Zurich Financial Services Group
Annual Report 2008

ZURICH®

Delivering when it matters

Financial Report 2008

Zurich HelpPoint

Here to help your world.

Contents

Here to help your world

Our customer stands at the center of all we do. *Zurich HelpPoint* captures this customer focus, and our commitment to deliver when it matters.

Zurich HelpPoint

With 60,000 employees able to serve customers in more than 170 countries, help is on the way.

Group performance review

Financial information

Delivering when it matters

Our customers know that we are there when they need us, around the world or around the corner, to help them manage their risks in an uncertain world.

Operational highlights

- Solid balance sheet reflected by the Group's Solvency I ratio of more than 150 percent
- Operational transformation leads to more than USD 800 million in benefits
- Discipline-first investment strategy produces 1.0 percent total investment return despite historically challenging conditions
- Growth in all business segments, including acquisitions to fuel further growth in Brazil, Russia, Spain and Turkey

Financial highlights (unaudited)

The following table presents the summarized consolidated results of the Group for the years ended December 31, 2008 and 2007, respectively. All amounts are shown in USD millions and 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. All ratios and variances are calculated using the underlying amount rather than the rounded amount. This document should be read in conjunction with the Zurich Financial Services Group Annual Report 2008. Certain comparatives have been restated as a result of a change in accounting policy. Comparatives for return on common shareholders' equity and business operating profit (after tax) return on common shareholders´ equity have also been restated as we have changed the calculation from a compound to a linear basis.

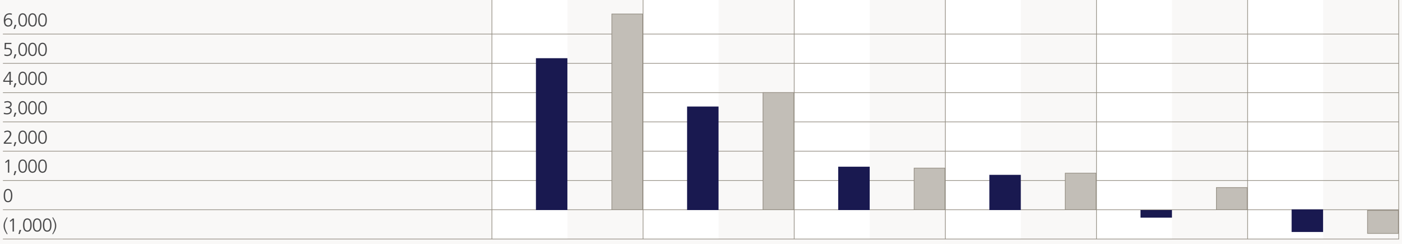
in USD millions, for the years ended December 31, unless otherwise stated	**2008**	2007	Change[1]
Business operating profit	**5,186**	6,707	(23%)
Net income attributable to shareholders	**3,039**	5,714	(47%)
General Insurance gross written premiums and policy fees	**37,151**	35,650	4%
Global Life gross written premiums, policy fees and insurance deposits	**21,863**	21,703	1%
Farmers Management Services management fees and other related revenues	**2,458**	2,266	8%
General Insurance business operating profit	**3,535**	4,024	(12%)
General Insurance combined ratio	**98.1%**	95.6%	(2.5 pts)
Global Life business operating profit	**1,480**	1,443	3%
Global Life new business annual premium equivalent (APE)	**3,261**	2,947	11%
Global Life new business margin, after tax (as % of APE)	**23.1%**	24.7%	(1.7 pts)
Global Life new business value, after tax	**753**	729	3%
Farmers Management Services gross management result	**1,141**	1,056	8%
Farmers Management Services business operating profit	**1,202**	1,271	(5%)
Farmers Management Services managed gross earned premium margin	**6.9%**	6.8%	0.1 pts
Group investments average invested assets	**185,558**	191,790	(3%)
Group investments result, net	**5,832**	10,094	(42%)
Group investments return (as % of average invested assets)	**3.1%**	5.3%	(2.1 pts)
Shareholders' equity	**22,103**	28,945	(24%)
Diluted earnings per share (in USD)	**21.63**	39.29	(45%)
Diluted earnings per share (in CHF)	**23.35**	47.11	(50%)
Book value per share (in CHF)	**167.92**	229.39	(27%)
Return on common shareholders' equity (ROE)	**12.1%**	21.3%	(9.2 pts)
Business operating profit (after tax) return on common shareholders' equity	**16.8%**	18.9%	(2.1 pts)

[1] Parentheses around numbers represent an adverse variance.

Key performance indicators

Business operating profit

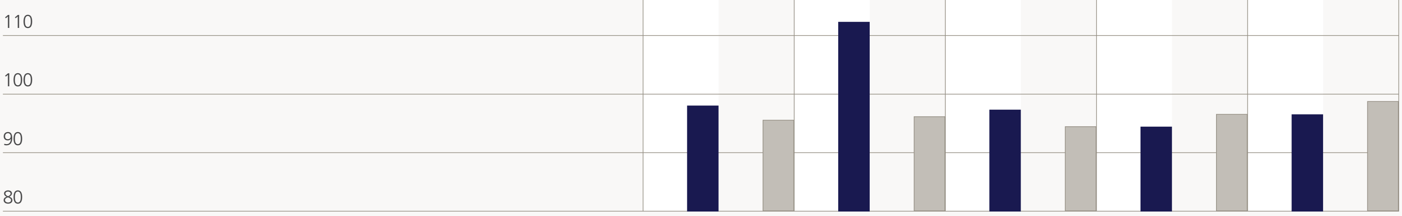
in USD millions, for the years ended December 31	Total 2008	Total 2007[1]	General Insurance 2008	General Insurance 2007	Global Life 2008	Global Life 2007	Farmers Management Services 2008	Farmers Management Services 2007	Other Businesses 2008	Other Businesses 2007[1]	Corporate Functions 2008	Corporate Functions 2007
	5,186	6,707	3,535	4,024	1,480	1,443	1,202	1,271	(260)	779	(772)	(810)



[1] Restated because of the change in accounting policy for three disability blocks of business, at Centre.

General Insurance – combined ratio

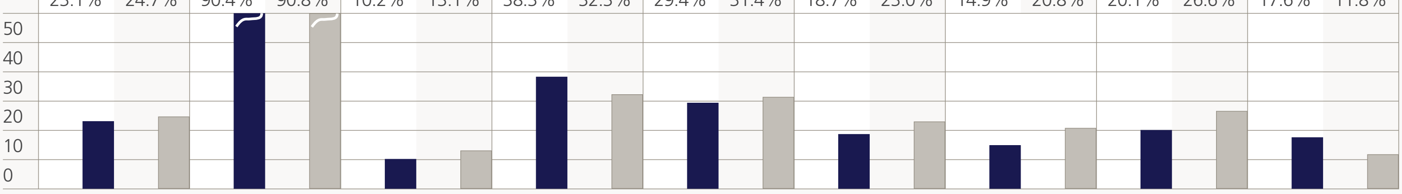
in %, for the years ended December 31	Total[1] 2008	Total[1] 2007	Global Corporate 2008	Global Corporate 2007	North America Commercial 2008	North America Commercial 2007	Europe General Insurance 2008	Europe General Insurance 2007	International Businesses 2008	International Businesses 2007
	98.1%	95.6%	112.4%	96.2%	97.4%	94.5%	94.5%	96.6%	96.6%	98.8%



[1] Including Group Reinsurance.

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

	Total 2008	Total 2007	United States 2008	United States 2007	United Kingdom 2008	United Kingdom 2007	Germany 2008	Germany 2007	Switzerland 2008	Switzerland 2007	Ireland 2008	Ireland 2007	Spain 2008	Spain 2007	Emerging Markets 2008	Emerging Markets 2007	Rest of the World 2008	Rest of the World 2007
	23.1%	24.7%	90.4%	90.8%	10.2%	13.1%	38.3%	32.3%	29.4%	31.4%	18.7%	23.0%	14.9%	20.8%	20.1%	26.6%	17.6%	11.8%



[1] In %, for the years ended December 31.

At a glance

We are an insurance-based financial serices provider with a global network of subsidiaries and offices in North America and Europe as well as in Asia Pacific, Latin America and other markets. Founded in 1872, our Group is headquartered in Zurich, Switzerland. We employ approximately 60,000 people serving customers in more than 170 countries.

What we offer

Our business is insurance. We divide our business into three segments: General Insurance, Global Life, and Farmers Management Services.

General Insurance is the biggest of our three segments. It provides property and casualty products and services for individual and commercial customers. Its business model is to provide a global platform – including product management, claims management, distribution management, underwriting and customer relationship services – for local business delivery.

Global Life is the next-biggest segment. Its main business is to offer unit-linked and protection products in three regions: Europe, the United States and emerging markets. Global Life benefits from strong positions in all key markets, as well as extensive distribution networks in the United Kingdom and the United States.

Through **Farmers Management Services**, our Group manages the Farmers, Foremost and Bristol West range of products in the United States. Farmers also provides business insurance, with a focus on the small commercial market.

All segments are united by our common aspiration to become the leading insurance provider in our chosen markets.

www.zurich.com/marketpositions

General Insurance

Activities

Provides property casualty products and services for individual and commercial customers.

Gross written premiums and policy fees

USD 37,151 m

Business operating profit

USD 3,535 m

Market positions

1 in employer liability insurance in the UK
based on gross written premiums 2006
Source: Datamonitor

#2 in direct auto insurance in Japan
based on gross written premiums 2007
Source: Fiscal results 2007

#3 in commercial insurance in the U.S.
(including Farmers Exchanges)
based on direct premiums written 2007
Source: A.M. Best

Global Life

Activities

Provides unit-linked and protection products, as well as equity-based savings, pension provision, post-retirement and wealth accumulation for individuals.

Gross written premiums, policy fees and insurance deposits

USD 21,863 m

Business operating profit

USD 1,480 m

Market positions

#1 in worldwide expatriate protection based on APE 2007
Source: NBER

#1 in unit-linked savings in Germany based on APE 2007
Source: GDV and Tillinghast FLV Update 2007

#2 in unit-linked single premiums in Switzerland based on gross written premiums 2007
Source: SVV

Farmers Management Services

Activities

Provides homeowner, auto and life insurance for individuals in the U.S. We manage, but do not own, the Farmers Exchanges in the U.S.

Management fees and other related revenues

USD 2,458 m

Business operating profit

USD 1,202 m

Market positions

#1 fastest growing multiline insurer in the U.S.
Source: internal competitor analysis, Farmers Exchanges

#1 insurer of choice for Hispanics in the U.S.
Source: internal survey, Farmers Exchanges

#3 personal lines property casualty group based on direct premiums written 2007
Source: A.M. Best – State Line reporting

Message from the Chairman and CEO

Even against historically challenging market conditions, our strategy holds us in good stead, building solid value for shareholders – and an enhanced competitive position for Zurich.

Dear Shareholder,

It is with pride that we announce another successful year taking into consideration the global financial and economic turbulence. While the heightened financial pressures of 2008 impacted Zurich's full-year and quarterly results in the second half of the year, the Group's disciplined approach to operational and risk management issues generated resilient operating results across our businesses, as well as a positive investment return. As a result, our net income exceeded USD 3 billion, our business operating profit topped USD 5.2 billion and our business operating profit after-tax return on equity of 16.8 percent continued to remain above our mid-term target of 16 percent.

Zurich's success amidst these historic market conditions rests on its long-standing commitment to financial discipline and operational excellence. As we apply those strengths to profitable growth, we are systematically pursuing customer, product and distribution strategies that build on the Group's global strengths and give focus to our market efforts. Delivering these strategies is a world-class talent pool, strengthened by a brand that continues to gain in recognition, and underpinned by a robust enterprise-wide risk management framework that serves as the foundation for an informed and disciplined decision-making process.

Today, that strategy is being tested, with the result being a significantly enhanced position for Zurich's global portfolio of businesses.

Our roughly USD 185 billion investment portfolio generated a positive 1.0 percent total return in 2008, demonstrating the value of our investment management philosophy. This result, in our opinion, is outstanding given the adverse market conditions.

In a difficult market environment each of our three business segments posted impressive profitable growth gains, with General Insurance showing encouraging signs of targeted growth, Global Life overcoming an unsettled customer base to meet its double-digit APE targets, and the Farmers Exchanges, which we manage but do not own, outpacing its peers with strong profitable growth.

Dr. Manfred Gentz Chairman of the Board of Directors **James J Schiro** Chief Executive Officer

The Zurich Way exceeded its target of USD 800 million in planned benefits for 2008, setting the stage for an increase and expansion of the targets over the next three years. Furthermore, the consistency of The Zurich Way operating platforms is creating significant value in our post-acquisition integration efforts, as the 15 transactions announced over the past two years benefit from our best-practice approaches and serve as sources of new knowledge for the broader Group.

Thanks to these accomplishments, and in reflection of our long-term capital management strategy, the Board has recommended an CHF 11.00 gross dividend.

In anticipation of continued turbulence in the global financial markets, it will remain critical that we preserve the strength of our balance sheet. As an insurer, our capital base supports our strategy, and in order for us to continue delivering for our customers we must remain vigilant in our operating and financial discipline.

As such, we have already begun taking swift and aggressive actions to execute on our expense reduction target by USD 400 million in 2009, to control those elements of success that we can influence.

In closing, we must express our pride in the people who delivered Zurich's strategy in 2008, despite the most disruptive financial market in generations. It is because of those people that we remain confident in our ability to turn adversity into opportunity and emerge from this period of market disruption as a true global leader.

Thank you for your continued support.

Manfred Gentz

Dr. Manfred Gentz
Chairman of the Board of Directors

James J. Schiro

James J. Schiro
Chief Executive Officer

Market review

2008 was a watershed year for people, markets and institutions around the world – and a testimony to Zurich's disciplined approach to underwriting, reserving, investing and risk management.

2008 saw the destruction of wealth on a staggering scale. As the prices of U.S. homes started to falter, doubts arose throughout the global financial system. Banks became weaker, private credit markets stopped functioning, and by the end of the year it was clear that the world had sunk into a global recession. In addition to the challenging financial environment, insurers will remember 2008 as a year when natural and man-made catastrophes caused more than USD 200 billion in losses, making it the third most expensive year for catastrophe losses in our industry's history.

So through our markets as well as our environment, 2008 proved beyond doubt that we are living in a world of unprecedented globalization, interdependence and change. At Zurich we have long recognized this fact, so we have long been at work in building a company that is fit for the challenge, demonstrating a deep appreciation for risk in all its forms. Our customers rely on us as their ultimate bearer of risk, and it is our duty to be prepared to deliver when it matters, no matter what.

Our resilience is in part a reflection of difficult lessons we learned earlier this decade, when collapsing asset prices coincided with an extraordinary claims environment. That experience prompted us to look closely at our business practices, and to question whether we were doing everything in our power to earn our customers' trust. We worked hard to restore credibility by recommitting our business to the fundamentals through a series of transformational initiatives, including a rigorous operational focus embodied by The Zurich Way.

We soon saw measurable improvement across all areas, but we have never stopped pursuing an ever-greater discipline across our Group, especially in our core functions of underwriting, claims, reserving, investment and risk management.

Institutionalized discipline

Yesterday's initiatives have become today's institutions. The Zurich of today is bound tight by a durable culture of sophisticated risk-taking that distinguishes us among our peers. From underwriting to investment management, we have reached a position of leadership by managing risks on both sides of the balance sheet in an integrated way.

At Zurich risk tolerances are known throughout the Group, specified in our policies and followed by our procedures, consistently across all businesses and geographies. The authority to take specified risks is entrusted to clearly designated offices, and the procedures for communicating risk issues to our Management and our Board are clear. We assess known or new risks systematically and strategically, continually strengthening our policies and procedures by absorbing new insights. We are proud of the living culture of disciplined risk taking in which we at Zurich all take part, a culture which both informs and protects our business.

The benefit of a discipline-first culture is made clear by our investment performance. Despite very challenging market conditions we achieved a positive total return of 1.0 percent from the Group's roughly USD 185 billion investment portfolio in 2008. We focus on managing our investments relative to liabilities, targeting superior risk-adjusted returns and executing through a clear, structured and disciplined investment process. Our centrally driven investment strategy is based on a clear and shared investment philosophy that draws on the capabilities of external asset managers and our own risk management capabilities. We strive to ensure not only that risks in the portfolio are well balanced and diversified, but that every risk we take is fully understood and adequately rewarded. Avoiding short-term trading and opportunistic investing, our continuing commitment to financial discipline and risk management has served us well during the recent market dislocation. In the face of further market uncertainty we remain committed to investing according to this proven strategy.

On the other side of the balance sheet, our entire Group draws strength from the common approach to underwriting we began under The Zurich Way. Today best-in-class underwriting processes are the Zurich standard. This common approach to underwriting exposes opportunities for profitable growth, since the only way to find a lasting source of profit is to know the true price of risk. In 2008, our high standard of underwriting contributed to the creation of more than two hundred new or refreshed customer propositions, and several hundred more in development. These transformational efforts, as well as hundreds of others, have combined to generate a momentum for profitable growth that served us well during the historic conditions of 2008, and will continue to drive our market actions in years to come.

As evidenced throughout this report, Zurich's growth builds from an institutionalized commitment to excellence that can turn local impact global and global insights local.

The way ahead

Our Group Chief Economist projects that, for 2009, the globally synchronized downturn will likely be severe and protracted. The impact of this downturn will affect different lines in different ways. Greater demand for private savings should favor our Life business, which has been a leader in our Group in responding to market conditions. The more price-sensitive segments of the general insurance market will likely benefit from moderating or improving rate environments, as the effects of capital constraints, catastrophe losses and rising claims expenses combine to increase the cost of risk, primarily in the commercial and corporate sectors.

In short, though these are extraordinary times, the bracing mix of challenges and opportunities ahead is far from unique in our 136-year history. We are prepared for continued volatility, watchful for the formation of trends, and ready to seize on singular opportunities wherever they arise, provided they fall within our risk tolerance and prudent capital strategy. Changing economic conditions will reward innovative insurers – and we are well positioned to seize those rewards. We will stay flexible, monitor the spectrum of risk conditions, and continue to manage our own risks so that we can help our customers manage theirs.

Our strategy

Our strategy is built to attain top-tier financial results under any market conditions. Guided by a deep understanding of our customers' needs and a determined pursuit of profitable growth, our people embrace continual transformation across the organization.

Our aim is to be the leading insurer in our chosen markets. That means ensuring that shareholders, customers and markets feel comfortable relying on Zurich's financial strength. That means delivering on customers' needs, reliably and consistently across market cycles. That means attracting and motivating talented people, and giving them the tools and freedom to flourish. And – if we truly are striving to be the best – that means continually sharpening our ability to execute so that we control what is within our power to control, maintaining a firm grip on our own destiny, and providing useful solutions for our customers.

The conditions for success across all these fronts change continuously, so we focus our operational capabilities on four strategic cornerstones, each one embedded deep across our Group through an institutional commitment to excellence:

Profitable growth
focuses on customer, proposition, and distribution excellence and on growth in our target markets, organically and through acquisitions.

Operational transformation
is the planned and systematic evolution of how we execute, focusing on customers, effectiveness and efficiency.

Customer centricity
means putting the customer at the heart of all we do, creating value for them and for us through a deep understanding of their needs.

People management
means placing the right people with the right skills in the right place at the right time.

Disciplined risk management underpins these four cornerstones.

We assign clear responsibilities, authorities and limits for review and approval of strategic decisions to make sure that those decisions fall within our Group's stated risk tolerance. Within this risk tolerance we adjust our risk profile to respond to new threats and opportunities in order to optimize returns. Further, we use an established set of risk assessment tools, including the Total Risk Profiling® process, to minimize any unintended risks of those decisions. The Group Executive Committee regularly assesses key strategic risk scenarios for the Group as a whole, and we evaluate the risks in specific merger & acquisition transactions.

Knowing that we have taken a systematic view on risk, we are then free to deploy our operational capabilities to pursue those opportunities that best reflect our strategy, and where external conditions are most encouraging. Once those opportunities are identified, we systematically drill down to the tactics that can help us establish lasting leadership in those chosen markets.

While our outlook on the external environment was inescapably colored by the financial crisis in 2008, our vision goes well beyond the headlines.

We monitor major long-term trends to help us define our strategic choices. For example, some of the issues that factored into our planning in 2008 included the rise of major emerging markets, aging in industrialized countries, the scarcity of talent, and other trends from both within and outside our industry that are likely to shape the competitive landscape for years to come.

From an internal point of view, we maintained a differentiated focus across our global portfolio of businesses in 2008, enhancing margin where market conditions allowed, while strengthening market share positions in personal lines and fee-income related businesses, like at Farmers and Global Life. We aim to reach more customers by further developing our existing positions, pushing deeper into attractive high growth markets organically and inorganically, and expanding and strengthening our global distribution network. Throughout our Group, we remain committed to aligning our resources and strategic priorities for the benefit of all of our stakeholders.

Profitable growth

Zurich is locked on course to seek out and exploit opportunities for profitable growth. Our commitment to that course was confirmed in 2006, when we created a growth office to establish the common definitions, metrics and success factors of profitable growth.

That effort has been highly successful in its immediate aims, refining our analysis of growth opportunities and instilling a confident approach to decision-making, but its more lasting contribution has been to bolster our Group with an infrastructure for the steady and systematic pursuit of profitable growth, led by senior management across our three segments and reaching deep into the businesses where profitable growth is ultimately achieved.

That infrastructure was stress-tested by historically adverse conditions in 2008 – and we delivered. Europe General Insurance, Farmers, International Businesses and Global Life were all especially effective in drawing on the Group's core strengths to deliver on each of the themes of profitable growth at Zurich: product excellence, customer excellence and distribution excellence.

Since The Zurich Way initiatives began, we have been building an infrastructure for profitable growth that today extends from Group level down to the smallest office. Our people are motivated to supply the market with useful insurance solutions, and to share innovations as broadly as possible to reach the customers who need them.

When combined with a disciplined strategy of acquisitions – as we did successfully this year in Brazil, Russia, Spain and Turkey – this method of learning, innovation and exchange ensures that The Zurich Way remains a living practice, built from the proven best methods of our people, no matter where they are, continuing to sharpen our ability to deliver profitable growth.

Operational transformation

Through operational transformation we continue to build strength at our core – in such areas as risk management, investment management, underwriting and reserving – while maintaining flexibility, dynamism and innovation in our chosen markets. Operational transformation is now deeply embedded in the Zurich culture, operating at fundamental, strategic, and tactical levels. The foundation for operational transformation was laid five years ago with The Zurich Way, where we set out a vision of common language, common measures, common behaviors and shared services across our Group.

Today we have global standards in claims, underwriting and other fundamental processes driving us forward. The Zurich Way has grown to deliver more than USD 800 million in benefits in 2008, with a further USD 2.7 billion in benefits targeted from 2009 through 2011. The Zurich Way initiatives are now integrated to ensure that all our businesses – from longstanding operations to recent acquisitions, global operations to local niche players – are engaged in a common process of delivering valuable solutions to our customers in one recognizably Zurich way.

At the end of 2008 our organization is truly living the spirit of operational transformation by beginning the process all over again. Now that our organization is in shape to deliver in a coordinated fashion, our global leaders are looking across their businesses, outlining where they see their units going over the next five years – what their operations will look like, and what they need the rest of the Group to do for them. This process of articulating target operating models is the first step of our journey for the next five years.

Customer centricity

Customer centricity means putting our customers at the heart of all we do. This requires understanding their personal,commercial and corporate customers' needs, and being entirely focused on meeting them. Customers are aware of their options and wise to their choices as never before. This is why, with customer centricity as a strategic cornerstone, we introduced *Zurich HelpPoint*, the collective term for the many advice, service and solution offerings that all 60,000 of us are focused on delivering, capturing our commitment to putting customers first. The advertising campaign launching the concept was extremely successful, raising awareness levels across our markets, and increasing the numbers of people who would consider Zurich as their chosen insurer.

Zurich HelpPoint is not just an advertising campaign, though. It is a commitment to understanding customers' needs and delivering the guidance, services and solutions that address those needs.

Customer centricity also means reaching people personally, as individuals, face-to-face. The Farmers claims team demonstrates this exceptionally well. As wildfires raged in Southern California, Farmers employees assembled in the mobile catastrophe bus and smaller customer care vehicles so that they could provide any visitors with food and drink, and offering customers a chance to visit with claims specialists if they needed. More than 11,000 customers were helped by the Farmers Mobile Catastrophe Claims Buses in 2008, not to mention the many others who just came for a helping hand.

There are literally millions of other examples of customer centricity at Zurich, most of which are less dramatic. Big or small, all our acts of customer centricity give customers the confidence to know they made the right decision when choosing Zurich.

People management

The kinds of people who can execute on our strategy successfully are always in demand. That is why we are committed to searching out and retaining the very best, keeping them challenged and motivated throughout their careers, recognizing and rewarding their performance, and offering better and more diverse careers than they could experience with any other employer. We want to be an employer of choice not just in our industry, but across industries.

Zurich is a global company engaged in a very competitive, very complex people-oriented business. That means that while we enjoy the advantage of offering exceptionally mobile career paths (both geographically and professionally), the challenge of creating consistent global standards and managing our workforce strategically is substantial.

Judging by results in 2008, we are meeting that challenge. Zurich has attracted top talent at all career stages. Whether through our Global Associate Program for recent graduates, or senior leaders coming over from competitors, the combination of challenge and opportunity offered at Zurich attracts the very best. We do all we can to make sure it stays that way, because we rely on our ability to consistently attract, develop, retain and deploy top talent, overcoming the continuing challenge of a market that is perennially in need of it.

We are also constantly working on building a workforce that reflects our customer population. As we expand our business into an ever greater diversity of markets, we need to keep building the talent to match. Eighteen nationalities are represented in our Group's key positions, and we are committed to increasing that number as our business expands.

We continuously strive to improve our performance, challenge our thinking, and promote innovation so that Zurich remains an employer of choice.

Board of Directors

Relations between our Board and our Management are structured to support both groups in fulfilling their commitment to deliver. This structure establishes checks and balances and is designed to provide for institutional independence of the Board of Directors from the Chief Executive Officer (CEO) and the Group Executive Committee (GEC).

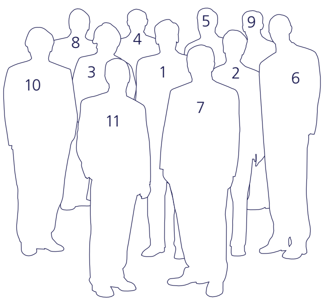
1 Manfred Gentz
Chairman of the Board,
Chairman of the Governance and Nominations Committee,
Member of the Remuneration Committee

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

3 Susan Bies
Director,
Member of the Risk Committee

4 Victor L.L. Chu
Director,
Member of the Governance and Nominations Committee

5 Thomas K. Escher
Director,
Member of the Remuneration Committee



6 Fred Kindle
Director,
Member of the Audit Committee

7 Armin Meyer
Director,
Member of the Risk Committee,
Member of the Governance and Nominations Committee

8 Don Nicolaisen
Director,
Chairman of the Audit Committee,
Member of the Risk Committee

9 Vernon L. Sankey
Director,
Chairman of the Remuneration Committee

10 Tom de Swaan
Director,
Member of the Audit Committee,
Chairman of the Risk Committee

11 Rolf Watter
Director,
Member of the Audit Committee

Group Executive Committee

Our Group Executive Committee exemplifies the Zurich commitment to deliver, managing the operations of our global organization on a day-to-day basis.

1 James J. Schiro
Chief Executive Officer

2 John Amore
Chief Executive Officer
General Insurance

3 Annette Court
Chief Executive Officer
Europe General Insurance

4 Mario Greco
Chief Executive Officer
Global Life

5 Mike Foley
Chief Executive Officer
North America Commercial

6 Paul N. Hopkins
Chief Executive Officer [1]
Farmers Group, Inc.

7 Axel P. Lehmann
Group Chief Risk Officer

8 Patrick O'Sullivan
Chief Growth Officer

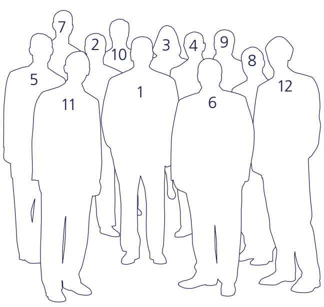
9 Geoff Riddell
Chief Executive Officer [2]
Global Corporate

10 Martin Senn
Chief Investment Officer

11 Dieter Wemmer
Chief Financial Officer

12 Paul van de Geijn
Chief Executive Officer Global Life [3]
Chairman China Management Board

[1] As of January 1, 2009 Chairman of the Board of Farmers Group, Inc. and CEO Americas
[2] As of January 1, 2009 Chairman of Global Corporate and CEO Asia-Pacific and Middle East
[3] Retired from the GEC on December 31, 2008



Governance

Governance

Corporate governance report

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

This report describes the Group's approach to corporate governance and illustrates the main elements of corporate governance within the Group. It includes the information required by the Directive on Information Relating to Corporate Governance of the SIX Swiss Exchange (effective January 1, 2007). It also explains how, in 2008, the Group complied with the Swiss Code of Best Practice for Corporate Governance, issued in 2002 by economiesuisse, as amended in October 2007. Furthermore, the Group continues to publish an Internal control statement (see page 41) in accordance with the UK Turnbull Guidance.

