Consolidated Financial Statements

Consolidated income statements

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

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

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

Consolidated statements of total recognized income and expenses

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

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

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

Consolidated balance sheets

Assets

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

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

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

Liabilities and equity

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

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

Consolidated statements of cash flows

in USD millions, for the years ended December 31	**2007**	2006
Cash flows from operating activities		
Net income attributable to shareholders	5,626	4,620
Adjustments for:		
Net (gain)/loss on divestments of businesses	(118)	43
Share of equity in income from investments in associates	(13)	(85)
Depreciation, amortization and impairments of fixed and intangible assets	515	460
Other non-cash items	310	1,857
Underwriting activities:	(3,259)	9,938
Reserves insurance contracts, gross	*2,410*	*5,479*
Reinsurers' share of reserves for insurance contracts [1]	*(6,407)*	*966*
Liabilities for investment contracts	*2,213*	*4,204*
Deferred policy acquisition costs	*(928)*	*(890)*
Deferred origination costs	*(166)*	*(32)*
Deposits made under assumed reinsurance contracts	*715*	*434*
Deposits received under ceded reinsurance contracts	*(1,096)*	*(223)*
Investments:	(2,589)	(14,441)
Net capital gains on investments and impairments	*(5,640)*	*(10,739)*
Net change in trading securities	*(180)*	*(351)*
Sales and maturities		
Debt securities [1]	*70,307*	*58,544*
Equity securities	*70,825*	*46,044*
Other (primarily other investments)	*32,326*	*32,115*
Purchases		
Debt securities	*(64,227)*	*(61,291)*
Equity securities	*(73,614)*	*(46,191)*
Other (primarily other investments)	*(32,385)*	*(32,572)*
Proceeds from sale and repurchase agreements	(865)	116
Movements in receivables and payables	350	207
Net changes in debt for capital markets and banking activities	(279)	(219)
Net changes in other operational assets and liabilities	(1,613)	(2,370)
Deferred income tax, net	355	514
Net cash provided by/(used in) operating activities	(1,580)	640

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

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

in USD millions, for the years ended December 31	**2007**	2006
Cash flows from investing activities		
Sales of property and equipment	274	79
Purchase of property and equipment	(338)	(280)
Investments in associates, net	(73)	243
Acquisitions of companies, net of cash acquired	(543)	–
Divestments of companies, net of cash balances	58	–
Dividends from associates	5	12
Net cash provided by/(used in) investing activities	(617)	54
Cash flows from financing activities		
Dividends paid	(1,339)	(581)
Treasury share transactions	(1,669)	–
Nominal value reduction of share capital	–	(276)
Redemption of preferred securities and repayments to minority interests	–	(802)
Issuance of debt	1,898	311
Payments on debt outstanding	(1,576)	(592)
Net cash (used in) financing activities	(2,686)	(1,940)
Foreign currency translation effects on cash and cash equivalents	642	1,637
Change in cash and cash equivalents excluding change in cash received as collateral for securities lending [1]	(4,241)	391
Cash and cash equivalents as of January 1, excluding cash received as collateral for securities lending	19,302	18,911
Cash and cash equivalents as of December 31, excluding cash received as collateral for securities lending	**15,061**	**19,302**
Change in cash received as collateral for securities lending	(1,943)	(751)
Cash and cash equivalents as of January 1, including cash received as collateral for securities lending	23,122	23,482
Cash and cash equivalents as of December 31, including cash received as collateral for securities lending	**16,936**	**23,122**
Other supplementary cash flow disclosures		
in USD millions		
Other interest income received	8,519	7,760
Dividend income received	3,136	2,289
Other interest expense paid	(1,603)	(1,504)
Income tax paid	(1,701)	(1,342)

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

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

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

Cash and cash equivalents

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

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

Consolidated statements of changes in equity

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

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

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

[3] On February 14, 2007, the Board of Zurich Financial Services authorized a share buy-back of up to CHF 1.25 billion (approximately USD 1 billion) over the course of 2007. A proposal to cancel all repurchased shares will be submitted to shareholders at the Annual General Meeting on April 3, 2008. The share buy-back scheme was completed on July 3, 2007, when 3,432,500 fully paid shares, with nominal value CHF 0.10, had been bought back at an average price of CHF 364.00 per share.
As of December 31, 2007 the number of treasury shares deducted from equity was 5,839,154, which comprises shares repurchased under the buy-back program and 2,406,654 shares held to cover employee share and option plans mainly purchased in November and December 2007.

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

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

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

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

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

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

1. Basis of presentation

General information

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

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

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

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

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

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

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

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

Change in accounting policies in 2007

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

Table 1

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

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

Transfer of UK annuity business

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

Segment information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Summary of significant accounting policies

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

a) Consolidation principles

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

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

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

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

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

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

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

Classification

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

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

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

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

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

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

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

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

Premiums

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

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

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

Deferred policy acquisition costs (DAC)

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

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

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

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

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

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

Liability adequacy tests

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

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

Reserves for losses and loss adjustment expenses

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

Future life policyholders' benefits and policyholders' contract deposits

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

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

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

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

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

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

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

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

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

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

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

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

Reinsurance

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

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

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

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

c) Investment contracts (without DPF)

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

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

Liabilities for investment contracts (unit-linked)

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

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

Liabilities for investment contracts (amortized cost)

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

Measurement of investment contracts

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

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

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

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

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

Deferred origination costs

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

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

d) Other revenue recognition

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

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

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

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

e) Net investment income

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

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

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

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

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

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

f) Investments

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

Categories of non-derivative financial instruments

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

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

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

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

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

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

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

Measurement of non-derivative financial instruments

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

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

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

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

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

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

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

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

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

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

Other items

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

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

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

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

Impairments of non-derivative financial instruments

General

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

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

a) significant financial difficulty of the issuer or debtor;

b) a breach of contract, such as a default or delinquency in payments;

c) it becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganization;

d) the disappearance of an active market for that financial asset because of financial difficulties; or

e) observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in that group, including:

- adverse changes in the payment status of issuers or debtors in that group; or
- national or local economic conditions that correlate with defaults on the assets in that group.

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

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

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

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

g) Derivative financial instruments

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

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

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

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

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

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

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

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

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

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

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

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

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

h) Derecognition of financial assets and liabilities

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

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

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

i) Offsetting of financial assets and financial liabilities

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

j) Securities lending

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

k) Obligation to repurchase securities

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

l) Borrowings

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

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

m) Interest expense

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

n) Goodwill and other intangible assets

Goodwill

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

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

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

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

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

Other intangible assets

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

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

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

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

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

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

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

Attorney-in-fact relationships (AIF)

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

o) Income taxes

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

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

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

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

p) Employee benefits

Retirement benefits

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

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

Other post-employment benefits

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

q) Share-based compensation and cash incentive plans

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

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

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

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

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

r) Property and equipment

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

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

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

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

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

Impairment of non-financial assets

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

s) Finance and operating leases

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

t) Provisions

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

u) Treasury shares

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

v) Foreign currency translation and transactions

Foreign currency translation

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

Foreign currency transactions

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

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

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

Table 3

Principal exchange rates

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

4. Critical accounting judgments and estimates

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

a) Reserves for losses and loss adjustment expenses

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

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

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

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

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

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

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

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

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

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

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

c) Fair value of financial assets and liabilities

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

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

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

d) Impairment of assets

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

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

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

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

Impairments are recorded in current period income when they occur.

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

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

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

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

f) Deferred policy acquisition costs

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

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

g) Deferred taxes

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

Refer to note 19 for further information on deferred taxes.

h) Employee benefits

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

Refer to note 22 for further information on employee benefits.

i) Share-based compensation and cash incentive plans

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

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

5. Acquisitions and divestments

Transactions in 2007

Acquisitions

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

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

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

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

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

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

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

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

Business combinations

Table 5.1

In USD millions, for the year ended December 2007	Bristol West	Nasta	Other	Total
Book value of net assets prior to acquisition	(32)	45	44	58
Fair value of net tangible assets acquired	(32)	48	(19)	(3)
Identifiable intangible assets, net of deferred tax	–	28	95	123
Goodwill	385	370	132	886
Total acquisition costs	353	445	208	1,006
Cash consideration	344	260	174	778
Equity instruments transferred	–	–	18	18
Transaction costs	9	7	5	21
Present value of deferred payments	–	178	11	189
Cash and cash equivalents acquired	–	102	154	255

Divestments

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

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

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

Table 5.2

Net gain/(loss) on divestments

in USD millions, for the years ended December 31	**2007**	2006
Cash consideration received	122	–
Equity instruments received	63	–
Less: net assets divested	(52)	–
Fair value adjustment for portfolio transfer	–	(66)
Other income/(cost) related to divestments	(13)	23
Net gain/(loss) on divestments, before tax	118	(43)
Tax effect	(25)	(9)
Net gain/(loss) on divestments, after tax	**93**	**(52)**
Net assets divested		
Cash and cash equivalents	64	–
Other assets	47	–
Other liabilities	(59)	–
Net assets divested	52	–

Transactions in 2006

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

Transactions and events after the balance sheet date

On January 24, 2008, the Group announced that it had signed an agreement to acquire 100 percent of the outstanding share capital of TEB Sigorta A.S., a general insurer based in Turkey. The closing of the transaction is subject to regulatory and antitrust approval and is expected to take place in the first quarter of 2008.

6. Investments

The investment result for the years ended December 31, 2007 and 2006 comprised the following:

Table 6.1a

Investment result for total investments

in USD millions, for the years ended December 31	Net investment income		Net realized capital gains/ (losses) on investments and impairments		Investment result	
	2007	2006	**2007**	2006	**2007**	2006
Cash and cash equivalents	621	661	27	6	648	667
Equity securities	3,132	2,275	6,459	9,850	9,591	12,124
Debt securities	6,151	5,666	(751)	(416)	5,400	5,250
Real estate held for investment	927	836	(419)	1,130	508	1,966
Mortgage loans	580	475	–	3	579	477
Other loans	575	594	(5)	(18)	570	576
Investments in associates	13	85	(1)	(23)	12	62
Other investments	367	417	330	207	698	624
Short-term investments	115	117	1	1	116	118
Investments held by investment companies	1	5	475	283	477	288
Other[1]	251	295	(146)	(77)	105	218
Investment result, gross	12,366	11,009	5,640	10,739	18,006	21,748
Investment expenses	(775)	(726)	–	–	(775)	(726)
Investment result, net	**11,591**	**10,283**	**5,640**	**10,739**	**17,231**	**21,022**

[1] Including net capital losses on derivative financial instruments of USD 147 million and USD 65 million for the years ended December 31, 2007 and 2006, respectively, of which net capital losses on derivatives attributable to cash flow hedges ineffectiveness amounted to USD 9 million for the year ended December 31, 2007.

Investment result for Group investments

Table 6.1b

in USD millions, for the years ended December 31	Net investment income		Net capital gains/ (losses) on investments and impairments		Investment result	
	2007	2006	**2007**	2006	**2007**	2006
Cash and cash equivalents	590	499	(4)	4	586	503
Equity securities	706	533	1,422	1,391	2,128	1,924
Debt securities	5,773	5,368	(461)	(269)	5,312	5,099
Real estate held for investment	438	410	101	220	539	629
Mortgage loans	580	475	–	3	579	477
Other loans	575	594	(5)	(18)	570	576
Investments in associates	13	85	(1)	(23)	12	62
Other investments	164	200	445	229	610	428
Short-term investments	71	87	1	1	72	88
Investments held by investment companies	1	5	475	283	477	288
Other [1]	92	108	(31)	(55)	61	52
Investment result, gross for Group investments	8,838	8,164	1,498	1,536	10,336	9,699
Investment expenses for Group investments	(247)	(265)	–	–	(247)	(265)
Investment result, net for Group investments	**8,591**	**7,899**	**1,498**	**1,536**	**10,089**	**9,434**

[1] Including net capital losses on derivative financial instruments of USD 33 million and USD 44 million for the years ended December 31, 2007 and 2006, respectively, of which net capital losses on derivatives attributable to cash flow hedges ineffectiveness of USD 9 million for the year ended December 31, 2007 are included.

Investment result for unit-linked products

Table 6.1c

in USD millions, for the years ended December 31	Net investment income		Net capital gains/ (losses) on investments		Investment result	
	2007	2006	**2007**	2006	**2007**	2006
Cash and cash equivalents	31	162	31	3	62	164
Equity securities	2,426	1,742	5,037	8,459	7,463	10,201
Debt securities	379	298	(290)	(148)	88	150
Real estate held for investment	489	427	(520)	910	(31)	1,337
Other investments	203	218	(116)	(22)	87	196
Short-term investments	44	30	–	–	44	30
Other [1]	159	188	(116)	(22)	43	166
Investment result, gross for unit-linked contracts	3,528	2,845	4,142	9,203	7,670	12,048
Investment expenses for unit-linked contracts	(528)	(461)	–	–	(528)	(461)
Investment result, net unit-linked products	**3,000**	**2,384**	**4,142**	**9,203**	**7,142**	**11,587**

[1] Including net capital losses on derivative financial instruments of USD 114 million and USD 21 million for the years ended December 31, 2007 and 2006, respectively.

Impairment charges on Group investments included in net capital losses amounted to USD 136 million and USD 26 million for the years ended December 31, 2007 and 2006, respectively, of which impairments charges on mortgage loans and other loans comprised USD 9 million and USD 5 million for the years ended December 31, 2007 and 2006, respectively.

Rental operating expense for real estate held for investment included in investment expenses (total investments) amounted to USD 170 million and USD 163 million for the years ended December 31, 2007 and 2006, respectively.

Capital gains and losses and impairments on equity and debt securities included in total investments for the years ended December 31, 2007 and 2006 comprised the following:

Table 6.2

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

in USD millions, for the years ended December 31	Equity securities		Debt securities		Total	
	2007	2006	**2007**	2006	**2007**	2006
Securities at fair value through profit or loss:	5,379	8,880	(337)	(351)	5,042	8,529
of which: trading securities						
Net capital gains/(losses) on Group investments	233	187	(10)	(1)	223	187
of which: securities designated at FV						
Net capital gains/(losses) on Group investments	108	234	(36)	(203)	72	31
Net capital gains/(losses) for unit-linked contracts	5,037	8,459	(290)	(148)	4,747	8,312
Available-for-sale securities:	1,080	970	(413)	(65)	668	904
Realized capital gains on Group investments	1,261	1,141	482	345	1,743	1,487
Realized capital losses on Group investments	(137)	(166)	(813)	(397)	(950)	(564)
Impairments on Group investments	(44)	(5)	(81)	(13)	(125)	(19)
Total net capital gains/(losses) and impairments	**6,459**	**9,850**	**(751)**	**(417)**	**5,708**	**9,434**

Details of the investment balances as of December 31, 2007 and 2006 by category are given in the tables below:

Breakdown of total investments

Table 6.3a

as of December 31	Total investments			
	2007		2006	
	USD millions	**% of total**	USD millions	% of total
Cash and cash equivalents	16,936	5.4	23,122	7.5
Equity securities:				
Fair value through profit or loss	104,220	33.0	95,049	30.7
of which: trading	2,768	0.9	2,778	0.9
of which: trading equity portfolios in capital markets and banking activities	1,606	0.5	2,260	0.7
Available-for-sale	14,547	4.6	13,956	4.5
Total equity securities	118,767	37.6	109,005	35.2
Debt securities:				
Fair value through profit or loss	18,499	5.9	17,572	5.7
of which: trading	616	0.2	547	0.2
Available-for-sale	109,733	34.8	112,128	36.2
Held-to-maturity	5,642	1.8	5,657	1.8
Total debt securities	133,874	42.4	135,357	43.7
Real estate held for investment	15,386	4.9	15,281	4.9
Mortgage loans	12,718	4.0	10,806	3.5
Other loans	12,938	4.1	12,636	4.1
Investments in associates	238	0.1	153	0.0
Other investments:				
Short-term investments	2,929	0.9	1,703	0.5
Investments held by investment companies	1,827	0.6	1,862	0.6
Other	80	0.0	79	0.0
Total other investments	4,836	1.5	3,644	1.2
Total investments	**315,693**	**100.0**	**310,003**	**100.0**

Table 6.3b

Breakdown of Group investments

as of December 31

	Group investments			
	2007		2006	
	USD millions	**% of total**	USD millions	% of total
Cash and cash equivalents	13,943	7.2	17,438	8.9
Equity securities:				
Fair value through profit or loss	4,042	2.1	4,383	2.2
of which: trading	2,768	1.4	2,778	1.4
of which: trading equity portfolios in capital markets and banking activities	1,606	0.8	2,260	1.2
Available-for-sale	14,547	7.5	13,956	7.1
Total equity securities	18,589	9.6	18,339	9.4
Debt securities:				
Fair value through profit or loss	8,387	4.3	8,650	4.4
of which: trading	616	0.3	547	0.3
Available-for-sale	109,733	56.7	112,128	57.3
Held-to-maturity	5,642	2.9	5,657	2.9
Total debt securities	123,762	63.9	126,435	64.6
Real estate held for investment	7,563	3.9	6,921	3.5
Mortgage loans	12,718	6.6	10,806	5.5
Other loans	12,936	6.7	12,634	6.5
Investments in associates	238	0.1	153	0.1
Other investments:				
Short-term investments	1,944	1.0	1,010	0.5
Investments held by investment companies	1,827	0.9	1,862	1.0
Other	80	0.0	79	0.0
Total other investments	3,851	2.0	2,951	1.5
Total Group investments	**193,600**	**100.0**	**195,676**	**100.0**

Cash and investments with a carrying value of USD 4,617 million and USD 4,469 million were deposited on behalf of regulatory authorities as of December 31, 2007 and 2006, respectively.

Short-term investments primarily consist of available-for-sale securities with original maturities between three months and one year.

Investments held by investment companies primarily consist of investments in hedge and private equity funds.

There were no material reclassifications between the categories of financial instruments in 2007 and 2006.

Securities under security lending and short-term sale and repurchase agreements

As of December 31, 2007 and 2006, investments included USD 12,204 million and USD 11,512 million, respectively, of loaned securities. These loaned securities were mainly debt securities. Cash and cash equivalents included USD 1,877 million and USD 3,820 million of cash received as collateral for loaned securities as of December 31, 2007 and 2006, respectively. Liabilities for cash collateral received for securities lending comprised USD 1,889 million and USD 3,918 million as of December 31, 2007 and 2006, respectively. Non-cash collaterals received for loaned securities comprised USD 10,911 million and USD 7,654 million as of December 31, 2007 and 2006, respectively. Non-cash collaterals comprised mainly equity and debt securities. The Group can sell or repledge the collateral only in the event of a default of a counterparty.

As of December 31, 2007 and 2006, respectively, debt securities with a carrying value of USD 5,370 million and USD 6,144 million have been sold to financial institutions under short-term sale and repurchase agreements. These securities continue to be recognized as investments in the balance sheets. Obligations to repurchase these securities comprised USD 5,370 million and USD 6,144 million as of December 31, 2007 and 2006, respectively. The Group retains the rights to the risks and rewards of ownership of loaned securites and securities under short-term sale and repurchase agreements. These risks and rewards include changes in market values and income earned, respectively.

Table 6.3c

Breakdown of investments for unit-linked contracts

as of December 31

	Investments for unit-linked contracts			
	2007		2006	
	USD millions	**% of total**	USD millions	% of total
Cash and cash equivalents	2,993	2.5	5,685	5.0
Equity securities	100,178	82.1	90,666	79.3
Debt securities	10,112	8.3	8,922	7.8
Real estate held for investment	7,823	6.4	8,360	7.3
Other loans	2	0.0	2	0.0
Short-term investments	985	0.8	693	0.6
Total investments for unit-linked contracts	**122,092**	**100.0**	**114,327**	**100.0**

The table below presents the carrying value of debt securities for total investments by maturity:

Table 6.4

Debt securities maturity schedule (total investments)

in USD millions, as of December 31

	Held-to-maturity		Available-for-sale		Fair value through profit or loss	
	2007	2006	**2007**	2006	**2007**	2006
Debt securities:						
< 1 year	413	668	6,651	7,043	1,948	1,475
1 to 5 years	1,257	1,218	33,388	32,196	3,711	3,527
6 to 10 years	1,181	816	23,532	24,346	5,113	4,103
> 10 years	2,791	2,956	20,241	23,294	5,622	6,156
Subtotal	5,642	5,657	83,810	86,879	16,395	15,261
Mortgage and asset-backed securities:						
< 1 year	–	–	991	855	246	219
1 to 5 years	–	–	5,166	6,199	178	179
6 to 10 years	–	–	6,233	5,873	378	499
> 10 years	–	–	13,531	12,323	1,301	1,413
Subtotal	–	–	25,923	25,249	2,104	2,310
Total	**5,642**	**5,657**	**109,733**	**112,128**	**18,499**	**17,571**

The breakdowns are provided by contractual maturity. Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

The following table provides an analysis of available-for-sale securities which applies to both total and Group investments.

Available-for-sale securities

Table 6.5

in USD millions, as of December 31	Cost or amortized cost		Gross unrealized gains		Gross unrealized losses		Fair value	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
Equity securities								
Common stock	8,325	6,804	1,508	1,846	(833)	(230)	9,000	8,420
Unit trusts	5,088	4,958	383	432	(136)	(52)	5,335	5,337
Non-redeemable preferred stock	206	160	11	39	(4)	–	212	198
Total equity securities	**13,618**	**11,922**	**1,902**	**2,317**	**(973)**	**(283)**	**14,547**	**13,956**
Debt securities								
Swiss federal and cantonal governments	4,815	5,378	26	101	(54)	(6)	4,788	5,473
United Kingdom government	8,271	8,602	92	86	(24)	(104)	8,339	8,584
United States government	4,186	6,083	173	89	(82)	(140)	4,277	6,032
Other governments and supra-nationals	27,218	26,203	169	313	(702)	(322)	26,686	26,194
Corporate securities	40,450	40,290	744	1,020	(1,568)	(731)	39,626	40,579
Mortgage and asset-backed securities	26,060	25,434	197	92	(334)	(277)	25,923	25,249
Redeemable preferred stocks	92	18	3	–	–	–	95	18
Total debt securities	**111,092**	**112,008**	**1,404**	**1,701**	**(2,764)**	**(1,581)**	**109,733**	**112,128**

The following table provides an analysis of securities for both Group investments and investments for unit-linked products at fair value through profit or loss.

Fair value through profit or loss securities

Table 6.6

as of December 31	Group investments				Investments for unit-linked products		Total investments	
	2007		2006		**2007**	2006	**2007**	2006
	USD millions	**% of total**	USD millions	% of total	**USD millions**	USD millions	**USD millions**	USD millions
Equity securities								
Common stock	4,042	32.5	4,383	33.6	62,225	62,077	66,267	66,460
of which: trading equity portfolios in capital markets and banking activities	1,606	12.9	2,260	17.3	–	–	1,606	2,260
of which: common stock portfolios backing participating with profit policyholder contracts	1,274	10.3	1,604	12.3	–	–	1,274	1,604
Unit trusts	–	0.0	–	0.0	37,935	28,568	37,935	28,568
Non-redeemable preferred stock	–	0.0	–	0.0	17	21	17	21
Total equity securities	**4,042**	**32.5**	**4,383**	**33.6**	**100,177**	**90,666**	**104,219**	**95,049**
Debt securities								
Debt securities	6,612	53.2	6,676	51.2	9,783	8,586	16,395	15,262
of which: trading debt securities in capital markets and banking activities	117	0.9	44	0.3	–	–	117	44
Mortgage and asset-backed securities	1,775	14.3	1,974	15.1	329	336	2,104	2,310
Total debt securities	**8,387**	**67.5**	**8,650**	**66.4**	**10,112**	**8,922**	**18,499**	**17,572**
Total	**12,429**	**100.0**	**13,033**	**100.0**	**110,289**	**99,588**	**122,718**	**112,621**

The following table provides an analysis of total investments classified as held-to-maturity debt securities.

