and impairments of intangible assets	88	93	114	105	

Farmers Management Services		Other Businesses		Corporate Functions		Eliminations		Total	
2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
-	-	318	360	7	8	3	10	43,159	43,016
-	-	1,971	2,647	183	174	(448)	(338)	3,306	3,781
-	-	2,289	3,007	190	182	(445)	(328)	46,465	46,797
-	-	(19)	(361)	(183)	(167)	445	328	(5,811)	(6,377)
-	-	2,270	2,646	7	15	-	-	40,654	40,420
-	-	68	411	-	1	-	-	(145)	37
-	-	2,338	3,057	7	16	-	-	40,509	40,457
2,133	2,058	-	-	-	-	-	-	2,133	2,058
153	152	855	758	645	616	(1,112)	(979)	10,283	9,765
53	(1)	1,114	1,279	240	259	-	-	10,739	13,382
-	-	(66)	9	-	13	-	-	(43)	(2)
5	1	177	243	776	785	(894)	(864)	1,379	1,526
2,344	2,210	4,418	5,346	1,668	1,689	(2,006)	(1,843)	65,000	67,186
(29)	(23)	(216)	145	(338)	(802)	2,006	1,843	-	-
-	-	1,316	1,543	2	9	(37)	(18)	21,229	22,606
-	-	339	631	15	18	35	7	10,494	10,536
-	-	14	(10)	(69)	68	2	2	(1,517)	(723)
-	-	1,669	2,164	(52)	95	-	(9)	30,206	32,419
-	-	995	773	-	-	-	-	12,906	14,432
-	-	592	1,192	1	(6)	-	-	6,982	7,253
1,068	944	268	346	1,159	970	(859)	(821)	6,393	5,860
45	46	1	2	9	8	-	-	257	254
1	-	236	174	1,162	870	(1,100)	(823)	608	446
-	-	162	212	6	114	(47)	(190)	915	1,056
1,114	990	3,923	4,863	2,285	2,051	(2,006)	(1,843)	58,267	61,720
1,230	1,220	495	483	(617)	(362)	-	-	6,733	5,466
								(416)	(772)
								(1,692)	(1,364)
								(98)	(116)
								4,527	3,214

137	88	10	4	37	72	-	-	635	505
50	43	5	5	25	20	-	-	203	193
45	46	1	2	9	8	-	-	257	254

Table 30.2

in USD millions, as of December 31

**Assets and liabilities
by business segment**

	General Insurance		Global Life		
	2006	2005	2006	2005	
Cash and cash equivalents	11,583	16,416	10,198	9,180	
Equity securities	6,188	5,224	83,713	65,746	
Debt securities	54,751	46,548	72,220	69,797	
Real estate held for investment	2,475	2,134	12,383	10,110	
Mortgage loans	1,182	979	8,399	7,434	
Policyholders' collateral and other loans	2,013	2,576	12,317	10,935	
Investments in associates	27	49	46	45	
Other investments	841	449	1,176	1,181	
Total investments	79,060	74,375	200,452	174,428	
Reinsurers' share of reserves for insurance contracts	13,661	13,974	1,785	1,561	
Deposits made under assumed reinsurance contracts	73	45	–	9	
Deferred policy acquisition costs	2,995	2,640	10,113	8,441	
Deferred origination costs	–	–	815	690	
Goodwill	167	152	488	448	
Other related intangible assets ¹	–	–	775	740	
Other assets	14,014	12,666	8,249	9,008	
Total assets after consolidation of investments in subsidiaries	109,970	103,852	222,677	195,325	
Liabilities for investment contracts	–	–	50,953	41,244	
<i>Reserves for losses and loss adjustment expenses, gross</i>	59,251	54,715	131	130	
<i>Reserves for unearned premiums, gross</i>	14,148	12,973	142	125	
<i>Future life policyholders' benefits, gross</i>	167	149	73,832	68,624	
<i>Policyholders' contract deposits and other funds, gross</i>	930	862	14,117	13,854	
<i>Reserves for unit-linked contracts, gross</i>	–	–	50,377	39,283	
Reserves for insurance contracts, gross	74,496	68,699	138,599	122,016	
Debt related to capital markets and banking activities	–	–	–	–	
Senior debt	4,684	6,176	448	637	
Subordinated debt	2,349	2,315	–	–	
Other liabilities	17,700	16,319	21,006	21,453	
Total liabilities	99,229	93,509	211,006	185,350	
Supplementary segment information					
Reserves for losses and loss adjustment expenses, net	47,396	42,195	103	110	
Reserves for unearned premiums, net	12,321	11,315	137	121	
Future life policyholders' benefits, net	167	149	72,197	67,200	
Policyholders' contract deposits and other funds, net	914	846	13,999	13,741	
Reserves for unit-linked contracts, net	–	–	50,377	39,283	
Reserves for insurance contracts, net	60,798	54,505	136,813	120,455	

¹ Other related intangible assets consists of the present value of profits of acquired insurance contracts and attorney-in-fact relationships.