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

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

This report follows the recommended structure outlined by the Directive of the SIX Swiss Exchange. The chapter on compensation, shareholdings and loans of the Directors and the members of the GEC is the subject of a separate report, the Remuneration report (see pages 44 to 61), which complements this Corporate governance report.

Group structure and shareholders

Operational Group structure

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

The Group is managed on a matrix basis, reflecting both lines of business and geography, and this is mirrored in the areas of responsibilities assigned to the members of the GEC. The GEC is headed by the CEO and includes the Chief Financial Officer, the Chief Investment Officer, the Chief Growth Officer, the Group Chief Risk Officer, the heads of the business segments – General Insurance, Global Life and Farmers Management Services – and the heads of the business divisions North America Commercial, Global Corporate and Europe General Insurance. For further information on the GEC please refer to pages 32 to 37.

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

- General Insurance serves the property-casualty needs of a wide range of customers, from individuals to small and medium-size businesses, commercial 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 its chosen segments and superior returns for Zurich's shareholders.

- Farmers Management Services which through Farmers Group, Inc. and its subsidiaries (FGI) provides non-claims related management services to the Farmers Exchanges, prominent writers of personal lines and small commercial lines business in the United States. FGI receives fee income for the provision of services to the Exchanges, which we manage, but do not own, and to their customers.

- Other Businesses includes Farmers Re, which provides reinsurance to the Farmers Exchanges, Centre and capital markets and banking activities. This segment also includes certain businesses which are centrally managed and are not considered to be core businesses.

- Corporate Functions includes Group holding and financing companies, Corporate Center operations and certain alternative investments.

The Group's secondary format for segment information continued to be geographic in 2008 and was as follows: North America, Europe, International Businesses and Central Region.

A detailed review of the respective business segment and division results during 2008 can be found in the Financial review starting on page 64. Furthermore, an overview of the Group's business strengths and activities is contained in the Business Review, available on Zurich's Web site www.zurich.com (http://zdownload.zurich.com/main/reports/business_review_2008_en.pdf).

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

A list of the Group's significant subsidiaries including additional information on significant subsidiaries that are listed can be found in this Financial Report on pages 236 to 238. For further information on the share listing of Zurich Financial Services, please refer to the shareholder information on pages 292 to 293.

Significant shareholders

As of December 1, 2007 the rules regarding disclosure of significant shareholdings in Swiss companies listed in Switzerland were amended. Since that date, disclosure has to be made if certain thresholds are reached or fallen below, starting at 3 percent. Call options and other financial instruments are to be added to any position in shares, even if they allow for cash settlement only. Under this regime, disclosure must be made separately for purchase positions (including shares, long call options and short put options) and sale positions (including long put options and short call options). The percentage thresholds are calculated on the basis of the total amount of voting rights according to the entry in the commercial register.

Zurich Financial Services is obliged to announce shareholdings by third parties in its shares upon a respective notification by the third party that a threshold has been crossed. During 2008 the Group received several notifications by third parties that they have either exceeded or fallen below the threshold of 3 percent with purchase or sale positions. The respective announcements can be found on the Zurich's Web site www.zurich.com (http://www.zurich.com/main/media/newsreleases/2008/index.htm).

As of December 31, 2008 Zurich Financial Services is not aware of any person, other than Credit Suisse Group, who, directly or indirectly, had an interest as beneficial owner in shares, option rights and/or conversion rights relating to shares of Zurich Financial Services representing 3 percent or more of its issued shares. Credit Suisse Group, Paradeplatz 8, P.O. Box, 8070 Zurich, along with its subsidiaries, reported as per June 11, 2008, a purchase position of 3.32 percent and a sales position of 2.66 percent of registered Zurich Financial Services shares.

Zurich Financial Services is also not aware of any persons who, as of December 31, 2008, directly or indirectly, alone or with others, exercised or were a party to any arrangements to exercise control over Zurich Financial Services.

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

Capital structure
Share capital
As of December 31, 2008, the ordinary share capital of Zurich Financial Services amounted to CHF 14,212,262.00 divided into 142,122,620 fully paid registered shares with a nominal value of CHF 0.10 each. The Board of Directors will propose to the shareholders at the Annual General Meeting on April 2, 2009 a regular dividend of CHF 11.00 per share before tax.

On February 14, 2008, it was announced that a repurchase of CHF 2.2 billion worth of shares of Zurich Financial Services over the course of 2008 was authorized by the Board of Directors. As of December 31, 2008, 3,750,500 shares have been repurchased (amounting to CHF 1.1 billion).

Authorized and contingent share capital
As of December 31, 2008, the Board of Directors of Zurich Financial Services has authority to increase the share capital by CHF 600,000, representing 6,000,000 registered shares with a nominal value of CHF 0.10 each by no later than June 1, 2010. Zurich Financial Services also has a contingent share capital of CHF 548,182.80 representing 5,481,828 registered shares with a nominal value of CHF 0.10 each to increase its share capital by exercising conversion and/or option rights which are granted in connection with the issuance of bonds or similar debt instruments by Zurich Financial Services or one of its Group companies in national or international capital markets; and/or option rights which are granted to the shareholders. Moreover, there is an additional contingent share capital of CHF 319,427.90, representing 3,194,279 registered shares with a nominal value of CHF 0.10 each, which may be issued to employees of the Group.

For further information on the capital structure and the authorized and contingent share capital, please refer to the consolidated financial statements, note 22 on pages 208 to 211.

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

During the year 2007, 797,421 shares were issued to employees. As a result, on December 31, 2007, the share capital amounted to CHF 14,554,682.00 (145,546,820 shares) and the contingent share capital amounted to CHF 548,182.80 (5,481,828 shares) and CHF 320,257,90 (3,202,579 shares), respectively.

Changes of share capital during 2008
At the Annual General Meeting of April 3, 2008, shareholders approved a share capital reduction by CHF 343,250.00 from CHF 14,554,682.00 to CHF 14,211,432.00 by canceling 3,432,500 registered shares that were bought back by Zurich Financial Services under the share buyback program announced on February 15, 2007. The effective date of the capital reduction was June 27, 2008.

During the year 2008, 8,300 shares were issued to employees out of contingent share capital. As a result, on December 31, 2008 the share capital amounted to CHF 14,212,262.00 (142,122,620 shares) and the contingent share capital amounted to CHF 548,182.80 (5,481,828 shares) and CHF 319,427.90 (3,194,279 shares), respectively.

Summary of changes in the ordinary share capital over the last two years

	Share Capital in CHF	Number of Shares	Nominal Value in CHF
As of December 31, 2006	14,474,939.90	144,749,399	0.10
Newly issued shares from contingent capital	79,742.10	797,421	0.10
As of December 31, 2007	14,554,682.00	145,546,820	0.10
Capital reduction by canceling shares that have been bought back under the share buyback program announced on February 15, 2007	343,250.00	3,432,500	0.10
Newly issued shares from contingent capital	830	8,300	0.10
As of December 31, 2008	14,212,262.00	142,122,620	0.10

For information on changes of share capital during 2006, please see the Annual Report 2007 of Zurich Financial Services, Financial Report, pages 32 to 33, pages 98 to 99, and page 245.

Shares and participation certificates

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

Some interests in shares are held by investors in the form of CREST Depository Interests (CDIs)[1] or American Depositary Receipts (ADRs)[2]. As of December 31, 2008, investors held 260,436 CDIs (representing 260,436 Zurich Financial Services shares) and 23,480,380 ADRs (representing 2,348,038 Zurich Financial Services shares).

Profit sharing certificates

Zurich Financial Services has not issued profit sharing certificates.

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

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

Limitations on transferability and nominee registrations

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

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

There are special provisions relating to the registration of, and exercise of rights attaching to, shares by CREST International Nominees Ltd. on behalf of CDI holders and by the Bank of New York Mellon in connection with the Zurich Financial Services' ADR program.

Convertible bonds and options

Zurich Financial Services had no public convertibles or options outstanding as of December 31, 2008. For information on employee share option plans, please refer to the consolidated financial statements, note 24 on pages 216 to 219.

Board of Directors

Members of the Board of Directors, as of December 31, 2008

Name	Nationality	Age	Position held	Year of initial appointment	Expiration of current term of office
Manfred Gentz	German	66	Chairman of the Board Chairman of the Governance and Nominations Committee Member of the Remuneration Committee	2005	2011
Philippe Pidoux	Swiss	65	Vice Chairman of the Board Member of the Governance and Nominations Committee Member of the Remuneration Committee	1997[1]	2009
Susan Bies	American	61	Director Member of the Risk Committee	2008	2010
Victor Chu	British	51	Director Member of the Governance and Nominations Committee	2008	2010
Thomas Escher	Swiss	59	Director Member of the Remuneration Committee	2004	2009
Fred Kindle	Swiss	49	Director Member of the Audit Committee	2006	2011
Armin Meyer	Swiss	59	Director Member of the Governance and Nominations Committee Member of the Risk Committee	2001	2010
Don Nicolaisen	American	64	Director Chairman of the Audit Committee Member of the Risk Committee	2006	2009
Vernon Sankey	British	59	Director Chairman of the Remuneration Committee	1998[1]	2009
Tom de Swaan	Dutch	62	Director Chairman of the Risk Committee Member of the Audit Committee	2006	2011
Rolf Watter	Swiss	50	Director Member of the Audit Committee	2002	2010

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

With the exception of Ms. Bies and Mr. Chu, who have been elected to the Board of Directors on April 3, 2008, all of the current Directors have served on the Board throughout the entire year 2008. Mr. Schulmeyer retired from the Board of Directors with effect from the Annual General Meeting held on April 3, 2008.

All Directors of Zurich Financial Services are also members of the Board of Directors of Zurich Insurance Company. Mr. Gentz also serves as Chairman of that Board. In addition, Mr. de Swaan is a member of the Board of Directors of Zurich Insurance Ireland Limited (since April 17, 2008), which has been renamed to Zurich Insurance plc on January 1, 2009; he also chairs the Audit Committee of that Board (since October 16, 2008). With the exception of Mr. de Swaan, the Directors have no further board memberships within the Group.

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

Biographies

Manfred Gentz studied law at the universities of Berlin and Lausanne and graduated with a doctorate in law from the Berlin Free University. In 1970 he joined Daimler-Benz AG where he held various positions. In 1983, he was appointed member of the board of management of Daimler-Benz AG, responsible at first for human resources. From 1990 to 1995 he was chief executive officer of Daimler-Benz Interservices (debis) in Berlin and subsequently became chief financial officer of Daimler-Benz AG in 1995. In December 1998, Mr. Gentz was appointed to the board of management of DaimlerChrysler AG, where he was in charge of Finance and Controlling until December 2004. From 1987 to 1995 he served on the board of supervisors of Agrippina Versicherung AG and from 1996 to 2005 he was a member of the board of supervisors of Zürich Beteiligungs-Aktiengesellschaft (Deutschland). From 1985 to 2005 Mr. Gentz was on the board of supervisors of Hannoversche Lebensversicherung AG (from 1990 as its vice chairman). From May 2005 until March 2006, he was chairman of the supervisory board of Eurohypo AG. In addition he is chairman of ICC (International Chamber of Commerce), Germany and serves on the boards of supervisors of adidas AG, DWS Investment GmbH and the German Stock Exchange (Deutsche Börse AG), of which he was elected chairman in December 2008. Because of his new function as chairman of the supervisory board of Deutsche Börse AG, Mr. Gentz will resign from his mandates with adidas AG and DWS Investment GmbH in the course of 2009. He is active in a number of scientific and cultural institutions, among others, he chairs the curatorship of the Technische Universität Berlin.

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

Susan Bies graduated with a BS degree from the State University College at Buffalo, New York, and with a MA degree from Northwestern University, Evanston, Illinois, where she later gained a PhD. She began her career in 1970 as regional and banking structure economist with the Federal Reserve Bank of St. Louis, Missouri, and two years later became assistant professor of economics at Wayne State University, Detroit, Michigan. In 1977 she moved to Rhodes College, Memphis, Tennessee in a similar role, and in 1979 joined First Tennessee National Corporation in Memphis, where she remained until 2001. During the early years, her areas of responsibility included tactical planning and corporate development. In 1984 she became chief financial officer and chairman of the asset/liability committee. In 1995, she became executive vice president of risk management, and auditor and chairman of the executive risk management committee, as well as continuing her duties with the asset/liability committee. From 2001 until 2007, she was a member of the Board of Governors of the Federal Reserve System. Between 1996 and 2001, Ms. Bies was a member of the Emerging Issues Task Force of the Financial Accounting Standards Board. From 2007 to 2008 she was a member of the Securities and Exchange Commission's advisory committee on improving financial reporting, and chairman of its substantive complexity sub-committee.

Victor L.L. Chu graduated with a LL.B from the University College London in 1979. He is admitted to practice law in England and Hong Kong. Since 1982 he has practiced in the field of corporate, commercial and securities laws, with special emphasis on China and regional investment transactions. From 1995 to 2000, Mr. Chu was deputy secretary-general of the International Bar Association. Since 1988 he has served as chairman of First Eastern Investment Group, a leading direct investment firm focusing on China. He is also chairman of First Eastern Investment Bank Limited and FE Securities Limited. Over the past 20 years he has served at various times as director and council member of the Hong Kong Stock Exchange, a member of the Hong Kong Takeovers and Mergers Panel, a member of the Hong Kong Securities and Futures Commission's advisory committee and a part-time member of the Hong Kong Government's Central Policy Unit. He is currently a foundation board member of the World Economic Forum and co-chairs the Forum's International Business Council. He is also an executive board member of the International Chamber of Commerce, for which he chairs the Commission on Financial Services and Insurance. Mr. Chu is a trustee of Asia House in London and the WWF in Hong Kong. Over the last three years, he has also served as a member of the dean's council of the Kennedy School at Harvard, the board of the Foreign Affairs University of China, and until September 2008 the governing council of the University College, London. Mr. Chu's other civic associations include service on the advisory bodies of the International Crisis Group, the Asia Foundation, the Beijing Music Festival Foundation, the East Asia Institute of Cambridge University and the Atlantic Council of the USA.

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

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

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

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

Vernon Louis Sankey graduated with a MA degree from Oriel College, Oxford and joined Reckitt and Colman in the UK in 1971, subsequently working in France, Denmark, the UK and the U.S. He was appointed to the board of directors in 1989 and was chief executive officer of that company from 1991 to 1999. From 2000 until September 2007 he was chairman of Photo-Me International plc. From 2001 until June 2007 he was a director of Cofra AG, Switzerland, and from 2004 until July 2007 of Taylor Woodrow plc. Between 2005 and 2008 he served as a director of Vividas Group plc. As of January 1, 2006, he has been a member of the supervisory board of Atos Origin SA, Paris, and since October, 2006 of Firmenich SA, Geneva, where he became chairman in October 2008. He was chairman of Thomson Travel Group plc until August 2000, of Gala Group Holdings plc until February 2003 and of The Really Effective Development Company Ltd until March 2006. He also was a director of Pearson plc until April 2006 and is a former board member of the UK's Food Standards Agency. In addition to his board roles, he is also an advisor to a number of other companies.

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

Rolf Urs Watter graduated from the University of Zurich with a doctorate in law and holds a master of laws degree from Georgetown University in the U.S. He is admitted to the bar of the Canton of Zurich. Since 1994, he has been a partner in the law firm Bär & Karrer in Zurich and became a member of its executive board in 2000 and an executive director upon the incorporation of Bär & Karrer AG in 2007. He is a non-executive director of Nobel Biocare Holding AG (since 2007), of Syngenta AG (since 2000), UBS Alternative Portfolio AG (since 2000) and A.W. Faber-Castell (Holding) AG (since 1997). He formerly was a non-executive chairman of Cablecom Holding AG (2004-2008) and non-executive director of Centerpulse AG (2002 – 2003), of Forbo Holding AG (1999 – 2005) and of Feldschlösschen Getränke AG (2001 – 2004). He is a part-time professor at the Law School of the University of Zurich. In addition, he is a member of the SIX Admission Board and of its Disclosure Commission of Experts. He also serves as chairman of two charity institutions.

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

Elections and terms of office

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

At the Annual General Meeting to be held on April 2, 2009, the terms of office of Messrs Escher, Nicolaisen, Pidoux and Sankey will expire. All four members have been proposed for re-election by the Board. Mr. Pidoux has been nominated for a term of one year and Messrs Escher, Nicolaisen and Sankey for a term of three years each.

Internal organizational structure

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

The Board consists entirely of Directors who are non-executive, independent of management, and who have never held an executive position in the Group. The Governance and Nominations Committee annually reviews the independence of the Board members and reports its findings to the Board for final determination. Board members are also subject to rules and regulations to avoid conflicts of interest and the use of inside information. A self-assessment of the full Board is carried out once a year. In 2008, the Board's self-assessment was carried out on the basis of a comprehensive questionnaire. A detailed report was produced for and considered by the Board.

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

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

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

The Board is required to meet at least six times each year; during 2008 it held ten meetings (of which three were partly attended by phone and one was held over two days). On the occasion of one of the ten meetings the Board conducted a separate visit to businesses in the U.S. and one meeting was fully dedicated to the discussion of strategic topics. Five meetings lasted between five and eight hours per day, and the remaining five meetings took about two hours. In addition, the Board unanimously approved one circular resolution and held eight ad hoc meetings by telephone conference, dealing with certain acquisition projects, each telephone conference lasting approximately one hour.

In 2008, up until the Annual General Meeting held on April 3, 2008, 100 percent of the members of the Board attended Board meetings. After the Annual General Meeting the number of Board members increased from ten to eleven and average attendance at Board meetings was 94 percent. The one additional telephone conference held in January was attended by eight of ten members. The seven telephone conferences held after April 3 were attended on average by 87 percent of the members. The members of the Board spend additional time participating in Board Committee meetings and preparing for meetings in order to discharge their duties.

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

The **Governance and Nominations Committee** is composed of four Board members. It oversees the Group's governance and measures it against best practice with a view to ensure that the rights of the shareholders are fully protected. It also develops and proposes to the Board corporate governance guidelines and reviews them from time to time. The Governance and Nominations Committee is further entrusted with succession planning with respect to the Board, the CEO and the members of the GEC and Group Management Board (GMB). In this regard, it proposes the principles for the nomination and ongoing qualification of members of the Board and makes proposals to the Board on the composition of the Board, as well as the appointment of the Chairman, the Vice Chairman, the CEO and the other members of the GEC and GMB. The Committee reviews the system for management development and supervises progress made in respect to succession planning. Final decisions for nominations and appointments are made by the Board, subject to shareholder approval, where so required. During 2008, the Governance and Nominations Committee met six times (of which one was a joint meeting with the Remuneration Committee) and particularly addressed the nomination and ongoing qualifications of the members of the Board of Directors and the succession planning for members of senior management. On average attendance at meetings of the Governance and Nominations Committee was 88 percent.

The **Remuneration Committee** comprises four members of the Board. The Remuneration Committee evaluates and proposes to the Board the principles for remuneration for the Group and the Board. It also proposes the Directors' remuneration to the Board for approval. Based on the remuneration principles, it negotiates the terms and conditions of employment of the CEO and reviews those of the members of the GEC – as negotiated by the CEO – before submitting them to the Board for approval. The Remuneration Committee approves the employment arrangements for additional members of the GMB as negotiated by the CEO and liaises with him on other important employment, salary and benefit matters. It also reviews the performance relating to the senior management's short-term and long-term incentive plans. To assist in the review of the compensation structures and practices, the Remuneration Committee has retained its own independent advisor, Hewitt Associates. The Remuneration Committee met five times (once together with the Governance and Nominations Committee) in 2008, with attendance of 100 percent. Details of the Group's remuneration principles are given in the Remuneration report on pages 44 to 60.

The **Audit Committee** has four members, all of whom meet the relevant requirements with respect to independence and qualification. The Audit Committee charter provides that the Audit Committee as a whole should have (i) an understanding of IFRS and financial statements, (ii) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves, (iii) experience in preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to those of Zurich Financial Services and the Group or experience in actively supervising one or more persons engaged in these activities, (iv) an understanding of internal controls and procedures for financial reporting, and (v) an understanding of audit committee functions. The Audit Committee met seven times in 2008. Average attendance at meetings was 96 percent.

The Audit Committee serves as a focal point for communication and oversight regarding financial accounting and reporting, internal control, actuarial, and compliance among the Management. It is responsible for reviewing the Group's auditing process (including establishing the basic principles relating to and making proposals with respect to the audit of Zurich Financial Services and the Group) and reviews the internal control systems. The external auditors, the internal auditors and appropriate members of the GEC, the GMB and other executives attend its meetings in order to, among other things, discuss the auditors' reports, to review and assess the auditing concept and the examination process and to assess the activities of internal and external auditors. For more information on the supervision and control over the external audit process, please see page 40. The Audit Committee, at least annually, reviews the standards of internal control, including the activities, plans, organization and the quality of internal audit and Group compliance.

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

Statements regarding internal control and the procedures in place regarding internal control according to the UK Turnbull Guidance are given on page 42.

The **Risk Committee** has four members. In 2008 it met six times; attendance on average was 92 percent. The Risk Committee oversees the Group's risk management, in particular the Group's risk capacity, including agreed limits, which the Board regards as acceptable for Zurich to bear, the aggregation of agreed limits across the Group, the measurement of adherence to agreed risk capacities, and the Group's risk capacity in relation to anticipated capital levels. It further oversees the Group-wide risk governance framework, including risk management, risk policies and their implementation as well as the risk strategy, and the monitoring of operational risks. The Risk Committee also reviews the methodologies for risk measurement and the Group's adherence to its risk limits and reviews the performance of the Group's risk management function. It further reviews, with Management and the Group risk management function, the Group's general policies and procedures, and satisfies itself that effective systems of risk management are established and maintained. The Risk Committee receives periodic reports from Group Risk Management and assesses whether significant issues of a risk management and control nature are being appropriately addressed by management in a timely manner. For further information on risk governance please refer to the Risk review on pages 90 to 125.

To facilitate an on-going exchange of information between the Risk Committee and the Audit Committee, the Chairman of the Audit Committee is a member of the Risk Committee and the Chairman of the Risk Committee is a member of the Audit Committee.

Areas of responsibility of the Board and Management

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

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

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

The Board supervises Management and monitors its performance through reporting and controlling processes. Regular reporting by the CEO and other executives to the Board comprises appropriate information and updates, including key data for the core businesses, financial information, existing and upcoming risks and updates on developments in important markets and with regard to major competitors as well as other significant events. The Chairman of the Board regularly meets with the CEO. He and other members of the Board also meet with the Chief Financial Officer and other executives outside regular Board meetings.

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

Furthermore, the Group has adopted and implemented a coordinated, formalized and consistent approach to risk management and control. Information concerning the Group's risk management processes is included in the Risk review starting on page 90.

The process and the results of this approach are further described on page 41 under the Internal control statement.

The internal audit function and the external auditors as well as the compliance function also assist the Board in exercising its controlling and supervisory duties. Information on major areas of activities of these functions is set out on pages 39 to 41.

Management Board

Group Executive Committee

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

The GEC is headed by the CEO. As of December 31, 2008 members of the GEC included the Chief Financial Officer, the Chief Investment Officer, the Chief Growth Officer, the Group Chief Risk Officer and the heads of the business segments – General Insurance, Global Life and Farmers Management Services. In addition, the heads of the following businesses are members of the GEC: North America Commercial, Global Corporate and Europe General Insurance.

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

A standing committee of the GEC is the Group Balance Sheet Committee (GBSC), chaired by the CEO. This committee acts as a cross-functional body whose main function is to control the activities that materially affect the balance sheets of the Group or its subsidiaries. The GBSC is charged with setting the annual capital and balance sheet plans for the Group based on the Group strategy or financial plan, as well as recommending specific transactions or unplanned business changes to the Group's balance sheet. The GBSC has oversight of all main levers of the balance sheet. It assesses the Group's capital adequacy, reinsurance, level of return, risk capacity and desired growth. The GBSC reviews and recommends the Group's overall risk tolerance levels. A further GEC committee is the Group Finance and Risk Committee (GFRC), chaired by the Chief Financial Officer. The GFRC acts as a cross-functional body for financial and risk management matters in the context of the strategy and the overall business activity of the Group. It oversees financial implications of business decisions and the effective management of the Group's overall risk profile, including risks related to insurance, financial market and asset/liability, credit and operational risks as well as their interactions and provides recommendations for future courses of action with respect to potential M&A transactions and topics relating to finance and risk management.

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

In addition, to enhance its understanding and assessment of the challenges and risks Zurich may face, the Group increasingly seeks external expertise and perspective. As of the end of 2008 the Group had four panels of leading academics, business and industry experts to provide feedback and insight. They are not corporate bodies of the Group and have no decision-making powers. They provide expertise and advice to senior management or certain functions of the Group. In particular, the International Advisory Council is mandated to provide an external perspective and expertise to the CEO and to members of the GEC and GMB on the Group's growth and public policy strategies. The Investment Management Advisory Council offers feedback on Zurich's investment results and strategy and on achieving superior risk-adjusted returns relative to the liabilities for the Group's invested assets. The Natural Catastrophe Advisory Council provides insight into the patterns of occurrence, predictability and destructiveness of catastrophes, and feedback about Zurich's approach to such catastrophes in order to help improve the effectiveness of its underwriting and reinsurance purchasing. The Group's Climate Change Advisory Council provides insight and advice on issues associated with climate change.

Members of the GEC, as of December 31, 2008

Name	Nationality	Age	Position held
James J. Schiro	American	62	Chief Executive Officer
John Amore	American	60	Chief Executive Officer General Insurance
Annette Court	British	46	Chief Executive Officer Europe General Insurance
Mike Foley	American	46	Chief Executive Officer North America Commercial
Mario Greco	Italian	49	Chief Executive Officer Global Life
Paul Hopkins	American	52	Chief Executive Officer Famers Group, Inc.
Axel Lehmann	Swiss	49	Group Chief Risk Officer
Patrick O'Sullivan	Irish	59	Chief Growth Officer
Geoff Riddell	British	52	Chief Executive Officer Global Corporate
Martin Senn	Swiss	51	Chief Investment Officer
Paul van de Geijn	Dutch	62	Chairman of the China Management Board
Dieter Wemmer	German	51	Chief Financial Officer

All current members of the GEC served throughout the year 2008.

Mario Greco, who joined the Group and the GEC on October 1, 2007 as Designated CEO Global Life, assumed the position of CEO Global Life as of April 1, 2008. Paul van de Geijn, the former CEO Global Life, remained a member of the GEC through his retirement date on December 31, 2008. As from April 1, 2008 he assumed the role of Chairman of the China Management Board. As from January 1, 2009, Geoff Riddell assumed the new position of Chairman of Global Corporate and Paul Hopkins became Chairman of the Board of Farmers Group, Inc. and CEO Americas.

For information on contractual termination benefits, please see page 39.

Biographies

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

John J. Amore graduated with a degree in management from Embry-Riddle Aeronautical University, Daytona Beach (U.S.), and with an MBA in finance from New York University. Before joining Zurich in 1992, he was vice chairman of the Commerce and Industry Insurance Company, a member company of American International Group (AIG). He later became Chief Executive Officer of the Zurich U.S. Specialties business unit and was appointed Chief Executive Officer of Zurich U.S. in December 2000. In July 2001 he became a member of the GEC and was appointed CEO of Zurich North America Corporate business division. He held this position until end of August 2004. In April 2004 he was appointed CEO of the General Insurance business segment, and since September 2004 he has been concentrating on this global leadership role. Mr. Amore served as chairman of the American Insurance Association and was a member of its board from 2001 until March 2008. He serves as a member of the board of overseers for the School of Risk Management, Insurance and Actuarial Science at St. John's University in New York. He is an elected partner for the Partnership for New York City, an organization dedicated to maintaining the city's position as a global center of commerce and innovation and serves on the U.S. Chamber of Commerce's board of directors.