Held-to-maturity debt securities

Table 6.7

as of December 31	2007		2006	
	USD millions	**% of total**	USD millions	% of total
Swiss federal and cantonal governments	1,498	26.6	1,395	24.7
United States governments	1,598	28.3	1,576	27.9
Other governments and supranationals	901	16.0	1,162	20.5
Corporate securities	1,645	29.2	1,525	27.0
Total held-to-maturity debt securities	**5,642**	**100.0**	**5,657**	**100.0**

The carrying value of real estate held for total investments developed as follows:

Real estate held for total investments

Table 6.8

in USD millions	Total	
	2007	2006
Carrying value as of January 1	15,281	12,702
Additions and capital improvements	329	537
Disposals	(211)	(224)
Market value revaluation	(665)	1,052
Transfer from/(to) assets held for own use	6	(132)
Foreign currency translation effects	647	1,346
Carrying value as of December 31	**15,386**	**15,281**

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

Investments in associates as of December 31, 2007 and 2006 comprised the following:

Investments in associates

Table 6.9

in USD millions, for the years ended December 31	Carrying value		Share in profit		Ownership interest	
	2007	2006	**2007**	2006	**2007**	2006
DKN Financial Group Limited	63	–	–	–	31.55%	-
MCIS Zurich Insurance Berhad	37	37	1	1	40.00%	40.00%
Euclid Office, L.P.[1]	24	23	1	4	99.00%	99.00%
Other	114	93	11	80	n/m	n/m
Total	**238**	**153**	**13**	**85**	**n/m**	**n/m**

[1] This entity is not consolidated as it is not controlled by the Group.

Unrealized net gains/(losses) on investments included in the shareholders' equity comprised the following:

Net unrealized gains/(losses) on investments included in shareholders' equity

Table 6.10

in USD millions, as of December 31	Total	
	2007	2006
Equity securities: available-for-sale	929	2,034
Debt securities: available-for-sale	(1,359)	120
Other	66	136
Less: amount of net unrealized gains/(losses) on investments attributable to:		
Life policyholder dividends and other policyholder liabilities	459	(1,038)
Life deferred acquisition costs	78	(95)
Deferred income taxes	(72)	(312)
Minority interests	(8)	(26)
Total	**93** [1]	**819**

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

7. Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments mostly for economic hedging purposes in order to mitigate the risks posed to the Group as a consequence of changes in foreign exchanges rates, interest rates, equity prices and credit quality from its assets and liabilities and its commitments to third parties. In certain circumstances these instruments may meet the definition of an effective hedge for accounting purposes. Where this is the case, hedge accounting is applied. Details for the accounting of these instruments is set out in note 3; tables 7.1 and 7.2 below set out those instruments which are not hedges for accounting purposes, while table 7.3 sets out those where hedge accounting has been applied. The notional principal amounts indicate the volume of transactions outstanding at the balance sheet date and are used to express the extent of the Group's involvement in derivative transactions. These do not represent amounts at risk.

Derivative assets are included in "Other assets" and derivative liabilities are included in "Other liabilities" of the consolidated balance sheets as of December 31, 2007 and 2006.

a) Derivative financial instruments held for economic hedging purposes

Outstanding positions of the Group (excluding Zurich Capital Markets (ZCM))

Table 7.1

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

in USD millions, as of December 31	Remaining life			Notional principal amounts		Market values	
	Up to 1 year	1 to 5 years	Over 5 years	**2007**	2006	**2007**	2006
Swaps							
Interest rate swaps	24	164	511	699	976	(18)	(6)
Currency swaps	–	200	1,568	1,767	1,617	58	194
Total return equity swaps	–	5	74	80	981	7	(13)
Other swaps	–	929	–	929	708	–	(29)
Options							
Purchased call options	370	2,610	5,377	8,357	8,152	202	320
Purchased put options	4,309	131	1,362	5,802	2,358	223	126
Written call options	1,675	341	257	2,274	1,223	(118)	(207)
Written put options	–	–	–	–	(13)	–	(10)
Futures/forwards							
Purchased futures/forwards	7,451	–	–	7,451	6,340	31	47
Written futures/forwards	3,168	–	–	3,168	5,337	18	(49)
Total	**16,997**	**4,380**	**9,149**	**30,527**	**27,679**	**404**	**373**
of which: *financial assets*						607	713
financial liabilities						(203)	(340)

Outstanding positions of ZCM

Table 7.2

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

in USD millions, as of December 31	Remaining life			Notional principal amounts		Market values	
	Up to 1 year	1 to 5 years	Over 5 years	**2007**	2006	**2007**	2006
Swaps							
Interest rate swaps	303	20	445	769	929	37	26
Total return equity swaps	–	–	–	–	–	–	(2)
Options							
Purchased call options	–	12	–	12	12	1	12
Purchased put options	5	–	510	515	510	(70)	(52)
Written call options	210	12	–	222	222	(4)	(27)
Written put options	–	1,076	770	1,846	1,955	84	75
Total	**518**	**1,120**	**1,725**	**3,363**	**3,628**	**48**	**32**
of which: *financial assets*						122	107
financial liabilities						(74)	(75)

b) Derivative financial instruments that qualify for hedge accounting

The following table sets out details of the fair value and cash flow hedges:

Table 7.3

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

in USD millions, as of December 31	Remaining Life			Notional principal amounts		Market values	
	Up to 1 year	1 to 5 years	Over 5 years	**2007**	2006	**2007**	2006
Fair value hedges							
Cross currency interest rate swaps	–	–	1,022	1,022	924	118	24
Total fair value hedges	**–**	**–**	**1,022**	**1,022**	**924**	**118**	**24**
Cash flow hedges							
Options on interest rate swaps	–	587	2,589	3,176	–	58	–
Currency swaps	–	–	1,168	1,168	–	153	–
Total cash flow hedges	**–**	**587**	**3,757**	**4,344**	**–**	**211**	**–**
of which: *assets*						329	24
liabilities						–	–

The **fair value hedges** consist of cross currency interest rate swaps used to protect the Group against changes in foreign currency exposure and interest rate exposure of euro denominated debt held by the Group. Changes in the fair value of the derivatives designated as fair value hedges and changes in the fair value of the hedged item in relation to the risk being hedged are recognized in income.

Gains and losses arising from fair value hedges are as follows:

Table 7.4

Gains/(losses) arising from fair value hedges

in USD millions, as of December 31	**2007**	2006
Gains/(losses)		
on hedging instruments [1]	72	38
on hedged debt issued attributable to the hedged risk	(71)	(34)

[1] Excluding current interest income, which is booked in the same line as interest expense on the hedged debt.

The Group uses options on interest rate swaps in **cash flow hedges** to protect against variability in future cash flows due to changes in interest rates associated with forecast purchase of debt investments related to life insurance policies (during the years ended December 31, 2011, 2016, 2021 and 2026). Gains and losses on such derivatives are initially recognized directly in equity, and are transferred to the income statement when the underlying financial asset is recognized and affects profit and loss through the recognition of interest income between the year ended December 31, 2011 and the year ended December 31, 2036. The gains and losses on the ineffective portion of such derivatives are recognized immediately in income within net capital gains/(losses) on investments and impairments.

The Group also uses currency swaps in a cash flow hedge to protect against exposures to variability in cash flows due to changes in the exchange rate of the euro against the reporting currency of the Group on 80 percent of the 4.50% EUR 1 billion debt issued by Zurich Finance (USA), Inc (see note 20). The change in the fair value of the hedging instruments is recognized directly in shareholders' equity and the effective portion, related to spot rate changes in fair value of the hedging instrument, together with ineffectiveness are then recognized in current period income in the same line as the foreign currency revaluation on the underlying hedged debt issued. This hedge relationship is in place until the maturity of the debt in September 2014.

For the year ended December 31, 2007 the net loss deferred in shareholder's equity on derivatives designated as cash flow hedges was USD 144 million before tax. During 2007, the amount removed from shareholders' equity and included in the income statement was not material.

During the year ended December 31, 2007, a net loss of USD 9 million was recognized due to hedge ineffectiveness within net capital gains/(losses) on investments and impairments.

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

Reserves for insurance contracts

Table 8.1

in USD millions, as of December 31	**2007**	2006
Gross		
Reserves for losses and loss adjustment expenses	67,890	64,535
Reserves for unearned premiums	15,941	15,158
Future life policyholders' benefits	80,293	76,503
Policyholders' contract deposits and other funds	18,687	18,934
Reserves for unit-linked contracts	70,075	66,008
Total reserves for insurance contracts, gross	252,886	241,138
Ceded		
Reserves for losses and loss adjustment expenses	(13,179)	(13,722)
Reserves for unearned premiums	(1,720)	(1,882)
Future life policyholders' benefits [1]	(9,265)	(1,485)
Policyholders' contract deposits and other funds	(2,976)	(3,258)
Reinsurers' share of reserves for insurance contracts, gross [2]	(27,140)	(20,347)
Net		
Reserves for losses and loss adjustment expenses	54,712	50,814
Reserves for unearned premiums	14,221	13,275
Future life policyholders' benefits	71,028	75,018
Policyholders' contract deposits and other funds	15,711	15,676
Reserves for unit-linked contracts	70,075	66,008
Total reserves for insurance contracts, net	**225,745**	**220,790**

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

[2] Gross of allowance for uncollectible amounts of USD 164 million and USD 239 million as of December 31, 2007 and 2006, respectively.

Development of reserves for losses and loss adjustment expenses

Table 8.2

in USD millions	Gross		Ceded		Net	
	2007	2006	**2007**	2006	**2007**	2006
As of January 1	64,535	60,425	(13,722)	(14,231)	50,814	46,194
Losses and loss adjustment expenses incurred:						
Current year	25,798	23,919	(2,424)	(2,471)	23,374	21,448
Prior years	(847)	587	(372)	(804)	(1,219)	(218)
Total	24,951	24,506	(2,796)	(3,276)	22,155	21,230
Losses and loss adjustment expenses paid:						
Current year	(9,007)	(7,859)	388	374	(8,619)	(7,485)
Prior years	(14,613)	(15,374)	3,375	3,951	(11,237)	(11,423)
Total	(23,619)	(23,233)	3,763	4,325	(19,856)	(18,908)
Acquisitions / (divestments) of companies and businesses	57	(65)	(6)	–	51	(65)
Foreign currency translation effects	1,967	2,903	(419)	(540)	1,548	2,363
As of December 31	**67,890**	**64,535**	**(13,179)**	**(13,722)**	**54,712**	**50,814**

The Group establishes loss reserves, which are estimates of future payments of reported and unreported claims for losses and related expenses, with respect to insured events that have occurred. Reserving is a complex process dealing with uncertainty, requiring the use of informed estimates and judgments. Any changes in estimates or judgements are reflected in the results of operations in the period in which estimates and judgements are changed.

Significant delays may occur in the notification and settlement of claims, and a substantial measure of experience and judgment is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as of the balance sheet date. The reserves for losses and loss adjustment expenses are determined on the basis of information currently available; however, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

Table 8.3 presents changes in the historical non-life reserves, net of reinsurance, that the Group established in 2001 and subsequent years. Reserves are presented by financial year, not by accident year. The reserves (and the development thereon) are for all accident years in that financial statement year and prior. The top line of the table shows the estimated gross reserves for unpaid losses and loss adjustment expenses as of each balance sheet date, which represents the estimated amount of future payments for losses incurred in that year and in prior years. The cumulative paid portion of the table presents the cumulative amounts paid through each subsequent year in respect of the reserves established at each year end. The net reserves re-estimated portion of the table shows the re-estimation of the initially recorded reserve as of each succeeding year end. Reserve development is shown down each column. Changes to estimates are made as more information becomes known about the actual losses for which the initial reserves were established. The cumulative deficiency or redundancy is equal to the initial net reserves less the liability re-estimated as of December 31, 2007. It is the difference between the initial net reserve estimate and the last entry of the diagonal. Conditions and trends that have affected the development of our reserves for losses and loss adjustment expenses in the past may or may not necessarily occur in the future, and accordingly, conclusions about future results may not be derived from the information presented in the table below.

Development of insurance losses, net

Table 8.3

in USD millions, as of December 31	2001	2002	2003	2004	2005	2006	**2007**
Gross reserves for losses and loss adjustment expenses	37,694	45,306	51,068	57,765	60,425	64,535	67,890
Reinsurance recoverable	(13,605)	(14,940)	(14,055)	(14,279)	(14,231)	(13,722)	(13,179)
Initial net reserves for losses and loss adjustment expenses	24,089	30,366	37,013	43,486	46,194	50,814	54,712
Cumulative paid as of:							
One year later	(7,976)	(8,923)	(9,930)	(9,464)	(11,423)	(11,237)	
Two years later	(12,855)	(14,472)	(15,550)	(16,273)	(18,044)		
Three years later	(16,698)	(18,001)	(20,407)	(21,234)			
Four years later	(19,255)	(21,390)	(23,941)				
Five years later	(21,634)	(23,814)					
Six years later	(23,471)						
Net reserves re-estimated as of:							
One year later	26,908	32,239	38,977	43,627	45,976	49,594	
Two years later	28,471	34,471	40,413	45,006	45,827		
Three years later	30,636	36,118	42,004	45,325			
Four years later	31,784	37,691	42,254				
Five years later	33,326	37,880					
Six years later	33,799						
Cumulative (deficiency) / redundancy	(9,710)	(7,514)	(5,241)	(1,839)	367	1,219	
Cumulative (deficiency) / redundancy as a percentage of initial net reserves	(40.3%)	(24.7%)	(14.2%)	(4.2%)	0.8%	2.4%	
Gross reserves re-estimated as of December 31, 2007	51,226	55,728	58,769	60,964	61,257	63,688	
Cumulative (deficiency) / redundancy	(13,532)	(10,422)	(7,701)	(3,199)	(832)	847	
Cumulative (deficiency) / redundancy as a percentage of initial gross reserves	(35.9%)	(23.0%)	(15.1%)	(5.5%)	(1.4%)	1.3%	

Management has considered asbestos, environmental and latent injury claims and claims expenses in establishing the reserves for losses and loss adjustment expenses. The Group continues to be advised of claims asserting injuries from toxic waste, hazardous materials and other environmental pollutants and alleged damages to cover the clean-up costs of hazardous waste dump sites relating to policies written in prior years and indemnity claims asserting injuries from asbestos. Coverage and claim settlement issues, such as determination that coverage exists and the definition of an occurrence, together with increased medical diagnostic capabilities and awareness have often caused actual loss development to exhibit more variation than in other lines. Such claims require specialized reserving techniques and the uncertainty of the ultimate cost of these types of claims has tended to be greater than the uncertainty relating to standard lines of business.

Uncertainties also arise out of changes or potential changes in various laws or the interpretation of laws. While the Group believes that it has made adequate provision for these claims, it is possible that future adverse development could have a material effect on the Group's results of operations, cash flows and financial position. The net reserve amounts related to the above mentioned claims were USD 3,564 million and USD 3,508 million as of December 31, 2007 and 2006, respectively. The development of these reserves is shown below.

Table 8.4

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

in USD millions	2007		2006	
	Gross	Net	Gross	Net
Asbestos				
As of January 1	3,499	3,142	2,957	2,529
Losses and loss adjustment expenses incurred	454	180	515	533
Losses and loss adjustment expenses paid	(188)	(109)	(180)	(131)
Divestments, commutations, settlements and other	–	(18)	(29)	(29)
Foreign currency translation effects	33	43	236	241
As of December 31	**3,799**	**3,238**	**3,499**	**3,142**
Environmental				
As of January 1	433	366	462	378
Losses and loss adjustment expenses incurred	22	8	4	18
Losses and loss adjustment expenses paid	(60)	(48)	(34)	(32)
Foreign currency translation effects	(1)	–	1	2
As of December 31	**394**	**326**	**433**	**366**

Table 8.5

Development of future life policyholders' benefits

in USD millions	Gross		Ceded		Net	
	2007	2006	2007	2006	2007	2006
As of January 1	76,503	71,292	(1,485)	(1,305)	75,018	69,987
Premiums and claims	(6,246)	(4,747)	(6,552)	(16)	(12,797)	(4,764)
Interest and bonuses credited to policyholders	3,047	3,040	(160)	(67)	2,887	2,973
Changes in assumptions	1,322	311	(1,010)	(18)	313	293
Divestments/transfers	–	(37)	–	–	–	(37)
(Decrease)/increase recorded in shareholders' equity	(532)	(508)	6	14	(526)	(494)
Foreign currency translation effects	6,199	7,152	(64)	(94)	6,135	7,058
As of December 31	**80,293**	**76,503**	**(9,265)**	**(1,485)**	**71,028**	**75,018**

The impact of changes in assumptions relating to net future life policyholders' benefits was USD 313 million after reinsurance (USD 293 million in 2006). In particular, the 2007 net changes include the following significant movements:

- USD 446 million related to changes in interest rate assumptions;
- USD -39 million related to changes in expense assumptions;
- USD -62 million related to changes in longevity assumptions; and
- USD -46 million related to changes in morbidity assumptions.

In 2006 net changes included the following significant movements:

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

Policyholders' contract deposits and other funds gross

Table 8.6

in USD millions, as of December 31	**2007**	2006
Annuities	2,451	2,136
Universal life and other contracts	10,510	10,594
Policyholder dividends	5,725	6,204
Total	**18,687**	**18,934**

Development of policyholders' contract deposits and other funds

Table 8.7

in USD millions	**Gross**		**Ceded**		**Net**	
	2007	2006	**2007**	2006	**2007**	2006
As of January 1	18,934	18,984	(3,258)	(3,504)	15,676	15,480
Premiums and claims	(1,360)	(1,557)	411	393	(950)	(1,164)
Interest and bonuses credited to policyholders	1,264	1,010	(120)	(134)	1,144	876
Change in assumptions	(1)	–	–	(4)	(1)	(3)
(Decrease)/increase recorded in shareholders' equity	(1,171)	(624)	6	2	(1,165)	(623)
Foreign currency translation effects	1,020	1,121	(14)	(11)	1,006	1,110
As of December 31	**18,687**	**18,934**	**(2,976)**	**(3,258)**	**15,711**	**15,676**

Development of reserves for unit-linked contracts

Table 8.8

in USD millions	**Gross**		**Ceded**		**Net**	
	2007	2006	**2007**	2006	**2007**	2006
As of January 1	66,008	55,691	–	–	66,008	55,691
Premiums and claims	(1,816)	(382)	–	–	(1,816)	(382)
Interest and bonuses credited to policyholders	4,403	6,184	–	–	4,403	6,184
Change in assumptions	–	(17)	–	–	–	(17)
Foreign currency translation effects	1,479	4,533	–	–	1,479	4,533
As of December 31	**70,075**	**66,008**	**–**	**–**	**70,075**	**66,008**

Long-duration contract liabilities included in future life policyholders' benefits result primarily from traditional participating and non-participating life insurance products. Short-duration contract liabilities are primarily accident and health insurance products.

The amount of policyholder dividends to be paid is determined annually by each life insurance company. Policyholder dividends include life policyholders' share of net income and unrealized appreciation of investments that are required to be allocated by the insurance contract or by local insurance regulations. Experience adjustments relating to future policyholders' benefits and policyholders' contract deposits vary according to the type of contract and the country. Investment, mortality and morbidity results may be passed through by experience credits or as an adjustment to the premium mechanism, subject to local regulatory provisions.

Guarantees arising from minimum death benefits (GMDB) and retirement income benefits (GRIB)
Certain products for which policyholders bear in full the credit and market risks associated with the underlying invested funds selected by them contains guarantees for which liabilities have been recorded for additional benefits and minimum guarantees. These arise primarily in the subsidiary Kemper Investors Life Insurance Company which has written variable annuity contracts that provide annuitants with certain guarantees related to minimum death and income benefits. The determination of these liabilities is based on models that involve a

range of scenarios and assumptions, including those regarding expected market rates of return and volatility, contract surrender rates, annuitization elections and mortality experience. The assumptions used are consistent with those used in determining estimated gross profits for the purpose of amortizing deferred policy acquisition costs.

Information on guaranteed liabilities

Table 8.9

in USD millions (except average attained age)	2007	2006
Account balance for products with guarantee features as of December 31		
Gross	4,112	4,403
Ceded	(374)	(486)
Net	**3,738**	**3,917**
Amount at risk from minimum death benefits (GMDB) as of December 31		
Gross	539	600
Ceded	(186)	(230)
Net	**353**	**370**
Average attained age of policyholders (in years)	**64**	**63**

The net amount at risk is the present value of payouts exceeding the current policyholder account balance assuming the payout criteria in all policies are collectively triggered as of the balance sheet date. We do not provide for this amount but follow the accretion guidance in the US Statement of Principle 03-1 "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts". Under this guidance future fees are taken into account in determining the net loss to be provided. The net amount at risk is not the same as the fair value of these benefits, as it does not fully take into account the option value accruing to the policyholder.

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

Liabilities related to investment contracts

Table 9.1

in USD millions, as of December 31	2007	2006
Liabilities related to unit-linked investment contracts	48,187	44,269
Liabilities related to investment contracts (amortized cost)	117	121
Liabilities related to investment contracts with DPF	6,182	6,315
Total	**54,485**	**50,705**

Unit-linked investment contracts issued by the Group are recorded at a value reflecting the returns on investment funds which include selected equities, debt securities and derivatives. Policyholders bear the full risk of the returns on these investments.

The value of financial liabilities at amortized cost is based on a discounted cash flow valuation technique and is shown in table 25.1. The discount rate is determined by current market assessment of the time value of money and risk specific to the liability.

Development of investment contract liabilities

Table 9.2

in USD millions	2007	2006
As of January 1	50,705	40,999
Premiums and claims	(1,024)	(595)
Interest and bonuses credited to policyholders	3,312	5,115
Divestments/transfers	(514)	(4)
Increase/(decrease) recorded in shareholders' equity	(33)	(31)
Foreign currency translation effects	2,039	5,221
As of December 31	**54,485**	**50,705**

10. Equity component relating to contracts with DPF

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

Development of equity component relating to contracts with DPF

Table 10

in USD millions	2007	2006
As of January 1	1,414	1,395
Net unrealized (losses)/gains on investments	(226)	(159)
Current period profit	17	62
Foreign currency translation effects	104	117
As of December 31	**1,309**	**1,414**

11. Gross and ceded insurance revenues and expenses

Insurance benefits and losses

Table 11.1

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2007	2006	2007	2006	2007	2006
Losses and loss adjustment expenses	24,951	24,506	(2,796)	(3,276)	22,155	21,230
Life insurance death and other benefits	11,903	10,787	(1,065)	(293)	10,837	10,494
Decrease in future life policyholders' benefits	(1,840)	(1,418)	(7,775)	(99)	(9,614)	(1,517)
Total insurance benefits and losses [1]	**35,014**	**33,875**	**(11,636)**	**(3,668)**	**23,378**	**30,207**

[1] The Group's life operations in the UK entered into a reinsurance agreement to transfer the risk associated with a significant annuities portfolio as of January 1, 2007. The initial impact on ceded insurance benefits and losses amounted to USD 7.0 billion in the Global Life business.