Farmers Management Services		Other Businesses		Corporate Functions		Eliminations		Total	
2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
560	97	3,664	2,496	8,686	10,726	(11,569)	(15,433)	23,122	23,482
-	98	18,116	18,711	988	535	-	-	109,005	90,314
1,256	1,456	6,817	6,963	1,815	1,963	(1,502)	(1,430)	135,357	125,297
182	175	203	174	38	109	-	-	15,281	12,702
-	-	1,255	1,066	-	-	(30)	(172)	10,806	9,307
1,450	1,693	3,252	2,841	4,782	3,561	(11,178)	(9,619)	12,636	11,987
-	-	76	66	4	420	-	-	153	580
75	69	323	315	1,944	1,883	(716)	(273)	3,643	3,624
3,523	3,588	33,706	32,632	18,257	19,197	(24,995)	(26,927)	310,003	277,293
205	202	7,163	6,294	99	73	(2,850)	(1,610)	20,063	20,494
-	-	1,985	2,488	2	6	(38)	(98)	2,022	2,450
-	-	88	98	-	-	1	-	13,197	11,179
-	-	-	-	-	-	-	-	815	690
-	-	-	-	5	5	-	-	660	605
1,024	1,024	-	-	-	-	-	-	1,799	1,764
1,357	1,070	2,124	2,839	2,407	2,081	(2,855)	(2,527)	25,296	25,137
6,109	5,884	45,066	44,351	20,770	21,362	(30,737)	(31,162)	373,855	339,612
-	-	-	-	-	-	(248)	(245)	50,705	40,999
-	-	7,110	6,281	110	165	(2,067)	(866)	64,535	60,425
-	-	426	449	41	33	(89)	(49)	14,668	13,531
-	-	2,745	2,757	437	439	(678)	(677)	76,503	71,292
-	-	3,887	4,288	-	-	-	(19)	18,934	18,985
-	-	15,631	16,408	-	-	-	-	66,008	55,691
-	-	29,799	30,183	588	637	(2,834)	(1,611)	240,648	219,924
-	-	3,578	3,833	-	-	(1,689)	(1,694)	1,889	2,139
-	-	646	435	17,562	17,797	(20,435)	(22,112)	2,905	2,933
180	-	98	55	4,953	5,360	(2,772)	(3,123)	4,808	4,607
2,035	1,778	6,041	6,852	1,821	1,745	(2,759)	(2,377)	45,844	45,770
2,215	1,778	40,162	41,358	24,924	25,539	(30,737)	(31,162)	346,799	316,372
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	3,278	3,768	44	119	(8)	2	50,813	46,194
-	-	365	415	8	7	-	(2)	12,831	11,856
(205)	(202)	2,416	2,399	437	439	6	2	75,018	69,987
-	-	746	896	-	-	17	(2)	15,676	15,481
-	-	15,631	16,408	-	-	-	-	66,008	55,691
(205)	(202)	22,436	23,886	489	565	15	-	220,346	199,209

Table 30.3

in USD millions

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

	Gross written premiums and policy fees for the years ended December 31		Total revenues for the years ended December 31		Total assets as of December 31	
	2006	2005	2006	2005	2006	2005
North America	17,881	17,851	18,332	17,492	69,228	67,881
Europe	25,747	25,647	40,237	42,833	259,394	225,748
International Businesses	3,565	3,390	3,786	3,506	13,935	12,747
Central Region	1,236	1,306	4,005	4,603	55,923	55,193
Eliminations	(1,964)	(1,397)	(1,360)	(1,248)	(24,625)	(21,957)
Total	46,465	46,797	65,000	67,186	373,855	339,612

Table 30.4

in USD millions, for the years ended December 31

Purchases of fixed and intangible assets by geographical segment

	Fixed assets		Intangible assets	
	2006	2005	2006	2005
North America	89	87	98	44
Europe	140	160	238	113
International Businesses	18	19	4	6
Central Region	36	61	12	15
Total	283	327	352	178



Report of the Group auditors

Report of the 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, balance sheet, statement of cash flows, statement of changes in equity and notes on pages 27 to 112) of Zurich Financial Services for the year ended December 31, 2006.