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

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

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

Paul N. Hopkins holds a Bachelor of Science degree in business from the Eastern Illinois University and completed the Advanced Executive Education program of the Wharton Business School. He joined the Farmers organization in 1978 as an agent and subsequently became a Farmers employee, where he held positions of increasing responsibility in the sales and marketing area. In 1992 he transferred to the Los Angeles Regional Office as Assistant Vice President, Regional Operations. He became Vice President Agencies in 1995, and Senior Vice President Agencies two years later. In 1998, he was made Senior Vice President and Chief Marketing Officer, a position he held until January 1, 2000, when he was appointed Senior Vice President of State Operations. His next assignment, as Senior Vice President of Strategic Alliances, became effective in April 2001. In August 2002 he was promoted to Executive Vice President, Market Management, and two years later became President of Farmers Group, Inc. Mr. Hopkins was appointed a member of Zurich's Group Management Board in December 2004. In April 2005, he was appointed Chief Executive Officer of Farmers Group, Inc. and became a member of Zurich's Group Executive Committee. In 2006, Mr. Hopkins was named Chairman of the Board of ZFUS Services, LLC, Zurich's North American shared services platform. As of January 1, 2009 he was appointed CEO Americas and Chairman of the Board of Farmers Group, Inc. He also serves on the Board of Farmers New World Life Insurance Company. Mr. Hopkins further serves as a member of the Board of Trustees for the American Institute for Chartered Property Casualty Underwriters, as well as a member of the Board of the Insurance Information Institute.

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

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

Geoff Riddell holds a MA degree in natural sciences (chemistry) from Oxford University (The Queen's College) and later qualified as a chartered accountant. He started his career with Price Waterhouse in 1978 and four years later moved to AIG, where he held various roles, including country manager for Hong Kong, Belgium and France. He joined Zurich in 2000, initially as managing director of Zurich Commercial in the UK, and then became managing director of the UK Corporate and Government businesses. In November 2002, he became CEO of the General Insurance business in the UK, Ireland and South Africa. In 2004, he became CEO Global Corporate and was appointed to the Group Executive Committee. Effective January 1, 2009 he has taken on a new role as CEO of Asia-Pacific & Middle East (APME), responsible for both Life and General Insurance in the APME region, and will serve as Chairman of Global Corporate. Mr. Riddell is a former member of the General Insurance Council of the Association of British Insurers and for three years chaired its liability committee. From 1990 to 1995, he was a member of the Hong Kong Federation of Insurers Council. He became a director of Pool Re in February 2005 and of the Forum for Global Health Protection in 2007. He is a member of the Foundation Board of IMD, Lausanne. He is also a member of the Confederation of British Industry's International Advisory Board and President Committee, a member of the City EU Advisory Committee and of the Lord Mayor of London's Advisory Committee.

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

Paul van de Geijn graduated in business law from Leiden University in the Netherlands in 1971 and joined one of the predecessors of AEGON. He started as legal counsel and then worked in the non-life sector before moving to a senior management position in 1978. After the merger which created AEGON in 1983, he was appointed a member of the management board of AEGON the Netherlands, becoming its chairman in 1991. The following year, he joined the executive board of AEGON N.V., with responsibilities for the Dutch and later Spanish and Hungarian operations. In 2002, he handed over responsibility for the Dutch operations and assumed responsibilities for AEGON USA and the AEGON corporate responsibility program. From 2000 to 2002 he was chairman of the Dutch Association of Insurers. In November 2003 he joined Zurich as CEO Global Life and became a member of the GEC. He held positions in a public/private partnership in the business community and on the executive committee of the Dutch Employers' Association. On March 31, 2008 Paul van de Geijn stepped down from his function as CEO Global Life and assumed the new role as Chairman of the China Management Board through his retirement dated on December 31, 2008.

Dieter Wemmer holds a PhD and a master's degree in mathematics from the University of Cologne. From 1983 until 1986, he worked in pure mathematics at the universities of Cologne and Oxford. In 1986, he joined Zurich Re (Cologne), at that time a reinsurance subsidiary of Zurich's German operation Agrippina, as a pricing actuary for life reinsurance. He became Head of Life Reinsurance and Chief Actuary five years later. From 1992 until 1996, Mr. Wemmer held various positions with Agrippina, joining the management board in 1995 responsible for Controlling/Planning, Communication and Real Estate management. He was seconded to Zurich's Corporate Center in 1996 as project manager for the implementation of International Accounting Standards (IAS) and US Generally Accepted Accounting Principles (US GAAP). One year later, he became Head of Financial Controlling. From 1999 until May 2003, he was Head of Mergers and Acquisitions, with additional responsibility for capital management and General and Life

Actuarial from 2002. He became Chief Operating Officer of the Europe General Insurance business division in May 2003. In November 2004, he was appointed CEO Europe General Insurance and became a member of the Group Executive Committee. Since March 2007, he has assumed his current role as Chief Financial Officer of Zurich Financial Services Group. Mr. Wemmer is a member of the board of economiesuisse.

Group Management Board

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

Additional members of the GMB, as of December 31, 2008

Name	Nationality	Age	Position held
Inga Beale	British	45	Head of Merger & Acquisitions and Organizational Transformation Management
Peter Goerke	Swiss	46	Group Head Human Resources
Markus Hongler	Swiss	51	Chief Executive Officer Zurich Switzerland and designated Chief Executive Officer Zurich Insurance plc.
Richard Kearns	American	58	Chief Administrative Officer
Michael Paravicini	Swiss	47	Chief Information Technology Officer
Reto Schiltknecht	Swiss	48	Group General Counsel
Mario Vitale	American	53	Deputy Chief Executive Officer Global Corporate

Markus Hongler, was appointed to the GMB as of May 29, 2008 and became CEO of Zurich Insurance plc. (ZIP; formerly Zurich Insurance Ireland Limited) as of January 1, 2009. He remained CEO of Zurich Switzerland until his appointment as CEO ZIP became effective. Mario Vitale was appointed to the GMB as Deputy CEO of Global Corporate and CEO Global Corporate in North America effective July 1, 2008. As from January 1, 2009, Mario Vitale assumed the function of CEO Global Corporate. Thomas Buess, Chief Operating Officer, Global Life, resigned from the GMB as of July 31, 2008. Franz Wipfli, Head of Organizational Transformation Management, retired from the Group and the GMB effective May 31, 2008.

Management contracts

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

Shareholders' participation rights

Voting rights restrictions and representation

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

A shareholder with voting rights can attend shareholders' meetings of Zurich Financial Services in person. He or she may also authorize, in writing, another shareholder with voting rights or any person permitted under the Articles of Incorporation and a more detailed directive of the Board to represent him or her at the shareholders' meeting. Based on the Articles of Incorporation, minors or wards may be represented by their legal representatives, married persons by their spouses and a legal entity may be represented by a person authorized to bind it by his or her signature, even if such persons are not shareholders. Furthermore, authority of representation may be given to the Independent Representative of Shareholders, to a statutory representative or to representatives of bank accounts who do not need to be shareholders themselves. Zurich Financial Services may under certain circumstances authorize the beneficial owners of the shares that are held by professional persons as nominees (such as a trust company, bank, professional asset manager, clearing organization, investment fund or other entity recognized by Zurich Financial Services) to attend the shareholders' meetings and exercise votes as proxy of the relevant nominee. For further details, see page 24.

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

Statutory quorums

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

Convocation of the general meeting of shareholders

General meetings of shareholders are convened by the Board of Directors or, if necessary, by the auditors and other bodies in accordance with the provisions set out in Articles 699 and 700 of the Swiss Code of Obligations. Shareholders with voting rights representing at least 10 percent of the share capital may call a shareholders' meeting, indicating the matters to be discussed and the corresponding proposals. The invitation to shareholders is mailed at least 20 calendar days before the meeting is held and in addition is published in the Swiss Official Gazette of Commerce and in several newspapers.

Agenda

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

Registrations in the share register

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

Changes of control and defense measures

Duty to make an offer

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

Clauses on changes of control

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

For the CEO, termination benefits are linked to the term of his employment contract, which will expire on December 31, 2009. As at December 31, 2008, the period of severance for the CEO was therefore one year (including the notice period). In the case of a termination of his employment following a change of control, an additional payment of one time his annual base salary and annual target cash incentive, will be paid. Further, the CEO will be entitled to an additional gross-up payment if the total termination benefits paid following a change of control become subject to U.S. Excise Tax.

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

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

External Auditors

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

PricewaterhouseCoopers AG, Birchstrasse 160, in 8050 Zurich (PwC), is Zurich Financial Services' external auditor. PwC assumes all auditing functions, which are required by law and by the Articles of Incorporation of Zurich Financial Services. They are elected by the shareholders of Zurich Financial Services on an annual basis. At the Annual General Meeting of shareholders on April 3, 2008, PwC was re-elected by the shareholders of Zurich Financial Services. The Board of Directors proposes that PwC be re-elected at the upcoming Annual General Meeting as external auditors for the business year 2009. PwC fulfills all necessary requirements under the new Swiss Federal Act on the Admission and Oversight of Auditors and has been admitted as a registered auditing company by the Federal Audit Oversight Authority under this Act.

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

Patrick Shouvlin of PricewaterhouseCoopers AG is the lead auditor, responsible since January 1, 2008. The Group requires rotation every five years for the lead auditor.

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

Auditing fees
Total auditing fees (including expenses and value added taxes) charged by PwC in the year 2008 amounted to USD 34.4 million (USD 45.1 million in 2007).

Additional fees
Total fees (including expenses and value added taxes) in the year 2008 for additional services (e.g., tax services or special audits required by local law or regulatory bodies) performed by PwC and parties associated with them for Zurich Financial Services or one of the Group's companies amounted to USD 2.8 million (USD 3.7 million in 2007).

Supervision and control over the external audit process
The Audit Committee regularly meets with the external auditors, at least four times a year. During 2008, the Audit Committee met with the external auditors seven times. The external auditors regularly have private sessions with the Audit Committee, without Management present. Based on written reports, the Audit Committee discusses with the external auditors the quality of the Group's financial and accounting function and any recommendations that the external auditors may have. Topics considered during such discussions include strengthening of internal financial controls, applicable accounting principles and management reporting systems. In connection with the audit, the Audit Committee obtains from the external auditors a timely report relating to the audited financial statements of Zurich Financial Services and the Group.

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

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

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

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

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

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

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

The Group has adopted an integrated assurance strategy in its overall assessment of the risk and control environment. Through an increased focus on information exchange and coordination, the effectiveness and efficiency of assurance delivery, chiefly between the Group's risk, compliance and internal audit functions, and external audit, has been improved.

Compliance

The Group's core values are founded on the principle that it acts lawfully and seeks to do what is right. Sound compliance in everything the company does helps to protect Zurich's reputation and supports the achievement of the Group's ambitious goals.

The Compliance function provides policies and guidance, business advice and training, and further coordinates with Group Audit and the business quality assurance groups to ensure proper internal oversight of business and governance functions. This includes ongoing reviews of laws, regulations and other requirements at all levels of the organization. The Compliance team supports Zurich's management in maintaining and promoting a culture of compliance and ethics consistent with Zurich Basics, our company's code of conduct. This robust Compliance framework relies on an ongoing global Compliance risk assessment and on a solid monitoring regime. The results of this assessment underpin the Compliance function's strategic planning which is conducted in consultation with business partners. Subsequently the Compliance plan is ratified by Management.

Through a comprehensive program, the Compliance function implements, embeds and enforces internal policies and guidance. As part of it, our Compliance officers are active in the on boarding of new employees and in the integration of newly acquired companies. To help employees understand their responsibilities under Zurich Basics and internal policies, all employees receive regular ethical and compliance training. In addition, the Compliance function spearheads internal awareness campaigns on ethical and regulatory conduct. Each year Zurich managers confirm their understanding and compliance with Zurich Basics and internal policies. Zurich encourages its employees to speak up and report improper conduct. Zurich does not tolerate retaliation against any employee who reports such concerns in good faith.

Group's Compliance function, with Compliance professionals around the world, is overseen by the Group Compliance Officer who reports to the Group General Counsel and regularly to the Board Audit Committee.

Internal control statement

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

- the Risk Committee – with oversight over risk management, and
- the Audit Committee – with oversight over internal control matters.

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

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

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

The internal control system focuses on key financial, operational and compliance controls. The system encompasses the policies, processes and activities that contribute to the reliability of financial reporting, the effectiveness and efficiency of operations and the compliance with laws and regulations. In 2008, continuing progress was made to further develop and improve the Group's control system while maintaining the focus on the effectiveness of the overall internal control environment.

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

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

The Risk Committee has reviewed the Group's risk capacity and overseen Zurich's enterprise-wide risk governance framework and the Audit Committee has reviewed the effectiveness of the system of internal control operated by the Group related to the calendar year 2008 up to the date of the annual report and have reported to the Board accordingly. The Board is satisfied that the reviews were conducted in accordance with the U.K. Turnbull Guidance (as revised in October 2005). The assessment included the consideration of the effectiveness of the Group's ongoing process for identifying, evaluating, controlling and managing the risks of the business, including the scope and frequency of reports on both risk and control that were received and reviewed during the year by the Risk and Audit Committees and the Board, the important internal control matters discussed and associated actions taken by management. Issues identified by this process have been communicated to the Board and are being addressed by the Group.

Going concern

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

Employees

The Group is committed to provide equal opportunities when recruiting and promoting people, whereby ability, experience, skills, knowledge and diversity are the guiding principles. The Group actively encourages employee involvement in its activities via print and online publications, team briefings and regular meetings with employees' representatives. For further information on the Group's People Management activities, please refer to the Business Review on page 14, also available on Zurich's Website www.zurich.com (http://zdownload.zurich.com/main/reports/business_review_2008_en.pdf).

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

Information policy

Zurich Financial Services has approximately 112,000 shareholders registered in its share register, ranging from private individuals to large institutional investors. Each registered shareholder receives an invitation to the Annual General Meeting together with the Letter to the Shareholders that provides an overview of the Group's activities during the year and outlines its financial performance. The more comprehensive Annual Report consisting of the Financial Report and the Business Review, is available on Zurich's Web site www.zurich.com (http://zdownload.zurich.com/main/reports/business_review_2008_en.pdf). Similar documents regarding half-year and quarterly results reportings are also available for all shareholders on Zurich's Web site. Shareholders may opt to receive printed versions of one or all of the aforementioned documents.

Zurich Financial Services maintains a regular dialogue with investors through its Investor Relations department and responds to questions and issues raised by institutional and private individual shareholders. In addition, Zurich Financial Services organizes investors days for institutional investors to provide comprehensive information on its businesses and strategic direction. Such presentations can be followed via webcast or conference call. The investors day in 2008 focused on the Global Life's Strategy Update (held on May 23, 2008). Further investors days are planned for 2009 on topics of interest to the investment market. A wide range of information on the Group and its businesses, including the aforementioned results reporting documents and the full documentation distributed at the investors day, is also available on the Investor Relations section of Zurich Financial Services' Web site, www.zurich.com (http://www.zurich.com/main/investors/introduction.htm).

Zurich Financial Services will hold its Annual General Meeting on April 2, 2009. As part of the agenda, the Chairman, the CEO and the Chief Financial Officer will present a review of the business of the Group for the year 2008. The meeting will be conducted in the Hallenstadion in Zurich-Oerlikon. An invitation setting out the agenda for this meeting and an explanation of the proposed resolutions will be issued to shareholders by Zurich Financial Services at least 20 days before the meeting.

For addresses and further upcoming important dates, please refer to the Financial calendar on page 294.

Remuneration report

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

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

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

All other information which is to be disclosed according to the SIX Directive is included in the Corporate governance report preceding this Remuneration report.

Remuneration principles

Directors

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

The fees paid to members of the Board of Directors of Zurich Financial Services comprise a fixed cash element and an award in Zurich Financial Services shares. The shares awarded are sales-restricted for three years.

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

Group Executive Committee and all other employees

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

The key components of this compensation philosophy are described below.

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

Guiding principles

The guiding principles are as follows:

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

Total compensation

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

Base salary

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

Variable pay

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

- Short-term (1 year) incentives are performance-driven based on relevant factors which can include the performance of the Group and the business areas as well as individual performance achievements. Key performance measures are determined annually and focus on business priorities. They typically include profitability measures, such as Group net income after tax (NIAT) and business operating profit (BOP).
- Long-term (3 years) incentives are for a defined group of executives and senior managers, whose specific roles focus on the performance drivers of long-term shareholder value. The instruments used are primarily performance share and performance-based share options. The performance share and share option grants only vest if certain performance conditions are met. One third of the target grant is assessed for vesting in each of the three years following the grant date based on the Group's performance achievements in terms of the Group's return on common shareholders' equity (ROE) and the position of the Group's total shareholder return (TSR) compared with an international peer group of 28 insurance companies that are included in the Dow Jones Titan Insurance Index. Based on the actual ROE and TSR achievements, the vesting percentage can vary between 0 percent and 175 percent of the target grants. For the grants made in 2008 and 2007, these are assessed for vesting on the basis of considering three years of ROE and TSR performance, previous grants are assessed on the basis of performance during the calendar year prior to vesting. Further details on the plans are set out in the section covering the actual remuneration of Group Executive Committee members.

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

Employee benefits

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

Remuneration governance

The Board of Directors defines the remuneration principles based on proposals of the Remuneration Committee. Based on these remuneration principles the Remuneration Committee is responsible for proposing to the Board on an annual basis the remuneration payable to the Directors, to the Chief Executive Officer (CEO) and to the other members of the Group Executive Committee. For the other members of the Group Executive Committee, these recommendations are based on proposals made by the CEO. The remuneration is approved by the Board of Directors. The Remuneration Committee does not include members with interlinked company mandates. For further details of its responsibilities see page 30 in the Corporate governance report.

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

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

In reviewing compensation structures and practices on a regular basis, the Remuneration Committee has appointed its own independent adviser, Hewitt Associates, and the management is supported by a variety of firms. As these companies operate in the field of international compensation and benefits, they do have other mandates with the Group.

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

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

As of December 31, 2008, all of the Directors of Zurich Financial Services are non-executives, independent of management. The remuneration for Directors and for members of the Group Executive Committee, as well as their shareholdings, is therefore disclosed separately.

Directors

Directors' fees

All Directors receive a fee, which is paid partly in cash and allocated partly in three-year sales-restricted Zurich Financial Services shares, for their memberships of the Boards of Zurich Financial Services and Zurich Insurance Company. The shares are provided as part of the overall fee which is not subject to the achievement of any defined performance targets. There were no changes in the fee structure in 2008 compared with 2007, apart from the increase in the annual basic fee for the Chairman which was increased from USD 580,000 to USD 700,000 with effect from January 1, 2008. This was already communicated in last year's Remuneration report.

Except for the Chairman and Vice Chairman, Directors are remunerated with an annual basic fee of USD 205,000. One-third of this annual basic fee, i.e. USD 68,500, is allocated to sales-restricted Zurich Financial Services shares. The amount is pro-rated for new members joining on April 3, 2008. Committee members receive an additional cash fee of USD 40,000 for all Committees on which they serve, irrespective of the number. In addition, the chair of each Committee receives an annual fee of USD 20,000 and the chair of the Audit Committee receives an additional USD 10,000. Directors who reside in the United States receive an additional fee of USD 10,000 per annum. The Committees on which the members serve is set out in the Corporate governance report on page 25. In addition to the above, where a Director is also a member of a subsidiary board of Zurich Financial Services Group, the Director is entitled to an additional fee of USD 40,000 per annum plus USD 10,000 per annum if he or she also chairs the audit committee of such board.

The current annual basic fee for the Vice Chairman is USD 330,000, of which an amount of USD 68,500 is allocated to sales-restricted Zurich Financial Services shares. The annual basic fee for the Chairman of the Board of Zurich Financial Services and Zurich Insurance Company during 2008 was USD 700,000 and one-third of the total amount, i.e. USD 233,500 is allocated to sales-restricted Zurich Financial Services shares. Neither the Chairman nor the Vice Chairman receive any additional fees for their Committee work.

Based on this structure, the total aggregate fees allocated to the Directors of Zurich Financial Services and Zurich Insurance Company for the year ended December 31, 2008, amounted to USD 3,291,875. This included USD 2,408,767 in cash and a value at the grant date of USD 883,108 in three-year sales-restricted shares. The share price at the grant date was CHF 284.00. The corresponding amount for 2007 was USD 3,089,167, which comprised of USD 2,279,167 in cash and a value at the grant date of USD 810,000 in three-year sales-restricted shares. The share price at the grant date in 2007 was CHF 389.50.

The Directors' fees are not pensionable.

The following tables set out the fees paid to the Directors in 2008 and 2007:

Directors' fees 2008

in USD	2008[1]						
	Basic Fee	Committee Fee[2]	Chair Fee[3]	US Residence Fee[4] / Other	Total Fee	Of which paid in Cash[5]	Of which allocated in Shares[6,7]
M. Gentz, Chairman[8]	700,000	–	–	–	700,000	466,500	233,500
Ph. Pidoux, Vice Chairman[8]	330,000	–	–	–	330,000	261,500	68,500
S. Bies, Member[9]	152,041	29,667	–	7,417	189,125	138,321	50,804
V. Chu, Member[9]	152,041	29,667	–	–	181,708	130,904	50,804
Th. Escher, Member	205,000	40,000	–	–	245,000	176,500	68,500
F. Kindle, Member	205,000	40,000	–	–	245,000	176,500	68,500
A. Meyer, Member	205,000	40,000	–	–	245,000	176,500	68,500
D. Nicolaisen, Member[10]	205,000	40,000	27,417	10,000	282,417	213,917	68,500
V.L. Sankey, Member	205,000	40,000	20,000	–	265,000	196,500	68,500
G. Schulmeyer, Member[9]	52,960	10,333	7,749	2,583	73,625	73,625	–
T. de Swaan, Member[11]	205,000	40,000	14,833	30,167 [12]	290,000	221,500	68,500
R. Watter, Member	205,000	40,000	–	–	245,000	176,500	68,500
Total in USD[13]	**2,822,042**	**349,667**	**69,999**	**50,167**	**3,291,875**	**2,408,767**	**883,108**

Directors' fees 2007

in USD	2007[1]						
	Basic Fee	Committee Fee[2]	Chair Fee[3]	US Residence Fee[4]	Total Fee	Of which paid in Cash[5]	Of which allocated in Shares[6,14]
M. Gentz, Chairman[8]	580,000	–	–	–	580,000	386,500	193,500
Ph. Pidoux, Vice Chairman[8]	330,000	–	–	–	330,000	261,500	68,500
Th. Escher, Member	205,000	40,000	–	–	245,000	176,500	68,500
R.E.J. Gilmore, Member[15,16]	52,959	10,333	–	–	63,292	63,292	–
F. Kindle, Member	205,000	40,000	–	–	245,000	176,500	68,500
D.G. Mead, Member[15]	52,959	10,333	5,167	2,583	71,042	71,042	–
A. Meyer, Member	205,000	40,000	–	–	245,000	176,500	68,500
D. Nicolaisen, Member	205,000	40,000	20,000	10,000	275,000	206,500	68,500
V.L. Sankey, Member[17]	205,000	40,000	14,833	–	259,833	191,333	68,500
G. Schulmeyer, Member	205,000	40,000	30,000	10,000	285,000	216,500	68,500
T. de Swaan, Member	205,000	40,000	–	–	245,000	176,500	68,500
R. Watter, Member	205,000	40,000	–	–	245,000	176,500	68,500
Total in USD[13]	**2,655,918**	**340,666**	**70,000**	**22,583**	**3,089,167**	**2,279,167**	**810,000**

[1] The remuneration shown in the tables do not include any business-related expenses incurred in the performance of the Board members' services.
[2] Committee members receive a cash fee of USD 40,000 for all Committees on which they serve, irrespective of the number. The Committees on which the Board members serve are set out in the Corporate governance report on page 25.
[3] Committee chairs receive an annual fee of USD 20,000 and the chair of the Audit Committee receives an additional USD 10,000. The Committees on which the Board members serve and the chairs are set out in the Corporate governance report on page 25.
[4] Directors who reside in the United States receive a fee of USD 10,000 per annum.
[5] The cash fees are defined in U.S. dollars, but paid in the actual currencies where the Board members reside, based on the relevant exchange rate at the dates of the payment.
[6] The shares allocated to the Directors are sales-restricted for three years.
[7] As of June 30, 2008, Mr. Gentz was allocated 861 shares and the other members 252 shares based on a full year's membership. The share price (CHF 284.00) and the exchange rate (USD/CHF 1.0476) as of June 15, 2008, were adopted to calculate the number of shares based on the fixed portion of the fee allocated in shares for the respective members. Where the value of the allocated shares did not equal the value of the portion of the fee to be allocated in shares, the difference was paid in cash. The amounts shown in the table above reflects the fixed amount in USD of the portion of the fee to be allocated in shares.
[8] Neither the Chairman nor the Vice Chairman receive any additional fees for their Committee work.

[9] The following membership movements occurred in 2008:
– Ms. Bies and Mr. Chu joined the Board on April 3, 2008 and received pro rata fees in cash and shares for their Board work from that date.
– Mr. Schulmeyer retired from the Board on April 3, 2008 and received a pro rata fee in cash for his Board work up to that date.
[10] Mr. Nicolaisen became Chairman of the Audit Committee on April 3, 2008 following the retirement of Mr. Schulmeyer. He received a pro rata fee for being Chair. Prior to that he was Chairman of the Risk Committee.
[11] Mr. de Swaan became Chairman of the Risk Committee on April 3, 2008. He received a pro rata fee for being Chair.
[12] In addition to the fees he received as a Director of Zurich Financial Services and Zurich Insurance Company, Mr. de Swaan earned a pro rata fee of USD 28,111 for his membership on the board of Zurich Insurance plc since April 17, 2008 (based on an annual fee of USD 40,000). He additionally also earned a pro rata fee of USD 2,056 for being Chair of the audit committee of Zurich Insurance plc since October 16, 2008 (based on an annual fee of USD 10,000).
[13] In line with applicable laws, Zurich paid the company-related portion of contributions to social security systems, which amounted to USD 69,304 in 2008. The corresponding contributions amounted to USD 68,439 in 2007. Any personal contributions of the Directors to social security systems are included in the amounts shown in the table above.
[14] Mr. Gentz was allocated 617 shares and the other members 218 shares as of June 30, 2007. The share price (CHF 389.50) and the exchange rate (USD/CHF 1.2422) as of June 15, 2007, were adopted to calculate the number of shares based on the fixed portion of the fee allocated in shares for the respective members. Where the value of the allocated shares did not equal the value of the portion of the fee to be allocated in shares, the difference was paid in cash. The amount shown in the table above reflects the fixed amount in USD of the portion of the fee to be allocated in shares.
[15] The following membership movements occurred in 2007:
Ms. Gilmore and Mr. Mead retired from the Board of Directors on April 3, 2007 and received pro rata fees for their Board work up to that date.
[16] In addition to the remuneration set out in the table, the company paid contributions for Ms. Gilmore into a group health insurance plan in the UK until her retirement in April 2007 at a cost of USD 631.
[17] Mr. Sankey became Chairman of the Remuneration Committee on April 3, 2007 following the retirement of Mr. Mead. He received a pro rata fee for being Chair.

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

At the Annual General Meeting in 2008, Gerhard Schulmeyer retired from the Boards. No termination payments were paid to him during the year.

Compensation for former Directors

No benefits (or waiver of claims) have been provided to former members of the Boards during the year 2008, nor were any provided during the year 2007.

Share plans for Directors

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

Shareholdings of Directors

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

Directors' shareholdings as of December 31

Number of Zurich Financial Services shares[1]	Ownership of shares	
	2008	2007
M. Gentz, Chairman	2,978	2,117
Ph. Pidoux, Vice Chairman	2,470	2,218
S. Bies, Member	187	n.a.
V. Chu, Member	187	n.a.
Th. Escher, Member	5,470	4,218
F. Kindle, Member	10,470	2,218
A. Meyer, Member	1,794	1,542
D. Nicolaisen, Member	470	218
V.L. Sankey, Member	1,640	1,388
G. Schulmeyer, Member	n.a.	2,218
T. de Swaan, Member	470	218
R. Watter, Member	3,438	3,186
Total	**29,574**	**19,541**

[1] None of the Directors together with related parties to them held more than 0.5 percent of the voting rights as of December 31, 2008 or 2007, respectively.

Share options held by Directors

The members of the Boards of Directors of Zurich Financial Services and Zurich Insurance Company do not participate in any share option plan for executive management. Hence, no share options have been allotted in the year under review or in earlier years. None of the Directors, nor any related parties to them, held any share options or conversion rights over Zurich Financial Services shares as of December 31, 2008 or as of December 31, 2007.