Policyholder dividends and participation in profits

Table 11.2

in USD millions, for the years ended December 31

	Gross		Ceded		Net	
	2007	2006	**2007**	2006	**2007**	2006
Change in policyholders' contract deposits and other funds	1,134	991	(13)	–	1,121	991
Change in reserves for unit-linked products	4,077	6,476	–	–	4,077	6,476
Change in liabilities for investment contracts – unit-linked	3,165	5,196	–	–	3,165	5,196
Change in liabilities for investment contracts – other	180	243	–	–	180	243
Total policyholder dividends and participation in profits	**8,556**	**12,906**	**(13)**	**–**	**8,543**	**12,906**

Underwriting and policy acquisition costs

Table 11.3

in USD millions, for the years ended December 31

	Gross		Ceded		Net	
	2007	2006	**2007**	2006	**2007**	2006
Underwriting and policy acquisition costs	**8,521**	**7,821**	**(932)**	**(841)**	**7,589**	**6,980**

Net change in reserves for unearned premiums

Table 11.4

in USD millions, for the years ended December 31

	Gross		Ceded		Net	
	2007	2006	**2007**	2006	**2007**	2006
Net change in reserves for unearned premiums	**(286)**	**(211)**	**(209)**	**69**	**(495)**	**(142)**

12. Deferred policy acquisition costs and deferred origination costs

Development of deferred policy acquisition costs

Table 12.1

in USD millions

	General Insurance		Global Life		Other segments[1]		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
As of January 1	2,959	2,596	10,113	8,441	124	143	13,197	11,179
Acquisition costs deferred and transfers	2,628	2,788	1,611	1,521	39	53	4,278	4,361
Amortization	(2,390)	(2,544)	(823)	(830)	(70)	(67)	(3,283)	(3,440)
Amortization charged to shareholders' equity	–	–	154	56	(5)	(4)	149	51
Foreign currency translation effects	109	119	493	926	–	–	602	1,045
As of December 31	**3,306**	**2,959**	**11,547**	**10,113**	**89**	**124**	**14,941**	**13,197**

[1] Net of eliminations from intersegment transactions.

Development of deferred origination costs

Table 12.2

in USD millions	2007	2006
As of January 1	815	690
Origination costs deferred	271	134
Amortization	(103)	(100)
Foreign currency translation effects	19	92
As of December 31	**1,003**	**815**

13. Farmers management fees and other related revenues

Farmers management fees and other related revenues

Table 13

in USD millions, for the years ended December 31	2007	2006
Farmers management fees and other related revenues	**2,266**	2,133

FGI, through its AIF relationship with the Farmers Exchanges, which the Group manages but does not own, is contractually permitted to receive a management fee of up to 20% (25% in the case of the Fire Insurance Exchange) of the gross premiums earned by the Farmers Exchanges. To enable the Farmers Exchanges to maintain appropriate capital and surplus while offering competitive insurance rates, FGI has historically charged a lower management fee than the maximum allowed. The range of fees has varied by line of business over time and from year to year. During the past five years, aggregate management fees have averaged between 12% and 13% of gross premiums earned by the Farmers Exchanges. The gross earned premiums of the Farmers Exchanges were USD 15,547 million and USD 14,721 million for the twelve months ended December 31, 2007 and 2006, respectively.

14. Receivables

Receivables

Table 14.1

in USD millions	2007	2006
Receivables from policyholders	2,972	2,738
Receivables from insurance companies, agents, brokers and intermediaries	5,972	5,592
Receivables arising from ceded reinsurance	1,372	1,445
Other receivables	3,084	2,620
Allowance for impairments [1]	(554)	(468)
Total	**12,846**	**11,926**

[1] Allowance for impairments includes USD 239 million and USD 204 million as of December 31, 2007, and 2006, respectively, for receivables arising from ceded reinsurance.

Receivables are generally settled within one year.

The table below shows the movement in allowance for impairments deducted from receivables in 2007 and 2006.

Table 14.2

Development of allowance for impairments (deducted from receivables)

in USD millions	2007	2006
As of January 1	(468)	(496)
Increase in allowance for impairments	(82)	(21)
Recoveries	2	7
Amounts written-off against receivables	3	5
Foreign currency translation effects and other movements	(8)	36
As of December 31	**(554)**	**(468)**

15. Mortgage loans given as collateral and collateralized loans

As part of the Deutscher Herold transaction in 2002, the Group acquired various mortgage loans. Deutscher Herold had previously sold these loans to credit institutions while retaining the related credit and interest risk. Therefore the loans have not been derecognized from the balance sheet and the transaction is reflected as a collateralized borrowing. Accordingly, the loans are recorded as "Mortgage loans given as collateral" and the liability to credit institutions as "Collateralized loans".

Impairment charges of USD 1 million and USD 2 million on mortgage loans given as collateral were recorded in the income statement for the years ended December 31, 2007 and 2006, respectively.

The table below shows the maturity schedule of collateralized loans as of December 31, 2007 and 2006, respectively.

Table 15

Maturity schedule of collateralized loans

in USD millions, as of December 31	2007	2006
< 1 year	259	249
1 to 2 years	325	320
2 to 3 years	287	317
3 to 4 years	622	275
4 to 5 years	269	564
> 5 years	480	701
Total	**2,243**	**2,426**

16. Property and equipment

Table 16.1

Property and equipment

in USD millions	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other equipment	Total
Gross carrying value as of January 1, 2007	385	1,500	398	666	577	3,525
Less: accumulated depreciation/impairments	–	(537)	(322)	(484)	(277)	(1,621)
Net carrying value as of January 1, 2007	385	962	76	182	299	1,905
Additions, capital improvements and transfers	3	95	32	97	117	343
Disposals and transfers	(24)	(70)	(1)	(3)	(80)	(176)
Depreciation and impairments	–	(52)	(34)	(78)	(56)	(221)
Foreign currency translation effects	28	71	4	7	12	121
Net carrying value as of December 31, 2007	**392**	**1,006**	**78**	**204**	**292**	**1,972**
Plus: accumulated depreciation/impairments	–	571	359	561	324	1,814
Gross carrying value as of December 31, 2007	**392**	**1,577**	**436**	**765**	**615**	**3,785**

Table 16.2

Property and equipment

in USD millions	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other equipment	Total
Gross carrying value as of January 1, 2006	355	1,341	378	684	510	3,267
Less: accumulated depreciation/impairments	–	(472)	(284)	(514)	(268)	(1,538)
Net carrying value as of January 1, 2006	355	868	94	170	242	1,729
Additions, capital improvements and transfers	5	71	19	79	109	284
Disposals and transfers	(4)	(3)	(15)	(2)	(10)	(34)
Depreciation and impairments	–	(50)	(28)	(74)	(51)	(202)
Foreign currency translation effects	30	76	5	8	9	129
Net carrying value as of December 31, 2006	**385**	**962**	**76**	**182**	**299**	**1,905**
Plus: accumulated depreciation/impairments	–	537	322	484	277	1,621
Gross carrying value as of December 31, 2006	**385**	**1,500**	**398**	**666**	**577**	**3,525**

The fire insurance value of the Group's own-used property and equipment and real estate held for investment totaled USD 10,049 million and USD 8,900 million as of December 31, 2007 and 2006, respectively.

17. Goodwill and other intangible assets

Intangible assets – current period

Table 17.1

in USD millions

	Goodwill	Present value of profits of acquired insurance contracts	Other intangible assets [1]	Attorney-in-fact relationships	Total
Gross carrying value as of January 1, 2007	672	2,329	2,041	1,024	6,066
Less: accumulated amortization/impairments	(12)	(1,554)	(1,415)	–	(2,981)
Net carrying value as of January 1, 2007	660	775	626	1,024	3,085
Additions and transfers	1,040	–	752	–	1,792
Divestments and transfers	(12)	–	(61)	–	(74)
Amortization	–	(58)	(200)	–	(257)
Amortization charged to shareholders' equity	–	27	–	–	27
Impairments	(12)	–	(34)	–	(46)
Foreign currency translation effects	55	36	19	–	110
Net carrying value as of December 31, 2007	**1,730**	**780**	**1,100**	**1,024**	**4,636**
Plus: accumulated amortization/impairments	24	1,612	1,687	–	3,323
Gross carrying value as of December 31, 2007	**1,754**	**2,392**	**2,787**	**1,024**	**7,957**

[1] Other intangible assets include internally generated capitalised software development costs as well as intangible assets at fair value on acquisitions.

In addition to goodwill increases related to business combination of USD 886 million as disclosed in note 5, goodwill has increased by USD 127 million due to a change in the Group's interest in Deutscher Herold AG from 76.88 percent to 95 percent as a result of the recognition of buy out options and an acquisition of shares by the Group from minority shareholders. The remainder is due to foreign currency impacts.

Intangible assets by segment – current period

Table 17.2

in USD millions, as of December 31, 2007

	Goodwill	Present value of profits of acquired insurance contracts	Other intangible assets [1]	Attorney-in-fact relationships	Total
General Insurance	706	–	538	–	1,244
Global Life	635	780	284	–	1,698
Farmers Management Services	385	–	171	1,024	1,582
Other Businesses	–	–	13	–	13
Corporate Functions	5	–	94	–	99
Net carrying value as of December 31, 2007	**1,730**	**780**	**1,100**	**1,024**	**4,636**

[1] Other intangible assets include internally generated capitalised software development costs as well as intangible assets at fair value on acquisitions.

Intangible assets – prior period

Table 17.3

in USD millions	Goodwill	Present value of profits of acquired insurance contracts	Other intangible assets [1]	Attorney-in-fact relationships	Total
Gross carrying value as of January 1, 2006	605	2,117	1,770	1,024	5,516
Less: accumulated amortization/impairments	–	(1,377)	(1,279)	–	(2,656)
Net carrying value as of January 1, 2006	605	740	491	1,024	2,860
Additions and transfers	–	–	352	–	352
Divestments and transfers	–	–	(38)	–	(38)
Amortization	–	(49)	(212)	–	(261)
Amortization charged to shareholders' equity	–	16	–	–	16
Impairments	(12)	–	–	–	(12)
Foreign currency translation effects	67	68	33	–	168
Net carrying value as of December 31, 2006	**660**	**775**	**626**	**1,024**	**3,085**
Plus: accumulated amortization/impairments	12	1,554	1,415	–	2,981
Gross carrying value as of December 31, 2006	**672**	**2,329**	**2,041**	**1,024**	**6,066**

[1] Other intangible assets include internally generated capitalised software development costs as well as intangible assets at fair value on acquisitions.

Intangible assets by segment – prior period

Table 17.4

in USD millions, as of December 31, 2006	Goodwill	Present value of profits of acquired insurance contracts	Other intangible assets [1]	Attorney-in-fact relationships	Total
General Insurance	168	–	250	–	417
Global Life	488	775	231	–	1,494
Farmers Management Services	–	–	122	1,024	1,146
Other Businesses	–	–	8	–	8
Corporate Functions	5	–	15	–	20
Net carrying value as of December 31, 2006	**660**	**775**	**626**	**1,024**	**3,085**

[1] Other intangibles include internally generated capitalised software development costs as well as intangible assets at fair value on acquisitions.

Goodwill is allocated to cash generating units (CGU) identified according to its business and geographical segment.

When testing for impairment for goodwill, the recoverable amount of a cash generating unit is determined on the basis of value-in-use calculations. These calculations use cash flow projections based on financial budgets, which are approved by management, typically covering a five-year period. Cash flows beyond the five year period are extrapolated using the estimated growth rates. The estimated growth rate does not exceed the long-term average past growth rate for the insurance business in which the CGU operates. The discount rates applied reflect the respective risk free interest rate adjusted for the risk factors which are reflective of the risk inherent in the underlying cash flows.

In 2007 impairment charges of USD 46 million were recorded in the income statement comprising impairment of other intangible assets of USD 34 million mainly relating to software capitalized in the UK life business and impairment of goodwill of USD 12 million as a result of updated cash flow assumptions in the Spanish life operations.

In 2006, impairment charges of USD 12 million were recorded in the income statement. USD 6 million of the 2006 impairment charge relates to entities in Australia and USD 6 million to the Spanish life operations.

When testing for impairment of attorney-in-fact (AIF) relationships in 2007 and 2006, the recoverable amount of AIF relationship is determined on the basis of value-in-use calculations. These calculations use cash flow projections based on business plans and the surplus development in the Farmers Exchanges. Business plans are approved by management and typically cover a 5-year period and a discount rate of 6.0 percent (5.5 percent in 2006). Cash flows beyond that 5-year period are extrapolated for 20 years assuming zero growth. Management believes that any reasonably possible change in the key assumptions of the underlying Farmers Exchanges business plans, would not cause the recoverable amount of the AIF to be lower than the carrying value.

18. Other liabilities

Other liabilities

Table 18

in USD millions, as of December 31	**2007**	2006
Amounts due to reinsurers, agents and other insurance companies	1,712	1,816
Amounts due to life policyholders	722	721
Liabilities for cash collateral received for securities lending	1,889	3,918
Current tax payables	1,643	1,846
Derivative liabilities	276	415
Liabilities for employee benefit plans	1,019	2,504
Other liabilities	12,997	11,582
Total	**20,257**	**22,802**

USD 18,291 million and USD 19,367 million as of December 31, 2007, and 2006, respectively, are considered financial liabilities. USD 1,967 million and USD 3,435 million as of December 31, 2007, and 2006, respectively, are considered non-financial liabilities. The undiscounted amounts are not materially different from the carrying amounts.

19. Income taxes

Income tax expense – current/deferred split

Table 19.1

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

Income tax expense – policyholder/shareholder attribution

Table 19.2

in USD millions, for the years ended December 31	**2007**	2006
Total income tax expense attributable to policyholders	(83)	416
Total income tax expense attributable to shareholders	1,870	1,732
Total income tax expense	**1,787**	**2,148**

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

Expected and actual income tax expense

Table 19.3

in USD millions, for the years ended December 31	**Rate**	**2007**	Rate	2006
Net income before income taxes		7,495		6,866
Less: income tax (expense)/benefit attributable to policyholders		83		(416)
Net income before income taxes attributable to shareholders		7,578		6,450
Expected income tax expense attributable to shareholders	30.3%	2,296	30.2%	1,950
Increase/(reduction) in taxes resulting from:				
Tax exempt and lower taxed income		(517)		(637)
Non-deductible expenses		74		133
Tax losses previously unrecognized or no longer recognized		(185)		10
Prior year adjustments and other		202		276
Actual income tax expense attributable to shareholders	24.7%	1,870	26.9%	1,732
Plus: income tax expense/(benefit) attributable to policyholders		(83)		416
Actual income tax expense	**23.8%**	**1,787**	**31.3%**	**2,148**

The table above illustrates the factors that cause the actual income tax expense to differ from the expected amount computed by applying the weighted average statutory income tax rate.

The expected weighted average statutory income tax rate for the Group is 30.3 percent and 30.2 percent for the years ended December 31, 2007 and 2006, respectively. These rates were derived by obtaining a weighted average of the applicable statutory income tax rates in relation to the net income before income tax attributable to shareholders generated in the taxable territories in which the Group operates.

A credit of USD 145 million resulting from the reduction of corporate income tax rates in the UK, Germany and Italy is included in the line "prior years adjustments and other" for the year 2007. Also included in this line are withholding and local taxes amounting to USD 113 million and USD 119 million for the years 2007 and 2006, respectively.

Current tax receivables and payables

Table 19.4

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

Deferred tax assets and liabilities

Table 19.5

in USD millions, as of December 31	**2007**	2006
Deferred tax assets	1,678	2,727
Deferred tax liabilities	(4,055)	(4,757)
Net deferred tax liabilities	**(2,377)**	**(2,030)**

Table 19.6

Development of net deferred tax assets/(liabilities)

in USD millions	2007	2006
As of January 1	(2,030)	(1,278)
Net change recognized in the income statement	(272)	(381)
Net change recognized in equity	56	(97)
Net changes due to acquisitions/(divestments)	7	–
Foreign currency translation effects	(138)	(299)
Other changes	–	25
As of December 31	**(2,377)**	**(2,030)**

The cumulative amount of deferred tax credited to shareholders' equity amounted to USD 328 million and USD 272 million for the years ended December 31, 2007 and 2006, respectively.

Table 19.7

Deferred taxes – policyholder/shareholder attribution

in USD millions, as of December 31	2007	2006
Net deferred tax liabilities attributable to policyholders	(566)	(976)
Net deferred tax liabilities attributable to shareholders	(1,811)	(1,054)
Net deferred tax liabilities	**(2,377)**	**(2,030)**

Table 19.8

Deferred tax assets/(liabilities) breakdown by source

in USD millions, as of December 31	2007		2006	
	Assets	Liabilities	Assets	Liabilities
Gross deferred tax				
Deferred acquisition and origination costs	144	(2,735)	236	(2,618)
Depreciable and amortizable assets	163	(1,825)	119	(1,825)
Life policy liabilities	188	(578)	267	(771)
Unrealized (gains) / losses on investments	502	(574)	179	(491)
Accruals	201	(132)	262	(137)
Reserves for losses and loss adjustment expenses	583	(675)	535	(495)
Reserves for unearned premiums	918	(296)	758	(313)
Deferred front-end fees	669	–	766	–
Pensions and other employee benefits	592	(37)	658	(51)
Other assets / liabilities	1,034	(621)	1,336	(955)
Tax loss carryforwards	588	–	1,220	–
Gross deferred tax assets/(liabilities) before valuation allowance	5,582	(7,473)	6,336	(7,656)
Valuation allowance	(486)	–	(710)	–
Gross deferred tax assets/(liabilities) after valuation allowance	5,096	(7,473)	5,626	(7,656)
Effect of offsetting on taxpayer basis	(3,418)	3,418	(2,899)	2,899
Deferred tax assets/(liabilities)	1,678	(4,055)	2,727	(4,757)
Net deferred tax liabilities		**(2,377)**		**(2,030)**

As of December 31, 2007 the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognised approximated USD 16 billion. In the remote scenario in which these temporary differences reverse simultaneously, the resulting tax liabilities will be very limited due to participation exemption rules.

Table 19.9

Tax losses carryforwards and tax credits

in USD millions, as of December 31	2007	2006
For which deferred tax assets have been recognized		
Expiring up to 5 years	17	7
Expiring after 5 and up to 20 years	765	1,606
Expiring after 20 years or with no time limitation	110	587
Subtotal	892	2,200
For which deferred tax assets have not been recognized		
Expiring up to 5 years	-	741
Expiring after 5 and up to 20 years	1,226	1,849
Subtotal	1,226	2,590
Total	**2,118**	**4,790**

The tax rates applicable to tax losses for which a deferred tax asset has not been recognized are 35 percent and 31 percent for the years 2007 and 2006, respectively.

The Group’s deferred tax assets and liabilities are recorded in the tax paying entities throughout the world, which may include several legal entities within each tax jurisdiction. Legal entities are grouped as a single taxpayer only when permitted by local legislation and when deemed appropriate.

The recoverability of the deferred tax asset for each taxpayer is based on its ability to utilize the deferred tax asset over a reasonable period of time. This analysis considers the projected taxable income to be generated by the taxpayer, as well as its ability to offset deferred tax assets with deferred tax liabilities.

As of December 31, 2007 and 2006, the net deferred tax positions by taxpayer groups are as follows.

Table 19.10

Deferred tax assets/(liabilities) by taxpayer group

in USD millions, as of December 31	Deferred tax assets/(liabilities)		Deferred tax assets/(liabilities), net of valuation allowance	
	2007	2006	2007	2006
Taxpayer groups				
Zurich Holding Company of America companies	1,455	1,551	1,301	1,381
Centre companies	(15)	118	(102)	29
Zurich Capital Markets companies	229	229	–	–
UK General Insurance companies	(87)	289	(97)	276
Other taxpayer groups carrying net deferred tax assets	249	268	250	234
Other taxpayer groups carrying net deferred tax liabilities	(3,722)	(3,775)	(3,729)	(3,950)
Net deferred tax liabilities	**(1,891)**	**(1,320)**	**(2,377)**	**(2,030)**

Management assesses the recoverability of the deferred tax assets carrying values based on future years taxable income projections and believe that the carrying values of the deferred tax assets as of December 31, 2007, are recoverable.

20. Debt

Debt

Table 20.1

in USD millions, as of December 31		**2007**	2006
a) Debt related to capital markets and banking activities			
Zurich Capital Markets	Various debt instruments payable within 1 year	800	1,050
	Various debt instruments payable in more than 1 year	48	45
Zurich Financial Services EUB Holdings Limited	Various debt instruments payable within 1 year	814	738
	Various debt instruments payable in more than 1 year	1	1
Centre Solutions (Bermuda) Ltd.	Various debt instruments payable in more than 1 year	–	56
Debt related to capital markets and banking activities		**1,663**	**1,889**
b) Senior debt			
Zurich Finance (USA), Inc.	3.50% CHF 300 bond, due July 2008 [1]	264	246
	4.50% EUR 1,000 bond, due September 2014 [2]	1,441	1,309
Kemper Corporation	Various debt instruments, due in 2009	26	26
Zurich Insurance Company	3.875% CHF 1,000 bond, due July 2011	884	822
	Various debt instruments payable within 1 year	50	63
Other	Various debt instruments payable within 1 year	54	297
	Various debt instruments payable in more than 1 year	111	143
Senior debt		2,830	2,906
c) Subordinated debt			
Zurich Capital Trust I	8.376% USD 1,000 Capital Securities	–	990
Zurich Finance (UK) p.l.c.	6.625% GBP 450 bond, undated notes [3]	879	867
Zurich Finance (USA), Inc.	5.75% EUR 500 bond, due October 2023	720	651
	4.5% EUR 500 bond, due June 2025 [4]	670	621
ZFS Finance (USA) Trust I	Series I 6.15% USD 600 ECAPS, due December 2065	595	593
ZFS Finance (USA) Trust II	Series II 6.45% USD 700 ECAPS, due December 2065	690	690
ZFS Finance (USA) Trust III	Series III Floating Rate USD 400 ECAPS, due December 2065	397	396
ZFS Finance (USA) Trust IV	Series IV 5.875% USD 500 Trust Preferred Securities, due May 2062	497	–
ZFS Finance (USA) Trust V	Series V 6.5% USD 1,000 Trust Preferred Securities, due May 2067	994	–
Other	Various debt instruments payable in more than 1 year	29	–
Subordinated debt		5,471	4,808
Total senior and subordinated debt		**8,300**	**7,713**
Total debt		**9,963**	**9,602**

[1] The bond is economically hedged, but hedge accounting treatment has not been applied.
[2] The bond is part of a qualifying cash flow hedge (80% of the total) and fair value hedge (20% of the total).
[3] The holders of these notes benefit from the Replacement Capital Covenant which states that if Series IV and V Fixed / Floating Trust Preferred Securities, issued by ZFS Finance (USA) Trust IV and V, are called before 2042 and 2047 respectively, the Group will issue a replacement debt instrument with terms and provisions that are as or more equity-like than the replaced notes.
[4] The bond is part of a qualifying fair value hedge relationship.