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 14, 2007

Significant Subsidiaries

Significant subsidiaries	as of December 31, 2006					
	Domicile	Segment ¹	Voting rights %	Ownership interest %	Book value of common stock (in local currency millions)	
Australia						
Zurich Australia Limited	Sydney	Life Insurance	100.00	100.00	AUD	10.0
Zurich Australian Insurance Limited	Sydney	General Insurance	100.00	100.00	AUD	97.1
Zurich Financial Services Australia Limited	Sydney	General Insurance	100.00	100.00	AUD	22.8
Austria						
Zürich Versicherungs-Aktiengesellschaft	Vienna	General Insurance	99.98	99.98	EUR	12.0
Bermuda						
B G Investments Ltd.	Hamilton	Corporate Functions	100.00	100.00	USD	0.3
Centre Group Holdings Limited	Hamilton	Other Businesses	100.00	100.00	USD	0.3
CMSH Limited	Hamilton	Other Businesses	100.00	100.00	USD	0.3
ZCM Holdings (Bermuda) Limited	Hamilton	Other Businesses	100.00	100.00	USD	147.2
ZG Investments Ltd.	Hamilton	Corporate Functions	100.00	100.00	USD	0.01
ZG Investments II Ltd.	Hamilton	Corporate Functions	100.00	100.00	USD	0.01
ZG Investments III Ltd.	Hamilton	Corporate Functions	100.00	100.00	USD	0.01
ZG Investments IV Ltd.	Hamilton	Corporate Functions	100.00	100.00	USD	0.01
Zurich International (Bermuda) Ltd.	Hamilton	Other Businesses	100.00	100.00	USD	9.9
Chile						
Chilena Consolidada Seguros de Vida S.A.	Santiago	Life Insurance	98.95	98.95	CLP	24,484.0
Germany						
BONNSECUR GmbH & Co. Liegenschaften Deutscher Herold KG	Bonn	Life Insurance	84.35	84.35	EUR	170.0
DA Deutsche Allgemeine Versicherung Aktiengesellschaft	Oberursel	General Insurance	100.00	100.00	EUR	24.5
DEUTSCHER HEROLD Aktiengesellschaft	Bonn	Life Insurance	76.83	76.83	EUR	18.4
Zürich Beteiligungs-Aktiengesellschaft (Deutschland)	Frankfurt / Main	General Insurance	100.00	100.00	EUR	152.9
Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft	Bonn	Life Insurance	84.35	84.35	EUR	68.5
Zurich Versicherung Aktiengesellschaft (Deutschland)	Frankfurt / Main	General Insurance	94.96	94.96	EUR	142.2

¹ The segments are defined in the notes to the consolidated financial statements, note 1, basis of presentation.