Additional honoraria and remuneration for Directors

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

Personal loans for Directors

Unrelated to his Board membership and on terms and conditions available to other customers, Mr. Watter received a collateralized policy loan in the amount of CHF 2.5 million during 2008. The annual interest rate charged on the loan is 4 percent. Other than the loan for Mr. Watter, none of the Directors had outstanding loans, advances or credits as of December 31, 2008. None of the Directors had outstanding loans, advances or credits as of December 31, 2007.

Personal loans for former Directors

As of December 31, 2008, and 2007, respectively, no former Director had outstanding loans, advances or credits.

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

No benefits (or waiver of claims) have been provided to related parties of the Directors or related parties of former members of the Boards during the year 2008 and 2007, respectively. Neither had any related party of the Directors or of former members of the Boards outstanding loans, advances or credits as of December 31, 2008 and 2007.

Group Executive Committee

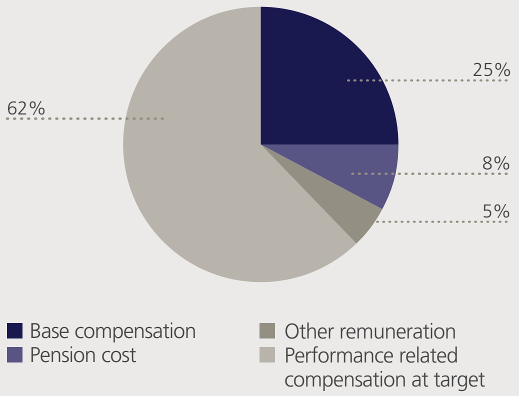
Remuneration of the Group Executive Committee

The total remuneration of the members of the Group Executive Committee for 2008 comprised the value of cash compensation (including short-term cash incentive), pensions, other remuneration and the target equity grants made under the Group's Long-Term Incentive Plan in 2008.

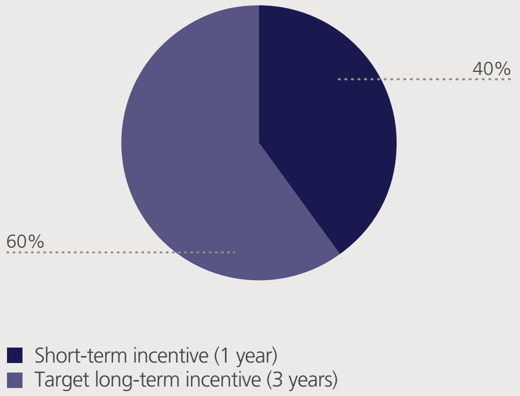
The compensation structure and the mix of the individual compensation elements for Group Executive Committee members are determined by taking into account market practices and internal relativities.

The distribution of the total remuneration in 2008 between the individual compensation elements is set out in the following charts. This is on the basis of the target values for the performance related compensation.

Weighting of the Remuneration Elements



Weighting of the Performance Related Compensation at Target



As can be seen from the above charts, there is a significant emphasis on performance related compensation through both the Short-Term Incentive Plan and Long-Term Incentive Plan. The distribution of the target values between short-term (annual) and long-term incentives (three years) shows an emphasis towards long-term incentives.

The individual compensation elements are described in more detail below (the amounts for the highest paid executive are included):

Value of total remuneration

The total value of the various compensation elements earned by the members of the Group Executive Committee in 2008 was USD 53.9 million. This compares with an equivalent figure of USD 57.6 million earned in 2007 calculated on the same basis. The reduction in the value of total remuneration from 2007 to 2008 is explained by a decrease of USD 6.6 million in annual cash incentive award payments and an increase of USD 2.9 million due mainly to movements in exchange rates over the two years and the fact that in 2007 only 10 individuals were members of the Group Executive Committee for the full year.

The total value for 2008 comprises the following elements (the comparative figures for 2007 are shown in the table on total remuneration for all GEC members):

Base compensation and annual cash incentives paid for 2008

The total amount of base compensation and annual cash incentive awards earned under the Short-Term Incentive Plan for 2008 was USD 26.9 million. This comprised USD 13.4 million in base compensation and USD 13.5 million in annual cash incentive awards, which reflect the amounts to be paid in 2009 for 2008 performance. The annual cash incentive awards are determined individually and are performance based. Overall funding for the incentives is based on overall profit performance in 2008 and funds are allocated to individuals based on a combination of factors, including the results of the business that the Group Executive Committee member is responsible for, the accomplishment of growth initiatives and their individual contribution to the accomplishment of strategic objectives during the year. For members of the Group Executive Committee the target levels under the Short-Term Incentive Plan for 2008 were set at 100 percent of the base compensation, the same level as in 2007. The maximum award is 200 percent of the target level.

Value of pension benefits accruing during 2008

Members of the Group Executive Committee participate in the pension plan arrangements of the business units in which they are employed. The Group's philosophy is to provide pension benefits through cash balance and/or defined contribution plans where funds are accumulated throughout a career to provide retirement benefits. The majority of Group Executive Committee members participate in such plans and, over time, all future Group Executive Committee members will participate in such plans. The other Group Executive Committee members continue to participate in defined benefit plans that provide retirement benefits based on final pensionable earnings and the number of years of service. The normal retirement ages vary from 60 to 65. The total value of pension benefits accruing to members of the Group Executive Committee during 2008, calculated on the basis of the Service Costs for the company as assessed under IAS 19 accounting principles, was USD 4.5 million. Service Costs value the amount of the pension benefits accruing during the year and for defined contribution plans takes the amount of the company contribution paid during the year.

Value of other remuneration paid in 2008

Members of the Group Executive Committee received other remuneration in 2008 in relation to employee benefits, expatriate allowances, perquisites, benefits-in-kind and any other payments due under each member's employment contract. The total value of the other remuneration elements in 2008 was USD 2.9 million. Benefits-in-kind have been valued using market rates.

Equity grants made to the Group Executive Committee under the Long-Term Incentive Plan in 2008

Remuneration components for Group Executive Committee members under the Long-Term Incentive Plan comprise an annual grant of performance shares and performance options. In extraordinary circumstances, restricted share grants may also be made. For members of the Group Executive Committee, the overall value of the target annual grants in 2008 ranged from 100 percent to 125 percent of the base compensation. For the Chief Executive Officer the overall value was set at 300 percent of the base compensation.

The target grants for the year are made on the third working day in April of that year. Thus, the target grants in 2008 were made on April 3, 2008. The target performance share and share option grants only vest if certain performance conditions are met. One-third of the target grant made in 2008 is assessed for vesting in each of the three years 2009, 2010 and 2011 based on the Group's performance achievements in terms of the Group's return on common shareholders' equity (ROE) and the position of Group's total shareholder return (TSR) compared with an international peer group of 28 insurance companies that are included in the Dow Jones Titan Insurance Index. Based on the actual ROE and TSR achievements, the vesting percentage can vary between 0 percent and 175 percent of the target grants. For the grants made in 2008, these are assessed for vesting on the basis of considering three years of TSR and ROE performance, this is the same as for the 2007 grant, whereas previous grants to this are assessed on the basis of performance during the calendar year prior to vesting.

The level of vesting will be determined on the basis of the following matrix:

Long-Term Incentive Plan Vesting Matrix

in %		Level of vesting for Share and Share Option Targets			
Zurich's three year relative TSR, based on 28 companies making up the Dow Jones Global Insurance Sector Titan Index	Top Quartile (Position: 1 to 7)	100%	125%	150%	175%
	Second Quartile (Position: 8 to 14)	75%	100%	125%	150%
		9%	12%	15%	18%
		Three year annual average of the Group's return on common shareholders' equity (ROE)			

The vesting percentages are determined through interpolating the figures in the above matrix. As an example, with the relative TSR in the top quartile and an average ROE of 14 percent the vesting percentage would be 142 percent of the target grant.

If the actual performance is below the minimum levels, there will be no vesting and the awards will be lost. However, if the Group's ROE achivements are above the minimum level and the relative TSR is below the second quartile, the Board, based on a recommendation of the Remuneration Committee, will determine whether, due to exceptional circumstances, a partial vesting of the shares and/or options is appropriate. The Board, based on a recommendation of the Remuneration Committee, can further increase or decrease the calculated vesting level for specific members to reflect individual circumstances.

The following equity grants were made in 2008:

Performance share grants

The total number of target performance share grants made to members of the Group Executive Committee during 2008 was 29,491. This compares with an equivalent figure of 29,845 made for 2007. The value of the target performance share grants made on April 3, 2008 to members of the Group Executive Committee in 2008 was USD 9.8 million at the date of grant based on the assumption of 100 percent vesting and a share price of CHF 336.50 on the day prior to the grant.

The number of share awards that vested to members of the Group Executive Committee in April 2008 from the performance share grants made in 2005, 2006 and 2007 was 57,204. This represented a basic vesting level of 175 percent of target given the actual ROE and TSR performance achievements. One-half of the shares that vest under the plan are sales-restricted for three years from the date of vesting.

Restricted share grants

Restricted share grants supplement the regular long-term incentive grants and are used in extraordinary circumstances mainly for new hires to compensate for the loss of their equity rights with their previous employer. This restricted share grants vest typically over three to five years following the date of grant and will be forfeited if the holder of such share grants voluntarily leaves the company before the vesting date and the employement relationship terminates.

No restricted share grants were made to members of the Group Executive Committee during 2008. This compares with a total number of 7,280 restricted shares granted in 2007 with a value of USD 2.0 million at the date of grant and the assumption of 100 percent vesting.

Share option grants

The total number of target share option grants made to members of the Group Executive Committee during 2008 was 148,154. This compares with an equivalent figure of 142,690 for 2007. The value of the target share option grants made on April 3, 2008 was USD 9.8 million at the date of grant, based on the assumption of 100 percent vesting and the Black-Scholes valuation of the options at the date of grant.

The number of share option awards that vested to members of the Group Executive Committee in 2008 from the share option grants made in 2005, 2006 and 2007 was 269,762. This represented a basic vesting level of 175 percent of target given the actual ROE and TSR performance achievements.

Summary of total remuneration for the Group Executive Committee

By reference to the above figures, the total remuneration of the Group Executive Committee members, comprising cash compensation, pensions, the value of other remuneration and the value of target equity grants for 2008 was USD 53.9 million, divided as follows:

All GEC members [1] (incl. the highest paid) as of December 31

in USD million	**2008**[2]	2007[3]
Base compensation	13.4	11.3
Cash incentive awards earned for the year	13.5	20.1
Service Costs for pension benefits[4]	4.5	3.9
Value of other remuneration[5]	2.9	3.6
Value of target performance share and restricted share grants[6]	9.8	10.7
Value of target performance option grants[6]	9.8	8.0
Total[7]	**53.9**	**57.6**

[1] The remuneration shown in the table does not include any business related expenses incurred in the performance of the members' services.
[2] On the basis of 12 GEC members, all of whom served for the full year 2008.
[3] On the basis of 12 GEC members of whom 10 served during the full year 2007.
[4] The amounts reflect the total value of pension benefits accruing to members of the GEC during 2008 and 2007, respectively, calculated on the basis of the Service Costs for the company as assessed under IAS 19 accounting principles. Service Costs value the amount of the pension benefits accruing during the year and for defined contribution plans takes the amount of the company contribution paid during the year. Service Costs do not include the interest cost on accrued benefits, adjustments for actuarial gains and losses, nor the expected return on any assets held.
[5] Includes employee benefits, expatriate allowances, perquisites, benefits-in-kind and any other payments due under employment contract. Benefits-in-kind have been valued using market rates.
[6] The share and share option grants will vest in the future according to achievement of defined performance conditions. The value of the share and share options assumes that the grant will vest in the future at 100 percent of the target level with the valuation of the options based on the Black-Scholes option pricing model as set out in Note 24 to the consolidated financial statements, the valuation of the target performance share grants based on the share price on the day prior to the grants (CHF 336.50 for 2008 and CHF 355.75 for 2007) and the valuation of the restricted share grants based on the share price on the date of the grants.
[7] In line with applicable laws where the executives are employed, Zurich paid the company-related portion of contributions to social security systems, which amounted to USD 3.4 million in 2008 and to USD 2.6 million in 2007. Since the contributions are based on full earnings, whereas benefits are capped, there is not a direct correlation between the costs paid to the social security system and the benefits received by the executives.

Based on these figures, the value of the total remuneration for all members comprises 39 percent (prior year 33 percent) in fixed compensation elements (comprising base compensation, service costs for pension benefits and other remuneration) and 61 percent (prior year 67 percent) in performance related components (comprising the cash incentive awards under the Short-Term Incentive Plan together with the value of the target performance share grants, restricted share grants and share option grants).

Highest total remuneration for Group Executive Committee members

The highest paid remuneration for the Group Executive Committee members was USD 9.55 million for Mr. James J. Schiro, the Group's Chief Executive Officer. This amount reflects his 2008 base salary, the cash incentive earned for 2008, the value of pension benefits, other remuneration and the value of the target performance shares and share options granted in 2008.

The following table specifies the total remuneration paid to the highest paid Group Executive Committee member:

Highest paid Executive James J. Schiro, Chief Executive Officer[1] as of December 31

in USD million	2008	2007
Base compensation	1.50	1.50
Cash incentive awards earned for the year	2.25	3.00
Service Costs for pension benefits[2]	0.80	0.90
Value of other remuneration[3]	0.50	0.40
Value of target performance share and restricted share grants[4]	2.25	2.25
Value of target performance option grants[4]	2.25	2.25
Total	**9.55**	**10.30**

[1] The remuneration shown in the table does not include any business related expenses incurred in the performance of the CEO's services.
[2] The amounts reflect the total value of pension benefits, calculated on the basis of the Service Costs for the company as assessed under IAS 19 accounting principles. Service Costs value the amount of the pension benefits accruing during the year and for defined contribution plans takes the amount of the company contribution paid during the year. Service Costs do not include the interest cost on accrued benefits, adjustments for actuarial gains and losses, nor the expected return on any assets held.
[3] Includes employee benefits, expatriate allowances, perquisites, benefits-in-kind and any other payments due under the employment contract. Benefits-in-kind have been valued using market rates.
[4] The share and share option grants will vest in the future according to achievement of defined performance conditions. The value of the share and share options assumes that the grant will vest in the future at 100 percent of the target level with the valuation of the options based on the Black-Scholes option pricing model as set out in Note 24 to the consolidated financial statements, the valuation of the target performance share grants based on the share price on the day prior to the grants (CHF 336.50 for 2008 and CHF 355.75 for 2007) and the valuation of the restricted share grants based on the share price on the date of the grants.

Termination arrangements for members of the Group Executive Committee who gave up their functions during the year

One of the Group Executive Committee members retired at the end of 2008. No termination payments were made.

Compensation for former Group Executive Committee members

No benefits (or waiver of claims) have been provided to former members of the Group Executive Committee during the year 2008, nor during the year 2007.

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

Share grants

Performance share grants

The total number of target performance share grants outstanding as of December 31, 2008 under the Group's Long-Term Incentive Plan was 59,583 (56,399 as of December 31, 2007). A summary of the outstanding grants as of December 31, 2008 is set out in the table below:

Summary of outstanding share grants

Performance period	Target performance share grants	Allocated price in CHF	Future years of vesting
2008–2010	29,491	336.50	2009–2011
2007–2009	21,263	355.75	2009–2010
2006–2008	8,829	308.00	2009

Within the context of the Group's Long-Term Incentive Plan, these performance share grants are considered for vesting in one-third instalments during the three years after the grant. The actual level of vesting is determined in accordance with the remuneration principles set out above on pages 44 to 46 and the Long-Term Incentive Plan Vesting Matrix as described on page 53.

Restricted share grants

In addition to the above performance share grants, there were 10,495 restricted shares outstanding for members of the Group Executive Committee as of December 31, 2008 (13,543 restricted shares were outstanding at the end of 2007). These restricted shares vest over the next three years and will be forfeited if the holders of such shares leave voluntarily before the vesting date and the employment relationship terminates.

Share option grants

Under the share option program for senior management, the Group can issue share options to individuals within prescribed rules. The first share option grant was made in 1999 and regular annual grants have been made since then. Prior to 2003, option grants were typically made on the basis of a seven-year option term, a three-year vesting period and an exercise price set at a 10 percent premium to the market rate during the month prior to the grant date.
Under the rules of the plan, other parameters are allowed for option grants made under the share option program. In connection with the re-design of the Long-Term Incentive Program in 2003, the exercise price for the options granted since then has been set at the market price on the day prior to the date of grant. The performance based option grants are considered for vesting in one-third instalments during the three years after the grant. The actual level of vesting is determined under the performance in accordance with the remuneration principles set out above on pages 44 to 46 and the Long-Term Incentive Plan Vesting Matrix as described on page 53. Option grants are currently made each year on the third working day in April.

Under the share option program, the total number of shares under option for the Group Executive Committee members as of December 31, 2008, and 2007, respectively, is set out in the tables below.

Summary of outstanding options as of December 31, 2008

Year of grant	Number of options vested	Number of options unvested	Total number of shares under option	Exercise price per share CHF	Year of expiry
2008	–	148,154	148,154	336.50	2015
2007	98,356	99,300	197,656	355.75	2014
2006	141,737	38,181	179,918	308.00	2013
2005	197,632	–	197,632	206.40	2012
2004	82,620	–	82,620	213.25	2011
2003	14,347	–	14,347	120.50	2010
2002	39,129	–	39,129	331.10	2009
2001 (b)	9,142	–	9,142	322.30	2012
Total	**582,963**	**285,635**	**868,598**		

Summary of outstanding options as of December 31, 2007

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

All options mentioned above entitle the holder to subscribe for one share of Zurich Financial Services at the exercise price stated.

Share and share option holdings of the Group Executive Committee

The following table sets out the actual share and share option holdings of the Group Executive Committee members as of December 31, 2008 and December 31, 2007. In addition to any shares acquired in the market, the numbers include vested shares, whether sales-restricted or not, and vested share options received under the Group's Long-Term Incentive Plan. However, the table does not include the share interests of the members of the Group Executive Committee through their participation in the currently unvested performance shares, unvested restricted shares or unvested performance share options.

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

Share and vested share option holdings of the GEC members as of December 31

Number of vested shares and vested share options [1]	**2008**		2007	
	Ownership of shares	**Ownership of vested options over shares[2]**	Ownership of shares	Ownership of vested options over shares[2]
J.J. Schiro, Chief Executive Officer[3]	85,726	230,415	64,790	173,516
J. Amore, Chief Executive Officer General Insurance	19,606	76,096	17,220	73,880
A. Court, Chief Executive Officer Europe General Insurance[4]	3,062	5,696	–	–
M. Foley, Chief Executive Officer North America Commercial[5]	4,107	3,857	n.a.	n.a.
M. Greco, Chief Executive Officer Global Life[6]	492	–	–	–
P. Hopkins, Chief Executive Officer Farmers Group, Inc	6,678	21,184	4,765	26,290
A. Lehmann, Chief Risk Officer	13,066	49,871	10,813	39,421
P. O'Sullivan, Vice Chairman and Chief Growth Officer	15,848	54,315	19,739	49,031
G. Riddell, Chief Executive Officer Global Corporate	12,410	44,846	8,752	28,446
M. Senn, Chief Investment Officer	6,780	16,019	2,553	3,719
P. van de Geijn, Chief Executive Officer Global Life	10,952	44,034	6,993	24,889
D. Wemmer, Chief Financial Officer	9,267	36,630	5,565	19,549
	187,944	**582,963**	**141,190**	**438,741**

[1] None of the GEC members together with parties related to them held more than 0.5 percent of the voting rights as at December 31, 2008 or 2007, either directly or through share options.
[2] The distribution of the vested options according to the grants identified in the tables "Summary of outstanding options" is shown in the table below.
[3] Includes an amount of 3,800 shares for 2008 and of 2,000 shares for 2007 for Mr. Schiro, which are held by family run charitable foundations.
[4] Joined the Group on January 15, 2007.
[5] Joined the GEC on January 1, 2008, but joined the Group on September 1, 2006.
[6] Joined the Group on October 1, 2007.

The following tables show how the totals of the vested share options owned by the Group Executive Committee members are distributed according to the grants identified in the tables "Summary of outstanding options" as of December 31, 2008 and 2007, respectively.

Distribution of vested share options 2008

Number of vested share options as of December 31, 2008	Year of grant							Total
	2007	2006	2005	2004	2003	2002	2001	
J.J. Schiro	30,166	61,857	98,567	24,198	–	15,627	–	230,415
J. Amore	8,268	13,002	17,269	15,913	–	12,502	9,142	76,096
A. Court[1]	5,696	–	–	–	–	–	–	5,696
M. Foley[2]	3,857	–	–	–	–	–	–	3,857
M. Greco[3]	–	–	–	–	–	–	–	–
P. Hopkins	6,201	9,752	10	3,503	–	1,718	–	21,184
A. Lehmann	6,201	9,752	15,962	8,632	5,363	3,961	–	49,871
P. O'Sullivan	8,815	11,311	19,955	11,647		2,587	–	54,315
G. Riddell	6,782	8,861	15,633	6,373	5,694	1,503	–	44,846
M. Senn	7,342	8,677	–	–	–	–	–	16,019
P. van de Geijn	7,074	9,848	17,386	9,726	–	–	–	44,034
D. Wemmer	7,954	8,677	12,850	2,628	3,290	1,231	–	36,630
Total	**98,356**	**141,737**	**197,632**	**82,620**	**14,347**	**39,129**	**9,142**	**582,963**

1 Joined the Group on January 15, 2007.
2 Joined the GEC on January 1, 2008, but joined the Group on September 1, 2006.
3 Joined the Group on October 1, 2007.

Distribution of vested share options 2007

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

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

Trading Plans

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

Additional honoraria and remuneration for members of the Group Executive Committee

None of the members of the Group Executive Committee received any compensation from the Group or from any of the Group's companies in 2008 and 2007 other than as set out above.

Personal loans for members of the Group Executive Committee

As of December 31, 2008, the total of loans, advances or credits outstanding for Group Executive Committee members was CHF 1,082,000 (prior year CHF 1,091,000). These loans represent mortgage loans in Swiss francs, the terms of which are similar to those available to all employees in Switzerland. Mortgage loans are issued with a reduced interest rate of up to one percentage point less than the prevailing market interest rates on mortgage balances, up to a maximum of CHF 1,500,000. As at December 31, 2008, and 2007 respectively, the highest mortgage loan was held by Mr. Lehmann (Group Chief Risk Officer), in the amount of CHF 782,000 (CHF 791,000 in 2007) which had an overall interest rate of 2.6 percent (2.3 percent in 2007).

Personal loans for former members of the Group Executive Committee

Former members of the Group Executive Committee are eligible to continue their mortgage loans following retirement on similar terms as when they were employed, in line with the terms available to employees in Switzerland as stated above. In this respect, one former member, Mr. Eckert, held an outstanding mortgage loan of CHF 3,000,000 as at December 31, 2008 and 2007, respectively, with a reduced interest rate of 2.5 percent (2.25 percent in 2007) applying on the first CHF 1,500,000. Apart from this, no former members of the Group Executive Committee had any outstanding loans, advances or credits as of December 31, 2008 and 2007, respectively.

Related parties of Group Executive Committee members or of former members of the Group Executive Committee

No benefits (or waiver of claims) have been provided to related parties of GEC members or related parties of former members of the GEC during the year 2008 and 2007. Neither had any related party of GEC members or of former members of the GEC outstanding loans, advances or credits as of December 31, 2008 and 2007.

Group performance review

Group performance review

Financial review

The information contained within the Financial review is unaudited. This document should be read in conjunction with the Zurich Financial Services Group Annual Report 2008. Comparatives are for the year ended December 31, 2007. All amounts, unless otherwise stated, are shown in U.S. dollars and rounded to the nearest million with the consequence that the rounded amounts may not add to the rounded total in all cases. All ratios and variances are calculated using the underlying amount rather than the rounded amount. Certain comparatives including segment disclosures have been restated for changes in accounting policy and for reclassifications as set out in note 1 of the consolidated financial statements to conform to the 2008 presentation. The reclassifications have no impact on previously reported net income. Comparatives for return on common shareholders' equity and business operating profit (after tax) return on common shareholders' equity have also been restated as the calculation has been changed from a compound to a linear basis. Acquisitions and divestments are set out in note 5 of the consolidated financial statements.

Financial highlights

in USD millions, for the years ended December 31, unless otherwise stated	2008	2007	Change[1]
Business operating profit	**5,186**	6,707	(23%)
Net income attributable to shareholders	**3,039**	5,714	(47%)
General Insurance gross written premiums and policy fees	**37,151**	35,650	4%
Global Life gross written premiums, policy fees and insurance deposits	**21,863**	21,703	1%
Farmers Management Services management fees and other related revenues	**2,458**	2,266	8%
General Insurance business operating profit	**3,535**	4,024	(12%)
General Insurance combined ratio	**98.1%**	95.6%	(2.5 pts)
Global Life business operating profit	**1,480**	1,443	3%
Global Life new business annual premium equivalent (APE)	**3,261**	2,947	11%
Global Life new business margin, after tax (as % of APE)	**23.1%**	24.7%	(1.7 pts)
Global Life new business value, after tax	**753**	729	3%
Farmers Management Services gross management result	**1,141**	1,056	8%
Farmers Management Services business operating profit	**1,202**	1,271	(5%)
Farmers Management Services managed gross earned premium margin	**6.9%**	6.8%	0.1 pts
Group investments average invested assets	**185,558**	191,790	(3%)
Group investments result, net	**5,832**	10,094	(42%)
Group investments return (as % of average invested assets)	**3.1%**	5.3%	(2.1 pts)
Shareholders' equity	**22,103**	28,945	(24%)
Diluted earnings per share (in USD)	**21.63**	39.29	(45%)
Diluted earnings per share (in CHF)	**23.35**	47.11	(50%)
Book value per share (in CHF)	**167.92**	229.39	(27%)
Return on common shareholders' equity (ROE)	**12.1%**	21.3%	(9.2 pts)
Business operating profit (after tax) return on common shareholders' equity	**16.8%**	18.9%	(2.1 pts)

[1] Parentheses around numbers represent an adverse variance.

Performance overview

Our financial performance for the year ended December 31, 2008 was affected by the global financial crisis. The crisis has primarily impacted our investment portfolio as well as certain liabilities, particularly in Other Businesses, which are sensitive to changes in certain capital market prices. Deteriorating equity markets, widening credit spreads as well as defaults and potential defaults by certain financial institutions have resulted in net capital losses on Group investments of USD 2.9 billion for the year ended December 31, 2008 compared with gains of USD 1.5 billion for the same period in 2007, of which losses of USD 2.0 billion and capital gains of USD 1.1 billion were attributable to shareholders in 2008 and 2007 respectively. In addition, net investment valuations included in shareholders' equity have decreased by USD 3.1 billion since December 31, 2007. Nonetheless, our balance sheet is still strong and our business operating profit (after tax) return on common shareholders' equity (BOPAT ROE) for the year ended December 31, 2008 of 16.8 percent remains above our target over the cycle of 16 percent.

Business operating profit decreased by USD 1.5 billion or 23 percent to USD 5.2 billion resulting mainly from the effects of the turbulent financial markets, particularly on our Other Businesses segment. Our core businesses have continued to make strong contributions to business operating profit.

- **General Insurance business operating profit** of USD 3.5 billion decreased by USD 489 million or by 12 percent, driven by a decrease of USD 712 million in the net underwriting result to USD 593 million largely attributable to lower premium rate levels, claims inflation and slightly higher catastrophe, large and other weather-related losses compared with 2007.

- **Global Life business operating profit** increased by USD 37 million to USD 1.5 billion, an increase of 3 percent in U.S. dollar terms and 1 percent on a local currency basis. An improved performance, on a local currency basis, in the UK and Germany, moderated the negative impact from falling asset values that reduced asset-based fees and accelerated amortization of deferred acquisition costs and intangible assets.

- **Farmers Management Services business operating profit** of USD 1.2 billion decreased by USD 69 million, primarily resulting from the decrease in other net income which reflects a reduction in net investment income following dividends paid to the Group and one-time gains of USD 47 million realized on the sale of own use properties in 2007. This was partially offset by an improved gross management result, with the underlying business in the Farmers Exchanges, which we manage but do not own, increasing by 6 percent, due to the combination of organic and inorganic growth.

Other Businesses business operating profit decreased by USD 1.0 billion to a loss of USD 260 million primarily resulting from the impact of deteriorating equity markets and widening credit spreads on Group investments as well as the strengthening of certain insurance liabilities, together with lower levels of commutation gains and other profitable run-off transactions.

The **Corporate Functions** result improved by USD 38 million following lower net headquarter expenses.