None of the debt instruments listed above were in default as of December 31, 2007 and 2006.

a) Debt related to capital markets and banking activities

Debt related to capital markets and banking activities decreased from USD 1,889 million as of December 31, 2006 to USD 1,663 million as of December 31, 2007, which is attributable to the maturity of a number of loans.

b) Senior debt

The Group's Euro Medium Term Note Programme (EMTN Programme) allows for the issuance of senior and subordinated notes up to a maximum of USD 6 billion. Zurich Finance (USA), Inc. and Zurich Finance (UK) p.l.c. are issuing entities under the EMTN Programme, which have debt outstanding as of December 31, 2007 and 2006.

No new senior debt issuances took place in 2007.

c) Subordinated debt

Subordinated debt securities are obligations of the Group which, in case of liquidation, rank junior to all present and future senior indebtedness and certain other obligations of the Group.

On June 1, 2007 the Group through Zurich Capital Trust called USD 1 billion 8.376 percent Capital Securities at a redemption price of 104.188 percent, recognizing a pre tax loss of USD 52 million, comprising USD 42 million from call premium and USD 10 million from recognition of unamortized discount.

On May 9, 2007, ZFS Finance (USA) Trust IV and ZFS Finance (USA) Trust V issued USD 500 milion of Series IV and USD 1 billion of Series V Fixed / Floating Rate Trust Preferred Securities. Series IV is a 5.875 percent USD 500 million tranche maturing in 2062, callable from 2012, and Series V is a 6.5 percent USD 1 billion tranche maturing in 2067, callable from 2017. These trust preferred securities were sold to a number of qualified institutional buyers and qualified purchasers under the exemption from Rule 144A of the United States Securities Act (1933). Each Trust benefits from a subordinated support agreement from Zurich Financial Services and Zurich Group Holding. See table 20.2 for details of redemption conditions.

d) Hedged debt

The Group uses cross-currency interest rate swaps and currency swaps to manage the risks inherent in certain debt issues. Where the relationship qualifies for hedge accounting (see notes to table 20.1), such hedge accounting is applied as described in notes 3 and 7.

The objective of the fair value hedges on debt issued is to protect against changes in the foreign currency exposure and interest rate exposure of euro denominated debt issuances, while the objective of the cash flow hedge on debt is to hedge changes in US dollar cash flows of the euro denominated debt resulting from changes in euro/US dollar exchange rate.

A fair value hedge relationship on EUR 500 million 4.5 percent subordinated bond due June 2025 was entered into at the issuance of the debt instrument in 2005 and will end on June 15, 2015.

A fair value hedge relationship on 20 percent of the EUR 1 billion 4.5 percent senior debt due 2014 and a cash flow hedge relationship on the remaining 80 percent of this debt were entered into on January 1, 2007 and will end at maturity of the underlying debt instrument in 2014.

Description and features of significant subordinated debt

Table 20.2

in USD millions

Description	Coupon conditions	Call/ Redemption date	Redemption conditions[3]
6.625% GBP 450 bond, undated notes	6.625% payable annually up to October 2, 2022 and then reset every 5 years to the reset rate of interest.[1]	Every five years on or after October 2, 2022	Redeemable in whole every five years at par plus any accrued interest.
5.75% EUR 500 bond, due October 2023	5.75% payable annually up to October 2, 2013 and then reset quarterly to 3-month EURIBOR plus 2.67%.	Quarterly on or after October 2, 2013	Redeemable in whole quarterly at par plus any accrued interest.
4.5% EUR 500 bond, due June 2025	4.5% payable annually up to June 15, 2015 and then reset quarterly to 3-month EURIBOR plus 2.20%.	Quarterly on or after June 15, 2015	Redeemable in whole quarterly at par plus any accrued interest.
Series I 6.15% Fixed / Adjustable Rate USD 600 ECAPS, due December 2065	6.15% payable semi-annually until December 15, 2010 and then reset quarterly to the adjustable rate plus 1.75%.[2]	Quarterly on or after December 15, 2010	Redeemable in whole or in part at par plus any accumulated and unpaid distributions.
Series II 6.45% Fixed / Adjustable Rate USD 700 ECAPS, due December 2065	6.45% payable semi-annually until June 15, 2016 and then reset quarterly to the adjustable rate plus 2.00%.[2]	Quarterly on or after June 15, 2016	Redeemable in whole or in part at par plus any accumulated and unpaid distributions.
Series III Floating Rate USD 400 ECAPS, due December 2065	3-month LIBOR plus 1.15% reset quarterly until December 15, 2010 and then 3-month LIBOR plus 2.15%.	Quarterly on or after December 15, 2010	Redeemable in whole or in part at par plus any accumulated and unpaid distributions.
Series IV 5.875% USD 500 Fixed / Floating Trust Preferred Securities, due May 2062	5.875% payable semi-annually until May 9, 2012 and then reset quarterly to 3-month LIBOR plus 1.815%.	Quarterly on or after May 9, 2012	Redeemable in whole or in part at par plus any accumulated and unpaid distributions.
Series V 6.5% USD 1,000 Fixed / Floating Trust Preferred Securities, due May 2067	6.5% payable semi-annually until May 9, 2017 and then reset quarterly to 3-month LIBOR plus 2.285%.	Quarterly on or after May 9, 2017	Redeemable in whole or in part at par plus any accumulated and unpaid distributions.

[1] Reset rate of interest is equal to the gross redemption yield on the benchmark five-year Gilt as determined by the Calculation Bank, plus 2.85% per annum.
[2] Adjustable Rate is equal to the greatest of (i) the 3-month LIBOR rate; (ii) the 10-year Treasury CMT (Constant Maturity Treasury) Rate; and (iii) the 30-year Treasury CMT Rate, subject to a maximum under (ii) and (iii) of 13.25% Series I and 13% for Series II.
[3] All subordinated debt instruments are also subject to mandatory redemption as a result of various tax, default or other events.

Maturity schedule of outstanding debt

Table 20.3

in USD millions, as of December 31	**2007**	2006
< 1 year	1,983	2,148
1 to 2 years	76	274
2 to 3 years	10	74
3 to 4 years	884	11
4 to 5 years	1	822
> 5 years	7,010	6,273
Total	**9,963**	**9,602**

Debt maturities shown in table 20.3 reflect original contractual dates. For call/redemption dates, refer to table 20.2. The total notional amount of debt due in each period is not materially different from the total carrying amount disclosed in table 20.3.

Interest expense on debt

Table 20.4

in USD millions, for the years ended December 31	2007	2006
Debt related to capital markets and banking activities	148	147
Senior debt	133	136
Subordinated debt	404	326
Total	**685**	**608**

Credit facilities

The Group has access to a syndicated revolving credit facility of USD 3 billion that terminates in 2012. Zurich Group Holding, together with Zurich Insurance Company and Farmers Group, Inc. are guarantors of the facility and can draw up to USD 1.25 billion, USD 1.5 billion and USD 250 million, respectively. No borrowings were outstanding under this facility as of December 31, 2007.

Dunbar Bank and Zurich Bank have access to various committed credit facilities totaling GBP 420 million and GBP 250 million, respectively. No borrowings were outstanding under these facilities as of December 31, 2007.

In addition, ZIC has access to a USD 300 million credit facility expiring in 2010 for the sole purpose of financing surplus notes issued by the Leschi Life Assurance Company (Leschi), a special purpose reinsurer owned by Farmers New World Life (FNWL) and to which FNWL cedes business subject to Regulation XXX (Triple X). As of December 31, 2007, USD 50 million had been drawn under this credit facility.

Financial debt

Financial debt consists of all debt items that are included in financial leverage calculations of rating agencies. As of December 31, 2007 and 2006 financial debt consisted of the following components.

Financial debt

Table 20.5

in USD millions, as of December 31,	2007	2007	2007	2006
	Reported	Adjustments	Financial debt	Financial debt
Debt related to capital markets and banking activities	1,663	(815)	848	1,094
Senior debt	2,830	(150)	2,680	2,806
Subordinated debt	5,471	–	5,471	4,808
Total	**9,964**	**(965)**	**8,999**	**8,708**

USD 815 million adjustment relates to Zurich Financial Services EUB Holdings Limited notes and loans payable, while USD 150 million adjustment contains USD 100 million of non-recourse debt and the USD 50 million drawn under the abovementioned Leschi credit facility.

21. Shareholders' equity

Share capital

Table 21.1

number of shares, as of December 31	2007	2006
Issued share capital, CHF 0.10 par value	145,546,820	144,749,399
Authorized, contingent and issued share capital, CHF 0.10 par value	160,231,227	156,988,783

a) Issued share capital

As of December 31, 2007, Zurich Financial Services had 145,546,820 issued and fully paid registered shares of CHF 0.10 par value, amounting to total issued share capital of CHF 14,554,682.00. As of December 31, 2006, the share capital amounted to CHF 14,474,939.90, divided into 144,749,399 fully paid registered shares of CHF 0.10 par value.

The shareholders at the Annual General Meeting of April 3, 2007 approved the increase of the contingent share capital for the issuance of new registered shares to employees of the Group from CHF 75,755.60 by CHF 324,244.40 to a new maximum of CHF 400,000 by issuing up to 4,000,000 registered shares payable in full with a nominal value of CHF 0.10 each. During the year 2007, a total of 797,421 shares have been issued to employees. As a result, 145,546,820 fully paid shares with a nominal value of CHF 0.10 were issued as of December 31, 2007, amounting to a share capital of CHF 14,554,682.00.

In 2006, the Board of Directors approved on February 15, 2006, the issuance of a maximum of 1,000,000 out of the 1,500,000 dividend-paying shares from the contingent share capital to employees. At the Annual General Meeting on April 20, 2006, shareholders approved a share capital reduction in the form of a nominal value reduction of each share from CHF 2.50 to CHF 0.10. At the effective date of the nominal value reduction on July 3, 2006, Zurich Financial Services had 144,565,255 issued and fully paid shares, including 558,300 shares issued out of the contingent capital. As a result of this reduction, the share capital was reduced by CHF 346,956,612.00 from CHF 361,413,137.50 to a new total of CHF 14,456,525.50. As of December 31, 2006 a total of 742,444 shares were issued to employees from contingent share capital. As a consequence, 144,749,399 fully paid shares with a nominal value of CHF 0.10 were issued as of December 31, 2006, amounting to a share captital of CHF 14,474,939.90.

b) Authorized share capital

Until June 1, 2008, the Board of Zurich Financial Services is authorized to increase the share capital by an amount not exceeding CHF 600,000 by issuing up to 6,000,000 fully paid registered shares with a nominal value of CHF 0.10 each. An increase in partial amounts is permitted. The Board determines the date of issue of such new shares, the issue price, type of payment, conditions for exercising pre-emptive rights, and the beginning of the dividend entitlement. The Board may issue such new shares by means of a firm underwriting by a banking institution or syndicate with subsequent offer of those shares to current shareholders. The Board may allow the expiry of pre-emptive rights which have not been exercised, or it may place these rights as well as shares, the pre-emptive rights of which have not been exercised, at market conditions.

The Board is further authorized to restrict or withdraw the pre-emptive rights of shareholders and to allocate them to third parties if the shares are to be used for the take-over of an enterprise, or parts of an enterprise or of participations or if issuing shares for the financing including re-financing of such transactions; or for the purpose of expanding the scope of shareholders in connection with the quotation of shares on foreign stock exchanges.

c) Contingent share capital

Capital market instruments and option rights to shareholders

The share capital of Zurich Financial Services may be increased by an amount not exceeding CHF 548,182.80 by the issuance of up to 5,481,828 fully paid registered shares with a nominal value of CHF 0.10 each (i) by exercising of conversion and/or option rights which are granted in connection with the issuance of bonds or similar debt instruments by Zurich Financial Services or one of its Group companies in national or international capital markets; and/or (ii) by exercising option rights which are granted to current shareholders. When issuing bonds or similar debt instruments connected with conversion and/or option rights, the pre-emptive rights of the shareholders will be excluded. The current owners of conversion and/or option rights shall be entitled to subscribe for the new shares. The conversion and/or option conditions are to be determined by the Board.

The Board of Directors is authorized, when issuing bonds or similar debt instruments connected with conversion and/or option rights, to restrict or withdraw the right of shareholders for advance subscription in cases where such bonds are issued for the financing or re-financing of a takeover of an enterprise, of parts of an enterprise, or of participations. If the right for advance subscription is withdrawn by the Board, the convertible bond or warrant issues are to be offered at market conditions (including standard dilution protection provisions in accordance with market practice) and the new shares are issued at then current convertible bond or warrant issue conditions. The conversion rights may be exercisable during a maximum of 10 years and option rights for a maximum of 7 years from the time of the respective issue. The conversion or option price or its calculation methodology shall be determined in accordance with market conditions, whereby for shares of Zurich Financial Services the quoted share price is to be used as a basis.

Employee participation

Subject to shareholder approval to increase the contingent share capital for the issuance of new registered shares to employees of the Group from CHF 75,755.60 by CHF 324,244.40 to a new maximum of CHF 400,000 by issuing up to a maximum of 4,000,000 registered shares payable in full with a nominal value of CHF 0.10 each, the Board of Directors of Zurich Financial Services decided on February 14, 2007, to allow the issuance of up to 4,000,000 shares out of the contigent share capital to employees of the Group. A respective proposal for the increase of the contingent share capital was made by the Board of Directors to the shareholders and was approved at the Annual General Meeting on April 3, 2007. On December 31, 2007, 797,421 shares of this contingent share capital have been issued. Consequently, as of the same date, the remaining contingent capital, which can be issued to employees of Zurich Financial Services and Group companies, amounts to CHF 320,257.90 or 3,202,579 fully paid registered shares with a nominal value of CHF 0.10 each. The pre-emptive rights of the shareholders, as well as the right for advance subscription, are excluded. The issuance of shares or respective option rights to employees is subject to one or more regulations to be issued by the Board of Directors and take into account performance, functions, levels of responsibility and criteria of profitability. Shares or option rights may be issued to the employees at a price lower than that quoted on the stock exchange.

d) Preferred securities

Preferred securities

Table 21.2

in USD millions, as of December 31	2007	2006
Preferred securities, USD 1,000 par value [1]	700	700

[1] The amount includes issuance costs of USD 29 million.

In February 2001, the Group placed six series of Trust Capital Securities (Zurich RegCaPS) for the total amount of USD 1,125 million (USD 1,096 million net of issuance costs) with a limited number of qualified institutional and corporate US investors. The securities, which were issued under Rule 144A in the United States, are perpetual, non-cumulative and have a par value of USD 1,000 each. They have no voting rights, except for certain specified circumstances and are linked to Farmers Group, Inc. Class C shares. On March 30, 2006, and April 11, 2006, the Group redeemed the Series I and III of the Zurich RegCaPS, respectively. The liquidation amounts totaled USD 425 million in aggregate. Of the remaining series totaling USD 700 million, one has a fixed rate coupon (6.58 percent) and three have a floating rate coupon (between LIBOR +53 bps and +71 bps). These coupon rates step up after the first call dates. The Group has the option to call Series IV floating rate securities in 2008 and Series II fixed rate and Series V and VI floating rate securities in 2011. Subsequent to year-end the Group announced the redemption of the Series IV of the Zurich RegCaPS amounting to USD 125 million at par.

e) Additional paid-in capital

This reserve is not ordinarily available for distribution.

f) Treasury shares

Treasury shares

Table 21.3

number of shares, as of December 31	2007	2006
Treasury shares	5,839,154	161,451

As of December 31, 2007, the total number of treasury shares was 5,839,154, which comprises shares repurchased under the buy-back program and shares acquired in the market held to cover employee share and option plans.

On February 14, 2007 the Board of Zurich Financial Services authorized a share buy-back program. 3,432,500 fully paid shares, with a nominal value of CHF 0.10, were bought back at an average price of CHF 364 per share, at a total cost of USD 1 billion. A proposal to cancel these repurchased shares will be submitted to the shareholders at the Annual General Meeting on April 3, 2008.

g) Earnings per share

Table 21.4

Earnings per share

	Net income attributable to common shareholders (in USD millions)	Weighted average number of shares	Per share (USD)	Per share (CHF)[1]
2007				
Basic earnings per share	**5,580**	**142,685,268**	**39.11**	**46.88**
Effect of potentially dilutive shares related to share-based compensation plans		1,572,388	(0.43)	(0.51)
Diluted earnings per share	**5,580**	**144,257,656**	**38.68**	**46.37**
2006				
Basic earnings per share	**4,576**	**144,281,666**	**31.71**	**39.74**
Effect of potentially dilutive shares related to share-based compensation plans		814,490	(0.18)	(0.22)
Diluted earnings per share	**4,576**	**145,096,156**	**31.53**	**39.52**

[1] The translation from USD into CHF has been done for information purposes only at the Group's average exchange rates for the years ended December 31, 2007 and 2006, respectively.

Basic earnings per share is computed by dividing net income attributable to shareholders by the weighted average number of shares outstanding for the period, excluding the weighted average number of shares held as treasury shares and preferred securities. Diluted earnings per share reflects the effect of potentially dilutive shares.

22. Employee benefits

The Group had 58,220 and 52,286 employees (full-time equivalents) as of December 31, 2007 and 2006, respectively. Personnel and other related costs incurred for the year ended December 31, 2007 and 2006, were USD 4,922 million and USD 4,757 million, including wages and salaries of USD 4,181 million and USD 3,954 million, respectively.

The Group operates a number of retirement benefit arrangements for employees, the majority of whom belong to defined benefit plans. Other employees participate in defined contribution plans, which provide benefits equal to amounts contributed by both the employer and the employee plus investment returns.

The Group also operates post-employment plans, mainly in the United States, which provide employees with certain defined post-employment benefits other than pensions.

To ensure appropriate governance and oversight of the Group's pension and post-employment benefit plans, the Group Pension Committee was established during 2006 to provide oversight of the Group's benefits policy.

As described in note 1, the Group has adopted the SORIE option under IAS 19. As a result prior year numbers have been restated as appropriate.

a) Defined benefit plans

Defined benefit pension plans

Employees of the Group's operating companies are covered under various pension plans, the largest ones of which are in the UK, US, Germany and Switzerland. Certain companies run defined benefit plans, some of which provide benefits related to employee's service periods and final pensionable earnings and others provide cash balance plans, where the participants receive the benefit of annual contributions made by both employer and employee and a credit for the investment return achieved on the assets. Eligibility for participation in the various plans is either based on completion of a specified period of continuous service or from the date of commencement of employment.

Most of the Group's defined benefit pension plans are funded through contributions by the Group and, in some cases, the employee to trusts or foundations independent of the Group's finances. In these cases, the annual funding requirements are determined in accordance with local funding and actuarial cost methods. Where plans are not specifically funded, a liability for the accrued pension obligations is recognized in the Group's balance sheet.

For the defined benefit pension plans, total contributions to funded pension plans and benefit payments by the Group are currently expected to be about USD 470 million in 2008.

Other defined post-employment benefits

Certain of the Group's operating companies provide post-employment benefit programs covering medical care and/or life insurance. Eligibility in the various plans is generally based on completion of a specified period of eligible service and reaching a specified age. The programs typically pay a stated percentage of medical expenses subject to deductibles and other factors. The cost of post-employment benefits is accrued during the employees' service periods. The method of accounting and the frequency of valuations are similar to those for defined benefit pension plans.

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

Table 22.1

Status of funded defined benefit plans

in USD millions, as of December 31	Defined benefit pension plans		Other defined post-employment benefits	
	2007	2006	**2007**	2006
Present value of obligations	(13,653)	(12,190)	(66)	(70)
Fair value of plan assets	13,285	11,071	5	10
Funded status	(368)	(1,119)	(61)	(60)
Unrecognized past service cost	–	2	–	–
Cumulative impact of asset ceiling	(62)	–	–	–
Liability – funded obligations	**(430)**	**(1,117)**	**(61)**	**(60)**

Pensions are long-term by nature. However, short-term variations between long-term actuarial assumptions and actual experience may be positive or negative, resulting in actuarial gains or losses, which are recognized in full in the period in which they occur, but outside of income and presented on a separate line of the statement of recognized income and expense in shareholders' equity.

In the second quarter of 2007, the Group implemented a contractual trust arrangement to cover its defined benefit obligations in Germany. As a consequence of this transaction, the fair value of the plan assets in the funded defined benefit plans increased by USD 786 million at the time of implementation of the trust arrangement.

Table 22.2

Status of unfunded defined benefit plans

in USD millions, as of December 31	Defined benefit pension plans		Other defined post-employment benefits	
	2007	2006	**2007**	2006
Present value of obligations	(207)	(985)	(208)	(196)
Unrecognized past service cost	–	–	(2)	(1)
Liability – unfunded obligations	**(207)**	**(985)**	**(210)**	**(197)**

For several of the Group's wholly unfunded defined benefit pension plans there are assets within the Group that are designated, but not legally separated, to meet the liabilities of those plans. Consequently, in accordance with IAS 19 these are not recognized as plan assets. However, to arrive at an economic net liability for these unfunded pension plans these assets would have to be netted against the present value of obligations. The significant change from 2006 to 2007 mainly relates to the implementation of a contractual trust arrangement set up in Germany in the second quarter of 2007, which transferred the plan to a funded defined benefit pension plan.

Table 22.3

Components of net pension expense

in USD millions, for the years ended December 31	Defined benefit pension plans		Other defined post-employment benefits	
	2007	2006	**2007**	2006
Current service cost	(310)	(384)	(6)	(6)
Interest cost	(665)	(613)	(14)	(14)
Expected return on plan assets	710	575	–	1
Past service cost	(9)	(17)	–	–
Gains on curtailment or settlement	–	135	–	10
Net pension expense	**(274)**	**(304)**	**(20)**	**(9)**

Pension expense is recognized in administrative and other operating expense.

Table 22.4

Fair value of assets held in funded defined benefit pension plans

in USD millions, as of December 31	Defined benefit pension plans		Other defined post-employment benefits	
	2007	2006	**2007**	2006
Mortgage loans	383	–	–	1
Cash and cash equivalents	126	126	–	4
Short-term investments	6	2	4	–
Equity securities	4,530	6,168	–	–
Debt securities	7,404	3,821	1	5
Real estate	793	924	–	–
Other investments	43	19	–	–
Investments held by investment companies	–	11	–	–
Total	**13,285**	**11,071**	**5**	**10**

As a matter of policy, pension plan investment guidelines do not permit investment in any assets in which the Group or its subsidiaries have an interest, including shares or other financial instruments issued and real estate held for own use.