Significant subsidiaries (continued)	as of December 31, 2006				
	Domicile	Segment	Voting rights %	Ownership interest %	Book value of common stock (in local currency millions)
Ireland					
Eagle Star Life Assurance Company of Ireland Limited	Dublin	Life Insurance	100.00	100.00	EUR 17.5
Orange Stone Holdings	Dublin	Other Businesses	100.00	100.00	USD 1,609.6
Orange Stone Reinsurance	Dublin	Other Businesses	100.00	100.00	USD 1,524.8
Zurich Financial Services EUB Holdings Limited	Dublin	Other Businesses	100.00	100.00	GBP 0.001
Zurich Insurance Ireland Ltd.	Dublin	General Insurance	100.00	100.00	EUR 4.6
Italy					
Zurich Investments Life S.p.A.	Milan	Life Insurance	100.00	100.00	EUR 34.0
Zurich Life Insurance Italia S.p.A.	Milan	Life Insurance	100.00	100.00	EUR 25.9
Portugal					
Zurich - Companhia de Seguros S.A.	Lisbon	General Insurance	100.00	100.00	EUR 10.0
South Africa					
South African Eagle Insurance Company Limited ²	Bryanston	General Insurance	73.61	73.61	ZAR 3.0
Spain					
Zurich España, Compañía de Seguros y Reaseguros, S.A.	Barcelona	General Insurance	99.78	99.78	EUR 33.6
Zurich Vida, Compañía de Seguros y Reaseguros, S.A. – Sociedad Unipersonal	Madrid	Life Insurance	100.00	100.00	EUR 50.4
Switzerland					
Assuricum Company Limited	Zurich	Corporate Functions	100.00	100.00	CHF 610.0
Genevoise, Compagnie d'Assurances sur la Vie SA	Geneva	Life Insurance	100.00	100.00	CHF 17.0
Zurich Group Holding	Zurich	Corporate Functions	100.00	100.00	CHF 1,600.0
Zurich Insurance Company	Zurich	Corporate Functions	100.00	100.00	CHF 825.0
Zurich Life Insurance Company Ltd.	Zurich	Corporate Functions	100.00	100.00	CHF 60.0
"Zurich" Investment Management AG	Zurich	Corporate Functions	100.00	100.00	USD 8.3
Taiwan					
Zurich Insurance (Taiwan) Ltd.	Taipei	General Insurance	98.90	98.90	TWD 2,000.0
United Kingdom					
Allied Dunbar Assurance p.l.c.	Swindon, England	Life Insurance	100.00	100.00	GBP 0.05
Allied Zurich Limited	Swindon, England	Corporate Functions	100.00	100.00	GBP 378.1
Eagle Star Holdings Limited	Swindon, England	Corporate Functions	100.00	100.00	GBP 553.7
Eagle Star Insurance Company Limited	Fareham, England	Other Businesses	100.00	100.00	GBP 50.0
ZPC (Construction) Company Limited	Fareham, England	General Insurance	100.00	100.00	GBP 54.0
Zurich Assurance Ltd	Swindon, England	Life Insurance	100.00	100.00	GBP 236.1

²⁾ Listed on the Johannesburg Stock Exchange. On December 31, 2006, the company had a market capitalization of ZAR 1,906.1 m (ISIN Number 000006243).

Significant subsidiaries (continued)	as of 31 December 2006				
	Domicile	Segment	Voting rights %	Ownership interest %	Book value of common stock (in local currency millions)
Zurich Employment Services Limited	Swindon, England	Life Insurance	100.00	100.00	GBP 9.0
Zurich Financial Services (UKISA) Limited	Swindon, England	Corporate Functions	100.00	100.00	GBP 1,492.1
Zurich International (UK) Limited	Portsmouth, England	General Insurance	100.00	100.00	GBP 40.0
Zurich International Life Limited	Douglas, Isle of Man	Life Insurance	100.00	100.00	GBP 55.6
Zurich Invest (Jersey) Ltd.	Jersey, Channel Islands	General Insurance	100.00	100.00	CHF 0.1
Zurich Specialties London Limited	London, England	Other Businesses	100.00	100.00	GBP 150.0
United States of America					
Centre Reinsurance Holdings (Delaware) Limited	Wilmington, DE	Other Businesses	100.00	100.00	USD 0.00002
Crown Management Services Limited	Wilmington, DE	Other Businesses	100.00	100.00	USD 0.00003
Farmers Group, Inc.	Reno, Nevada	Farmers Management Services	97.91	100.00	USD 0.001
Farmers New World Life Insurance Company	Mercer Island, WA	Life Insurance	100.00	100.00	USD 6.6
Farmers Reinsurance Company	Los Angeles, CA	Other Businesses	100.00	100.00	USD 5.0
Farmers Services, LLC ³	Wilmington, DE	Farmers Management Services	100.00	100.00	USD –
Kemper Corporation	Schaumburg, IL	Other Businesses	100.00	100.00	USD 220.0
Kemper Investors Life Insurance Company	Mercer Island, WA	Other Businesses	100.00	100.00	USD 2.5
Universal Underwriters Insurance Company	Overland Park, KA	General Insurance	100.00	100.00	USD 15.0
Zurich American Insurance Company (and subsidiaries)	New York, NY	General Insurance	100.00	100.00	USD 5.0
Zurich Finance (USA), Inc.	Wilmington, DE	Corporate Functions	100.00	100.00	USD0.000001
Zurich Holding Company of America, Inc.	Dover, DE	Corporate Functions	100.00	100.00	USD 0.6

³ This entity is an LLC that has no share capital.