Net income attributable to shareholders decreased by USD 2.7 billion, to USD 3.0 billion resulting from capital losses on investments, including impairments, after allocations to policyholders of USD 2.0 billion compared with net capital gains of USD 1.1 billion in 2007. The **shareholders' effective tax rate** was 19.0 percent compared with 24.4 percent for the year ended December 31, 2007 mainly due to a combination of favorable tax settlements and the use of previously unrecognized net operating losses.

Business volumes in our core operating segments developed as follows:

- **General Insurance** gross written premiums and policy fees increased by 4 percent in U.S. dollar terms to USD 37.2 billion, while increasing by 2 percent on a local currency basis as we continued to capitalize on attractive opportunities in line with our strategy to further diversify our businesses through growth focused on personal and small business lines, as well as in key emerging markets. Excluding the growth achieved through acquisitions, gross written premiums increased by 1 percent on a local currency basis due to strong new business production in selected markets.

- **Global Life** Insurance deposits decreased by 8 percent in U.S. dollar terms to USD 11.1 billion and by 8 percent on a local currency basis, driven by reductions in single premium savings products in the UK and Ireland, reflecting consumer reactions to the turbulent financial markets. Gross written premiums and policy fees increased by 12 percent in U.S. dollar terms to USD 10.8 billion, and by 6 percent on a local currency basis. The increase on a local currency basis primarily reflects the impact of the newly acquired businesses in Spain. New business annual premium equivalent (APE) increased by 11 percent in U.S. dollar terms, and by 10 percent on a local currency basis, driven by increases in Spain, Germany, Latin America and Zurich International Solutions. Included in APE, but not included in gross written premiums, policy fees and deposits are new business sales of mutual funds and other assets managed by third parties, where only the fees are recognized in income.

- **Farmers Management Services** management fees and other related revenues increased by 8 percent, reflecting the underlying increase in the gross earned premiums of 6 percent in the Farmers Exchanges, which we manage but do not own, as a result of targeted investments in distribution capability and product enhancements.

Compared with the year ended December 31, 2007, **return on common shareholders' equity** decreased 9.2 percentage points to 12.1 percent and **BOPAT ROE** decreased 2.1 percentage points to 16.8 percent. Both measures were affected by the lower business operating profit, after tax, and net income attributable to shareholders as well as by the decrease in shareholders' equity.

Diluted earnings per share decreased by CHF 23.76, or 50 percent, to CHF 23.35 for the year ended December 31, 2008, compared with CHF 47.11 for the same period in 2007, reflecting the impact of the global financial crisis and the weakening of the U.S. dollar against the Swiss franc on average over the year. The corresponding diluted earnings per share movement in U.S. dollars was a decrease of USD 17.66, or 45 percent, to USD 21.63.

Outlook

2009 will be a challenging year as financial markets are expected to remain difficult and the extended effect of the credit crisis and worldwide recession affects the wider economy.

The Group's strategy has been to build businesses which operate efficiently and with discipline in all market conditions. Overall the Group will continue to drive greater operating efficiency through The Zurich Way initiatives which are targeted to achieve USD 900 million of efficiency gains a year through 2009 to 2011. In addition, we will thrive to realize further cost contingencies of USD 400 million through 2009 as we respond to evolving market conditions.

For General Insurance, the rate environment clearly improved in the later stages of 2008, with an upturn in rates in the last quarter and moving into 2009 this trend is expected to continue. We remain committed to finding ways to grow profitably in targeted areas. We are starting from a strong baseline with robust operating profitability and strong growth in difficult market conditions. Based on the combination of our customer focus and market positioning, underwriting discipline and continuous operational improvements, we are confident that we can deliver market leading results.

Towards the end of 2008, Global Life saw an increased demand for protection products and changes in our customers saving patterns and we expect this trend to continue in 2009. We are well placed to respond with our ability to be flexible, reacting to our customer needs and the market, along with our execution skills and focus on costs to drive our business forward.

Ongoing turmoil in the financial markets has resulted in a highly challenging environment for the U.S insurance industry, a trend that is expected to continue through 2009 into 2010. Despite these challenges, we expect the Farmers Exchanges to continue to outperform current market leaders without sacrificing profitability. This is expected to support the stability in the fee income stream generated by Farmers Management Services.

We maintain our medium-term Group targets and are confident that our business is positioned well to cope with the expected conditions in 2009 subject to the risks inherent in our businesses which are laid out on pages 90 to 125 of the Risk review.

Shareholder distributions and share buy-backs

A net dividend of CHF 9.75 per share was paid from April 8, 2008, after the Annual General Meeting approved a gross dividend of CHF 15.00 per share on April 3, 2008. This gross dividend represented a 36 percent increase over the 2007 total gross dividend to shareholders of CHF 11.00, and was recognized through shareholders' equity in the second quarter of 2008.

On February 13, 2008, the Board of Zurich Financial Services authorized a share buy-back program for the repurchase of CHF 2.2 billion worth of shares over the course of 2008. As of December 31, 2008, 3,750,500 shares had been repurchased, reducing total equity by USD 1.0 billion.

On April 3, 2008, the cancellation of the 3,432,500 shares with a nominal value of CHF 0.10 repurchased through our share buy-back program in 2007, was approved by the Annual General Meeting. The effective date of the capital reduction was June 27, 2008.

The Board of Zurich Financial Services will propose for approval at the Annual General Meeting on April 2, 2009 a gross dividend of CHF 11.00.

General Insurance

in USD millions, for the years ended December 31	2008	2007	Change
Gross written premiums and policy fees	37,151	35,650	4%
Net earned premiums and policy fees	30,922	29,731	4%
Insurance benefits and losses, net of reinsurance	(22,441)	(20,966)	(7%)
Net underwriting result	593	1,305	(55%)
Net investment income	3,712	3,662	1%
Net non-technical result	(889)	(1,056)	16%
Business operating profit	**3,535**	**4,024**	**(12%)**
Loss ratio	72.6%	70.5%	(2.1 pts)
Expense ratio	25.5%	25.1%	(0.4 pts)
Combined ratio	**98.1%**	**95.6%**	**(2.5 pts)**

in USD millions, for the years ended December 31	Business operating profit		Combined ratio	
	2008	2007	2008	2007
Global Corporate	47	738	112.4%	96.2%
North America Commercial	1,238	1,460	97.4%	94.5%
Europe General Insurance	1,833	1,453	94.5%	96.6%
International Businesses	232	165	96.6%	98.8%
Group Reinsurance	186	208	nm	nm
Total	**3,535**	**4,024**	**98.1%**	**95.6%**

Business operating profit decreased by 12 percent or USD 489 million to USD 3.5 billion and by 14 percent on a local currency basis for the year ended December 31, 2008 compared with the prior year. This decrease was the result of a lower net underwriting result, partially offset by improved net investment income and net non-technical result. The underwriting result decreased by 55 percent to a profit of USD 593 million compared with USD 1.3 billion in the prior year. The main drivers of this decrease were higher attritional loss ratios as a result of lower premium rate levels, claims inflation as well as slightly higher catastrophe, large and other weather-related losses. The impact of lower premium rates was however moderated by continuing operational improvements and our underwriting discipline. The improvement in investment income of USD 50 million was mainly a result of a higher asset base. The improved net non-technical result of USD 167 million was driven by a variety of items with foreign exchange benefits and lower funding costs from Group Treasury being the major stand-alone items.

Gross written premiums and policy fees increased by 4 percent or USD 1.5 billion in U.S. dollar terms to USD 37.2 billion and by 2 percent on a local currency basis. This growth was achieved in line with our strategy to target organic and inorganic profitable growth focusing on personal and small business lines in Europe as well as in key emerging markets. Excluding the growth achieved through acquisitions, the general insurance gross written premiums grew by 1 percent in local currency against market trends which were adverse for the most part of the year.

The **net underwriting result** decreased by USD 712 million to USD 593 million, reflected in the 2.5 percentage point increase in the combined ratio to 98.1 percent attributable to an increase in the loss ratio of 2.1 percentage points to 72.6 percent, and in the expense ratio of 0.4 percentage points. The increase in the overall **loss ratio** arose mainly from increased attritional losses driven by lower premium rates particularly in Global Corporate in North America and North America Commercial. The total of catastrophe, other weather-related and large losses increased slightly compared with the previous year.

The **expense ratio** increased overall by 0.4 percentage points to 25.5 percent with the underlying increase resulting mainly from higher commissions driven by the change in business mix as we maintain our focus on profitable lines of business in a highly competitive environment and from the impact of recent acquisitions. These increases were partially offset by improvements in underlying operational efficiency as we have continued our strategic investments in operational transformation and customer focused initiatives, such as the rollout of Zurich HelpPoint but maintained our cost discipline. Examples of this discipline were the restructuring programs executed in certain businesses. In the U.S, we streamlined our operations and reduced our staff numbers by more than 600 full time equivalents and in the UK, by more than 900.

Global Corporate

in USD millions, for the years ended December 31	2008	2007	Change
Gross written premiums and policy fees	7,888	7,597	4%
Net underwriting result	(602)	185	nm
Business operating profit	**47**	**738**	**(94%)**
Loss ratio	92.2%	76.7%	(15.5 pts)
Expense ratio	20.2%	19.5%	(0.7 pts)
Combined ratio	**112.4%**	**96.2%**	**(16.2 pts)**

Business operating profit decreased by USD 691 million to USD 47 million for the year ended December 31, 2008. The decrease was attributable to a lower net underwriting result, which was partly offset by a favorable development in a variety of non-technical expense items, with foreign exchange benefits being the single largest contributor.

Gross written premiums and policy fees increased by USD 291 million, or 4 percent, in U.S. dollar terms and by USD 55 million, or 1 percent, on a local currency basis. We experienced rate declines across all regions in 2008, with the greatest pressures being experienced in North America while there were more moderate reductions in Europe and Asia. However, we have seen the improving trend in rates through the year accelerating in the fourth quarter, with Global Corporate able to achieve a small overall rate increase on business written in this period. The rate environment resulted in total premiums for our North American unit declining compared with prior year, with a higher amount of business lost in cases where customers did not accept the offered premiums required to meet the technical price. However, premiums in our European and Asian units increased in local currency terms as a result of higher new business levels.

The **net underwriting result** decreased by USD 787 million to a net loss of USD 602 million, leading to a 16.2 percentage point increase in the combined ratio. The **loss ratio** increased by 15.5 percentage points to 92.2 percent. Key drivers for this development were hurricanes Gustav and Ike and a significant increase in other large and weather-related losses in North America, impacting the loss ratio by 10.5 percentage points. Global Corporate was also affected by reserve developments and premium adjustments based on the profitability of certain contracts in prior years contributing 4 percentage points to the increase in the loss ratio. The **expense ratio** increase of 0.7 percentage points was driven by a combination of costs associated with the establishment of Global Corporate in Asia Pacific and the impact of lower rates and premium adjustments based on the profitability of certain contracts in prior years.

North America Commercial

in USD millions, for the years ended December 31	2008	2007	Change
Gross written premiums and policy fees	11,215	11,532	(3%)
Net underwriting result	243	521	(53%)
Business operating profit	**1,238**	**1,460**	**(15%)**
Loss ratio	70.3%	67.0%	(3.3 pts)
Expense ratio	27.1%	27.5%	0.4 pts
Combined ratio	**97.4%**	**94.5%**	**(2.9 pts)**

Business operating profit decreased by USD 222 million, or 15 percent, to USD 1.2 billion, attributable to a lower net underwriting result. An increase of 3.3 percentage points in the loss ratio, which was primarily attributable to a higher level of catastrophe and large losses, was partially offset by an improvement of 0.4 percentage points in the expense ratio.

Gross written premiums and policy fees decreased by USD 317 million, or 3 percent, to USD 11.2 billion, largely attributable to a continued decline in rates in the U.S commercial lines market which was also clearly slowing in the fourth quarter. This decline in rates was partially offset by a slight increase in retention ratios, while new business results remained flat when compared with the prior year. These results were achieved during one of the most difficult economic environments in recent history; sharp declines in automotive sales and new house starts creating pressure on top-line growth in business segments where premium is closely tied to these economic indicators. Through its market segmentation approach, North America Commercial targets specific, profitable segments for growth, whilst pulling back on those segments falling below our profitability hurdles. Gross written premium in these targeted growth segments increased by 5 percent while gross written premium in all other segments declined by 7 percent.

The **net underwriting result** decreased by USD 278 million to USD 243 million corresponding to a 2.9 percentage point increase in the combined ratio to 97.4 percent. The **loss ratio** increased by 3.3 percentage points to 70.3 percent. A significant increase in catastrophe losses, resulting from both a higher frequency of tornadoes and hailstorms and from hurricanes Gustav and Ike, was a major driver of the increase in the loss ratio. Total large and weather-related losses were USD 345 million in 2008 compared with USD 54 million in 2007, equivalent to 3.1 percentage points of the 2008 loss ratio. A deterioration in the attritional loss ratio driven by lower premium rates and claims inflation was mitigated by favorable development of reserves established for prior years. The **expense ratio** decreased 0.4 percentage points to 27.1 percent, as a slight increase in commission rates was more than offset by a decrease in other underwriting and operating expenses resulting from proactive actions taken by North America Commercial during the course of the year to manage its expense base.

Europe General Insurance

in USD millions, for the years ended December 31	2008	2007	Change
Gross written premiums and policy fees	15,293	13,852	10%
Net underwriting result	776	440	76%
Business operating profit	**1,833**	**1,453**	**26%**
Loss ratio	69.8%	72.7%	2.9 pts
Expense ratio	24.8%	23.9%	(0.9 pts)
Combined ratio	**94.5%**	**96.6%**	**2.1 pts**

Business operating profit increased by USD 380 million, or 26 percent, to USD 1.8 billion, attributable to an improvement in the net underwriting result of USD 336 million and an increase in net investment income of USD 69 million, driven by higher investment yields.

Gross written premiums and policy fees increased by USD 1.4 billion or 10 percent in U.S. dollars terms to USD 15.3 billion, and by 7 percent on a local currency basis driven by a combination of organic growth and acquisitions. Underlying growth of 3 percent was generated by strong new business production in selected markets, despite competitive market conditions. Pressure on rates in commercial lines continued, although variable by country, with the strongest decrease in Ireland. In Italy, gross written premiums increased by 12 percent on a local currency basis primarily as a result of strong new business production in personal lines supported by the expansion of the tied agent network. In the UK, an organic increase of 2 percent on a local currency basis was primarily a function of strong action in personal motor lines and professional liability. In Germany, both the impact of acquisitions and improved new business contributed to the overall 4 percent increase in gross written premiums on a local currency basis. Overall, acquisitions contributed 3 percent on a local currency basis, primarily those in Spain, Turkey and Germany in 2008 augmented by a full year contribution from Russia which has also underlying growth.

The **net underwriting result** increased by USD 336 million to USD 776 million, primarily as a result of a 2.9 percentage point improvement in the loss ratio to 69.8 percent. In 2007, the **loss ratio** was impacted by winter storm Kyrill and the UK floods in June and July, which together accounted for USD 677 million or 5.2 percentage points on the loss ratio. While in Europe there have been no major catastrophes in 2008, a higher frequency of smaller weather-related events occurred, contributing to an increased attritional loss ratio. The **expense ratio** increased by 0.9 percentage points to 24.8 percent as a result of higher commissions and higher expense ratios in the recently acquired businesses in Russia and Turkey. Underlying expense improvements more than compensated for investments in our European platform, as well as other growth and operational transformation related activities.

International Businesses

in USD millions, for the years ended December 31	2008	2007	Change
Gross written premiums and policy fees	3,402	3,103	10%
Net underwriting result	86	27	nm
Business operating profit	**232**	**165**	**41%**
Loss ratio	63.2%	65.3%	2.1 pts
Expense ratio	33.5%	33.5%	–
Combined ratio	**96.6%**	**98.8%**	**2.2 pts**

Business operating profit increased by USD 67 million, or 41 percent, to USD 232 million resulting from improvements in the net underwriting result driven by a stronger combined ratio. Investment income also increased across most regions, but most significantly in Latin America and Australia. The acquisition of Minas Brazil which was completed in November 2008 is not yet included in this result; however, the integration is progressing well and we expect to realize benefits from this acquisition starting in 2009.

Gross written premiums and policy fees increased by USD 299 million or 10 percent in both U.S. dollar terms and on a local currency basis. The increases arose as a result of strong rate increases particularly in Australia, where Zurich also benefited from higher new business levels in motor and property lines. By implementing new product lines and distribution channels particularly in Latin America as well as driving rate increases in response to inflationary pressures particularly in South Africa and Latin America, we were further able to increase our top-line. The Asian business of International Businesses benefited from the re-entry into the Singapore market.

The **net underwriting result** improved by USD 59 million to USD 86 million, primarily as a result of the improved **loss ratio**, which decreased by 2.1 percentage points to 63.2 percent. This improvement was largely driven by decreases in weather-related and large losses in Latin America, Greater China and Australia as well as rate increases flowing through to premiums earned.

Global Life

in USD millions, for the years ended December 31	2008	2007	Change
Insurance deposits	11,079	12,080	(8%)
Gross written premiums and policy fees	10,784	9,623	12%
Net investment income on Group investments	4,496	4,226	6%
Insurance benefits and losses, net of reinsurance	(9,211)	(694)[1]	nm
Underwriting and policy acquisition costs, net of reinsurance	(1,880)	(1,629)	(15%)
Administrative and other operating expenses	(2,400)	(1,962)	(22%)
Business operating profit	**1,480**	**1,443**	**3%**
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts	154,617	191,117	(19%)
Assets under management[2]	180,189	220,056	(18%)
Embedded value – highlights			
New business annual premium equivalent (APE)	**3,261**	**2,947**	**11%**
Present value of new business premiums (PVNBP)	25,883	23,781	9%
New business margin, after tax (as % of APE)	**23.1%**	**24.7%**	**(1.7 pts)**
New business margin, after tax (as % of PVNBP)	2.9%	3.1%	(0.2 pts)
New business value, after tax	**753**	**729**	**3%**

[1] In 2007, ceded insurance benefits and losses included USD 7.1 billion relating to the reinsurance of an annuity portfolio in the UK.
[2] Assets under management comprise Group and unit-linked investments that are included in the Global Life balance sheet plus assets that are managed by third parties, for which we earn fees.

Throughout the year ended December 31, 2008, Global Life faced challenging market conditions in its core markets from falling and volatile equity markets and from consumer reactions to the global financial crisis. Despite the increasingly challenging conditions, new business APE and business operating profit increased compared with the prior year. The acquisitions in Spain, completed in the third quarter, contributed to the results recorded for the year.

New business annual premium equivalent (APE) increased by USD 314 million to USD 3.3 billion, or 11 percent in U.S. dollar terms, and by 10 percent on a local currency basis achieving for the third year in a row the targeted double-digit growth. The increase was driven by the bancassurance business in Spain, sales growth in unit-linked business in Germany, corporate life business in Emerging Markets, and mutual fund sales in the UK, which more than offset the challenging market conditions impacting single premium unit-linked products, and protection sales in the U.S. The newly acquired businesses in Spain and Italy contributed USD 236 million in 2008.

Business operating profit increased by USD 37 million to USD 1.5 billion, an increase of 3 percent in U.S. dollar terms, and by 1 percent on a local currency basis. The improved performance, on a local currency basis, in the UK and Germany, moderated the negative impact from falling asset values that reduced asset-based fees and accelerated amortization of deferred acquisition costs and intangible assets.

Insurance deposits decreased by 8 percent in U.S. dollar terms to USD 11.1 billion and by 8 percent on a local currency basis, primarily driven by a reduction in single premium savings products in the UK, reflecting consumer uncertainties in the turbulent financial markets. **Gross written premiums and policy fees** increased by 12 percent in U.S. dollar terms to USD 10.8 billion, and by 6 percent on a local currency basis. The increase on a local currency basis reflects the impact of the newly acquired businesses in Spain. In addition, the U.S grew 4 percent over the prior year despite the adverse market conditions. Gross written premiums, policy fees and deposits do not include sales of mutual funds and other assets managed by third parties, where only the fee element is recognized in other income.

Net reserves and **Assets under management** decreased by 19 percent and 18 percent respectively, in U.S. dollar terms and by 7 percent after excluding the impact of foreign currency translation, compared with December 31, 2007. The decrease from foreign currency translation resulted from the strengthening of the U.S. dollar against the British pound and the euro as of December 31, 2008 compared with December 31, 2007. On a local currency basis the decrease is primarily due to the reduction in the value of policyholders' unit-linked insurance and investment contracts as a result of equity market decreases during the year. Assets under management comprise Group and unit-linked investments that are included in the Global Life balance sheet plus assets that are managed by third parties for which we earn fees.

in USD millions, for the years ended December 31	New business annual premium equivalent (APE)		New business value, after tax		New business margin, after tax (as % of APE)		Business operating profit	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
United States	101	119	91	108	90.4%	90.8%	230	313
United Kingdom	878	926	90	121	10.2%	13.1%	429	439
Germany	690	570	265	184	38.3%	32.3%	332	213
Switzerland	123	104	36	33	29.4%	31.4%	190	175
Ireland	327	301	61	69	18.7%	23.0%	77	64
Spain	294	66	44	14	14.9%	20.8%	39	42
Emerging Markets	648	664	131	177	20.1%	26.6%	72	79
of which:								
ZIS[1]	*449*	*453*	*91*	*93*	*20.3%*	*20.4%*	*29*	*27*
Hong Kong	*77*	*135*	*17*	*65*	*21.6%*	*48.2%*	*2*	*5*
Latin America	*122*	*76*	*30*	*19*	*24.6%*	*25.4%*	*51*	*47*
Rest of the World	200	197	35	23	17.6%	11.8%	111	118
Total	**3,261**	**2,947**	**753**	**729**	**23.1%**	**24.7%**	**1,480**	**1,443**

[1] ZIS results in 2008 exclude USD 7 million of development costs that were incurred centrally.

Business operating profit increased by USD 37 million to USD 1.5 billion, an increase of 3 percent in U.S. dollar terms, and by 1 percent on a local currency basis. The performance of our UK business, in local currency, has benefited from external and intra-group transactions reducing its exposure to non-core annuities. These transactions improved UK capital efficiency as well as the business mix for UK policyholder tax purposes. The benefits were partially offset by the effects of the current market environment that have reduced asset values resulting in accelerated amortization of deferred acquisition costs and intangible assets, and lower asset-based fees. The improvement in business operating profit in Germany is mainly attributable to the introduction of a new law that has changed the basis for determining policyholder participation. In the U.S. business operating profit decreased by USD 83 million primarily due to an increase in deferred policy acquisition costs in 2008 compared with 2007. In 2008, deferred policy acquisition costs were reduced by USD 41 million resulting from reduced maintenance costs compared with the reduction of USD 106 million in 2007 resulting from improved mortality experience.

New business annual premium equivalent (APE) increased by USD 314 million to USD 3.3 billion, or 11 percent in U.S. dollar terms, and by 10 percent on a local currency basis during the year ended December 31, 2008. The growth in Spain of USD 228 million was achieved through the successful integration of the businesses acquired in the third quarter. In Germany, APE increased by 21 percent in U.S. dollar terms, and by 13 percent on a local currency basis, driven by growth in unit-linked pensions. APE in Emerging Markets decreased by 2 percent in U.S. dollar terms, and increased by 3 percent on a local currency basis primarily through strong growth of corporate business in Zurich International Solutions (ZIS) and growth across Latin America, partially offset by a reduction in Hong Kong as 2007 included the impact of a sales campaign. In the UK, APE decreased by 5 percent in U.S. dollar terms and increased by 2 percent on a local currency basis, primarily driven by strong growth in mutual funds that more than offset a reduction in unit-linked savings. APE in the Rest of the World increased by 1 percent in U.S. dollar terms, and decreased by

5 percent on a local currency basis primarily as a result of a decrease in investment business in Italy in the fourth quarter. Switzerland increased by 19 percent in U.S. dollar terms, and by 7 percent on a local currency basis, with improvements in group sales offsetting a decrease in individual business. In the U.S, a reduction in individual business has resulted in lower new business APE of 15 percent. In Ireland, APE increased by 9 percent in U.S. dollar terms, and by 1 percent on a local currency basis, driven by growth in pension sales offset by a reduction in single premium savings product sales.

New business value, after tax, increased by USD 24 million to USD 753 million, primarily as a result of the increased sales of unit-linked pension products and higher margins in Germany and growth in sales volumes in Spain, partially offset by reduced margins in Emerging Markets, the UK, Ireland, and Spain, and lower sales volumes in the U.S. Margins in Germany increased as a result of changes in the business model. In Emerging Markets, the UK, Ireland and Spain, increased acquisition costs and changes in product mix, as a result of the adverse market conditions, put pressure on margins. Overall, the new business margin after tax, decreased by 1.7 percentage points to 23.1 percent.

APE by pillar and product

in USD millions, for the years ended December 31	Unit-linked[1]		Protection		Other[2]		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
Bancassurance	432	355	57	26	257	95	746	477
IFA/Brokers	517	638	146	143	279	343	942	1,124
Tied Agents	236	281	128	128	174	142	537	551
Corporate Life	–	–	–	–	414	314	414	314
International/Expats	323	389	–	–	–	–	323	389
Private Banking Clients	1	–	–	–	–	–	1	–
Direct and central initiatives	–	3	6	7	292	82	298	92
Total	**1,509**	**1,667**	**336**	**305**	**1,416**	**975**	**3,261**	**2,947**

[1] Unit-linked includes insurance and investment contracts.
[2] Other includes primarily group and individual savings contracts.

During 2008, a global approach to the management of new business distribution was implemented through the introduction of three global distribution pillars, Bancassurance, IFA/Brokers, and Tied Agents, and three global proposition pillars, Corporate Life, International/Expats, and Private Banking Clients. Further distribution was driven by direct and central initiatives, which include sales of new business outside the global distribution and proposition pillars and include initiatives related to our focus on the management of in-force business and improvement of persistency and retention.

Bancassurance distribution was the main growth driver increasing by USD 269 million to USD 746 million, or by 56 percent in U.S. dollar terms, and by 46 percent on a local currency basis. The new business acquired in Spain contributed USD 226 million to this growth with the remaining increase driven by higher sales of unit-linked pensions in Germany and protection sales in Emerging Markets.

Independent Financial Advisors (IFA)/Brokers distribution reduced by USD 182 million to USD 942 million, or by 16 percent in U.S. dollar terms, and by 15 percent on a local currency basis during the year. Sales in the UK reduced as a result of legislative changes impacting unit-linked bonds as well as from the financial crisis. These effects were partially offset by growth in unit-linked sales in Germany, where the broker channel increased its overall new business by 41 percent in local currency, and now represents 25 percent of new business distribution in Germany.

Tied Agents distribution reduced by USD 14 million to USD 537 million, or 3 percent in U.S. dollar terms, and by 7 percent on a local currency basis during the year. While sales in many countries proved resilient to the developing financial crisis, the average case size of unit-linked sales in our Hong Kong domestic business reduced and in the U.S. Farmers protection sales also decreased.

Corporate Life pillar increased by USD 100 million to USD 414 million, or 32 percent in U.S. dollar terms, and by 29 percent on a local currency basis during the year. Growth in Emerging Markets was driven by the international group protection business of ZIS, and in Ireland through further increases in market share in group pensions.

International/Expats pillar decreased by USD 66 million to USD 323 million, or 17 percent in U.S. dollar terms, and by 8 percent on a local currency basis during the year as a result of the financial crisis that has reduced consumer confidence impacting sales of investment products especially in Hong Kong, partly offset by the USD 31 million or 65 percent growth from the second year of operations in Singapore.

Private Banking Clients pillar was established in the second half of 2008 achieving USD 1 million by the year end.

Direct and central initiatives increased by USD 206 million to USD 298 million during the year ended December 31, 2008 mainly attributable to customer offers, in the UK, targeted at improving the persistency and retention of the in-force business.

Farmers Management Services

in USD millions, for the years ended December 31	2008	2007	Change
Management fees and other related revenues	2,458	2,266	8%
Management and other related expenses	(1,317)	(1,210)	(9%)
Gross management result	1,141	1,056	8%
Other net income	61	215	(72%)
Business operating profit	**1,202**	**1,271**	**(5%)**
Managed gross earned premium margin	6.9%	6.8%	0.1 pts

Business operating profit decreased by USD 69 million to USD 1.2 billion. An increased contribution from the underlying operations driven by the 8 percent growth in fees from the Farmers Exchanges, which we manage but do not own, was more than offset by a decrease in other net income including lower net investment income of USD 83 million as a result of the lower average invested asset base following dividends and cash transfers to the Group in November 2007 and during 2008, together with the sale of debt securities for the acquisition of Bristol West in 2007. Additionally, other net income decreased as gains of USD 47 million on the sale of property relating to the concentration of customer service activities into three ServicePoints were recognized in the prior year, but not repeated in 2008.