Movement in funded and unfunded defined benefit pension plan obligation

Table 22.5

in USD millions	Defined benefit pension plans		Other defined post-employment benefits	
	2007	2006	**2007**	2006
Benefit obligation as of January 1	(13,175)	(11,498)	(266)	(293)
Current service cost	(310)	(384)	(6)	(6)
Past service cost incl. plan amendments	(7)	(17)	2	1
Interest cost	(665)	(613)	(14)	(14)
Actuarial gain passed through SORIE	442	125	3	28
Employee contributions	(38)	–	(3)	(10)
Effect of curtailments or settlements	–	130	–	7
Benefits paid	472	425	17	19
Effect of business combinations and other transfers	(168)	(337)	–	–
Foreign currency translation effects	(411)	(1,006)	(7)	2
Benefit obligation as of December 31	**(13,860)**	**(13,175)**	**(274)**	**(266)**

Movement in fair value of plan assets – funded plans

Table 22.6

in USD millions	Defined benefit pension plans		Other defined post-employment benefits	
	2007	2006	**2007**	2006
Fair value of plan assets as of January 1	11,071	8,597	10	13
Expected return on plan assets	710	575	–	1
Actuarial gain passed through SORIE	179	447	–	–
Employer contributions	1,329	679	1	6
Employee contributions	38	–	3	10
Benefits paid	(472)	(425)	(9)	(19)
Effect of curtailments or settlements	–	5	–	3
Effect of business combinations and other transfers	97	320	–	(4)
Foreign currency translation effects	333	873	–	–
Fair value of plan assets as of December 31	**13,285**	**11,071**	**5**	**10**

The actual returns on defined benefit pension plan assets for the years ended December 31, 2007 and 2006 were USD 889 million and USD 1,022 million, respectively. The actual returns on other defined post-employment plan assets was USD 1 million for the year ended December 31, 2006.

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

Movement in liability for funded and unfunded plans

Table 22.7

in USD millions	Defined benefit pension plans		Other defined post-employment benefits	
	2007	2006	**2007**	2006
Liability as of January 1	(2,102)	(2,899)	(257)	(280)
Current year expense	(274)	(304)	(20)	(9)
Contributions paid	1,329	679	10	6
Change in liability due to asset ceiling	(62)	–	–	–
Actuarial gain passed through SORIE	621	572	3	28
Effect of business combinations and other transfers	(71)	(17)	–	(4)
Foreign currency translation effects	(78)	(133)	(7)	2
Liability as of December 31	**(637)**	**(2,102)**	**(271)**	**(257)**

The movements in actuarial gains and losses due to differences between actual and expected experience on the Group's plan assets and defined benefit obligations, together with the impact of changes in actuarial assumptions to reflect economic conditions at the year end are summarized below:

Actuarial gain/(loss)

Table 22.8

in USD millions	2007	2006
Actuarial loss as of January 1	(1,870)	(2,420)
Experience adjustments on plan liabilities	(114)	(375)
Experience adjustments on plan assets	179	447
Changes due to discount rate assumptions	991	–
Changes due to other actuarial assumptions	(432)	528
Asset ceiling recognition	(62)	–
Foreign currency translation effects	–	(50)
Total actuarial loss as of December 31	**(1,308)**	**(1,870)**

The principal financial assumptions used to calculate the Group's major defined benefit pension and defined post-employment benefit obligations and the Group's pension expense are as follows:

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

Table 22.9

as of December 31	**2007**			2006		
	Switzerland	**UK**	**US**	Switzerland	UK	US
Discount rate	3.7%	5.5%	6.2%	3.3%	5.3%	5.9%
Expected long-term rate of return on assets	4.1%	5.4%	7.3%	4.0%	6.2%	8.0%
Expected future salary increases	2.1%	3.7%	4.6%	1.5%	3.5%	4.4%
Expected future pension increases	1.0%	2.5%	0.3%	1.0%	2.5%	0.7%

Table 22.10

Assumptions used in determining the actuarial liabilities for other defined post-employment benefit plans

as of December 31	**2007**	2006
	US	US
Discount rate	6.2%	5.8%
Expected long-term rate of return on assets	3.1%	4.9%
Expected future salary increases	4.1%	4.2%
Expected increase in long-term health cost	8.5%	9.1%

The expected long-term rate of return on assets assumption is derived separately for each of the Group's benefit plans. Each major asset class is assigned an expected long-term rate of return, net of investment expenses, appropriate for the environment in which that plan is invested. The overall expected long-term rate of return on assets for a plan is calculated as the weighted average of the expected return for each asset class, weighted by the plan's target allocation to each asset class.

The assumed life expectancy in each country has been based on the most up to date mortality tables in accepted general use in that market. Where appropriate these tables make allowance for projected future improvements in life expectancy.

The actuarial assumptions of the healthcare cost trends rates have an impact on the amounts recognized. A one percentage point change in the health care cost trend rate would have the following effects on amounts recognized in 2007:

Table 22.11

Effect of a change in the health care cost trend

in USD millions	**1% increase**	**1% decrease**
Effect on total service cost and interest cost	–[1]	–[1]
Effect on benefit obligation	6	(5)

[1] below USD 1 million

b) Defined contribution pension plans

Certain of the Group's operating companies sponsor defined contribution plans. Eligibility for participation in such plans is either based on completion of a specified period of continuous service or date of commencement of employment. The plans provide for voluntary contributions by employees and contributions by the employer which typically range from 3 percent to 15 percent of annual pensionable salary, depending on the employees' years of service. The Group's contributions under these plans amounted to USD 51 million and USD 34 million in 2007 and 2006, respectively.

23. Share-based compensation and cash incentive plans

The Group has adopted various share-based compensation and cash incentive plans to attract, retain and motivate executives and employees. The plans are designed to reward employees for their contribution to the performance of the Group and to encourage employee share ownership. Share-based compensation plans include plans under which shares and options to purchase shares, based on the performance of the businesses, are awarded. Share-based plans are based on the provision of the Group's shares.

a) Cash incentive plans

Various businesses throughout the Group operate short-term incentive programs for executives, management and, in some cases, for employees of that business unit. Awards are made in cash, based on the accomplishment of both organizational and individual performance objectives. The expenses recognized for these cash incentive plans amounted to USD 365 million and USD 358 million for the years ended December 31, 2007 and 2006, respectively.

b) Share-based compensation plans for employees and executives

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

Table 23.1

Expenses recognized in the income statements

in USD millions, for the years ended December 31	**2007**	2006
Total option-based expenses	49	40
Total share-based expenses	121	111
Total expenses	**170**	**151**

The explanations below give a more detailed overview of the plans of the Group.

Share option plans for UK employees

UK Sharesave Plan

The plan is open to employees in the UK. Participants enter into a savings contract with a bank for the accumulation of contributions of between GBP 5 and GBP 250 per month for a period of three or five years. An interest bonus is credited at the end of the savings period. Participants are granted options to acquire Zurich Financial Services shares at a pre-determined price, which is not less than 80 percent of the market price prior to grant. Options under the plan can normally be exercised for a period of six months after the end of the savings period. Early exercise, limited to the value of shares that can be acquired with accrued savings, is permitted in certain circumstances. There were a total of 3 and 569 participants in this plan as of December 31, 2007 and 2006, respectively. There have been no new grants under this plan since 2002.

Employee share plans

Share Incentive Plan for employees in the UK

The Group established an Inland Revenue approved Share Incentive Plan and launched the partnership shares element of this plan in 2003. This plan enables participating employees to make monthly purchases of Zurich Financial Services shares at the prevailing market price out of their gross earnings. There were 439 and 494 participants in the partnership element of the plan as of December 31, 2007 and 2006 respectively. The Group also operates the profit-sharing element of the Share Incentive Plan (reward shares) which was launched in 2004 with annual share allocations being made in May each year subject to business performance. The awards are based on the performance of the participating employee’s business unit for the year, subject to a maximum award of 5 percent of participant’s base salary (before any flexible benefit adjustments) or GBP 3,000. The total number of participating employees in the reward share element of the plans as of December 31, 2007 and 2006 was 6,952 and 6,620 respectively.

Share Incentive Plans for employees in Switzerland

The Employee Incentive Plan introduced for employees in Switzerland continued to operate in 2007. Under this plan, employees have the option to acquire sales-restricted shares at a 30 percent discount to the market value. The maximum permitted investment in shares is CHF 3,500 per employee. During 2007, 6,369 employees participated in the Employee Incentive Plan compared with 5,811 in 2006. For the year ended December 31, 2007, 1,929 employees received shares under the 2006 employee performance share plan. For the year ended December 31, 2006, 1,830 employees received shares under the 2005 employee performance share plan.

Share-based compensation plans for executives

The Group operates long-term incentive plans for selected executives. These plans comprise the allocation of a target number of share grants and/or share option grants with the vesting of these share and option grants being subject to the achievement of specific financial performance goals. The Group can also make restricted share grants to selected employees, which provide share awards if the individual remains employed with the Group on selected dates in the future.

Senior Executive long-term incentive plans

Each year, Senior Executives are granted performance shares and performance options, which vest on an annual basis over the subsequent three year period. The actual level of vesting, which can be between 0 percent and 175 percent, with an additional discretion to increase vesting to a maximum of 200 percent, of the original number of shares and/or options granted, depends on the performance of the Group during the previous calendar year. The current performance metrics are the Group's return on equity (ROE) and the position of its total annual relative shareholder return measured against an international peer group of insurance companies. One-half of the shares that actually vest are sales-restricted for a further period of three years. The options have a seven year term from the date of grant. Grants under the plan are made annually each April. The actual number of performance shares and performance options granted is determined such that the economic value is a defined percentage of annual salary in the year of allocation. There were a total of 159 and 174 participants in this plan as of December 31, 2007 and 2006, respectively.

Executive long-term performance share plans

Each year, selected executives are granted performance shares which vest over a period of three years, either on an annual basis or at the end of the three year period. Specific performance parameters are established for each of the Business Divisions and include, for example, return on equity or business operating profit objectives. The actual number of performance shares granted at the beginning of the performance period is determined such that the economic value is a defined percentage of the annual salary in the year of allocation. Actual awards under these plans are made fully in shares of Zurich Financial Services, of which 50 percent are sales-restricted for a further period of three years. There were a total of 746 and 640 participants in this plan as of December 31, 2007 and 2006, respectively.

c) Further information on performance share and option plans

Table 23.2

Movements in options granted under the various equity participation plans

	Number of shares under option		Weighted average exercise price (in CHF)	
	2007	2006	**2007**	2006
Outstanding as of January 1	2,272,040	2,107,346	260	210
Options granted	702,420	706,773	317	266
Options forfeited	(75,513)	(54,004)	302	209
Options exercised	(422,451)	(330,907)	217	169
Expired during period	(89,139)	(157,168)	554	517
Outstanding as of December 31	**2,387,357**	**2,272,040**	**273**	**260**
Exercisable as of December 31	1,468,492	1,265,961	273	260

Certain plan participants elected in 2002 to take their option award in the form of Share Appreciation Rights (SAR). Included in table 23.2 and 23.3 are 61,318 and 67,801 as of December 31, 2007 and 2006, respectively, which will be settled through cash payments rather than through delivery of shares.The fair value of the SAR at grant date is determined using Black-Scholes formula. The model inputs were the same as used for calculating value of the share options.

The average share price for Zurich Financial Services shares in 2007 and 2006 was CHF 350.32 and CHF 294.63, respectively.

Table 23.3

Share options exercised during the period

	Amount	Average share price
Exercise date		
January-April, 2007	210,396	351.9
May-August, 2007	167,449	374.8
September-December, 2007	44,606	337.4

Table 23.4

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

in CHF	Weighted average contractual life in years	Weighted average remaining expected life in years
100 – 200	7.0	2.3
201 – 300	7.0	3.9
301 – 400	7.1	5.0
401 – 500	7.0	0.3

Table 23.5

Options and shares granted during the period

for the years ended December 31	Number		Weighted average fair value at grant date (in CHF)	
	2007	2006	**2007**	2006
Shares granted during the period	270,367	332,289	356	308
Options granted during the period [1]	702,420	706,773	68	67

[1] Number of options granted is shown as the number of shares under option granted during the period.

The shares and options granted during the period are the target allocations made under the performance option and performance share plans together with any restricted share awards granted during the year. Whether these grants become vested or not will depend on whether the performance achievements are met. The expense is adjusted when shares and options vest.

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

Table 23.6

Black-Scholes assumptions for fair value of options

	2007	2006
Share price, in CHF [1]	356	308
Exercise price, in CHF	356	308
Assumed volatility	25.25%	24.63%
Risk-free interest rate	2.87%	2.71%
Expected dividend rate	3.50%	2.50%
Expected option life	7 years	7 years

[1] Share price as at date of grant.

The risk-free interest rate was determined by using the seven year CHF swap rate applicable in 2007 and 2006. The implied volatility was determined based on the average of a number of several independent quotes.

24. Contingent liabilities, contractual commitments and financial guarantees

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

Quantifiable commitments and contingencies

Table 24.1

in USD millions, as of December 31	**2007**	2006
Commitments under investment agreements	4,082	4,289
Less funded	(3,300)	(3,452)
Remaining commitments under investment agreements	782	837
Guarantees and letters of credit [1]	939	1,646
Future rent commitments	1,613	1,538
Undrawn loan commitments (capital markets and banking activities)	926	589
Other commitments and contingent liabilities	40	36

[1] Guarantee features embedded in life insurance products are not included. For such guarantee features refer to note 8 on insurance reserves.

Contractual commitments under investment agreements

The Group has committed to contribute capital to subsidiaries and third parties that engage in making investments in direct private equity, private equity funds, emerging market funds and hedge funds. Included in the remaining commitments is USD 133 million to Capital Z Investments II, L.P. and USD 61 million to Capital Z Investments, L.P. Part of these commitments may be called at any time and in any amount, based on various criteria.

Contractual commitments under lease agreements

The Group has entered into various operating leases as lessee for office space and certain computer and other equipment. Lease expenses totaled USD 203 million and USD 163 million for the years ended December 31, 2007 and 2006, respectively.

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

Table 24.2

in USD millions, as of December 31, 2007	**Rental payments**
< 1 year	249
1 to 2 years	231
2 to 3 years	209
3 to 4 years	180
4 to 5 years	148
> 5 years	596
Total	**1,613**

Financial guarantees and letters of credit

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

Indemnity agreements

The Group, through certain of its subsidiaries, has agreed to arrangements that cap Converium's (Converium Holding AG, now Scor Holding (Switzerland) AG) net exposure for losses arising out of the September 11, 2001 event at USD 289 million. As of December 31, 2007, the Group has recorded in this respect provisions of USD 54 million.

Pledged assets

The majority of assets pledged to secure the Group's liabilities relates to debt securities pledged under short-term sale and repurchase agreements. The total amount of pledged financial assets including the securities under short-term sale and repurchase agreements amounted to USD 5,251 million and USD 6,042 million as of December 31, 2007 and December 31, 2006, respectively.

Terms and conditions associated with the financial assets pledged to secure Group's liabilities are usual and standard in the markets in which the underlying agreements were executed.

Other contingent liabilities

The Group has received notices from various tax authorities asserting deficiencies in taxes for various years. The Group is of the view that the ultimate outcome of these reviews would not materially affect the Group's consolidated financial position.

The Group has commitments to provide collateral on certain insurance contracts in the event of a credit rating downgrade.

In common with other groups writing life assurance business in the UK, the Group remains exposed to a number of Conduct of Business issues. While provisions are maintained which reflect management's best evolving estimate of the probable costs and expenses of resolving these matters, significant uncertainty regarding the ultimate cost remains. The main area of uncertainty concerns sales advice related complaints. The key assumptions used to derive the complaint provision are the volume of complaints, both those already recorded and an assumption as to the level of future complaints, the percentage of complaints which will be successful (the uphold rate), the average redress payable per complaint and the expenses of reviewing each case or complaint. The assumptions used to set the provision have been based on actual experience over the past three years weighted towards more recent experience.

In 2003, the Group completed the divestment of various asset management operations. As part of these agreements, the Group has guaranteed certain minimum levels of "assets under management" to the acquirers. The guarantees provide that if the "assets under management" fall below those defined levels under certain conditions, the Group may be required to compensate for these shortfalls.

On December 11, 2001, the Group divested its third party reinsurance business operated under the "Zurich Re" brand name by offering the shares of the newly established Converium to the public. As part of the formation of Converium and the subsequent public offering of its shares, the Group entered into various contracts with Converium and its subsidiaries, including certain Quota Share Retrocession Agreements. These Quota Share Retrocession Agreements, together with subsequent amendments, provide for the reinsurance premium to Converium to be retained by the Group on a funds withheld basis. Converium may call for payment in cash certain amounts of the funds withheld on pre-determined dates (cash call option). If Converium calls for such payments on July 1, 2008, the maximum amount that would be payable by the Group is estimated to be in the range of approximately USD 200 million to USD 230 million. The Group is currently renegotiating the cash call option.

Litigation and regulatory investigations

The Group and its subsidiaries are continuously involved in legal proceedings, claims and litigation arising, for the most part, in the ordinary course of their business operations.

In 2006, the Group settled with various US state attorneys general and state insurance regulators in connection with investigations in the US concerning certain business practices involving insurance brokers and insurance companies. In July 2006, the Group also entered into a settlement agreement to resolve consolidated class-action litigation concerning those matters. Final judgment has been entered approving the settlement, but appeals are pending. A number of individual claims not covered by the class action settlement remain pending against the Group. In addition, the Group and its subsidiaries are involved in regulatory investigations in the US, including by the Securities and Exchange Commission (SEC), regarding certain reinsurance transactions engaged in by the Group and its subsidiaries. The SEC Staff is currently formulating its recommendation for action to the SEC Commissioners. The Group continues to cooperate with all remaining regulatory investigations. Other Group subsidiaries were also involved in industry-wide legal proceedings regarding financing hedge funds engaged in mutual-fund market-timing activities. In this connection, Zurich Capital Markets, in wind-down since 2003, entered into a settlement with the SEC on May 7, 2007. Furthermore, Zurich Financial Services is a defendant in putative class-action securities lawsuits relating to its divestiture of its interest in Converium. Zurich Financial Services and the class-action plaintiffs have entered into an agreement to settle all claims against the company for USD 30 million, subject to court approval. The US federal court presiding over the litigation preliminarily approved the proposed settlement on September 4, 2007. The court is expected to hold a final hearing on the proposed settlement in the second half of 2008.

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

25. Fair value of financial assets and financial liabilities

The methods and assumptions used by the Group in estimating fair value of the financial instruments and other investments are discussed below.

Cash and cash equivalents: carrying amounts approximate fair values.

Debt and equity securities: fair values are based on quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models, discounted cash flow or other recognized valuation techniques or information from external pricing sources.

Mortgage loans: fair values of loans backed by real estate are estimated using discounted cash flow calculations based on the Group's current incremental lending rates for similar types of loans.

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

Short-term investments: carrying amounts approximate fair values.

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

Obligation to repurchase securities: carrying amounts approximate fair value.

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

Liabilities related to unit-linked investment contracts: fair values for financial liabilities for unit-linked contracts are determined based on the underlying fair value of the financial assets backing these liabilities.

Liabilities related to investment contracts: fair values for financial liabilities related to investment contracts are determined using discounted cash flow calculations.

Liabilities related to investment contracts with DPF: fair values of liabilities related to investment contracts with DPF are based on current economic conditions and other performance factors.

Total outstanding debt: fair values are estimated using discounted cash flow calculations based upon the Group's current incremental borrowing rates for similar types of borrowings with maturities consistent with those remaining for the debt being valued.

Fair value (FV) and carrying value of financial assets and financial liabilities

Table 25.1

in USD millions, as of December 31	Total fair value		Total carrying value	
	2007	2006	**2007**	2006
Cash and cash equivalents	16,937	23,122	16,937	23,122
Available-for-sale securities:				
Debt securities	109,733	112,128	109,733	112,128
Equity securities	14,547	13,956	14,547	13,956
Total available-for-sale securities	124,280	126,084	124,280	126,084
Securities at FV through profit or loss:				
Trading:				
Debt securities	616	547	616	547
Equity securities	2,768	2,778	2,768	2,778
Derivative assets	1,055	844	1,055	844
Designated at FV:				
Debt securities	17,883	17,025	17,883	17,025
Equity securities	101,452	92,270	101,452	92,270
Total securities at FV through profit or loss	123,774	113,464	123,774	113,464
Held-to-maturity debt securities	5,739	5,934	5,642	5,657
Loans:				
Mortgage loans	12,800	10,860	12,718	10,806
Other loans	12,545	13,206	12,938	12,636
Other Investments:				
Short-term investments	2,929	1,703	2,929	1,703
Investments held by investment companies	1,827	1,862	1,827	1,862
Other	80	79	80	79
Total financial assets	**300,911**	**296,314**	**301,125**	**295,413**
Financial liabilities at FV through profit or loss:				
Trading:				
Obligation to repurchase securities	(5,370)	(6,144)	(5,370)	(6,144)
Derivative liabilities	(276)	(415)	(276)	(415)
Designated at FV:				
Liabilities related to unit-linked investment contracts	(48,187)	(44,269)	(48,187)	(44,269)
Financial liabilities held at amortized cost:				
Liabilities related to investment contracts	(117)	(121)	(117)	(121)
Liabilities related to investment contracts with DPF	(5,789)	(6,074)	(6,182)	(6,315)
Total debt	(9,913)	(9,889)	(9,963)	(9,603)
Total financial liabilities	**(69,652)**	**(66,912)**	**(70,095)**	**(66,867)**

26. Risk management

The Group employs Enterprise Risk Management as the structured Group-wide framework for identifying, measuring, managing, reporting and responding to risks that could affect the achievement of the Group's strategic and financial objectives. The objectives of the Group's Enterprise Risk Management are to:

- Protect the capital base by ensuring that capital is deployed in the most efficient way and that risks are not taken beyond the Group's risk-taking capacity;
- Enhance value creation and contribute to an optimal risk-return profile; and
- Support the Group's decision-making process by providing reliable and timely risk information.

The Board of Directors establishes the Group's corporate risk management framework. The Risk Committee of the Board serves as a focal point for oversight regarding risk management. It reviews the Group's enterprise-wide risk governance framework, including risk management methodologies, policies, models, reporting and risk strategy. Group-wide risk management policies specify risk limits and authorities, reporting requirements, and procedures for referring risk issues to senior management. The Group regularly monitors its risks through analyses and reports, and through relevant risk modelling.

Insurance risk

Insurance risk is the inherent uncertainty as to the occurrence, amount and timing of insurance liabilities. The exposure is transferred to the Group through the underwriting process.

The Group assumes certain customer risks, and therefore must manage the transfer of risk including the establishment of limits for underwriting authority and the requirement for specific approvals for transactions involving new products or where established limits of size and complexity may be exceeded. The Group's underwriting strategy is to exploit the diversification of risks across industries and geographic regions in which the Group operates. The Group seeks to optimize shareholder value by achieving its mid-term return on equity goals. Doing so necessitates a prudent, stable underwriting philosophy that takes advantage of competitive strengths while avoiding risks with disruptive volatility. At the core of the Group's underwriting is a robust governance process. It includes strategy, establishment of goals, delegation of authorities, financial monitoring, underwriting reviews and remedial actions to facilitate continuous improvement. The Group has policies that provide the boundaries within which employees and managers carry out their underwriting duties and the Group's business.

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

As part of its overall risk management strategy, the Group cedes insurance risk through proportional, non-proportional and specific risk reinsurance treaties. The Group has centralized the management of treaty reinsurance for General Insurance. In 2007 the Group developed a concept to centralize the management of reinsurance for Life Insurance and started the implementation.

General insurance risk

General insurance risk includes the reasonable possibility of significant loss due to uncertainty in the frequency of the occurrence of the insured events as well as in the severity of the resulting claims. The following provides an overview of the risks inherent in the Group's main lines of business:

- Motor includes, but is not limited to, automobile physical damage, loss of the insured vehicle and automobile third party liability insurance;
- Property includes, but is not limited to, fire risks (e.g. fire, explosion and business interruption), natural perils (e.g. earthquake, windstorm and flood), engineering lines (e.g. boiler explosion, machinery breakdown and construction) and marine (cargo and hull);
- Liability includes, but is not limited to, general/public and product liability, excess and umbrella liability, professional indemnity, directors and officers liability and errors and omissions liability, including medical malpractice;
- Special lines include, but are not limited to, credit and surety, crime and fidelity, accident and health, and crop;
- Worker injury includes, but is not limited to, workers compensation and employers liability;

In addition to the specific risks insured, each line of business could expose the Group to losses that could arise from natural and man-made catastrophes.

The Group assesses natural catastrophe risk by modeling potential losses from its property policies located in the most hazard prone areas and adjusting for non-property related losses. These assessments principally address the risk of tornadoes, hail, windstorms, earthquake, and river floods. Man-made catastrophes include, but are not limited to, such risks as train collisions, hotel fires and terrorism. Man-made catastrophe risks present challenges for the Group to assess due to the high degree of uncertainty about what events might actually occur. The Group monitors potential exposures by analyzing certain accumulations in some geographic areas, using a number of assumptions about the potential characteristics of the threat.

The table below shows the Group's concentration of risk within the General Insurance business by region and line of business based on direct written premiums before reinsurance. The Group's exposure to general insurance risks varies significantly by geographic region and may change over time. Premiums ceded to reinsurers (including retrocessions) amounted to USD 5,345 million and USD 5,488 million for the years ended December 31, 2007 and 2006, respectively. Reinsurance programs such as catastrophe covers are managed on a global basis.

Table 26.1

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

in USD millions, for the year ended December 31, 2007	Motor	Property	Liability	Special lines	Worker injury	Total
North America	1,895	3,548	4,574	1,476	2,323	13,816
Europe	7,035	5,233	2,609	1,820	636	17,333
International Businesses [1]	1,189	1,163	231	452	15	3,050
Total	**10,119**	**9,944**	**7,414**	**3,748**	**2,974**	**34,199**

[1] Including intercompany eliminations.

Table 26.2

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

in USD millions, for the year ended December 31, 2006	Motor	Property	Liability	Special lines	Worker injury	Total
North America	1,961	3,614	4,919	1,409	2,338	14,242
Europe	6,276	4,732	2,259	1,676	628	15,571
International Businesses [1]	769	1,265	183	575	12	2,804
Total	**9,006**	**9,612**	**7,361**	**3,660**	**2,978**	**32,617**

[1] Including intercompany eliminations.

The table below shows the sensitivity of net income before tax and the sensitivity of net assets, considering the Group actual income tax rate, against an adverse development in the net loss ratio by one percentage point. Such an increase could arise from either higher frequency of the occurrence of the insured events or from an increase in the severity of the resulting claims or from a combination of frequency and severity. The sensitivities do not indicate a probability of such an event and do not consider any non-linear effects of reinsurance. Based on the assumptions applied in the presentation of the sensitivity analysis in the table below, each additional percentage point increase in the loss ratio would lead to a linear impact on net income before tax and net assets applying the assumptions as for this table. In addition, the Group monitors insurance risk by evaluating extreme scenarios, taking also non-linear effects of reinsurance contracts into account.

Table 26.3

Insurance risk sensitivity for the Group's General Insurance business

in USD millions, for the year ended December 31, 2007	Global Corporate[1]	North America Commercial[1]	Europe General Insurance[1]	International Business[1]
+1% in net loss ratio				
Net income before tax	(48)	(96)	(130)	(24)
Net assets	(36)	(72)	(98)	(18)

[1] Parentheses around numbers represent a decrease in net income before tax and net assets.

Table 26.4

Insurance risk sensitivity for the Group's General Insurance business

in USD millions, for the year ended December 31, 2006	Global Corporate[1]	North America Commercial[1]	Europe General Insurance[1]	International Business[1]
+1% in net loss ratio				
Net income before tax	(49)	(95)	(117)	(22)
Net assets	(36)	(70)	(86)	(16)

[1] Parentheses around numbers represent a decrease in net income before tax and net assets.

Life insurance risk

The risks associated with Life insurance include, but are not limited to:

- Biometric risk, which includes adverse mortality and morbidity experience. Mortality risk can relate to either policyholders living longer than expected (longevity) or dying sooner than expected. This is because some products pay out if the person dies, other products pay regular amounts whilst the policyholder remains alive.
- Policyholder behavior risk, which includes persistency experience. Poor persistency rates may lead to fewer policies remaining on the books to help cover fixed expenses and reduce the future positive cash flows from the business written. Poor persistency can impact all types of products.
- Risk due to movements in financial markets, i.e. investment returns and interest rate risk which are managed as part of market risk.
- Risk due to adverse development of expenses.

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

Table 26.5

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

in USD millions, for the year ended December 31, 2007	Individual[2]	Group	Accident and health	Unit-linked[3]	Total
United States	387	–	11	271	669
Europe[4]	4,553	1,546	9	2,096	8,204
International Businesses[1]	316	78	113	143	650
Total	**5,257**	**1,624**	**133**	**2,510**	**9,523**

[1] Including intercompany eliminations.
[2] Including individual annuity and individual life policies.
[3] Including policy fees of USD 1.9 billion (United States USD 271 million, Europe USD 1.5 billion and International Businesses USD 143 million).
[4] Including fees charged to policyholders relating to the recovery of policyholder taxes, which amount to a USD 128 million credit.

Table 26.6

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

in USD millions, for the year ended December 31, 2006	Individual[2]	Group	Accident and health	Unit-linked[3]	Total
United States	368	–	–	260	628
Europe[4]	4,612	1,822	1	2,491	8,926
International Businesses[1]	273	68	105	153	599
Total	**5,253**	**1,890**	**106**	**2,904**	**10,153**

[1] Including intercompany eliminations.
[2] Including individual annuity and individual life policies.
[3] Including policy fees of USD 2.3 billion (United States USD 256 million, Europe USD 1.9 billion and International Businesses USD 153 million).
[4] Including fees charged to policyholders relating to the recovery of policyholder taxes, which amount to a USD 320 million charge.

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

- Individual annuity includes, but is not limited to, longevity and interest rate risks arising on personal annuity insurance contracts. Individual life includes, but is not limited to, mortality, morbidity and interest rate risks arising on personal life insurance contracts.
- Group inludes, but is not limited to, mortality, morbidity, longevity and interest rate risks arising on commercial death, disability and annuity insurance contracts.
- Accident and Health includes, but is not limited to, mortality, morbidity and interest rate risks arising on accident and health insurance contracts.
- Unit-linked includes, but is not limited to, mortality risks. However, on unit-linked products, the interest rate or equity market risk is largely passed on to the policyholder.

In addition to the specific risks listed above, all these lines of business expose the Group to lapse, surrender and expense risks.

At a Group level certain life insurance contracts contain guarantees for which liabilities have been recorded for additional benefits and minimum guarantees, primarily in the subsidiary Kemper Investors Life Insurance Company which has written variable annuity contracts that provide annuitants with certain guarantees related to minimum death and income benefits. The determination of IFRS liabilities for these contracts is based on SOP 03-1 "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts" and involves a range of scenarios and assumptions, including those regarding expected market rates of return and volatility, contract surrender rates, annuitization elections and mortality experience. The assumptions used are consistent with those used in determining estimated gross profits for purposes of amortizing deferred policy acquisition costs. The carrying value of these liabilities does not represent their fair value.

Refer to note 8 for additional information on reserves for insurance contracts.

The Group reports sensitivities of Life insurance contracts on Embedded Value and New Business Value to changes in economic and operating risk factors. The operating factors include, but are not limited to, discontinuance rates, expenses, mortality and morbidity. The Embedded Value methodology adopted by the Group is based on a "bottom up" market consistent approach to allow explicitly for market risks. Refer to the Embedded Value Report for more information on the sensitivities of Life insurance contracts to economic and operating risk factors.

Credit risk

Credit risk is the risk associated with a loss or potential loss from a counterparty failing to fulfill its financial obligations related to, but not limited to the investment portfolio of debt securities, reinsurance assets, loans, receivables and derivatives. To assess counterparty credit risk, the Group relies on the ratings assigned by external rating agencies, qualified third parties, such as asset managers, and internal rating assessments. The Group maintains counterparty credit risk databases, recording external and internal sources of credit intelligence.

Credit risk relating to debt securities

The Group is exposed to credit risk from third party counterparties where the Group holds securities in those entities. The table below shows the credit risk exposure on debt securities, by credit rating.

Table 26.7

Debt securities by rating of issuer

as of December 31	2007		2006	
	USD millions	% of total	USD millions	% of total
Rating				
AAA	78,073	63.1%	77,130	61.0%
AA	15,318	12.4%	17,082	13.5%
A	21,925	17.7%	24,097	19.1%
BBB	6,954	5.6%	6,857	5.4%
BB and below	549	0.4%	630	0.5%
Unrated	943	0.8%	639	0.5%
Total	**123,762**	**100.0%**	**126,435**	**100.0%**

The overall average rating of the Group's debt securities portfolio is AA+. As of December 31, 2007 the largest concentration in the Group's debt securities portfolio is in government and supranational debt securities at 40.4%. A total of USD 42,522 million or 57.7% of the non-government and non-supranational debt securities are secured. As of December 31, 2006, 39.7% of the Group's debt portfolio was invested in governments and supranationals and a total of USD 44,641 million or 58.6% of the non-government and non-supranational debt securities were secured.

In accordance with the Group's investment policy, investment grade securities comprise 98.8% of the Group's debt securities, and 63.1% are rated AAA as of December 31, 2007. As of December 31, 2006, investment grade securities comprised 99.0% of our debt securities, and 61.0% were rated AAA. US subprime mortgage-backed securities comprise USD 288 million or 0.2% of the Group investments, with the majority, 78.3%, of the positions rated AAA.

The Group's investment policy prohibits speculative grade investments, unless specifically authorized and under exceptional circumstances. The Group identifies and implements appropriate corrective action on investments expected to be downgraded to below investment grade.

Credit risk relating to reinsurance assets

The reinsurance assets include reinsurance recoverables of USD 26,977 million and USD 20,108 million as of December 31, 2007 and 2006, respectively, which are the reinsurer's share of reserves for insurance contracts, and receivables arising from ceded reinsurance of USD 1,372 million and USD 1,445 million as of December 31, 2007 and 2006, respectively. Bad debt allowances on reinsurance receivables amount to USD 239 million and USD 204 million as of December 31, 2007 and 2006, respectively.

As part of its overall risk management strategy, the Group cedes insurance risk through proportional, non-proportional and specific risk reinsurance treaties. While these cessions mitigate insurance risk, the recoverables from reinsurers and receivables arising from ceded reinsurance expose the Group to credit risk.

The Group typically cedes new business to authorized reinsurers with a minimum rating of BBB. The premiums ceded to reinsurers that are below investment grade or not rated relate mainly to former transactions, pools and captives.

Reinsurance assets in the table below are shown before taking into account the fair value of credit default swaps, bought by the Group to mitigate credit risks with some of its larger reinsurers, and other collaterals such as cash or letters of credit from banks rated at least 'A', which are easily convertible into cash and deposits received under ceded reinsurance contracts. The increase of reinsurance assets in 2007 can be attributed to the reinsurance of a portfolio of immediate pension annuities followed by a part VII transfer as disclosed in note 1. Until regulatory approval of the portfolio transfer, the corresponding assets (corporate and government bonds) are being kept in a segregated account, managed by a third-party asset manager.

The average credit quality of the reinsurance assets (including receivables, but after deduction of collateral) was 'A' as of December 31, 2007 (2006: 'A-'). For credit risk assessment purposes collateral has been taken into account at nominal value as an approximation for fair value.

Table 26.8

Reinsurance premiums ceded and reinsurance assets by rating of reinsurer

for the years ended December 31	**2007**				2006			
	Premiums ceded		**Reinsurance assets**		Premiums ceded		Reinsurance assets	
	USD millions	**% of total**	**USD millions**	**% of total**	USD millions	% of total	USD millions	% of total
Rating								
AAA	234	1.8%	542	1.9%	272	4.6%	606	2.8%
AA	9,203	69.8%	18,149	64.6%	1,817	31.4%	8,045	37.7%
A	1,796	13.5%	5,956	21.2%	1,768	30.5%	7,572	35.5%
BBB	670	5.1%	1,320	4.7%	618	10.7%	2,761	12.9%
BB	215	1.6%	461	1.6%	149	2.6%	189	0.9%
B	15	0.1%	162	0.6%	119	2.1%	221	1.0%
Unrated	1,064	8.1%	1,520	5.4%	1,051	18.1%	1,955	9.2%
Total	**13,197**	**100.0%**	**28,110** [1]	**100.0%**	**5,794**	**100.0%**	**21,349**	**100.0%**

[1] The fair value of the collaterals received amount to USD 16,702 million at December 31, 2007 and USD 8,974 million at December 31, 2006.

Credit risk relating to mortgage loans and mortgage loans given as collateral

Mortgage loans and mortgage loans given as collateral expose the Group to credit risk. The Group's mortgage loan portfolios are principally European-based with the largest portfolios in Germany, Switzerland and the UK. The portfolios' loss experience benefits positively from the diversification of having many loans within each portfolio as well as being underwritten using conservative lending criteria. Loans are secured by first mortgages only and maximum mortgage loan to property value ratios (LTV) are applied. The Group undertakes economic research on the three principal markets and closely monitors the portfolios' performance in terms of impairments and losses.

Credit risk relating to other loans

The credit risk arising from other loans and policyholders' collateral is assessed and monitored together with the fixed income securities portfolio. 85.3% of the reported loans are to government or supranational institutions, of which the majority, 99.0%, are owed by the German Central Government or the German Federal States. The table below shows the composition of the loan portfolio by rating class. A total of USD 11,457 million or 88.6% of loans are secured as of December 31, 2007. As of December 31, 2006, a total of USD 10,965 million or 86.8% of loans were secured.

Table 26.9

Other loans by rating of issuer

as of December 31	2007		2006	
	USD millions	% of total	USD millions	% of total
Rating				
AAA	8,396	64.9%	7,150	56.6%
AA	2,709	21.0%	3,475	27.5%
A	7	0.0%	6	0.0%
BBB	1	0.0%	1	0.0%
Unrated	1,823	14.1%	2,002	15.9%
Total	**12,936**	**100.0%**	**12,634**	**100.0%**

Credit risk relating to receivables

The Group's credit risk exposure to receivables from third party agents, brokers and other intermediaries arises where they collect premiums from customers to be paid to the Group or pay claims to customers on behalf of the Group. Receivables from ceded reinsurance form part of the reinsurance assets and are managed accordingly. The Group has policies and standards to manage and monitor credit risk from intermediaries with a focus in day-to-day monitoring of the largest positions. As part of these standards the Group requires that intermediaries maintain segregated cash accounts for policyholder money. Additionally, the Group requires intermediaries to satisfy minimum requirements in terms of their capitalization, reputation and experience as well as providing short-dated business credit terms.

Credit risk relating to derivatives

For derivatives, such as interest rate or currency swaps, forward contracts and purchased options, the replacement value of the outstanding derivatives represents a credit risk to the Group. In addition there is a potential exposure arising from possible changes in the replacement value. The Group regularly monitors credit risk exposures arising from derivative transactions. Outstanding positions with external counterparties are managed through an approval process embedded in derivative programs.

To limit credit risk, derivative financial instruments are typically executed with counterparties rated A- or better by an external rating agency. In addition almost all derivative counterparties have a Credit Support Annex in place, which requires them to post collateral when the derivative position is beyond an agreed threshold.

Aging analysis of financial assets

The table below provides an aging analysis of financial assets.

Table 26.10

Analysis of financial assets

in USD millions, as of December 31, 2007	Debt securities – Group	Mortgage loans - Group	Mortgage loans given as collateral - Group	Other loans	Receivables [1]	Total
Neither past due nor impaired financial assets	**123,601**	**12,624**	**2,209**	**12,933**	**9,573**	**160,940**
Aging of past due but not impaired financial assets:						
1 – 90 days	–	–	–	–	1,658	1,658
91 – 180 days	–	5	–	–	172	177
181 – 365 days	–	24	5	–	144	173
over 365 days	–	78	23	–	266	367
Past due but not impaired financial assets	–	107	28	–	2,240	2,375
Financial assets impaired	**242**	**21**	**7**	**4**	**215**	**489**
Gross carrying value	**123,843**	**12,752**	**2,244**	**12,937**	**12,028**	**163,804**
Less: impairment	81	34 [2]	1	1	315 [2]	432
Net carrying value	**123,762**	**12,718**	**2,243**	**12,936**	**11,713**	**163,372**

[1] Excluding receivables arising from ceded insurance and impairments thereon.
[2] Represents allowance for impairments.

Table 26.11

Analysis of financial assets

in USD millions, as of December 31, 2006	Debt securities - Group	Mortgage loans - Group	Mortgage loans given as collateral - Group	Other loans	Receivables [1]	Total
Neither past due nor impaired financial assets	**126,420**	**10,661**	**2,394**	**12,634**	**8,506**	**160,615**
Aging of past due but not impaired financial assets:						
1 – 90 days	–	58	4	–	1,780	1,842
91 – 180 days	–	16	6	–	109	131
181 – 365 days	–	17	5	–	116	138
over 365 days	–	65	12	–	258	335
Past due but not impaired financial assets	–	156	27	–	2,263	2,446
Financial assets impaired	**28**	**11**	**7**	**1**	**181**	**228**
Gross carrying value	**126,448**	**10,828**	**2,428**	**12,635**	**10,950**	**163,289**
Less: impairment	13	22 [2]	2	1	264 [2]	302
Net carrying value	**126,435**	**10,806**	**2,426**	**12,634**	**10,686**	**162,987**

[1] Excluding receivables arising from ceded insurance and impairments thereon.
[2] Represents allowance for impairments.

Refer to note 20 for additional information on debt securities and loans and note 14 for additional information on receivables.

Credit risk concentration
The Group routinely monitors and limits credit exposures by individual counterparty and related counterparties by the aggregated exposure across the various types of credit risk. The Group's exposure from counterparties' parents companies and subsidiaries across such sources of credit risk as reinsurance assets, various types of investments, certain insurance products, derivatives and treasury instruments is then aggregated. Best estimates, based on statistics and experience, are used to assign loss-given-default percentages and loss dependency factors reflecting e.g. double default events. The aggregated exposure information is compared with the Group's limits. The limits vary based on the underlying rating category of the counterparty. There was no exposure in excess of the limits at December 31, 2007. The Group Chief Risk Officer regularly reports the largest exposures by rating category to the Risk Committee of the Board.

Market risk

The Group's exposure to market risk includes, but is not limited to, changes in interest rates, equity prices, real estate markets, and currency exchange rates, as these changes can affect the Group's net income and the value of the Group's assets and liabilities. The Group has policies and limits to manage market risk. The Group aligns its strategic asset allocation to the Group's risk-taking capacity.

The Group regularly measures and manages its market risk exposure. The Group has established limits on its concentration in investments by single issuers and certain asset classes as well as on asset/liability mismatches. The Group's Asset Liability Management and Investment Committee sets the Group's Strategic Asset Allocation, determines boundaries for tactical asset allocation and manages the Group's asset/liability exposure. The Group oversees the activities of local Asset Liability Management and Investment Committees and regularly assesses financial market risks both at a Group and at a local business level. Risk assessment includes quantification of the contributions to financial market risk from all major risk drivers.

Risk reviews include the analysis of the following aspects:

- Management of the interest rate risk per major maturity bucket;
- Efficiency of the asset allocation relative to the actual risk level; and
- Compliance of the aggregated positions with risk limits.

The economic effect of extreme market moves is routinely examined and considered when setting the asset allocation.

The Group uses derivative financial instruments to limit market risks arising from changes in foreign currency exchange rates, interest rates, equity prices and credit quality from its assets and liabilities and its commitments to third parties. The Group enters into derivative financial instruments mostly for economic hedging purposes and, in limited circumstances, the instruments may also meet the definition of an effective hedge for accounting purposes. Derivatives that are part of the effective accounting hedges include cross currency interest rate swaps in fair value hedges and cross currency swaps in cash flow hedges of its borrowings in order to mitigate its exposure to foreign currency and interest rate risk. Also included are interest rate swaps in cash flow hedges of the Group's exposure in future cash flows due to changes in interest rates associated with forecast transactions such as the purchase of debt instruments related to Life Insurance policies. Derivatives are complex financial transactions; therefore, the Group addresses the risks arising from derivatives through a stringent policy that requires approval of a derivative program before transactions are initiated, and by subsequent monitoring of open positions.

For additional information on derivative financial instruments and hedge accounting refer to note 7.

Risk from equity securities and real estate
The Group is exposed to various risks resulting from price fluctuations on equity securities, real estate and capital markets. Risks arising from equity securities and real estate could affect the Group's liquidity, reported income, net assets and regulatory capital position. The exposure to real estate includes, but is not limited to, equity real estate assets, such as direct holdings in real estate, listed real estate company shares and funds, as well as exposure through non-quoted indirect real estate, and debt real estate securities such as commercial and residential mortgages, commercial mortgage-backed securities and mezzanine debt. Also, returns on unit-linked contracts, whether classified as insurance or investment contracts, may be exposed to risks from equity and real

estate, but are at the risk of policyholders. However, the Group is exposed to market movements in so far as they impact the amount of fees assessed against the policyholder.

The Group manages its risks from equity securities and real estate as part of the overall investment risk management process by applying limits as expressed in its policies and guidelines.

Refer to note 16 for additional information on equity securities and real estate held for investment.

Interest rate risk

Interest rate risk is the risk of loss resulting from changes in interest rates, including changes in the shape of yield curves. The Group's exposures to interest rate risk include, but are not limited to, interest rate risk from debt securities, reserves for insurance contracts, liabilities for investment contracts, and borrowings. Changes in interest rates affect the Group's held-to-maturity floating rate debt securities and unhedged floating rate borrowings through fluctuations in interest income and interest expense. Changes in interest rates affect the Group's held-for-trading debt securities and fair value hedged borrowings through periodic recognition of changes in their fair values through the income statement. Changes in interest rates affect the Group's available-for-sale debt securities through periodic recognition of changes in their fair values through shareholders equity.

Returns on unit-linked contracts, whether classified as insurance or investment contracts, are at the risk of the policyholder, however, the Group is exposed to fluctuations in so far as they impact the amount of fee income received.

Sensitivities analysis

The table below shows the estimated impacts on Group investments and own used real estate of a one percentage point increase in yield curves and a separate 10% decline in all stock markets after consideration of hedges in place, as of December 31, 2007 and 2006, respectively. This is in line with management's monitoring of its asset base in the markets in which the Group operates. The sensitivities of these two separate but instantaneous shocks are shown for both, net income before tax and net assets, using the Group actual income tax rate. The table excludes sensitivities on unit-linked assets, as policyholders bear the investment risk.