Management fees and other related revenues increased by USD 192 million to USD 2.5 billion, primarily driven by the 6 percent increase in gross earned premiums (excluding the Zurich Small Business Solutions (SBS) portfolio transfer) at the Farmers Exchanges, which we manage but do not own. Bristol West, which was acquired in July 2007, contributed USD 94 million to the increase in management fees and other related revenues, while SBS, for which the rights to renew policies were acquired by the Farmers Exchanges from Zurich North America Commercial in June 2008, contributed USD 66 million. Management and other related expenses increased by USD 107 million, including USD 49 million related to Bristol West and USD 65 million related to SBS. As a result of these changes and underlying improvements, the **gross management result** improved by USD 85 million to USD 1.1 billion, while the **managed gross earned premium margin** improved to 6.9 percent from 6.8 percent in the prior year.

Farmers Exchanges

in USD millions, for the years ended December 31	2008	2007	Change
Gross written premiums	17,135 [1]	15,806	8%
Gross earned premiums	16,541	15,547	6%

[1] Includes USD 425 million premium portfolio transfer in June 2008 of SBS from North America Commercial.

Gross earned premiums in the Farmers Exchanges, which we manage but do not own increased by USD 994 million, of which USD 437 million related to Bristol West and USD 411 million related to SBS, acquired from Zurich North America Commercial in June 2008.

Other Businesses

in USD millions, for the years ended December 31	2008	2007	Change
Business operating profit:			
Farmers Re	154	173	(11%)
Centre	(106)	252	nm
Centrally Managed Businesses	(487)	291	nm
Rest of Other Businesses	179	63	nm
Total business operating profit	**(260)**	**779**	**nm**

Farmers Re business operating profit decreased by USD 19 million to USD 154 million reflecting lower investment income and an increase in weather-related and catastrophe losses partially offset by the Group's increase in its participation in the All Lines Quota Share reinsurance contract with the Farmers Exchanges from 5 percent to 25 percent, effective September 30, 2008. **Centre** decreased by USD 358 million due to negative investment returns relating to capital losses from negative mark to market movements on debt and other securities and due to a reduction of profitable commutations and other run-off transactions compared with the prior year. **Centrally Managed Businesses,** which largely comprise portfolios that we proactively manage to achieve a profitable run-off over time, decreased by USD 778 million to a loss of USD 487 million, primarily driven by the impact of adverse equity market movements and widening credit spreads on Group investments as well as on the strengthening of certain insurance liabilities. USD 322 million of the decrease was attributable to the valuation of hedge fund investments mainly carried by Zurich Capital Markets. The **Rest of Other Businesses** increased by USD 116 million to USD 179 million following an improved result in banking and certain run-off positions carried at Group.

Corporate Functions

in USD millions, for the years ended December 31	2008	2007	Change
Net investment income	528	731	(28%)
Interest expense on debt	(1,122)	(1,317)	15%
Business operating loss	**(772)**	**(810)**	**5%**
Net headquarter expenses, after allocations to operating businesses and excluding foreign currency impacts	(90)	(168)	43%

Business operating loss improved by USD 38 million to a loss of USD 772 million for the year ended December 31, 2008, primarily driven by a reduction in net headquarter expenses.

Net headquarter expenses improved by USD 78 million to USD 90 million driven by lower gross expense levels, as well as higher allocations to the operating businesses.

Investment position and performance

Breakdown of investments

in USD millions, as of	Group investments 12/31/08	Group investments 12/31/07	Unit-linked investments 12/31/08	Unit-linked investments 12/31/07
Cash and cash equivalents	11,965	13,943	4,431	2,993
Equity securities:	14,242	20,416	60,154	100,178
Common stocks, including equity unit trusts	8,896	14,245	51,276	90,593
Unit trusts (debt securities, real estate and short-term investments)	3,930	3,291	8,879	9,585
Common stock portfolios backing participating with-profit policyholder contracts	630	1,274	–	–
Trading equity portfolios in capital markets and banking activities	786	1,606	–	–
Debt securities	118,103	123,762	9,335	10,112
Real estate held for investment	7,524	7,563	4,077	7,823
Mortgage loans	12,820	12,718	–	–
Policyholders' collateral and other loans	12,531	12,936	2	2
Investments in associates	220	238	–	–
Other investments	2,165	2,024	204	985
Total	**179,570**	193,600	**78,203**	122,092

Group investments have decreased by 7 percent or USD 14.0 billion to USD 179.6 billion since December 31, 2007. After excluding the effect of foreign currency translation, Group investments decreased by 1 percent. This decrease was primarily driven by investments related to Global Life and was consistent with the corresponding development of life insurance liabilities.

Unit-linked investments have decreased by USD 43.9 billion or 36 percent in U.S. dollars terms to USD 78.2 billion since December 31, 2007. After excluding the effect of foreign currency translation, unit-linked investments decreased by 22 percent, primarily as a result of lower equity valuations following adverse market movements. This decrease is reflected in lower liabilities for investment and unit-linked liabilities.

Our investment policy remains conservative; investment grade securities comprise 99.4 percent of our debt securities, of which 59.4 percent are rated AAA. U.S sub-prime mortgage-backed securities comprise 0.1 percent of Group investments, with 35 percent of these securities rated AAA. USD 14 million of impairments on U.S sub-prime investments have been recognized in the year ended December 31, 2008.

Performance of Group investments

in USD millions, for the years ended December 31	2008	2007	Change
Net investment income	8,725	8,591	2%
Net capital (losses)/gains on investments and impairments	(2,893)	1,503	(292%)
of which: net capital (losses)/gains on investments and impairments attributable to shareholders	(2,046)	1,112	(284%)
Net investment result	5,832	10,094	(42%)
Net investment return on Group investments	**3.1%**	**5.3%**	**(2.1 pts)**
Movements in net unrealized gains/(losses) on investments included in total equity	(3,902)	(2,659)	(47%)
Total investment result, net of investment expenses[1]	**1,930**	**7,435**	**(74%)**
Average Group investments[2]	185,558	191,790	(3%)
Total return on Group investments	**1.0%**	**3.9%**	**(2.8 pts)**

[1] After deducting investment expenses of USD 261 million and USD 247 million for the years ended December 31, 2008 and 2007, respectively
[2] Excluding average cash received as collateral for securities lending of USD 1.0 billion and USD 2.8 billion as of December 31, 2008 and 2007, respectively

Total return (net of investment expenses) on average Group investments was positive 1.0 percent, a decrease of 2.8 percentage points compared with the prior year due to the reduced overall performance of our debt portfolio and other investments. Debt securities, which are invested to match our insurance liability profiles, returned positive 2.5 percent. Equity securities returned negative 26.8 percent largely as a consequence of progressive deterioration in the markets during 2008. Other investments, mainly real estate and mortgages, returned a positive 8.0 percent.

Total **net investment income** increased by USD 134 million, or 2 percent in U.S. dollar terms to USD 8.7 billion, but decreased by 1 percent on a local currency basis. This decrease was driven by a lower average invested asset base in Global Life due to the transfer of investments relating to our UK Life annuity business, which was reinsured in mid-2007, and the continued shift in our life business to unit-linked products and the related unit-linked investments including those managed by third parties, offset by positive net cash flow in General Insurance. Net investment income return was 4.7 percent, an increase of 22 basis points compared with the prior year, largely due to investing positive cash flow in debt securities at higher rates.

Total **net capital losses on investments and impairments** were USD 2.9 billion, which included both losses of USD 739 million arising from the sale of investments and USD 2.2 billion of negative revaluations. These negative revaluations were driven by impairments of USD 2.5 billion, a further USD 1.1 billion of negative revaluations on equities booked as fair value through income and USD 168 million of negative revaluations on debt securities also booked as fair value through income. The impairments of USD 2.5 billion were attributable to USD 1.2 billion of equity impairments and USD 1.2 billion of impairments on debt securities. These adverse impacts from revaluations and impairments were offset by positive revaluations from derivatives of USD 1.3 billion, including hedges on equity securities of USD 983 million, and gains from real estate of USD 210 million.

Net unrealized losses included in total equity have increased by USD 3.9 billion since December 31, 2007, due to an increase of USD 1.4 billion in net unrealized losses on debt securities as interest rates changed and credit spreads widened, as well as a reduction of USD 2.4 billion in net unrealized gains on equity securities as a result of the decline in major global equity markets.

Performance of unit-linked investments

in USD millions, for the years ended December 31	2008	2007	Change
Net investment income	3,185	3,000	6%
Net capital (losses)/gains on investments and impairments	(24,916)	4,142	(702%)
Net investment result, net of investment expenses[1]	(21,731)	7,142	(404%)
Average investments	100,148	118,210	(15%)
Total return on unit-linked investments	**(21.7%)**	**6.0%**	**(27.7 pts)**

[1] After deducting investment expenses of USD 581 million and USD 528 million for the years ended December 31, 2008 and 2007, respectively

Total return on unit-linked investments decreased by 27.7 percentage points to a negative return of 21.7 percent due to net capital losses and impairments of USD 24.9 billion as a result of adverse global financial market developments. This was partially offset by a 6 percent increase in net investment income to USD 3.2 billion.

Insurance and investment contract liabilities

Reserves for losses and loss adjustment expenses

in USD millions	2008	2007
As of January 1		
Gross reserves for losses and loss adjustment expenses	67,890	64,535
Reinsurers' share	(13,179)	(13,722)
Net reserves for losses and loss adjustment expenses	**54,712**	**50,814**
Net losses and loss adjustment expenses incurred	24,145	22,155
Current year	25,416	23,374
Prior years	(1,271)	(1,219)
Total net losses and loss adjustment expenses paid	(22,150)	(19,856)
Acquisitions/(divestments)	77	51
Foreign currency translation effects	(3,798)	1,548
As of December 31		
Net reserves for losses and loss adjustment expenses	**52,986**	**54,712**
Reinsurers' share	(12,232)	(13,179)
Gross reserves for losses and loss adjustment expenses	65,218	67,890

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

As of December 31, 2008, net reserves for losses and loss adjustment expenses decreased by USD 1.7 billion, to USD 53.0 billion compared with USD 54.7 billion as of December 31, 2007. Excluding the impact of foreign currency translation effects of USD 3.8 billion the net reserves increased by USD 2.1 billion. Compared with the net reserves at the end of 2007, part of this increase was losses associated with Hurricanes Gustav and Ike still not settled as of balance sheet date. There was also a significant increase in other large and weather-related losses in North America. Favorable developments emerging from reserves established in prior years arose across a number of countries and lines of business primarily from our General Insurance business.

Development of cumulative net loss ratio

	2001	2002	2003	2004	2005	2006	2007	**2008**
In the year	81.4%	70.6%	67.1%	68.3%	73.3%	69.6%	72.7%	74.6%
One year later	85.7%	72.0%	66.1%	64.2%	68.1%	66.2%	71.7%	
Two years later	85.8%	72.3%	65.4%	63.5%	66.6%	64.8%		
Three years later	87.4%	74.5%	65.5%	63.7%	65.0%			
Four years later	88.5%	74.7%	65.7%	62.9%				
Five years later	90.2%	73.4%	65.0%					
Six years later	90.2%	74.3%						
Seven years later	90.3%							

This table represents the loss ratio development for individual accident years for the Group, with the General Insurance segment being the primary driver. Individual accident years are affected by the level of large catastrophe losses which had the following impact on the loss ratios: the 2004 and 2005 hurricanes impacted the loss ratios by 2.8 and 4.6 percentage points, the winter storm Kyrill and the UK floods in 2007 impacted the loss ratio by 2.5 percentage points, and in 2008 the impact of hurricanes Gustav and Ike was 1.8 percentage points. The Zurich Way of Reserving adopts a conservative view across accident years suggesting that most years would develop favorably over time.

Reserves for life insurance contracts and liabilities for investment contracts

The majority of the Group's reserves for life insurance contracts and liabilities for investment contracts are attributable to Global Life. Life insurance reserves in other segments relate predominantly to companies that are in run-off or are centrally managed, and are included only in this first table.

Group reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts

in USD millions	Global Life	Other segments	Total Group
Net reserves as of January 1, 2008	191,117	20,043	211,159
Movements in net reserves	(36,500)	(2,682)	(39,181)
Net reserves as of December 31, 2008	**154,617**	**17,361**	**171,978**

The following provides further detail on the development and composition of reserves and liabilities in our **Global Life** business.

Global Life – Development of reserves and liabilities

in USD millions	Unit-linked insurance and investment contracts[1]		Other life insurance liabilities[2]		Total reserves and liabilities	
	2008	2007	**2008**	2007	**2008**	2007
As of January 1						
Gross reserves	109,072	101,330	91,596	87,949	200,668	189,278
Reinsurers' share[3]	–	–	(9,551)	(1,753)	(9,551)	(1,753)
Net reserves	**109,072**	**101,330**	**82,044**	**86,196**	**191,117**	**187,525**
Premiums and claims	(1,485)	(1,984)	(3,470)	(13,346)	(4,955)	(15,330)
Interest and bonuses credited to policyholders	(18,615)	6,682	1,927	3,685	(16,689)	10,367
Change in assumptions	–	–	(202)	216	(202)	216
Acquisitions/(Divestments)	1,623	(514)	6,467	–	8,090	(513)
Changes recorded in shareholders' equity	9	(31)	177	(1,615)	187	(1,646)
Foreign currency translation effects	(19,305)	3,590	(3,626)	6,908	(22,931)	10,498
As of December 31						
Net reserves	**71,299**	**109,072**	**83,318**	**82,044**	**154,617**	**191,117**
Reinsurers' share[3]	–	–	(1,992)	(9,551)	(1,992)	(9,551)
Gross reserves	71,299	109,072	85,310	91,596	156,609	200,668

[1] Includes reserves for unit-linked contracts, the net amounts of which were USD 35.1 billion and USD 54.3 billion, and liabilities for investment contracts, the net amounts of which were USD 36.2 billion and USD 54.7 billion as of December 31, 2008 and 2007, respectively
[2] Includes reserves for future life policyholders' benefits, the net amounts of which were USD 70.8 billion and USD 68.0 billion and policyholders' contract deposits and other funds, the net amounts of which were USD 12.5 billion and USD 14.0 billion as of December 31, 2008 and 2007, respectively
[3] In 2007, reinsurers' share of reserves for insurance contracts included USD 7.1 billion related to the reinsurance of a UK annuity portfolio. Subsequent to the approval from the UK High Court on June 30, 2008, the underlying contracts were transferred to the reinsurer, resulting in a reduction of gross reserves for insurance contracts and the related reinsurers' share.

Total reserves and liabilities for insurance and investment contracts, net of reinsurance, decreased by 19 percent, and by 7 percent after excluding the impact of currency translation, compared with December 31, 2007. The decrease was primarily driven by adverse market movements reported in the change in interest and bonuses credited to policyholders for unit-linked insurance and investment contracts, an excess of policyholder benefits paid over premiums, partially offset by the inclusion of reserves for the acquisitions in Spain and Italy. The foreign currency impact in the unit-linked and investment contracts was primarily driven by the strengthening of the U.S. dollar against the British pound.

In 2007 the excess of claims over premiums of USD 15.3 billion was primarily the result of the reinsurance of USD 7.1 billion of UK annuity liabilities, and a reduction of USD 2.5 billion of liabilities relating to traditional group life contracts in Switzerland of which USD 1.8 billion was transferred to independent pension foundations, to which we provide services but do not control. In the second quarter of 2008, the reinsured UK annuity liabilities were commuted resulting in a corresponding reduction in the reinsurers' share of liabilities.

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

in USD millions	Unit-linked insurance and investment contracts		Other life insurance liabilities		Total reserves and liabilities	
	12/31/08	12/31/07	**12/31/08**	12/31/07	**12/31/08**	12/31/07
United States	685	856	4,861	4,803	5,546	5,658
United Kingdom	42,655	73,400	4,033	5,971	46,688	79,371
Germany	6,387	8,768	40,879	43,672	47,266	52,439
Switzerland	1,676	1,630	15,044	15,086	16,720	16,716
Ireland	5,985	7,324	1,418	1,536	7,403	8,860
Spain	2,669	1,980	8,775	2,621	11,444	4,601
Emerging markets	5,222	7,525	2,815	2,955	8,037	10,479
of which:						
ZIS	*4,749*	*6,816*	*696*	*727*	*5,446*	*7,543*
Hong Kong	*232*	*386*	*805*	*771*	*1,036*	*1,157*
Latin America	*241*	*322*	*1,314*	*1,457*	*1,555*	*1,779*
Rest of the world	6,021	7,591	5,490	5,397	11,511	12,988
Eliminations	–	–	3	3	3	3
Total	**71,299**	**109,072**	**83,318**	**82,044**	**154,617**	**191,117**

Unit-linked insurance and investment contracts, net of reinsurance, decreased by 35 percent, and by 17 percent after excluding the impact of currency translation, compared with December 31, 2007. The reduction of USD 19.3 billion from foreign currency translation was due to the strong appreciation of the U.S. dollar against the British pound and the euro since December 31, 2007. Falling equity market movements resulted in a decrease in interest and bonuses credited to policyholders across all countries. The liabilities were also reduced by an excess of policyholder benefits paid over premiums of USD 1.5 billion that was driven by the overall maturity of the UK portfolio and the challenging market conditions reducing sales of single premium unit-linked products in the UK and Ireland. The increase in Spain was driven by the inclusion of reserves for the business acquired.

Other life insurance liabilities, net of reinsurance, increased by 2 percent, and by 6 percent after excluding the impact of currency translation, compared with December 31, 2007. The reduction of USD 3.6 billion from foreign currency translation was due to the strong appreciation of the U.S. dollar against the British pound and the euro partly offset by strengthening of the Swiss franc since December 31, 2007. The underlying increase was mainly due to the inclusion of reserves for the acquisitions in Spain and Italy, partly offset by an excess of policyholder benefits paid over premiums from the overall maturity of the portfolios in Germany and Switzerland and the shift in the focus for new business towards unit-linked insurance and investment contracts.

Indebtedness

in USD millions, as of December 31	2008	2007	Change
Total operational debt	6,188	8,578	(28%)
Total financial debt	9,633	8,999	7%
Total indebtedness	**15,821**	**17,576**	**(10%)**

Total indebtedness which decreased in the year by 10 percent to USD 15.8 billion, consists of debt related to capital markets and banking activities, senior and subordinated debt. Details on the composition of our debt and its contribution to operational and financial debt are set out in footnote 21 of our consolidated financial statements.

Operational debt decreased by 28 percent or USD 2.4 billion, primarily due to a reduction in collateralized loans from the repurchase of mortgages associated with these loans and a reduction in loans received as obligations to repurchase securities in order to reduce exposure to these securities.

Financial debt increased by 7 percent or USD 634 million in U.S. dollar terms and by 9 percent on a local currency basis. During the year, the Group has taken the opportunity to restructure elements of its financial debt and raise funds when market conditions were favorable. In terms of redemptions, ECAPS of USD 128 million were repaid in March and December giving rise to pre-tax gains of USD 41 million and a senior bond of CHF 300 million matured in July 2008. Issuances by the Group in September 2008, under its existing European Medium Term Note (EMTN) program, were senior bonds of CHF 300 million with a maturity in November 2011 and CHF 500 million with a maturity in September 2013.

Capitalization

in USD millions	Shareholders' equity	Minority interests	Total equity
As of December 31, 2007, as previously reported	28,804	374	29,177
Adjustment arising from a change in accounting policy	141	–	141
As of December 31, 2007, as restated	**28,945**	**374**	**29,318**
Issuance of share capital	1	–	1
Dividends	(2,096)	(8)	(2,104)
Redemption of preferred securities	(124)	–	(124)
Share-based payment transactions	48	–	48
Treasury share transactions	(812)	–	(812)
Total recognized income and expense, net of tax	(3,858)	6	(3,853)
Net income after taxes	*3,039*	*77*	*3,116*
Net other recognized income and expenses	*(6,897)*	*(71)*	*(6,968)*
Net changes in capitalization and non-controlling interests	–	1,307	1,307
As of December 31, 2008	**22,103**	**1,678**	**23,781**

Details of share capital and treasury share transactions are set out in note 22 of the consolidated financial statements.

Total equity decreased by 19 percent to USD 23.8 billion as of December 31, 2008. Net income after taxes of USD 3.1 billion was offset by losses in other recognized income and expenses of USD 7.0 billion, dividend payments of USD 2.1 billion and treasury share transactions of USD 812 million. The main drivers of other recognized income and expense were net realized losses on available-for-sale investments of USD 3.1 billion and currency translation adjustments of USD 2.7 billion. Non-controlling interests increased by USD 1.3 billion to USD 1.7 billion mainly as a result of the acquisitions in Spain initially accounted for in 2008.

Cash flows

Summary of cash flows

in USD millions, for the years ended December 31	2008	2007
Net cash provided by operating activities	7,050	(1,580)
Net cash used in investing activities	(1,442)	(617)
Net cash used in financing activities	(2,551)	(2,686)
Foreign currency translation effects on cash and cash equivalents	(1,896)	640
Change in cash and cash equivalents excluding change in cash received as collateral for securities lending	1,161	(4,243)
Cash and cash equivalents as of January 1[1]	15,059	19,302
Cash and cash equivalents as of December 31[1]	16,220	15,059
Change in cash received as collateral for securities lending	(1,700)	(1,943)
Cash and cash equivalents as of January 1[2]	16,936	23,122
Cash and cash equivalents as of December 31[2]	**16,397**	**16,936**

[1] Excluding cash received as collateral for securities lending
[2] Including cash received as collateral for securities lending

Net cash provided by operating activities was USD 7.1 billion for the year ended December 31, 2008. Net cash used in investing activities was USD 1.4 billion, as a result of the acquisitions completed during the year. Net cash used in financing activities was USD 2.6 billion, which was predominantly related to dividend payments and share buy-backs.

Currency translation impact

We operate worldwide in multiple currencies and seek to match our foreign exchange exposures on an economic basis.

As we have chosen the U.S. dollar as our presentation currency, differences arise when functional currencies are translated into our presentation currency. The table below shows the effect of foreign currency rates on the translation of selected line items.

Selected Group income statement line items

variance over the prior period, for the years ended December 31, 2008	in USD millions	in %
Gross written premiums and policy fees	1,300	3%
Insurance benefits and losses, gross of reinsurance	(1,538)	(5%)
Net income attributable to shareholders	26	1%
Business operating profit	34	1%

Selected Group balance sheet line items

variance over December 31, 2007, as of December 31, 2008	in USD millions	in %
Total investments	(28,777)	(10%)
Reserves for insurance contracts, gross	(17,916)	(7%)
Cumulative translation adjustment in shareholders' equity	(2,725)	(12%)

The income statements are translated at average exchange rates. Over the course of 2008, the U.S. dollar has been on average weaker despite its substantial strengthening against the British pound and the euro in the latter part of the year. The result is an increase in U.S. dollar terms in most income statement line items.

The balance sheets are translated at end-of-period rates. The strengthening of the U.S. dollar especially against the British pound and the euro as of December 31, 2008, compared with December 31, 2007, resulted in a decrease in U.S. dollar terms in most balance sheet line items.

Risk review

Effectively managing risks affecting Zurich is one of our long-standing core strengths. In 2008 our industry was shaken by severe financial turmoil as well as more than USD 200 billion in catastrophe losses. At Zurich we benefited from our robust risk management practices, which once again proved their strength – even in dealing with historic adversity.

The "Risk review" is an integral part of the consolidated financial statements (except for "Economic capital adequacy" on pages 123-125).

Mission and objectives of risk management

The mission of Zurich's Enterprise Risk Management is to promptly identify, measure, manage, report and monitor risks that affect the achievement of our strategic, operational and financial objectives. This includes adjusting the risk profile in line with the Group's stated risk tolerance to respond to new threats and opportunities in order to optimize returns.

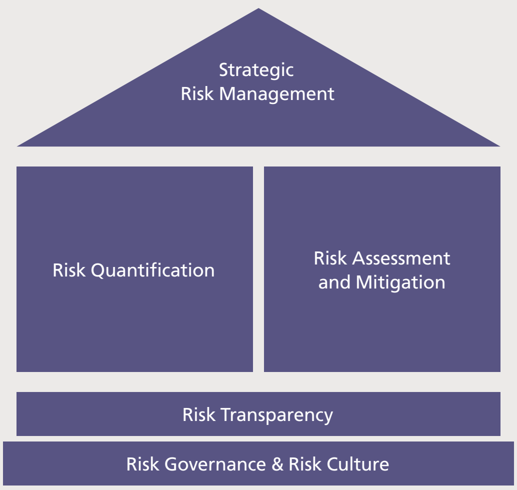
Our major Enterprise Risk Management objectives are to:

- Protect the capital base by monitoring that risks are not taken beyond the Group's risk-taking capacity
- Enhance value creation and contribute to an optimal risk-return profile by providing the basis for an efficient capital deployment
- Support the Group's decision-making process by providing consistent, reliable and timely risk information
- Protect our reputation and brand by promoting a sound culture of risk awareness

Risk management framework

In order to achieve our mission and objectives, the Group relies on its risk management framework.

Risk management framework



At the heart of the risk management framework is a robust governance process with clear responsibilities for risk taking, managing, monitoring and reporting. We articulate the roles and responsibilities for risk management throughout the organization, from the Board of Directors and the Chief Executive Officer to our businesses and functional areas, thus embedding risk management in the business (see Risk governance and risk management organization).

To support this process the Group relies on documented policies and guidelines. The Zurich Risk Policy is the Group's main risk governance document; it specifies risk limits and authorities, reporting requirements and procedures for referring risk issues to senior management and the Board of Directors. We regularly enhance the Zurich Risk Policy to reflect new insights and changes in our environment and to reflect changes to Zurich's risk tolerance as articulated by the Group Executive Committee (GEC) with respect to capital adequacy and earnings volatility.

One of the key elements of the Group's risk management framework is to foster risk transparency by establishing risk reporting standards throughout the Group. We regularly report on our risk profile, current risk issues, adherence to our risk policies and improvement actions both at a local and on a Group level. The Group has procedures in place for the timely referral of risk issues to senior management and the Board of Directors.

Risk management is not only embedded in our business but is also aligned with the Group's strategic and operational planning process. We assess risks systematically and from a strategic perspective through our proprietary Total Risk Profiling® (TRP) process, which allows us to identify and then evaluate the probability of a risk scenario occurring, as well as the severity of the consequences should it occur. We then develop, implement and monitor appropriate improvement actions. The TRP process is integral to how we deal with change, and is particularly suited for evaluating both strategic risks and risks to our reputation. At Group level this process is performed on an annual basis and is closely tied to the planning process.

In addition to this qualitative approach the Group regularly measures and quantifies material risks to which it is exposed. Our risk models provide a key input into the Group's strategic planning process as they allow an assessment as to whether the Group's risk profile is in line with the risk capacity of the Group and within the Group's risk tolerance. Our risk models form the basis for optimizing the Group's risk-return profile by providing a consistent risk measurement across the Group.

Through these processes, responsibilities and policies, we embed a culture of disciplined risk taking across the Group. We benefited from this disciplined approach to risk taking in 2008, and we continue to consciously take risks, for which we expect an adequate return. This approach requires sound judgment and an acceptance that certain risks can and will materialize in the future.

Changes in risk management during 2008

We are constantly assessing and improving our risk management to reflect internal and external factors. During 2008 we further strengthened our approach. These enhancements relate to both the organization and to processes, reporting and policies.

Organizational changes

- At the beginning of 2008 the position of Group Chief Risk Officer was elevated to the Group Executive Committee level. The Group Chief Risk Officer reports directly to the Chief Executive Officer (CEO) and the Risk Committee of the Board.
- The former Group Finance Committee was transformed into the Group Finance and Risk Committee (GFRC); this management committee now plays a key role in monitoring risk management activities including changes to the Group's risk profile, changes to the Zurich Risk Policy, material changes to the Group's Risk Based Capital methodology and M&A transactions.
- The Group Risk Management function at Corporate Center level has been grouped into two centers of expertise: risk analytics and risk operations (see Risk governance and risk management organization).
- At a business division level risk management is now organized as a shared service. During 2008 the shared services approach was implemented in Europe; the position of the Chief Risk Officer for North America was established, overseeing Farmers, North America Commercial and Global Corporate in North America.