The sensitivity analysis is presented on the basis of IFRS and does not take into account actions that might be taken to mitigate losses, as the Group uses an active strategy to manage these risks. This strategy may involve changing the asset allocation e.g. through the selling and buying of assets.

The sensitivities show the effects of a change of certain risk factors, while other assumptions remain unchanged. The sensitivities do not consider the correlation between the volatility of risk factors. The two scenarios assume a concurrent movement of all stock markets and an unrelated parellel shift of all interest rates in different currencies.

The major markets where the Group invests are the US and Europe. The major interest rate exposures are to US dollar and euro denominated assets and liabilities. The sensitivities do not indicate a probability of such events and do not necessarily represent the Group's view of expected future market changes. Debt securities are primarily exposed to interest rate risk while equity securities are primarily exposed to equity market risk. Debt securities can also be affected by spread-widening due to changes in credit quality. Additional impairments as a result of such changes are not considered in the following analysis.

General Insurance reserves are generally not discounted, or not discounted with market rates; therefore, interest rate risks on these reserves are not considered to be significant, and thus not disclosed.

The sensitivities provided for Global Life's business in the following table are on Group investments and own used real estate only and thus exclusive of the impact on insurance liabilities. The Embedded Value Report details the sensitivity of the value of the Life business to financial market movements. In modeling these exposures, where appropriate, allowance has been made for dynamic actions that would be taken by management or by policyholders. For contracts with financial options and guarantees, such as some participating business, movements in financial markets can change the nature and value of these benefits. The dynamics of these liabilities are captured so that this exposure is quantified, monitored, managed and where appropriate, mitigated. The assumptions on policyholder behavior, such as lapses, included in the sensitivity analysis for Global Life may be different from actual behavior. Therefore, the actual impact may deviate from the analysis. Refer to the Embedded Value Report for more information.

The table on sensitivities for the rest of the businesses include Farmers, Other Businesses and Corporate Functions. To the extent those segments include life insurance contracts, the related sensitivities are included in the Embedded Value Report.

Table 26.12

Sensitivities for the Group's General Insurance business

in USD millions, as of December 31	2007 [1]	2006[1]
1% increase in the interest rate yield curves		
Total investments	(2,412)	(1,542)
Net assets	(1,816)	(1,127)
Net income before tax	–	–
10% decline in stock markets		
Total investments	(534)	(349)
Net assets	(402)	(255)
Net income before tax	(2)	(1)

[1] Negative values indicate a decrease of the balance. Positive values indicate an increase of the balance.

Table 26.13

Sensitivities for the Global Life business

in USD millions, as of December 31	2007 [1]	2006[1]
1% increase in the interest rate yield curves		
Total investments	(3,670)	(3,637)
Net assets	(2,764)	(2,658)
Net income before tax	(272)	(384)
10% decline in stock markets		
Total investments	(590)	(637)
Net assets	(445)	(466)
Net income before tax	63	(173)

[1] Negative values indicate a decrease of the balance. Positive values indicate an increase of the balance.

Note that the positive impact on net income before tax from the equity shock on the Global Life business results from investments classified as trading. These investments include derivative positions that are held for hedging purposes. The market value of such derivative instruments can increase if equity markets fall.

Table 26.14

Sensitivities for the rest of the businesses

in USD millions, as of December 31	2007	
	2007 [1]	2006[1]
1% increase in the interest rate yield curves		
Total investments	(726)	(522)
Net assets	(547)	(382)
Net income before tax	(296)	(201)
10% decline in stock markets		
Total investments	(357)	(295)
Net assets	(269)	(216)
Net income before tax	(84)	(217)

[1] Negative values indicate a decrease of the balance. Positive values indicate an increase of the balance.

Currency risk

Currency risk is the risk of loss resulting from changes in exchange rates. The Group operates internationally and therefore is exposed to the financial impact arising from changes in the exchange rates of various currencies. The Group's reporting currency is the US dollar, but its assets, liabilities, income and expenses are denominated in many currencies, with significant amounts in the euro, Swiss franc, British pound sterling, as well as the US dollar.

On local balance sheets there is the risk that a currency mismatch may lead to fluctuations in a balance sheet's accounting net asset value, either through income or directly through equity. The Group manages this risk by matching foreign currency positions on local balance sheets within prescribed limits. The Group does not take speculative positions on foreign currency market movements. Foreign currency is a centrally managed risk, with hedging coordinated at the Corporate Center. As a result, the monetary currency risk exposure is considered immaterial, as disclosed in note 3.

As the Group has chosen the US dollar as its presentation currency, differences arise when functional currencies are translated into the presentation currency.

Using constant exchange rates from one year to the next, the Group's 2007 net income attributable to shareholders would have been lower by USD 199 million (applying 2006 exchange rates to the 2007 result). In 2006 the result would have been lower by USD 21 million (applying 2005 exchange rates to the 2006 results).

The table below shows the approximate effect of an instantaneous depreciation of the US dollar compared with the euro, Swiss franc and British pound sterling, respectively, by 10% on net income before tax, net assets, reserves for insurance contracts and liabilities for investment contracts upon translation of the net assets into the presentation currency of the Group. The impact on net assets is primarily driven by currency translation adjustments. An appreciation of the US dollar would have the opposite impact. The sensitivities do not include dependencies among the currencies, but rather show isolated exchange rate movements. The effect is indicative of how the Group's financial statements would be impacted by exchange rate movements. The scenarios do not indicate a probability of such shifts and do not represent the Group's view of expected future currency exchange rate movements.

Table 26.15

Sensitivities to exchange rate movements

in USD millions, for the years ended December 31	2007			2006		
	General Insurance[1]	Global Life[1]	Rest of the businesses[1]	General Insurance[1]	Global Life[1]	Rest of the businesses[1]
Euro						
Impact on net income before tax	93	50	10	90	42	(3)
Impact on net assets	301	420	(119)	265	341	(116)
Impact on reserves for insurance contracts and liabilities for investment contracts	1,190	7,562	57	1,048	6,741	61
Swiss franc						
Impact on net income before tax	51	21	3	70	23	(46)
Impact on net assets	(201)	110	(170)	(215)	152	(105)
Impact on reserves for insurance contracts and liabilities for investment contracts	890	1,692	61	763	1,846	76
British pound sterling						
Impact on net income before tax	47	26	5	91	57	(5)
Impact on net assets	147	395	61	157	434	(12)
Impact on reserves for insurance contracts and liabilities for investment contracts	1,170	8,671	64	1,081	9,009	86

[1] Negative values indicate a decrease of the balance. Positive values indicate an increase of the balance.

Refer to note 3 for additional information on foreign currency translation and transactions.

Liquidity Risk

Liquidity risk is the risk that the Group does not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. Maintaining sufficient available liquid assets to meet the Group's obligations as they fall due is an important part of the Group's financial management practice. For this purpose the Group has established Group liquidity management policies and specific guidelines as to how local businesses have to plan, manage and report their local liquidity.

At Group level, similar guidelines apply and detailed liquidity forecasts based on the local businesses' input as well as the Group's own forecasts are regularly performed. As part of its liquidity management, the Group also maintains sufficient cash and cash equivalents to meet expected out flows. In addition, the Group maintains a liquidity buffer and committed borrowing facilities as well as access to diverse funding sources to cover contingencies. A credit downgrade could impact the Group's commitments and guarantees, thus potentially increasing the Group's liquidity needs. These contingencies are also included in the Group's liquidity management. Refer to note 20 for additional information on credit facilities.

The table below provides an analysis of the maturity of reserves for insurance contracts net of reinsurance based on expected cashflows without considering the surrender values as of December 31, 2007 and 2006. Reserves for unit-linked contracts amounting to USD 70,075 million and USD 66,008 million at December 31, 2007 and 2006, respectively, are not included in the table below, as policyholder can generally surrender their contracts at any time, at which point the underlying unit-linked assets would be liquidated. Risks from the liquidation of unit-linked assets are borne by the policyholders of unit-linked contracts.

Table 26.16

Maturity schedule of reserves for insurance contracts

in USD millions, as of December 31, 2007	Reserves for losses and loss adjustment expenses, net	Future life policyholders' benefits, net	Policyholders' contract deposits and other funds, net	Total
< 1 year	15,590	6,232	1,520	23,342
1 to 5 years	23,185	18,220	2,009	43,414
6 to 10 years	8,393	16,421	1,687	26,501
11 to 20 years	5,424	14,283	2,313	22,020
> 20 years	2,120	15,871	8,182	26,173
Total	**54,712**	**71,027**	**15,711**	**141,450**

Table 26.17

Maturity schedule of reserves for insurance contracts

in USD millions, as of December 31, 2006	Reserves for losses and loss adjustment expenses, net	Future life policyholders' benefits, net	Policyholders' contract deposits and other funds, net	Total
< 1 year	15,236	6,940	1,638	23,814
1 to 5 years	20,998	18,420	2,059	41,477
6 to 10 years	7,136	15,339	1,369	23,844
11 to 20 years	5,400	13,232	1,708	20,340
> 20 years	2,043	21,086	8,903	32,032
Total	**50,813**	**75,017**	**15,677**	**141,507**

Refer to note 8 for additional information on reserves for insurance contracts.

The table below provides an analysis of the maturity of liabilities for investment contracts based on expected cash-flows as of December 31, 2007 and 2006. The policyholders of unit-linked investment contracts can generally surrender their contracts at any time at which point the underlying unit-linked assets would be liquidated. Risks from the liquidation of unit-linked assets are borne by the policyholders of unit-linked investment contracts.

Table 26.18

Maturity schedule of liabilities for investment contracts

in USD millions, as of December 31, 2007	Liabilities related to unit-linked investment contracts	Liabilities related to investment contracts (amortised cost)	Liabilities related to investment contracts with DPF	Total
< 1 year	5,550	75	273	5,898
1 to 5 years	7,063	–	1,672	8,735
6 to 10 years	8,870	2	1,106	9,978
11 to 20 years	11,323	1	1,123	12,447
> 20 years	15,381	38	2,007	17,426
Total	**48,187**	**116**	**6,181**	**54,484**

Table 26.19

Maturity schedule of liabilities for investment contracts

in USD millions, as of December 31, 2006	Liabilities related to unit-linked investment contracts	Liabilities related to investment contracts (amortised cost)	Liabilities related to investment contracts with DPF	Total
< 1 year	3,518	81	303	3,902
1 to 5 years	6,840	18	1,732	8,590
6 to 10 years	7,955	11	1,253	9,219
11 to 20 years	9,881	9	1,342	11,232
> 20 years	16,075	2	1,685	17,762
Total	**44,269**	**121**	**6,315**	**50,705**

Refer to notes 15 and 20, respectively, for information on the maturities of collateralized loans and total debt issued. The majority of the Group's other financial liabilities, listed in note 18, are due within 12 months, with the exception of USD 1,284 million and USD 667 million, with a maturity of more than 12 months, at December 31, 2007 and 2006, respectively.

The Group has entered into commitments that are disclosed in note 24. These are in addition to the liabilities shown in the table above. Parts of these commitments may be called at any time and in any amount, based on various criteria.

Effective interest rates

The table below shows the ranges for weighted average effective interest rates for selected balance sheet statement captions.

The ranges for the liabilities for investment contracts and future policyholder benefit reserves represent the weighted average of the minimum and maximum effective interest rate across the Group's Life business.

Table 26.20

Effective interest rates on selected assets and liabilities

for the years ended December 31	**2007**	2006
Debt securities	4.6%	4.4%
Liabilities for investment contracts (amortized cost)	3.6-8.0%	3.6-8.0%
Future policyholders' benefits reserves	2.3-4.6%	2.3-4.8%
Debt related to capital markets and banking activities	8.3%	7.3%
Senior and subordinated debt	6.5%	6.0%

27. Capital management

The Group endeavours to ensure that all of its regulated subsidiaries meet local regulatory capital requirements at all times. Furthermore, the Group's capital management strategy is to manage efficiently the capital base and structure commensurate with our risks and growth opportunities while maximizing long-term total shareholder value using the Group's internal risk based capital model (RBC) calibrated to an 'AA' level. In addition to cash dividends, other components of the Group's capital management program may, from time to time, include share buy-backs or special dividends to optimize shareholder return. Similarly, share issuances may be used to meet capital needs including growth opportunities as they emerge.

a) Regulatory minimum capital requirements and compliance

In each country in which the Group operates the local regulator specifies the minimum amount and type of capital that each of the regulated subsidaries must hold in addition to their liabilities. The Group targets this minimum requirement plus an adequate buffer to ensure each of its regulated subsidiaries meets the local capital requirements at all times. The Group has differing requirements depending on the country in which it operates. The two main territories are Europe (both European Union (EU) and non-EU countries) and the US.

Insurance enterprises in EU member countries are required to maintain minimum solvency margins according to the existing Solvency I legislation. Solvency I capital is calculated as a fixed percentage of premiums, claims, reserves and/or net amounts at risk. The required minimum solvency margin for general insurers is the greater of 16 percent of premiums written for the year or 23 percent of a three-year average of claims incurred, subject to the first tranche (EUR 50 million) of premiums being at 18 percent and the first tranche (EUR 35 million) of claims at 26 percent. In these calculations, premiums and claims for certain liability lines are increased by 50 percent. A reduction is given for reinsurance based on reinsurance claims recoveries over three years as a percentage of gross claims in those years, limited to a maximum of 50 percent. Life insurance companies are required to maintain a minimum solvency margin generally of 4 percent of insurance reserves, but reduced to 1 percent of insurance reserves for life insurance where the credit and market risks are carried by policyholders, plus 0.3 percent of the amount at risk under insurance policies. The same minimum capital requirements are applicable for insurance enterprises operating in Switzerland. In certain European countries further requirements may apply.

In 2007 the European Commission proposed a new directive on Solvency II which will include a new solvency regime and reflects the latest developments in prudential supervision, actuarial methods and risk management. Solvency II will introduce economic risk-based solvency requirements which will be more risk-sensitive and more sophisticated and a new regime where all risks and their interactions are considered. As part of the risk management system, all insurance and reinsurance undertakings will be required to have, as an integral part of their business strategy, a regular process for assessing their overall solvency needs with reference to their specific risk profile. The Commission aims to have the new system in operation in 2012.

Some countries have already introduced, or are introducing, an economic risk-based capital assessment to be prepared by each local company of the Group and reviewed by the local regulator. In the UK this test is known as Pillar 2. In Switzerland, the new Insurance Supervisory Law (VAG) which came into effect on January 1, 2006 includes the Swiss Solvency Test (SST). Under SST, risk-bearing and target capital have to be calculated based on a risk-based capital model for groups, conglomerates, reinsurers and small companies. Groups, conglomerates and reinsurers have to use company specific internal models, which must be approved by the Federal Office of

Private Insurance (FOPI). In order to comply with future SST requirements, Zurich has continued to build on its existing internal risk based capital model (RBC) and shared it with FOPI. In 2007, Zurich conducted a field test for each Swiss legal entity as required.

In the US, required capital is determined to be the 'company action level risk based capital' based on the National Association of Insurance Commissioners risk based capital model. This is a method of measuring the minimum amount of capital approriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The calculation is based on applying factors to various asset, premium, claim, expense and reserve items, with the factors determined as higher for those items with greater underlying risk and lower for less risky items.

The Group's banking operations, based in Europe, have been subject to the Basel I capital regime up to December 31, 2007, and adopted Basel II from January 1, 2008. Under Basel I, required capital is calculated as the sum of a fixed percentage of the banking operations' risk weighted assets and capital required for the impact of market risk exposures. There is a further requirement to maintain sufficient capital to support large exposures. Under Basel II, required capital is calculated on a risk based approach. As of December 31, 2007, the Group's banking operations were in compliance with applicable regulatory capital adequacy requirements and management also expects to be in compliance with Basel II requirements.

The Group endeavours to pool risk and capital as much as possible and, in so doing, benefits in regimes where diversification benefits are recognized (eg. US, UK and Switzerland).

The Group continues to be subject to Solvency I requirements based on the Swiss Insurance Supervisory Law. The Group's Solvency I as at December 31, 2007 and 2006 was as follows:

Table 27

In USD millions, as of December 31	**2007**	2006
Eligible equity		
Shareholders' equity and minority interest	29,177	26,105
Subordinated debt [1]	1,580	1,419
Deferred policy acquisition costs net of present value of profits of acquired insurance contracts	(2,614)	(2,309)
Dividends, share buy-back and nominal value reduction [2]	(3,867)	(2,306)
Goodwill and other intangible assets	(3,855)	(2,309)
Total eligible equity	**20,421**	**20,599**
Total required solvency capital	**12,498**	**11,797**
Excess margin	**7,923**	**8,802**
Solvency ratio	**163%**	**175%**

[1] Under guidelines issued by FOPI during 2007, only 25% of all subordinated debt issuances are admissible, except for the issuance by Zurich Finance (UK) p.l.c., of which 50% is admissible.
[2] Amount for dividend reflects the proposed dividend for the respective financial year, not yet approved by the Annual General Meeting. Includes amount authorized by Board of Directors for share buy-back program.

From the Group's perspective, local regulatory requirement for business operations are added to the requirement for insurance businesses. For some of the Group's holding companies, which do not have local regulatory requirements, the Group uses 8% of assets as a capital requirement.

As of December 31, 2007, the Group and all its subsidiaries were substantially in compliance with applicable regulatory capital adequacy requirements.

In conjunction with the considerations set out above, the Group seeks to maintain the balance between higher returns on equity, which may be possible with higher levels of borrowing, and the advantages and security provided by a sound capital position.

An important influence on the capital levels is the payment of dividends and share buy-backs. On February 14, 2007 the Board of Zurich Financial Services AG authorized a share buy-back program. 3,432,500 fully paid shares, with a nominal value CHF 0.10, were bought back during 2007 at an average price of CHF 364 per share, with a total cost of USD 1 billion. A proposal to cancel these repurchased shares will be submitted to the shareholders at the Annual General Meeting in 2008.

b) Dividend restrictions

Zurich Financial Services is not subject to legal restrictions on the amount of dividends it may pay to its shareholders other than under the Swiss Code of Obligations. The Swiss Code of Obligations provides that dividends may only be paid out of freely distributable reserves or retained earnings and that 5 percent of annual retained earnings must be allocated to the general legal reserve until such reserve in the aggregate has reached 20 percent of the paid-in share capital and therefore the earnings allocated to those reserves are restricted. As of December 31, 2007, the amount of the general legal reserve exceeded 20 percent of the paid-in share capital of the Group. Similarly, the company laws of many countries in which the Group's subsidiaries operate may restrict the amount of dividends payable by such subsidiaries to their parent companies.

Other than by operation of the restrictions mentioned above, the ability of the Group's subsidiaries to pay dividends may be restricted or, while dividend payments as such may be legally permitted, may be indirectly influenced by minimum capital and solvency requirements imposed by insurance, bank and other regulators in the countries in which the subsidiaries operate as well as by other limitations existing in some countries such as foreign exchange control restrictions.

In the US, restrictions on the payment of dividends that apply to insurance companies may be imposed by the insurance laws or regulations of an insurer's state of domicile. For general insurance subsidiaries, dividends are generally limited over a 12-month period to 10 percent of the previous year's policyholders' surplus or previous year's net income. For life, accident and health insurance subsidiaries, dividends are generally limited over a 12-month period to 10 percent of the previous year's policyholders' surplus or the previous year's net gain from operations. Dividends paid in excess of statutory limitations require prior approval from the Insurance Commissioner of the insurer's state of domicile.

28. Related party transactions

In the normal course of business, the Group enters into various transactions with related companies, including various reinsurance and cost-sharing arrangements. These transactions are not considered material to the Group, either individually or in aggregate. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions.

The table below sets out related party transactions reflected in the consolidated income statements and consolidated balance sheets.

Related party transactions included in the consolidated financial statements

Table 28.1

in USD millions	2007	2006
Consolidated income statements for the years ended December 31		
Net earned premiums and policy fees	9	–
Net investment income	16	89
Other expense	(3)	(4)
Losses and loss adjustment expenses	(8)	(6)
Consolidated balance sheets as of December 31		
Policyholders' collateral and other loans	15	16
Other receivables	6	6
Reserves for losses and loss adjustment expenses	(3)	(3)
Accrued liabilities	–	(2)

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

Related party transactions – key personnel

Table 28.2

in USD millions, for the years ended December 31	2007	2006
Remuneration of key personnel of the Group		
Cash compensation, current benefits and fees	34	30
Post-employment benefits	4	4
Share based compensation	23	16
Total remuneration of key personnel	**61**	**50**

Outstanding loans and guarantees granted to Members of the Group Executive Committee amounted to USD 1 million and USD 4 million for the years ended December 31, 2007 and 2006. No outstanding loans or guarantees were granted to the Directors of Zurich Financial Services or Zurich Insurance Company for either of the years ended December 31, 2007 and 2006. The terms "Directors" and "Members of the Group Executive Committee" in this context include the individual as well as members of their respective households. The above figures include the fees paid to members of the Board of Directors of Zurich Financial Services and Zurich Insurance Company, which were USD 3.1 million and USD 3.2 million, in 2007 and 2006 respectively.

No provision for non-repayment has been required in 2007 and 2006 for the loans or guarantees made to members of the Group Executive Committee.

Information required by art. 663b^{bis} and art. 663c paragraph 3 of the Swiss Code of Obligation is disclosed in the Finanical Statements of the Holding Company.

29. Farmers Exchanges

Farmers Group, Inc. (FGI) and its subsidiaries provide certain non-claims related management services to the Farmers Exchanges. In addition, the Group has the following relationships with the Farmers Exchanges.

a) Surplus note and certificates of contribution issued by the Farmers Exchanges

As of December 31, 2007 and 2006, FGI and other Group companies held the following surplus note and certificates of contribution issued by the Farmers Exchanges. Originally these were purchased by FGI in order to supplement the policyholders' surplus of the Farmers Exchanges.

Table 29

Surplus Notes

in USD millions, as of December 31	2007	2006
6.15% surplus note, due December 2013	88	88
6.15% certificates of contribution, due December 2013	523	523
6.15% certificates of contribution, due August 2014	296	296
Various other certificates of contribution	23	23
Total	**930**	**930**

Conditions governing payment of interest and repayment of principal are outlined in the surplus note and certificates of contribution. Generally, repayment of principal may be made only when the issuer has an appropriate amount of surplus, and then only after approval is granted by the issuer's governing board and the appropriate state insurance regulatory department in the US. In addition, payment of interest may generally be made only when the issuer has an appropriate amount of surplus and then only after approval is granted by the appropriate state insurance regulatory department in the US.

b) Quota share reinsurance treaties with the Farmers Exchanges

The Farmers Exchanges cede risk through quota share reinsurance treaties to Farmers Reinsurance Company (Farmers Re), a wholly owned subsidiary of FGI, and, to Zurich Insurance Company (ZIC).

Effective January 1, 2004, Farmers Re assumes annually USD 200 million and ZIC assumes USD 800 million of gross written premiums under an Auto Physical Damage (APD) Quota Share reinsurance agreement with the Farmers Exchanges. In addition, Farmers Re and ZIC assume a quota share percentage of ultimate net losses sustained by the Farmers Exchanges in their APD lines of business. The agreement, which can be terminated after 30 days notice by any of the parties, also provides for the Farmers Exchanges to receive a ceding commission of 18.0 percent of premiums, with additional experience commissions that depend on loss experience. This experience commission arrangement limits Farmers Re and ZIC's potential underwriting gain on the assumed business to 2.5 percent of premiums assumed.

Effective January 1, 2006, the Farmers Exchanges modified the terms of the APD agreement with Farmers Re and ZIC. The new agreement provides for annual ceded premiums of USD 1 billion of gross written premiums with 20.0 percent assumed by Farmers Re and 80.0 percent assumed by ZIC, a 25.8 percent ceding commission for acquisition expenses, and an 8.2 percent ceding commission for unallocated loss adjustment expense. The agreement also includes provisions for additional experience commissions that will depend on loss experience and recoveries below a specified ratio for each year. This experience commission arrangement limits Farmers Re and ZIC's potential underwriting gain on the assumed business to 2.0 percent of premiums assumed plus 20.0 percent of the underwriting gain resulting from a combined ratio under 98.0 percent. The agreement, which can be cancelled after 90 days notice by any of the parties, has a termination date of December 31, 2008.

Effective December 31, 2004, Farmers Re and ZIC entered into a 12.0 percent All Lines Quota Share reinsurance treaty under which they each assume a percentage of all lines of business written by the Farmers Exchanges, prospectively. Under this treaty, which amended the 10.0 percent All Lines Quota Share reinsurance treaty in effect since December 31, 2002, Farmers Re and ZIC assume a 2.4 percent and 9.6 percent respective quota share of the premiums written and the ultimate net losses sustained in all lines of business written by the Farmers Exchanges after the APD reinsurance agreement has been applied. Underwriting results assumed are subject to a maximum combined ratio of 112.5 percent and a minimum combined ratio of 93.5 percent. In addition, under this treaty the Farmers Exchanges' catastrophe losses are subject to a maximum of USD 800 million. Farmers Re and ZIC assumed USD 19 million and USD 77 million, respectively, of maximum annual catastrophe losses. This reinsurance agreement, which can be terminated after 60 days notice by any of the parties, also provides for the Farmers Exchanges to receive a provisional ceding commission of 22.0 percent of premiums for acquisition expenses, 8.8 percent of premiums for unallocated loss adjustment expenses and 5.3 percent of premiums for other expenses with additional experience commissions potentially payable depending on loss experience.

Effective December 31, 2005, the 12.0 percent All Lines agreement was amended and the quota share participation ratio was reduced to 6 percent. As a result, Farmers Re and ZIC assume a 1.2 percent and 4.8 percent respective quota share of the premiums written and the ultimate net losses sustained in all lines of business written by the Farmers Exchanges after the APD reinsurance agreement has been applied. In addition, under this treaty the Farmers Exchanges' catastrophe losses are subject to a maximum of USD 800 million. Farmers Re and ZIC may assume USD 10 million and USD 38 million, respectively, of the maximum Farmers Exchanges' catastrophe losses subject to under this treaty.

Effective December 31, 2007, the All Lines agreement was amended and the quota share participation ratio was reduced by 16.7 percent to 5.0 percent. As a result, Farmers Re and ZIC assume a 1.0 percent and 4.0 percent respective quota share of the premiums written and the ultimate net losses sustained in all lines of business written by the Farmers Exchanges after the APD reinsurance agreement has been applied. In addition, under this treaty the Farmers Exchanges' catastrophe losses were changed from USD 800 million to a maximum of USD 1 billion. Farmers Re and ZIC may assume USD 10 million and USD 40 million, respectively, of the maximum Farmers Exchanges' catastrophe losses subject to under this treaty.

For the year ended December 31, 2007, Group companies assumed USD 731 million of gross written premiums (USD 740 million in 2006) from the Farmers Exchanges under the All Lines Quota Share reinsurance agreement.

c) Other transactions between Zurich Financial Services and the Farmers Exchanges

The Farmers Exchanges have been charged by Corporate Center for various services throughout the year in the amount of less than USD 1 million.

30. Segment information

Income statements by business segment

Table 30.1

in USD millions, for the years ended December 31

	General Insurance		Global Life	
	2007	2006	**2007**	2006
Revenues				
Direct written premiums and policy fees	34,199	32,617	9,523	10,153
Assumed written premiums	1,451	1,506	117	100
Gross written premiums and policy fees	35,650	34,123	9,640	10,254
Less premiums ceded to reinsurers [1]	(5,345)	(5,488)	(8,002)	(543)
Net written premiums and policy fees	30,305	28,635	1,638	9,710
Net change in reserves for unearned premiums	(574)	(218)	(5)	(5)
Net earned premiums and policy fees	29,731	28,417	1,633	9,706
Farmers management fees and other related revenues	–	–	–	–
Net investment result on Group investments	3,913	3,650	4,741	4,774
Net investment income on Group investments	3,662	3,203	4,226	4,104
Net capital gains/(losses) on Group investments and impairments	250	448	514	670
Net investment result on unit-linked investments	–	–	6,479	10,640
Net gain/(loss) on divestments of businesses	13	(5)	74	28
Other income	644	369	1,073	947
Total revenues	34,300	32,431	14,000	26,094
Intersegment transactions	(987)	(1,215)	(242)	(262)
Benefits, losses and expenses				
Losses and loss adjustment expenses, net of reinsurance	20,916	19,867	90	88
Life insurance death and other benefits, net of reinsurance	50	47	10,385	10,034
(Decrease)/increase in future life policyholders' benefits, net of reinsurance	–	(1)	(9,781)	(1,467)
Insurance benefits and losses, net of reinsurance [1]	20,966	19,913	694	8,655
Policyholder dividends and participation in profits, net of reinsurance	11	7	7,771	11,904
Underwriting and policy acquisition costs, net of reinsurance	5,358	4,927	1,640	1,448
Administrative and other operating expense	3,130	3,111	1,678	1,583
Amortization and impairments of intangible assets	96	88	143	114
Interest expense on debt	310	296	17	13
Interest credited to policyholders and other interest	268	211	585	583
Total benefits, losses and expenses	30,138	28,553	12,528	24,300
Net income/(loss) before income taxes	**4,162**	**3,878**	**1,472**	**1,794**
Income tax benefit/(expense) attributable to policyholders				
Income tax expense attributable to shareholders				
Net income attributable to minority interests				
Net income/(loss) attributable to shareholders				
Supplementary segment information				
Additions and capital improvements of property/equipment and intangible assets	1,026	213	343	236
Significant non-cash expenses:				
Depreciation and impairments of property and equipment	89	76	45	47
Amortization and impairments of intangible assets	96	88	143	114

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

Farmers Management Services		Other Businesses		Corporate Functions		Eliminations		Total	
2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
–	–	381	359	6	7	11	3	44,119	43,139
–	–	1,969	1,970	160	183	(344)	(454)	3,353	3,305
–	–	2,350	2,329	166	190	(333)	(451)	47,472	46,444
–	–	(32)	(30)	(152)	(183)	333	451	(13,197)	(5,794)
–	–	2,318	2,298	14	7	–	–	34,275	40,651
–	–	82	81	1	–	–	–	(495)	(142)
–	–	2,401	2,380	15	7	–	–	33,780	40,509
2,266	2,133	–	–	–	–	–	–	2,266	2,133
134	206	1,213	1,031	1,309	886	(1,221)	(1,113)	10,089	9,434
167	153	1,025	906	731	646	(1,221)	(1,113)	8,591	7,899
(33)	53	188	125	578	240	–	–	1,498	1,536
–	–	663	947	–	–	–	–	7,142	11,587
–	–	33	(66)	(2)	–	–	–	118	(43)
62	5	167	177	898	776	(1,075)	(893)	1,767	1,381
2,462	2,344	4,477	4,469	2,220	1,669	(2,296)	(2,006)	55,163	65,002
(52)	(29)	(329)	(204)	(686)	(296)	2,296	2,006	–	–
–	–	1,174	1,310	–	2	(25)	(37)	22,155	21,230
–	–	362	363	18	15	23	35	10,837	10,494
–	–	196	19	(32)	(69)	2	2	(9,614)	(1,517)
–	–	1,733	1,692	(14)	(52)	–	(1)	23,378	30,207
–	–	761	994	–	–	–	–	8,543	12,906
–	–	592	603	–	1	–	–	7,589	6,980
1,161	1,044	241	300	1,051	1,085	(1,047)	(860)	6,214	6,263
53	45	–	1	10	9	–	–	302	257
9	1	264	236	1,317	1,162	(1,233)	(1,100)	685	608
–	–	111	162	9	6	(16)	(45)	957	916
1,224	1,091	3,701	3,989	2,373	2,210	(2,296)	(2,006)	47,668	58,136
1,238	**1,254**	**776**	**481**	**(153)**	**(541)**	**–**	**–**	**7,495**	**6,866**
								83	(416)
								(1,870)	(1,732)
								(83)	(98)
								5,626	**4,620**
610	137	13	9	142	40	–	–	2,135	636
54	50	3	5	30	25	–	–	221	202
53	45	–	1	10	9	–	–	302	257

Assets and liabilities by business segment

Table 30.2

in USD millions, as of December 31

	General Insurance		Global Life	
	2007	2006	**2007**	2006
Total Group Investments	84,996	78,718	95,740	101,755
Cash and cash equivalents	10,896	11,499	3,713	4,514
Equity securities	7,011	6,188	8,250	8,632
Debt securities	60,005	54,477	54,939	63,334
Real estate held for investment	2,744	2,478	4,408	4,023
Mortgage loans	1,453	1,182	9,203	8,399
Other loans	1,975	2,009	13,296	12,315
Investments in associates	24	27	134	46
Other investments	887	859	1,795	492
Investments for unit-linked contracts	–	–	106,355	98,696
Total investments [1]	84,996	78,718	202,094	200,452
Reinsurers' share of reserves for insurance contracts [1]	13,149	13,702	9,555	1,785
Deposits made under assumed reinsurance contracts	68	73	–	–
Deferred policy acquisition costs	3,306	2,959	11,547	10,113
Deferred origination costs	–	–	1,003	815
Goodwill	706	168	635	488
Other related intangible assets	–	–	780	775
Other assets [1]	15,652	14,692	8,155	8,260
Total assets after consolidation of investments in subsidiaries	**117,876**	**110,313**	**233,769**	**222,688**
Liabilities for investment contracts	–	–	54,736	50,953
Reserves for losses and loss adjustment expenses, gross	63,383	59,241	6	131
Reserves for unearned premiums, gross	15,428	14,582	157	142
Future life policyholders' benefits, gross	97	89	77,422	73,832
Policyholders' contract deposits and other funds, gross	1,024	930	14,173	14,117
Reserves for unit-linked contracts, gross	–	–	54,337	50,376
Reserves for insurance contracts, gross	79,932	74,843	146,096	138,597
Debt related to capital markets and banking activities	–	–	–	–
Senior debt	5,673	4,684	239	448
Subordinated debt	2,311	2,349	72	–
Other liabilities	16,291	18,397	20,758	21,133
Total liabilities	**104,207**	**100,273**	**221,901**	**211,131**
Supplementary segment information				
Reserves for losses and loss adjustment expenses, net	51,935	47,386	6	103
Reserves for unearned premiums, net	13,721	12,712	154	137
Future life policyholders' benefits, net	97	89	68,019	72,197
Policyholders' contract deposits and other funds, net	1,006	914	14,026	13,999
Reserves for unit-linked contracts, net	–	–	54,337	50,376
Reserves for insurance contracts, net	66,759	61,102	136,542	136,812

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

Farmers Management Services		Other Businesses		Corporate Functions		Eliminations		Total	
2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
2,311	3,522	18,758	18,404	18,560	18,269	(26,764)	(24,993)	193,600	195,676
264	560	4,862	3,736	8,459	8,697	(14,250)	(11,568)	13,943	17,438
–	–	2,063	2,531	1,265	988	–	–	18,589	18,339
83	1,256	7,396	7,055	1,769	1,815	(430)	(1,501)	123,762	126,435
172	182	197	200	42	39	–	–	7,563	6,921
–	–	2,095	1,255	–	–	(33)	(30)	12,718	10,806
1,714	1,450	1,999	3,256	4,872	4,782	(10,921)	(11,179)	12,936	12,634
–	–	76	76	4	4	–	–	238	153
79	75	69	296	2,151	1,944	(1,130)	(715)	3,851	2,951
–	–	15,738	15,631	–	–	–	–	122,092	114,327
2,311	3,522	34,495	34,035	18,560	18,269	(26,764)	(24,993)	315,693	310,003
207	205	6,399	7,192	107	99	(2,440)	(2,875)	26,977	20,108
–	–	1,323	1,985	2	2	(34)	(38)	1,359	2,022
–	–	89	124	–	–	(1)	1	14,941	13,197
–	–	–	–	–	–	–	–	1,003	815
385	–	–	–	5	5	–	–	1,730	660
1,024	1,024	–	–	–	–	–	–	1,804	1,799
1,337	1,356	1,380	2,056	1,793	2,664	(2,482)	(2,852)	25,836	26,176
5,266	**6,108**	**43,687**	**45,392**	**20,468**	**21,039**	**(31,721)**	**(30,757)**	**389,344**	**374,781**
–	–	–	–	–	–	(251)	(248)	54,485	50,705
–	–	6,084	7,127	114	110	(1,697)	(2,073)	67,890	64,535
–	–	381	500	43	41	(68)	(107)	15,941	15,158
–	–	3,017	2,823	415	437	(657)	(678)	80,293	76,503
–	–	3,489	3,887	–	–	–	–	18,687	18,934
–	–	15,738	15,631	–	–	–	–	70,075	66,008
–	–	28,708	29,969	572	587	(2,423)	(2,858)	252,886	241,138
–	–	3,385	3,578	–	–	(1,722)	(1,689)	1,663	1,889
–	–	622	614	18,397	17,594	(22,102)	(20,435)	2,830	2,906
180	180	99	98	5,588	4,953	(2,780)	(2,772)	5,470	4,808
1,480	2,221	5,002	6,224	1,745	2,011	(2,443)	(2,755)	42,834	47,231
1,660	**2,401**	**37,817**	**40,483**	**26,302**	**25,145**	**(31,721)**	**(30,757)**	**360,167**	**348,677**
–	–	2,733	3,288	43	44	(7)	(6)	54,712	50,814
–	–	339	418	6	8	–	–	14,221	13,275
(207)	(205)	2,698	2,493	415	437	7	6	71,028	75,018
–	–	662	746	–	–	17	17	15,711	15,676
–	–	15,738	15,631	–	–	–	–	70,075	66,008
(207)	(205)	22,169	22,576	465	488	17	17	225,745	220,790

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

Table 30.3

in USD millions	Gross written premiums and policy fees for the years ended December 31		Total revenues for the years ended December 31		Total assets as of December 31	
	2007	2006	**2007**	2006	**2007**	2006
North America	17,461	17,825	18,490	18,279	70,600	69,407
Europe	26,728	25,823	29,926	40,308	275,828	259,921
International Businesses	3,855	3,475	3,918	3,717	14,434	13,567
Central Region	1,295	1,276	4,457	4,057	54,237	56,518
Eliminations	(1,867)	(1,955)	(1,628)	(1,359)	(25,754)	(24,632)
Total	**47,472**	**46,444**	**55,163**	**65,002**	**389,344**	**374,781**

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

Table 30.4

in USD millions, for the years ended December 31	Property and equipment		Intangible assets	
	2007	2006	**2007**	2006
North America	137	89	562	98
Europe	131	141	1,125	238
International Businesses	17	18	9	4
Central Region	58	37	97	12
Total	**343**	**284**	**1,792**	**352**

Report of 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, statement of total recognized income and expenses, balance sheet, statement of cash flows, statement of changes in equity and notes on pages 91 to 200) of Zurich Financial Services for the year ended December 31, 2007.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

R Marshall	M Humphreys
Auditor in charge	

Zurich, February 13, 2008

Significant Subsidiaries

Significant subsidiaries

as of December 31, 2007

	Domicile	Segment[1]	Voting rights %	Ownership interest %	Nominal value of common stock (in local currency millions)	
Australia						
Zurich Australia Limited	Sydney	Life Insurance	100	100	AUD	0.5
Zurich Australian Insurance Limited	Sydney	General Insurance	100	100	AUD	6.6
Zurich Financial Services Australia Limited	Sydney	General Insurance	100	100	AUD	22.8
Austria						
Zürich Versicherungs-Aktiengesellschaft	Vienna	General Insurance	99.98	99.98	EUR	12
Bermuda						
B G Investments Ltd.	Hamilton	Corporate Functions	100	100	USD	0.3
Centre Group Holdings Limited	Hamilton	Other Businesses	100	100	USD	0.3
CMSH Limited	Hamilton	Other Businesses	100	100	USD	0.3
ZCM Holdings (Bermuda) Limited	Hamilton	Other Businesses	100	100	USD	137
ZG Investments Ltd.	Hamilton	Corporate Functions	100	100	USD	0.01
ZG Investments II Ltd.	Hamilton	Corporate Functions	100	100	USD	0.01
ZG Investments III Ltd.	Hamilton	Corporate Functions	100	100	USD	0.01
ZG Investments IV Ltd.	Hamilton	Corporate Functions	100	100	USD	0.01
Zurich International (Bermuda) Ltd.	Hamilton	Other Businesses	100	100	USD	9.9
Chile						
Chilena Consolidada Seguros de Vida S.A.	Santiago	Life Insurance	98.95	98.95	CLP	24,484.0
Cyprus						
Dalegate Ltd.[2]	Nicosia	General Insurance	100	100	CYP	0.01
Germany						
BONNSECUR GmbH & Co. Liegenschaften Deutscher Herold KG	Bonn	Life Insurance	85.02	85.02	EUR	170
DA Deutsche Allgemeine Versicherung Aktiengesellschaft	Oberursel	General Insurance	100	100	EUR	24.5
Deutscher Herold Aktiengesellschaft[3]	Bonn	Life Insurance	77.83	77.83	EUR	18.4
Zürich Beteiligungs-Aktiengesellschaft (Deutschland)	Frankfurt / Main	General Insurance	100	100	EUR	152.9
Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft	Bonn	Life Insurance	85.02	85.02	EUR	68.5
Zurich Service GmbH	Bonn	Life Insurance	100	100	EUR	3.25
Zurich Versicherung Aktiengesellschaft (Deutschland)	Frankfurt / Main	General Insurance	95.17	95.17	EUR	142.2

[1] The segments are defined in the notes to the consolidated financial statements, note 1, basis of presentation.
[2] Dalegate Ltd. holds 66% of Zurich Retail Insurance Company Ltd. in Russia (formerly OOO Nasta Insurance Company). The Group has agreed to a path to acquire the remaining 34% ownership.
[3] In addition buy out options exist which allow the minority shareholders to sell another 17.17 percent of the shares of Deutscher Herold Aktiengesellschaft to the Group.

Significant subsidiaries (continued)

as of December 31, 2007

	Domicile	Segment	Voting rights %	Ownership interest %	Nominal value of common stock (in local currency millions)	
Ireland						
Eagle Star Life Assurance Company of Ireland Limited	Dublin	Life Insurance	100	100	EUR	17.5
Orange Stone Holdings	Dublin	Other Businesses	100	100	USD	1,609.6
Zurich Financial Services EUB Holdings Limited	Dublin	Other Businesses	100	100	GBP	0.001
Zurich Insurance Ireland Ltd.	Dublin	General Insurance	100	100	EUR	4.6
Italy						
Zurich Investments Life S.p.A.	Milan	Life Insurance	100	100	EUR	34
Zurich Life Insurance Italia S.p.A.	Milan	Life Insurance	100	100	EUR	25.9
Portugal						
Zurich – Companhia de Seguros S.A.	Lisbon	General Insurance	100	100	EUR	10
South Africa						
Zurich Insurance Company South Africa Limited [4]	Bryanston	General Insurance	73.61	73.61	ZAR	3
Spain						
Zurich España, Compañía de Seguros y Reaseguros, S.A.	Barcelona	General Insurance	99.89	99.89	EUR	33.6
Zurich Vida, Compañía de Seguros y Reaseguros, S.A. – Sociedad Unipersonal	Madrid	Life Insurance	100	100	EUR	50.4
Switzerland						
Assuricum Company Limited	Zurich	Corporate Functions	100	100	CHF	610
Genevoise, Life Insurance Company Ltd	Geneva	Life Insurance	100	100	CHF	17
Zurich Group Holding	Zurich	Corporate Functions	100	100	CHF	1,600.0
Zurich Insurance Company	Zurich	Corporate Functions	100	100	CHF	825
Zurich Life Insurance Company Ltd	Zurich	Corporate Functions	100	100	CHF	60
"Zurich" Investment Management AG	Zurich	Corporate Functions	100	100	CHF	10
United Kingdom						
Allied Dunbar Assurance p.l.c.	Swindon, England	Life Insurance	100	100	GBP	0.05
Allied Zurich Limited	Swindon, England	Corporate Functions	100	100	GBP	378.1
Eagle Star Holdings Limited	Swindon, England	Corporate Functions	100	100	GBP	0.05
Eagle Star Insurance Company Limited	Fareham, England	Other Businesses	100	100	GBP	50
Zurich Assurance Ltd	Swindon, England	Life Insurance	100	100	GBP	236.1
Zurich Employment Services Limited	Swindon, England	Life Insurance	100	100	GBP	9

[4] Listed on the Johannesburg Stock Exchange. On December 31, 2007, the company had a market capitalization of ZAR 411.5 m (ISIN Number 000006243).

Significant subsidiaries (continued)

as of 31 December 2007

	Domicile	Segment	Voting rights %	Ownership interest %	Nominal value of common stock (in local currency millions)	
Zurich Financial Services (UKISA) Limited	Swindon, England	Corporate Functions	100	100	GBP	1,492.1
Zurich International (UK) Limited	Fareham, England	General Insurance	100	100	GBP	40
Zurich International Life Limited	Douglas, Isle of Man	Life Insurance	100	100	GBP	55.6
Zurich Specialties London Limited	Fareham, England	Other Businesses	100	100	GBP	150
United States of America						
Farmers Group, Inc.	Reno, Nevada	Farmers Management Services	97.91	100	USD	0.001
Farmers New World Life Insurance Company	Mercer Island, WA	Life Insurance	97.91	100	USD	6.6
Farmers Reinsurance Company	Los Angeles, CA	Other Businesses	97.91	100	USD	5
Kemper Corporation	Schaumburg, IL	Other Businesses	100	100	USD	220
Kemper Investors Life Insurance Company	Bellevue, WA	Other Businesses	100	100	USD	2.5
ZFS Finance (USA) LLC V [5]	Wilmington, DE	Corporate Functions	100	100	USD	–
ZFUS Services, LLC [5]	Wilmington, DE	Farmers Management Services	100	100	USD	–
Zurich American Insurance Company (and subsidiaries)	New York, NY	General Insurance	100	100	USD	5
Zurich Finance (USA), Inc.	Wilmington, DE	Corporate Functions	100	100	USD	0.000001
Zurich Holding Company of America, Inc.	Dover, DE	Corporate Functions	100	100	USD	0.6

[5] This entity is a LLC that has no share capital.