Changes in processes, reporting and policies

- The content, granularity and governance process around the quarterly risk report to senior management committees and the Risk Committee of the Board were further strengthened and enhanced. At a local level, risk reporting to regional management and audit committees is now coordinated in the context of Zurich's integrated assurance approach with other assurance, technical and business functions to provide a holistic view of risks.
- The Group Executive Committee improved consistency between risk management and strategic planning by further refining the Group-wide risk tolerance approach.
- The Zurich Risk Policy has been updated and strengthened for various areas including strategic risks, operational risks, general insurance risks and the use of derivatives.

External perspectives

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

Ratings agencies are increasingly interested in risk management as a factor in evaluating companies. Standard & Poor's, a ratings agency with a separate rating for Enterprise Risk Management, confirmed our Group's Enterprise Risk Management rating as "strong" in 2008. Only 14 percent of rated European insurers were rated "strong" or better.

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

We are also involved in a number of international industry organizations engaged in furthering the regulatory dialogue pertaining to insurance and financial services.

In 2008, Zurich senior executives participated in the drafting of the "Final Report of the IIF Committee on Market Best Practices." Written under the auspices of the Institute of International Finance (IIF), the Final Report comprises the financial services industry's response to the market turmoil of 2007-2008 with a set of principles of conduct and best practice recommendations.

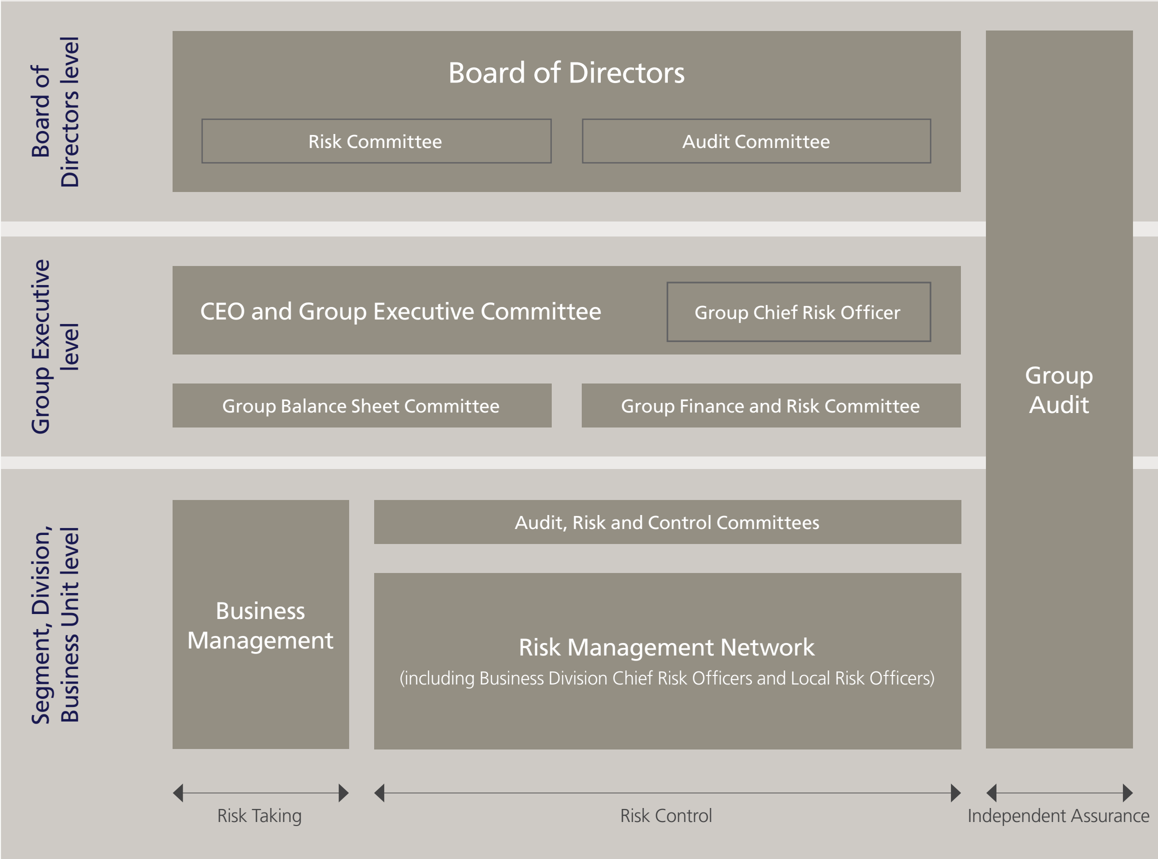
Similarly, the CRO Forum (an organization composed of the chief risk officers of major European insurance companies and financial conglomerates), which focuses on developing and promoting industry best practices in risk management, issued a series of important reports including papers on the market valuation of liabilities in insurance and on best practice in liquidity risk management.

In addition, Zurich is a contributing partner to the annual Global Risks report, a collaborative effort under the auspices of the World Economic Forum (WEF) and produced in conjunction with the WEF Global Risk Network.

Risk governance and risk management organization

The section below gives an overview of the Group's risk governance and risk management organization.

Risk governance overview



The overview above highlights only key elements of the governance framework which specifically relate to Risk Management.

Board of Directors level

The Board of Directors of Zurich Financial Services has ultimate oversight responsibility for the Group's risk management. It establishes the guidelines for the Group's risk management framework and key principles as articulated in the Zurich Risk Policy.

The Risk Committee of the Board serves as a focal point for oversight regarding the Group's risk management, in particular the Group's risk capacity, including agreed limits which the Board regards as acceptable for Zurich to bear, the aggregation of agreed limits across the Group, the measurement of adherence to agreed risk capacities, and the Group's risk capacity in relation to anticipated capital levels. It further oversees the Group-wide risk governance framework, including risk management, risk policies and their implementation as well as the risk strategy, and the monitoring of operational risks. The Risk Committee also reviews the methodologies for risk measurement and the Group's adherence to its risk limits and reviews the performance of the Risk Management function. It further reviews, with management and the Group Risk Management function, the Group's general policies and procedures and satisfies itself that effective systems of risk management are established and maintained. It receives periodic reports from Group Risk Management and assesses whether significant issues of a risk management and control nature are being appropriately addressed by management in a timely manner. With regard to the Group Risk Management function, the Risk Committee assesses the independence and objectivity of this function, approves its terms of reference, reviews the activities, plans, organization and the quality of the function, and reviews key risk management principles and procedures.

To facilitate information exchange between the Audit Committee of the Board and the Risk Committee of the Board, the chairperson of the Audit Committee is a member of the Risk Committee and vice-versa. The Risk Committee met six times in 2008.

Group executive level

The Chief Executive Officer (CEO), together with the GEC, oversees the Group's performance with regard to risk management, strategic, financial and business policy issues of Group-wide relevance. This includes monitoring adherence to and further development of the Group's risk management policies. The Group Finance and Risk Committee and the Group Balance Sheet Committee report regularly to the CEO and make recommendations on significant risk related issues.

The Group Chief Risk Officer is a member of the Group Executive Committee and reports directly to the CEO. He is a member of each of the management committees listed below, in order to provide a common and integrated approach to risk management, to allow for appropriate quantification and, where necessary, mitigation of risks identified in these committees.

At a Group level the management committees dealing with risks are:

- Group Balance Sheet Committee (GBSC) – acts as a cross-functional body whose main function is to control the activities that materially affect the balance sheets of the Group and its subsidiaries. The GBSC is charged with setting the annual capital and balance sheet plans for the Group based on the Group's strategy and its financial plans, as well as recommending specific transactions or unplanned business changes to the Group's balance sheet. The GBSC has oversight of all main levers of the balance sheet. It assesses the Group's capital adequacy, reinsurance, level of return, risk capacity and desired growth. The GBSC reviews and recommends the Group's overall risk tolerance levels. It is chaired by the CEO.
- Group Finance and Risk Committee (GFRC) – acts as a cross-functional body for financial and risk management matters in the context of the strategy and the overall business activity of the Group. The GFRC oversees financial implications of business decisions and the effective management of the Group's overall risk profile, including risks related to insurance, financial markets and asset/liability, credit and operational risks as well as their interactions. The GFRC proposes remedial actions based on regular briefings from Group Risk Management on the risk profile of the Group. It reviews and formulates recommendations for future course of action with respect to potential M&A transactions, for changes to the Zurich Risk Policy and exceptions to limits as required by the Zurich Risk Policy, internal insurance programs for the Group and the overall risk tolerance. The GFRC is chaired by the Group Chief Financial Officer, while the Group Chief Risk Officer acts as deputy.

The management committees rely on output provided by technical committees, including:

- Asset/Liability Management and Investment Committee (ALMIC) – deals with the Group's asset/liability exposure and investment strategies and is chaired by the Group Chief Investment Officer.
- Global Underwriting Committee (GUC) – acts as a focal point for underwriting policy and related risk controls for General Insurance and is chaired by the Global Chief Underwriting Officer.
- Group Reinsurance Committee (GRC) – oversees the purchase of reinsurance on a global basis. This committee also oversees the Group´s natural catastrophe exposure and is chaired by the Global Head of Group Reinsurance.

Representatives of Group Risk Management are members of all these technical committees.

Group Risk Management organization

The Group Chief Risk Officer leads the Group Risk Management function, which develops methods and processes for identifying, measuring, managing, reporting and monitoring risks throughout the Group. Group Risk Management proposes changes to the risk management framework and the Group's risk policies; it makes recommendations on the Group's risk tolerance and assesses the risk profile. The Group Chief Risk Officer is responsible for the oversight of risks across the Group; he regularly reports risk matters to the Chief Executive Officer, senior management committees and the Risk Committee of the Board.

The Group Risk Management organization consists of central functions at Corporate Center and a decentralized risk management network at regional, business division, business unit and functional levels.

At Corporate Center there are two centers of expertise: risk analytics and risk operations. The risk analytics department quantitatively assesses insurance, financial market and asset/liability, credit and operational risks and is the Group's center of excellence for risk quantification and modeling. The risk operations department comprises operational risk management, the Internal Control Framework, IT risk management, Business Continuity Management and Disaster Recovery. It serves as the link between the risk management network (regions, business divisions, business units and functions) and risk management at Corporate Center.

The decentralized risk management network consists of the Chief Risk Officers (CROs) of the Group's business divisions, and the Local Risk Officers (LROs) of the business units and functions and their staff. While their primary focus is on operational and strategic risks they are responsible for providing a holistic view of risk for their area. The CROs and LROs are part of the respective business' management teams. While the LROs have a matrix reporting line into the business division CRO, the latter have a matrix reporting line into the Group Chief Risk Officer. The CROs of the Group's major business divisions are members of the Group Chief Risk Officer's executive leadership team.

In addition to the risk management network, the Group has a set of audit, risk and control committees that encompass the major business reporting areas and business units. Each committee has terms of reference tailored to its specific business area and local requirements. In particular, the committees are responsible for providing oversight of activities, organization and quality of the risk management and control functions. This includes monitoring adherence to policies and periodic risk reporting.

In order to enable a consistent, systematic and disciplined approach to risk management, we categorize our main risks as follows:

- Market – risk associated with the Group's balance sheet positions where the value or cash flow depends on financial markets
- Credit – risk associated with a loss or potential loss from counterparties failing to fulfill their financial obligations
- Liquidity – risk that the Group does not have sufficient liquidity to meet its obligations when they fall due, or would have to incur excessive costs to do so
- Insurance – risk transferred to us from customers through the underwriting process
- Operational – risk associated with the people, processes and systems of the Group and external events
- Reputation – risk that an act or omission by the Group or any of its employees could result in damage to the Group's reputation or loss of trust among our stakeholders
- Strategic – the unintended risk that can result as a by-product of planning or executing a strategy

Market risk

Market risk is the risk of an adverse effect on the market value or cash flows of the Group's surplus. The Group's surplus is the difference of the Group's investments and liabilities. Fluctuating risk drivers resulting in market risk include:

- Equity market prices
- Interest rates
- Real estate market prices
- Currency exchange rates

The Group manages the market risk of assets relative to liabilities on an economic basis. It strives to maximize the economic risk adjusted excess return of assets relative to the liability benchmark taking into account the Group's current risk appetite as well as local regulatory constraints.

The Group has policies and limits to manage market risk. We align our strategic asset allocation to our risk-taking capacity. We centralize management of certain asset classes to control aggregation of risk, and provide a consistent approach to constructing portfolios and selecting external asset managers. We also diversify portfolios, investments and asset managers. We regularly measure and manage market risk exposure. We have established limits on our concentration in investments by single issuers and certain asset classes as well as on asset/liability mismatches, and we limit investments that are illiquid. The Group's Balance Sheet Committee reviews and recommends the Group's capital allocation to market risk, while the Asset Liability Management and Investment Committee reviews and monitors the Group's strategic asset allocation and its tactical boundaries and monitors the Group's asset/liability exposure. The Group oversees the activities of local Asset Liability Management and Investment Committees and regularly assesses market risks both at a Group and at a local business level. Risk assessment includes quantification of the contributions to financial market risk from major risk drivers. The economic effect of potential extreme market moves is regularly examined and considered when setting the asset allocation.

Risk assessment reviews include the analysis of the management of interest rate risk for each major maturity bucket and compliance of the aggregated positions with risk limits.

In 2008, the Group has experienced a challenging market environment in which many of the market risks mentioned above materialized, resulting in reduced asset valuations. Equity prices and credit spreads were particularly affected coupled with an economic downturn in many countries in which the Group operates. In this environment the Group's approach to market risk management generally worked effectively, although the Group did not stay unaffected by the lower asset valuations arising from changes in financial markets. For more information on the Group's investment result, including impairments and the treatment of selected financial instruments please refer to note 6 of the consolidated financial statements.

Building on established processes we have increased the frequency of risk and solvency reporting as a basis to take corrective actions more quickly, if required. The Group has also broadened the set of market risk scenarios it tests and analyzes on a regular basis to reflect the possibility of further adverse market movements. Possible contingency measures, which might become necessary in a further worsening market environment, are prepared accordingly.

The Group uses derivative financial instruments to limit market risks arising from changes in currency exchange rates, interest rates, equity prices and credit quality from our assets and liabilities and our commitments to third parties. We enter 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 our borrowings in order to mitigate our exposure to foreign currency and interest rate risk. Interest rate swaps are also included in derivatives as cash flow hedges of the Group's exposure to future cash flows from changes in interest rates associated with forecast transactions such as the future purchase of debt instruments related to certain 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 by Group Risk Management.

For additional information on derivative financial instruments and hedge accounting please refer to note 7 of the consolidated financial statements.

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, surplus and regulatory capital position. The exposure to equity risk includes, but is not limited to, common stocks, including equity unit trusts, common stock portfolios backing participating with-profit policyholder contracts, trading equity portfolios in capital markets and equities held for employee benefit plans. The exposure to real estate includes 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 real estate debt securities such as commercial and residential mortgages, commercial mortgage-backed securities and mezzanine debt. Returns on unit-linked contracts, whether classified as insurance or investment contracts, may be exposed to risks from equity and real estate, but are borne by policyholders. However, the Group is indirectly exposed to market movements in so far as they impact the amount of fee income earned if the fee income level is dependent on the valuation of the asset base.

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 our policies and guidelines. Specifically we have established limits for holdings in real assets, which cover holdings in equities, real estate and alternative investments.

For additional information on equity securities and real estate held for investment please refer to note 6 of the consolidated financial statements.

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 is exposed to interest rate risk including from debt securities, reserves for insurance contracts, liabilities for investment contracts, employee benefit plans and loans and receivables. 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. We also manage the spread risk, which describes the sensitivity of the values of assets and liabilities due to changes in the level or the volatility of credit spreads over the risk-free interest rate yield curves.

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 interest rates in so far as they impact the amount of fee income earned if the fee income level is dependent on the valuation of the asset base.

Analysis of economic sensitivities – Global Life

The sensitivity of the value of the Global Life business to financial market movements is provided in the Embedded value report. 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.

Some limitations to the sensitivity analysis in the Embedded value report apply:

- The sensitivities show the effects of a change in certain risk factors, while other assumptions remain unchanged, except where they are directly affected by the revised conditions.
- The sensitivities do not consider the correlations among the volatilities of risk factors. The market risk scenarios in the Embedded value report assume a concurrent movement of all stock markets and an unrelated parallel shift of all interest rates in different currencies.
- The scenario of a 10 percent stock market decline includes a 10 percent fall in property market values.
- 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.

Please refer to the Embedded value report for more information.

Analysis of economic sensitivities – General Insurance and rest of the business

Basis of presentation

The following tables show the estimated economic impacts of market risk sensitivities on Group investments, including real estate for own use, liabilities, including insurance and financial liabilities, and the net impact for General Insurance and the rest of the business. Positive values represent an increase of the balance, whereas values in parentheses represent a decrease of the balance. Increases in the value of liabilities and decreases in the value of assets represent an economic risk for the Group. The net impact is the difference between the impact on Group investments and liabilities. The net impact represents the economic risk the Group faces related to changes in market risk factors, which is in line with management's monitoring of the Group's investment and liabilities base. As mentioned above, we have established limits on holdings in real assets and our asset/liability mismatches, which limit the economic impact of interest rate and equity risk.

The basis of the presentation below is an economic valuation represented by the fair value for Group investments, IFRS insurance liabilities discounted at market rates to reflect the present value of insurance liability cash flows and other liabilities, for example own debt. Own debt does not include subordinated debt, which we consider available to protect policyholders in a worst-case situation. The payment patterns used to determine the expected cash outflow for insurance liabilities are based on an analysis as of September 30, which is considered representative as of December 31. For determining the sensitivities investments and liabilities are fully re-valued in the given scenarios. Each instrument is re-valued separately taking the relevant product features into account. Non-linear effects, where they exist, are fully reflected in the model. The sensitivities of the analysis are shown before tax.

The following tables on sensitivities for the rest of the businesses include Farmers Management Services, Other Businesses and Corporate Functions. Where Other Businesses includes business with Life characteristics, the analysis is based on European Embedded Value market risk sensitivities. Please refer to the Embedded value report for more details on the market risk scenario specifications.

The presentation has expanded compared with last year's disclosure where the impact assessment of market risk sensitivities was solely based on an IFRS valuation. The additional information reflects the way we measure, monitor, report and mitigate market risks.

Limitations of the analysis:

- The sensitivity analysis does not take into account actions that might be taken to mitigate losses, as we use an active strategy to manage these risks. This strategy may involve changing the asset allocation, for example through selling and buying assets.
- The sensitivities show the effects to a change of certain risk factors, while other assumptions remain unchanged.
- The interest rate scenarios assume a parallel shift of all interest rates in the respective currencies. They do not take into account the possibility that interest rate changes might differ by rating class (credit spread risk).
- The stock market scenarios assume a concurrent movement of all stock markets.
- The sensitivities are reasonably possible as of the balance sheet date, but do not indicate a probability of such events occurring in the future and do not necessarily represent our view of expected future market changes, nor are they stress scenarios as additionally used by management.

Analysis of economic sensitivities for interest rate risk

The tables below show the estimated impacts of a one percentage point increase/decrease in yield curves of the major currencies U.S. dollar (USD), euro (EUR), British pounds (GBP), Swiss francs (CHF) and 'other currencies' after consideration of hedges in place, as of December 31, 2008 and 2007, respectively. The impact is shown in USD.

Table 1.a

Economic interest rate sensitivities for the Group's General Insurance business

in USD millions, as of December 31, 2008	USD	EUR	GBP	CHF	Other currencies	Total
1% increase in the interest rate yield curves						
Group Investments	(885)	(567)	(182)	(278)	(124)	**(2,038)**
Liabilities	(1,011)	(341)	(233)	(237)	(69)	**(1,890)**
Net impact	125	(227)	50	(42)	(55)	**(148)**
1% decrease in the interest rate yield curves						
Group Investments	802	603	189	277	125	**1,996**
Liabilities	1,027	365	237	256	69	**1,954**
Net Impact	(225)	238	(48)	21	56	**42**

Table 1.b

Economic interest rate sensitivities for the Group's General Insurance business

in USD millions, as of December 31, 2007	USD	EUR	GBP	CHF	Other currencies	Total
1% increase in the interest rate yield curves						
Group Investments	(1,199)	(548)	(341)	(211)	(141)	**(2,440)**
Liabilities	(868)	(248)	(271)	(289)	(83)	**(1,759)**
Net impact	(332)	(300)	(70)	78	(57)	**(680)**
1% decrease in the interest rate yield curves						
Group Investments	1,101	592	367	229	148	**2,437**
Liabilities	940	265	293	313	86	**1,898**
Net impact	161	327	74	(84)	61	**540**

Economic interest rate sensitivities for the rest of the business

Table 2.a

in USD millions, as of December 31, 2008	USD	EUR	GBP	CHF	Other currencies	Total
1% increase in the interest rate yield curves						
Group Investments	(582)	26	(211)	(1)	(47)	**(815)**
Liabilities	(831)	(93)	(70)	(60)	(1)	**(1,055)**
Net impact	249	119	(141)	59	(46)	**240**
1% decrease in the interest rate yield curves						
Group Investments	641	48	256	1	51	**997**
Liabilities	959	99	86	59	1	**1,204**
Net impact	(318)	(51)	169	(59)	50	**(208)**

Economic interest rate sensitivities for the rest of the business

Table 2.b

in USD millions, as of December 31, 2007	USD	EUR	GBP	CHF	Other currencies	Total
1% increase in the interest rate yield curves						
Group Investments	(507)	(147)	(199)	(1)	(2)	**(856)**
Liabilities	(543)	(98)	(90)	(37)	–	**(768)**
Net impact	36	(49)	(108)	36	(2)	**(88)**
1% decrease in the interest rate yield curves						
Group Investments	551	161	255	1	2	**970**
Liabilities	518	28	111	11	–	**669**
Net impact	32	133	144	(11)	2	**301**

Analysis of economic sensitivities for equity risk

The table below shows the estimated impacts on Group investments and liabilities from a 10 percent decline in stock markets, after consideration of hedges in place, as of December 31, 2008 and 2007, respectively.

Economic equity price sensitivities for the General Insurance business

Table 3

in USD millions, as of December 31	2008	2007
10% decline in stock markets		
Group Investments	(437)	(471)
Liabilities	–	–
Net impact	(437)	(471)

Economic equity price sensitivities for the rest of the business

Table 4

in USD millions, as of December 31	2008	2007
10% decline in stock markets		
Group Investments	(332)	(395)
Liabilities	61	149
Net impact	(393)	(544)

Analysis of IFRS sensitivities for equity and interest rate risk

In addition to the economic sensitivities shown above, the following table shows the estimated impacts on Group investments and own use real estate of a one percentage point increase/decrease in yield curves and a separate 10 percent decline in all stock markets after consideration of hedges in place, as of December 31, 2008 and 2007, respectively. The sensitivities of these two separate but instantaneous scenarios are shown for both net income before tax and net assets, using the Group actual income tax rate. For the purposes of the tables below net assets represent total shareholders' equity before non-controlling interests. The tables exclude sensitivities on unit-linked assets, as policyholders bear the investment risk.

Limitations of the analysis:

- 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 for example through selling and buying assets.
- The sensitivities show the effects to a change of certain risk factors, while other assumptions remain unchanged.
- The interest rate scenarios assume a parallel shift of all interest rates in the respective currencies. They do not take into account the possibility that interest rate changes might differ by rating class (credit spread risk).
- The stock market scenarios assume a concurrent movement of all stock markets.
- The major markets in which the Group invests are the U.S. and Europe. The major interest rate exposures are to USD and EUR 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; therefore, the dependency to interest rate risk, equity and the IFRS insurance reserves is not considered to be significant, and thus not disclosed.

Table 5

IFRS sensitivities for the General Insurance business

in USD millions, as of December 31	2008	2007
1% increase in the interest rate yield curves		
Group Investments	(1,853)	(2,412)
Net income before tax	(1)	–
Net assets	(1,501)	(1,816)
1% decrease in the interest rate yield curves		
Group Investments	1,800	2,461
Net income before tax	–	–
Net assets	1,458	1,853
10% decline in stock markets		
Group Investments	(437)	(534)
Net income before tax	(49)	(2)
Net assets	(354)	(402)

The sensitivities provided for Global Life's business in the following table are on Group investments and own used real estate only and thus exclude the impact on insurance liabilities, intangible assets and liabilities, unit-linked assets, liabilities, and revenues. 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.

IFRS sensitivities for the Global Life business

Table 6

in USD millions, as of December 31	2008	2007
1% increase in the interest rate yield curves		
Group Investments	(3,865)	(3,670)
Net income before tax	(243)	(273)
Net assets	(3,130)	(2,764)
1% decrease in the interest rate yield curves		
Group Investments	4,383	4,208
Net income before tax	352	372
Net assets	3,550	3,168
10% decline in stock markets		
Group Investments	(361)	(590)
Net income before tax	(49)	63
Net assets	(292)	(445)

Note that the positive impact from the decline in stock markets on the Global Life net income before tax for 2007 is related to 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, while the change in the underlying equity investments might be reflected in the unrealized gains and losses.

To the extent that the segments in the rest of the business include life insurance contracts, the related sensitivities are included in the analysis of economic sensitivities for equity and interest rate risk of the rest of the business, as discussed above.

IFRS sensitivities for the rest of the businesses

Table 7

in USD millions, as of December 31	2008	2007
1% increase in the interest rate yield curves		
Group Investments	(805)	(726)
Net income before tax	(329)	(296)
Net assets	(652)	(547)
1% decrease in the interest rate yield curves		
Group Investments	986	852
Net income before tax	489	394
Net assets	799	641
10% decline in stock markets		
Group Investments	(332)	(357)
Net income before tax	(181)	(84)
Net assets	(269)	(269)

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 presentation currency is the U.S. dollar, but its assets, liabilities, income and expenses are denominated in many currencies, with significant amounts in the euro, Swiss franc, British pound, as well as the U.S. dollar.

As the Group has chosen the U.S. 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 2008 net income attributable to shareholders would have been lower by USD 26 million (applying 2007 exchange rates to the 2008 result). In 2007 the result would have been lower by USD 199 million (applying 2006 exchange rates to the 2007 results).

Net income after tax before minorities by major functional currencies

Table 8

in USD millions, as of December 31	2008	2007
USD	290	3,013
EUR	1,285	1,212
GBP	822	661
CHF	287	466
others	432	446
Total	**3,116**	**5,797**

The table above shows the net income after tax before minorities (NIAT) by major functional currencies and reflects composition of total NIAT per currency. The table therefore gives an indication of the Group's exposure to changes in currency exchange rates with respect to their impact on the Group's NIAT expressed in U.S. dollars.

On local balance sheets there is the risk that a currency mismatch may lead to fluctuations in a balance sheet's 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 by Group Treasury. As a result, the monetary currency risk exposure is considered immaterial, as disclosed in note 3 of the consolidated financial statements.

Please refer to note 1 and 3 of the consolidated financial statements for additional information on foreign currency translation and transactions.

Credit risk

Credit risk is the risk associated with a loss or potential loss from counterparties failing to fulfill their financial obligations. The Group's exposure to credit risk is derived from the following main areas:

- Debt securities
- Reinsurance assets
- Mortgage loans and mortgage loans given as collateral
- Other loans
- Receivables
- Derivatives

The Group manages individual exposures as well as concentrations of credit risk. Our objective in managing credit risk exposures is to maintain it within parameters that reflect our strategic objectives and Group risk tolerance. Sources of credit risk are assessed and monitored, and the Group has policies to manage the specific risks within the various subcategories of credit risk. To assess counterparty credit risk, the Group uses the ratings assigned by external rating agencies, qualified third parties, such as asset managers, and internal rating assessments using available public information. The Group maintains counterparty credit risk databases, recording external and internal sources of credit intelligence.

In 2008, the Group faced a considerable worsening in the credit risk environment and impaired exposures to certain counterparties for which it has become unlikely that they will fulfill their financial obligations to the Group (for more information on its impairments see note 6 of the consolidated financial statements).

Despite these exceptional losses, the credit risk management processes worked effectively in this challenging year. Building on these established processes, the Group has increased the frequency of credit risk analysis and reporting as a basis to take corrective actions more quickly if required. The Group tests and analyzes credit risk scenarios on a regular basis and has broadened the set of scenarios tested. As one consequence the Group has given a stronger focus to the credit quality of our reinsurance providers. Possible contingency measures, which might become necessary in a further worsening credit risk environment, are prepared accordingly.

Credit risk concentration

The Group regularly monitors and limits credit exposures by individual counterparty and related counterparties by the aggregated exposure across the various types of credit risk for that counterparty. The Group's exposure to counterparties' parent companies and subsidiaries across sources of credit risk is aggregated to include reinsurance assets, investments, certain insurance products and derivatives. Best estimates, based on statistical data and own assessment, are used to assign loss-given-default percentages and loss dependency factors reflecting, for example, 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, 2008. The Group Chief Risk Officer routinely reports the largest exposures by rating category to the Risk Committee of the Board.

The maximum exposure to credit risk consists mainly of on-balance sheet and a relatively small amount of off-balance sheet exposures. The largest amount of off-blance sheet exposure to credit risk arises from property lending related to undrawn loan commitments of Zurich Bank of USD 561 million und USD 794 million as of December 31, 2008 and 2007, respectively.

Credit risk relating to debt securities

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

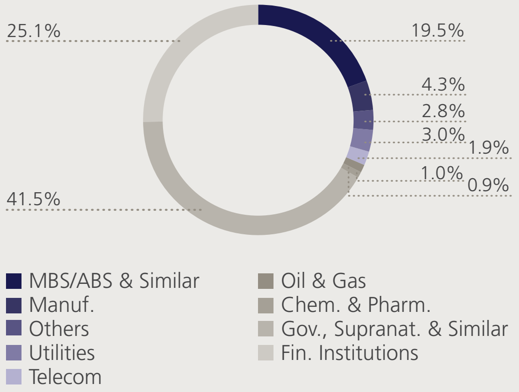
Debt securities by rating of issuer

Table 9

as of December 31	2008		2007	
	USD millions	**% of total**	USD millions	% of total
Rating				
AAA	70,000	59.3%	78,073	63.1%
AA	13,229	11.2%	15,318	12.4%
A	27,316	23.1%	21,925	17.7%
BBB	6,752	5.7%	6,954	5.6%
BB and below	573	0.5%	549	0.4%
Unrated	233	0.2%	943	0.8%
Total	**118,103**	**100.0%**	**123,762**	**100.0%**

The overall weighted average rating of the Group's debt securities portfolio is AA+. As of December 31, 2008 the largest concentration in the Group's debt securities portfolio is in government and supranational debt securities at 41.5 percent. A total of USD 38,187 million or 55.2 percent of the non-government and non-supranational debt securities are secured. As of December 31, 2007, 40.4 percent of the Group's debt portfolio was invested in governments and supranationals and a total of USD 42,522 million or 57.7 percent of the non-government and non-supranational debt securities was secured.

Debt securities –
credit risk concentration by industry
(%)



In accordance with the Group's investment policy, investment grade securities comprise 99.3 percent of the Group's debt securities, and 59.3 percent are rated AAA as of December 31, 2008. As of December 31, 2007, investment grade securities comprised 98.8 percent of our debt securities, and 63.1 percent were rated AAA. Please refer to note 6 of the consolidated financial statements for additional information on the Group's exposure to U.S. asset backed securities (ABS) and mortgage backed securities (MBS).

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

As part of our 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.

Our Corporate Reinsurance Security Committee manages the credit quality of our cessions and reinsurance assets. The Group typically cedes new business to authorized reinsurers with a minimum rating of BBB. The premiums ceded to reinsurers that fall below investment grade or are not rated are to a large extent collateralized.

Reinsurance assets include reinsurance recoverables of USD 18,595 million and USD 26,970 million as of December 31, 2008 and 2007, respectively, which are the reinsurers' share of reserves for insurance contracts, and receivables arising from ceded reinsurance of USD 1,166 million and USD 1,372 million as of December 31, 2008 and 2007, respectively. Expected reserves for uncollectable amounts of reinsurance assets amount to USD 206 million and USD 239 million as of December 31, 2008 and 2007, respectively.

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 of the reinsurance exposure, and other collateral such as cash or letters of credit from banks rated at least 'A,' which can be converted into cash and deposits received under ceded reinsurance contracts. The decrease of reinsurance assets in 2008 compared with 2007 is mainly attributable to the sale of a pension annuity portfolio to the reinsurer, subsequent to the approval from the UK High Court, effective on June 30, 2008.

The weighted average credit quality of reinsurance assets (including receivables, but after deduction of collateral) was 'A' as of December 31, 2008 and 2007, respectively. For credit risk assessment purposes collateral has been taken into account at nominal value as an approximation for fair value. For collateral we apply minimum requirements, such as a minimum rating for the issuers of letters of credit and guarantees, and for pledged assets a minimum coverage ratio of 100 percent.

Table 10

Reinsurance premiums ceded and reinsurance assets by rating of reinsurer

as of December 31	2008				2007			
	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	189	3%	417	2%	234	2%	542	2%
AA	1,495	24%	9,106	47%	9,203	70%	18,149	65%
A	2,465	40%	6,368	33%	1,796	14%	5,956	21%
BBB	706	11%	1,291	7%	670	5%	1,320	5%
BB	172	3%	280	1%	215	2%	461	2%
B	70	1%	96	–	15	–	162	1%
Unrated	1,129	18%	1,996	10%	1,064	8%	1,513	5%
Total	**6,226**	**100%**	**19,554** [1]	**100%**	**13,197**	**100%**	**28,103** [1]	**100%**

[1] The value of the collateral received amounts to USD 8,662 million and USD 16,702 million as of December 31, 2008 and 2007, respectively.

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 mortgage business is dependent on local property market conditions and local legislation. Portfolio allocations made to mortgages consider these factors and are within the framework of the strategic asset allocation defined by the Group Asset/Liability Management Investment Committee and adapted and approved by local investment committees. The Group's mortgage loan portfolios are mainly European-based with the largest portfolios in Germany, Switzerland and the UK. The loss experience on these portfolios benefits positively from the diversification of a large volume of 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. Furthermore business units are required to clearly state criteria for determining borrower and collateral quality in their local mortgage policies. The Group undertakes economic research on the three principal markets and closely monitors the performance of the portfolios 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. 79.3 percent of the reported loans are to government or supranational institutions, of which the majority, 78.5 percent, is 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 10,083 million or 80.5 percent of loans are secured as of December 31, 2008. As of December 31, 2007, a total of USD 11,457 million or 88.6 percent of loans were secured.

Table 11

Other loans by rating of issuer

as of December 31	2008		2007	
	USD millions	**% of total**	USD millions	% of total
Rating				
AAA	7,642	61.0%	8,396	64.9%
AA	2,369	18.9%	2,709	21.0%
A	8	0.1%	7	0.0%
BBB	2	0.0%	1	0.0%
Unrated	2,510	20.0%	1,823	14.1%
Total	**12,531**	**100.0%**	**12,936**	**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 on 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. Past due but not impaired receivables should be regarded as unsecured, but some of these receivable positions may be offset by collateral.

Please refer to note 15 of the consolidated financial statements for additional information on receivables.

Credit risk relating to derivatives

The positive replacement value of outstanding derivatives, such as interest rate, currency, total return and equity swaps, forward contracts and purchased options represents a credit risk to the Group. In addition there is a potential exposure arising from possible changes in 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 ratings agency. In addition, it is the Group standard to only transact derivatives with counterparties where we have an ISDA Master Agreement with a Credit Support Annex in place. This mitigates credit exposures from OTC transactions due to close-out netting and requires the counterparty to post collateral when the derivative position is beyond an agreed threshold. We mitigate credit exposures from derivative transactions further by using exchange traded instruments whenever possible.

Analysis of financial assets

The table below provides an analysis, for non-unit linked businesses, of the age of financial assets that are past due but not impaired and of financial assets that are individually determined to be impaired.

Analysis of financial assets

Table 12.a

in USD millions, as of December 31, 2008	Debt securities	Mortgage loans	Mortgage loans given as collateral	Other loans	Receivables and other financial assets	Total
Neither past due nor impaired financial assets	**117,803**	**12,587**	**1,219**	**12,505**	**15,857**	**159,971**
Past due but not impaired financial assets. Past due by:						
1–90 days	–	106	–	1	1,478	1,584
91–180 days	–	17	–	1	350	368
181–365 days	7	35	–	1	333	375
over 365 days	1	50	11	13	490	566
Past due but not impaired financial assets	**8**	**207**	**11**	**16**	**2,651**	**2,893**
Financial assets impaired	**357** [1]	**77**	**3**	**16**	**187**	**640**
Gross carrying value	**118,168**	**12,871**	**1,234**	**12,537**	**18,695**	**163,504**
Less: impairment allowance						
Impairment allowances on individually assessed financial assets	65	30	1	6	171	273
Impairment allowances on collectively assessed financial assets	–	21	–	–	286	307
Net carrying value	**118,103**	**12,820**	**1,233**	**12,531**	**18,239**	**162,925**

[1] Available for sale debt securities are included net of USD 1,146 million of impairment charges recognized during the year.

Analysis of financial assets

Table 12.b

in USD millions, as of December 31, 2007	Debt securities	Mortgage loans	Mortgage loans given as collateral	Other loans	Receivables and other financial assets	Total
Neither past due nor impaired financial assets	**123,601**	**12,605**	**2,209**	**12,933**	**14,070**	**165,417**
Past due but not impaired financial assets. Past due by:						
1–90 days	–	–	–	–	1,813	1,813
91–180 days	–	5	–	–	220	225
181–365 days	–	24	5	–	332	361
over 365 days	–	78	23	–	509	610
Past due but not impaired financial assets	**–**	**107**	**28**	**–**	**2,876**	**3,011**
Financial assets impaired	**161** [1]	**40**	**7**	**4**	**344**	**556**
Gross carrying value	**123,762**	**12,752**	**2,244**	**12,937**	**17,289**	**168,984**
Less: impairment allowance						
Impairment allowances on individually assessed financial assets	–	26	1	1	164	192
Impairment allowances on collectively assessed financial assets	–	8	–	–	391	399
Net carrying value	**123,762**	**12,718**	**2,243**	**12,936**	**16,735**	**168,394**

[1] Available for sale debt securities are included net of USD 81 million of impairment charges recognized during 2007.

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 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 outflows including those for maturing debt. In addition, the Group centrally maintains a liquidity buffer and committed borrowing facilities as well as access to diverse funding sources to cover contingencies. Funding sources include asset sales, external debt issuances and usage of Letters of Credit. The Group maintains a broad range of maturities for external debt securities. Refer to note 21 of the consolidated financial statements for information on our debt maturities. A possible concentration risk could arise from a downgrade of the Group's credit rating. This could impact the Group's commitments and guarantees, thus potentially increasing the Group's liquidity needs. These contingencies are also considered in the Group's liquidity management. Refer to note 21 of the consolidated financial statements for additional information on credit facilities and to note 25 of the consolidated financial statements for information on commitments and guarantees.

As a response to the tightening financial market environment, the Group has increased the intensity of monitoring and analyzing its liquidity and its liquidity risk building on established processes, systems and tools. This intensified monitoring includes weekly reporting to the Group Finance and Risk Committee, executive management and the chairman of the Board of Directors, covering aspects such as the Group's actual and forecasted liquidity, possible adverse scenarios that could affect the Group's liquidity and possible liquidity needs from the Group's main subsidiaries.

The table below provides an analysis of the maturity profile of reserves for insurance contracts, net of reinsurance, based on expected cash flows without considering the surrender values as of December 31, 2008 and 2007. Reserves for unit-linked contracts amounting to USD 47,297 million and USD 70,075 million as of December 31, 2008 and 2007, respectively, are not included in this table below, as policyholders 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 13.a

Expected maturity profile for reserves for insurance contracts

in USD millions, as of December 31, 2008	Reserves for losses and loss adjustment expenses, net	Future life policyholders' benefits, net	Policyholders' contract deposits and other funds, net	Total
< 1 year	15,507	5,874	1,387	22,767
1 to 5 years	22,966	20,061	1,759	44,786
6 to 10 years	7,626	17,444	1,773	26,843
11 to 20 years	4,643	15,549	2,301	22,494
> 20 years	2,245	15,416	7,136	24,798
Total	**52,986**	**74,345**	**14,357**	**141,688**

Table 13.b

Expected maturity profile for 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	6,222	1,520	23,332
1 to 5 years	23,185	18,112	2,009	43,305
6 to 10 years	8,393	16,382	1,687	26,462
11 to 20 years	5,424	14,284	2,313	22,020
> 20 years	2,120	15,889	8,183	26,192
Total	**54,712**	**70,889**	**15,711**	**141,311**

For additional information on reserves for insurance contracts, please refer to note 8 of the consolidated financial statements.

The table below provides an analysis of the maturity of liabilities for investment contracts based on expected cash-flows as of December 31, 2008 and 2007.

Table 14.a

Expected maturity profile for liabilities for investment contracts

in USD millions, as of December 31, 2008	Liabilities related to unit-linked investment contracts	Liabilities related to investment contracts (amortized cost)	Liabilities related to investment contracts with discretionary participation features	Total
< 1 year	2,750	80	182	3,012
1 to 5 years	4,335	20	1,370	5,725
6 to 10 years	5,498	13	966	6,478
11 to 20 years	7,124	7	999	8,131
> 20 years	10,689	1	1,944	12,634
Total	**30,397**	**122**	**5,461**	**35,979**

Table 14.b

Expected maturity profile for liabilities for investment contracts

in USD millions, as of December 31, 2007	Liabilities related to unit-linked investment contracts	Liabilities related to investment contracts (amortized cost)	Liabilities related to investment contracts with discretionary participation features	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**	**117**	**6,182**	**54,485**

The undiscounted contractual cash flows for liabilities for investment contracts are USD 38,753 million and USD 57,177 million as of December 31, 2008 and December 31, 2007, respectively. Liabilities for unit-linked contracts amount to USD 30,397 million and USD 48,187 million as at December 31, 2008 and 2007, respectively. 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.

Certain non-unit-linked contracts also provide for surrender of the contract by the policyholder at any time. Liabilities for such contracts amounting to USD 2,417 million and USD 3,197 million as of December 31, 2008 and 2007 respectively. The Group has established active management of the Global Life in-force business to improve persistency and retention.

Please refer to notes 16 and 21 of the consolidated financial statements for information on the maturities of collateralized loans and total debt issued, respectively. For more information on the Group's other financial liabilities please refer to note 19 of the consolidated financial statements. Please refer to note 6 of the consolidated financial statements for information on the maturity of our debt securities for total investments.

The Group has committed to contribute capital to subsidiaries and third parties that engage in making investments in direct private equity and private equity funds. Commitments may be called by the counterparty over the term of the investment (generally three to five years) and must be funded by the Group on a timely basis.

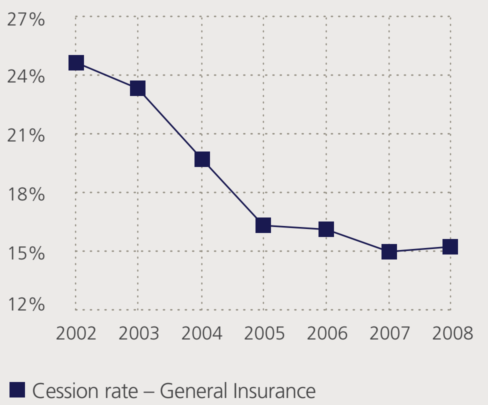
Insurance risk

Insurance risk is the inherent uncertainty regarding the occurrence, amount or timing of insurance liabilities. The exposure is transferred to the Group through the underwriting process. We actively seek to write those risks we understand and that provide a reasonable opportunity to earn an acceptable profit. As we assume certain customer risks, we aim to manage that transfer of risk, and minimize unintended underwriting risks, through such means as:

- Establishing limits for underwriting authority
- Requiring specific approvals for transactions involving new products or where established limits of size and complexity may be exceeded
- Using a variety of reserving and modeling methods to address the various insurance risks inherent in our insurance business
- Ceding insurance risk through proportional, non-proportional and specific risk reinsurance treaties. The Group centrally manages reinsurance treaties.

Our objectives for purchasing reinsurance are to provide market-leading capacity for our customers while protecting the balance sheet and optimizing the Group's capital efficiency. We maintain a centralized purchasing strategy for both General Insurance and Life Insurance, and continue to bundle programs where appropriate to benefit from diversification and economies of scale. We continue to review and use traditional reinsurance markets and other alternatives, such as catastrophe bonds, to protect Zurich against extreme single events and increased frequency of events falling within our retention. We are able to use our global reach in particular for catastrophe protection, where we have in place an innovative world-wide aggregate layer and a global top layer. These contracts do not just protect our business per event and by region, but for multiple events and across regions. This helps to reduce our risks for the frequency of catastrophes, as well as their severity. Due to our improved underwriting processes, and the flexibility afforded by our strong balance sheet, we have been able to restructure and realign our reinsurance programs to achieve an optimum risk/reward ratio.

Ceded premium – trend
(% of General Insurance premium ceded to reinsurers)



Life insurance risk

We have established formal local product development committees and a Group level product approval committee for potential new products that could significantly increase or change our risks. Such reviews allow us to manage new risks inherent in our new business propositions. We regularly review the continued suitability and the potential risks of existing products.

Our use of the European embedded value reporting principles allows us to further understand and report on the risk profile of our Life products and how risks would change in differing market conditions. Embedded value is the measure markets use to value life businesses; we are using a market-consistent approach, which is considered industry best practice. For more information, please refer to the Embedded value report. For more information on own employee benefit plans please refer to note 23 of the consolidated financial statements.

The risks associated with life insurance include:

- Mortality risk is the risk that actual policyholder death experience on life insurance policies is higher than expected.
- Longevity risk is the risk that annuitants live longer than expected.
- Morbidity risk is the risk that policyholder health related claims are higher than expected.
- Policyholder behavior risk is the risk that policyholder's behavior in discontinuing and reducing contributions or withdrawing benefits prior to the maturity of the contract is worse than expected. Poor persistency rates may lead to fewer policies remaining on the books to defray future fixed expenses and reduce the future positive cash flows from the business written potentially impacting our ability to recover deferred acquisition expenses.
- Expense risk is the risk that expenses incurred in administering policies are higher than expected.
- Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows from financial instruments arising from fluctuations in equity prices, interest rates, equity and interest rate volatilities and foreign currency exchange rates, which are managed as part of market risk.

A more diversified portfolio of risks is less likely to be affected across the board by a change in any subset of the risks. As a result, the offsetting effects of life and general insurance, as well as between unit-linked and traditional business, reduce some of the risk associated with life insurance business.

The following table shows the Group's concentration of risk within the life business by region and line of business based on reserves for life insurance on a net basis. The Group's exposure to life insurance risks varies significantly by geographic region and line of business and may change over time.

Table 15

Reserves, net of reinsurance, by region

as of December 31	Unit-linked insurance contracts		Other life insurance liabilities		Total reserves	
	2008	2007	**2008**	2007	**2008**	2007
Global Life						
United States	316	491	4,861	4,803	5,177	5,294
United Kingdom	23,097	39,329	4,033	5,971	27,130	45,301
Germany	5,774	8,041	40,879	43,672	46,653	51,713
Switzerland	491	548	15,044	15,086	15,536	15,635
Ireland	80	115	1,418	1,536	1,498	1,651
Spain	2,669	1,980	8,775	2,621	11,444	4,601
Emerging markets	1,066	1,490	2,815	2,955	3,881	4,445
Rest of the world	1,576	2,342	5,490	5,397	7,066	7,739
Eliminations	–	–	3	3	3	3
Subtotal	**35,069**	**54,337**	**83,318**	**82,044**	**118,387**	**136,381**
Other Businesses	12,228	15,738	5,384	4,555	17,612	20,293
Total	**47,297**	**70,075**	**88,702**	**86,600**	**135,999**	**156,674**

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

Unit-linked products have been designed in order to reduce much of the risk associated with traditional business. The risks inherent in these products are largely passed on to the policyholder, although a portion of our management fees are linked to the value of funds under management and hence are at risk if the amounts outstanding decrease. Unit-linked products carry mortality risk and market risk to the extent that there are guarantees in the product design. Contracts may have minimum guaranteed death benefits where the sum at risk depends on the fair value of the underlying investments. For certain contracts these risks are mitigated by explicit mortality and morbidity charges.

Other life insurance liabilities include traditional life insurance products, which include protection products and life annuity products. Protection products carry mortality, longevity and morbidity risk as well as market risk. The most significant factors that could increase the frequency of mortality claims are epidemics, such as AIDS and avian influenza, or lifestyle changes such as eating, drinking and exercise habits, resulting in earlier or more claims than expected. Morbidity claims experience would not only be affected by the factors mentioned above, but because disability is defined in terms of the ability to perform an occupation, it could also be affected by economic conditions. In order to reduce cross-subsidies in the pricing basis, premiums are differentiated by product, age, genders and smoker status. The policy terms and conditions and the disclosure requirements contained in insurance applications are designed to mitigate the risk arising from non-standard and unpredictable risks that may result in severe financial loss.

In the Life annuity business, the most significant insurance risk is continued medical advances and improvement in social conditions that will lead to increases in longevity. Annuitant mortality assumptions include allowance for future mortality improvements.

In addition to the specific risks listed above, all lines of business expose the Group to policyholder behavior and expense risks. Policyholder behavior risk is mitigated by product designs which match revenue and expenses associated with the contract as closely as possible. Expense risk is mitigated by careful control of expenses and by regular expense analyses and allocation exercises.

Other Businesses includes certain life insurance contracts, which contain 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 policyholders with certain guarantees related to minimum death and income benefits. After 2001 the Group no longer issued new policies with such features. For the determination of these liabilities refer to note 8 of the consolidated financial statements.

In addition to the product approval committee referred to above, at the end of 2008 a new Financial Management Committee was initiated within Global Life to further refine the identification, monitoring and mitigation of risks to the balance sheets of the life entities.

Please refer to note 8 of the consolidated financial statements for additional information on reserves for insurance contracts.

Sensitivities analysis for life insurance risk

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. Please refer to the Embedded value report for more information on the sensitivities of Life insurance contracts to economic and operating risk factors.

General insurance risk

The Group's underwriting strategy is to take advantage of 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 aims to take advantage of its competitive strengths while avoiding risks with disruptive volatility. At the core of the Group's underwriting is a robust governance process. Our four major processes for underwriting governance – underwriting strategy, authorities, referrals and reviews – are implemented at Group and local levels.

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

General Insurance reserves represent a risk to the Group as actual losses emerging on claims provisions may be higher than anticipated. Because of this uncertainty General Insurance reserves are regularly measured, reviewed and monitored. The total loss and loss adjustment expense reserves are calculated based on work performed locally by qualified and experienced actuaries. To arrive at their reserve estimates, the actuaries take into consideration, among other things, the latest available facts, historical trends and patterns of loss payments, exposure growth, court decisions, economic conditions and public attitudes that may affect the ultimate cost of settlement. In most instances these analyses are made several times a year, usually at each quarter-end. Analyses are performed by product line, type and extent of coverage and year of occurrence. The Group total loss and loss adjustment expense reserves are the consolidation of the locally calculated reserves which are then discussed and approved by Corporate Center actuaries and Group management. As with any projection there is an inherent uncertainty in the estimation of claim reserves due to the fact that the ultimate liability for claims will be impacted by trends as yet unknown including future changes in the likelihood of claimants bringing suit, the size of court awards, and the attitudes of claimants toward settlement of their claims.

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 Group's main lines of business:

- Motor includes automobile physical damage, loss of the insured vehicle and automobile third party liability insurance.
- Property includes fire risks (for example fire, explosion and business interruption), natural perils (for example earthquake, windstorm and flood), engineering lines (for example boiler explosion, machinery breakdown and construction) and marine (cargo and hull).
- Liability includes general/public and product liability, excess and umbrella liability, professional liability including medical malpractice, directors and officers liability and errors and omissions liability.
- Special lines include credit and surety, crime and fidelity, accident and health, and crop.
- Worker injury includes 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 main concentrations of risks arising from natural catastrophes are regularly reported to senior management. The most important peril regions and risks are European windstorms, California earthquake, the U.S. and Caribbean windstorms and the UK river floods.

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 5,646 million and USD 5,345 million for the years ended December 31, 2008 and 2007, respectively. Reinsurance programs such as catastrophe covers are managed on a global basis, and therefore, net premium after reinsurance is monitored on an aggregated basis.

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

Table 16.a

in USD millions, as of December 31, 2008	Motor	Property	Liability	Special lines	Worker injury	Total
North America	1,690	3,291	4,289	1,445	2,342	13,056
Europe	7,871	5,476	2,678	2,287	655	18,966
International Businesses[1]	1,361	1,119	336	444	74	3,334
Total	**10,921**	**9,886**	**7,302**	**4,176**	**3,071**	**35,357**

[1] Including intercompany eliminations

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

Table 16.b

in USD millions, as of 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

Sensitivities analysis for General Insurance risk

The following table shows the sensitivity of net income before tax and the sensitivity of net assets, using the Group actual income tax rate, as a result of 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 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 into account non-linear effects of reinsurance contracts.

Insurance risk sensitivity for the General Insurance business

Table 17.a

in USD millions, for the year ended December 31, 2008	Global Corporate	North Amercia Commercial	Europe General Insurance	International Businesses
+1% in net loss ratio				
Net income before tax	(48)	(93)	(142)	(26)
Net assets	(39)	(75)	(115)	(21)

Insurance risk sensitivity for the General Insurance business

Table 17.b

in USD millions, for the year ended December 31, 2007	Global Corporate	North Amercia Commercial	Europe General Insurance	International Businesses
+1% in net loss ratio				
Net income before tax	(48)	(96)	(130)	(24)
Net assets	(37)	(72)	(98)	(18)

Modeling natural catastrophes

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

We model at the local and Group level to assess and aggregate our exposures. We centrally oversee our modeling for consistency in approach and from a global perspective on our accumulations. We have technical centers embedded within the business which help to improve the overall quality of our data. We model potential losses from our property policies located in the most hazard-prone areas and adjust for non-property related losses. These assessments principally address climate-induced perils such as windstorms, river floods, tornadoes, and hail, and geo-risk perils such as earthquakes. We constantly seek to improve our modeling, fill in gaps in models with additional assessments and increase the granularity of our data collection in order to increase the accuracy and utility of our information.

In 2008, for example, we made particular effort to extend our assessments by evaluating potential correlations between property and other lines of business such as engeneering or marine for our major peril regions. The models cover the major peril regions where we face potential exposure and therefore we can now make incremental additions; in 2008 we added two climate-induced peril regions.

Peril regions assessed for 2008

Risks from man-made catastrophes

Man-made catastrophes include such risks as industrial accidents and all types of terrorism attacks. Zurich's experience in monitoring potential exposures from natural catastrophes is also applicable to threats posed by man-made catastrophes, particularly terrorism. Due to the high degree of uncertainty about what events might actually occur, our accumulation monitoring and analyses contain a number of assumptions about the potential characteristics of such threats.

We review and aggregate workers' injury and property exposures to identify areas of significant concentration. We also assess other lines of business, such as liability and auto, although the potential exposure is not as significant. The resulting data allows our underwriters to evaluate how insuring a particular customer's risk might affect Zurich's overall exposure. In North America, we use a vendor-provided catastrophe model to evaluate our potential exposures in every major U.S. city. We undertake more detailed and frequent analytics for cities in which we have greater exposure. In 2008, we used a multi-disciplinary team to examine every aspect of the vendor tool and make adjustments based on our own experience, expertise and view of the potential risks.

For other areas, our analysis has shown that our exposures are significantly lower, due in large part to government provided pools. We periodically monitor accumulation limits for those areas.

Operational risk

Generally, all business activities contain some aspect of operational risk. The Zurich Way initiatives help us manage operational risks through standardization of processes. In addition, we work to identify key operational risks more precisely, by applying a common approach across the Group, and by leveraging information from other sources of risk information such as internal controls and Total Risk Profiling®.

To support this common approach we have established a comprehensive framework to identify, assess, quantify, mitigate and report operational risks within the Group. Within this framework we conduct operational risk assessments. As part of this process operational risks are identified for our key business areas and are qualitatively assessed. Risks identified and assessed above a certain threshold must be evaluated for mitigation. Any resulting plans for improvement actions are documented and tracked on an ongoing basis. Business units that are largest in terms of risk-based capital consumption are required to conduct operational risk assessments for all of their business areas. Additionally we use a scoping exercise to determine for which additional units and Group-wide functional areas operational risk assessments need to be conducted.

In addition to the operational risk assessments, loss events above a threshold determined by policy are documented and evaluated in a Group-wide database. Where necessary, improvement actions are put in place to avoid recurrence of such operational loss events.

We use a scenario-based approach to quantify and allocate risk based capital for operational risk for all business units.

We have put specific processes and systems in place to focus continuously on high priority operational matters such as outsourcing, information technology and managing business continuity. A key task is keeping our business continuity plans up-to-date, with an emphasis on recovery from unexpected events such as natural catastrophes and the possibility of a pandemic. In 2008, we particularly focused on testing and exercising our plans, and on improving the granularity and consistency of the plans throughout the Group by rolling out a new framework for business impact analysis.

We continue to strengthen the consistency, documentation and assessment of our internal controls for significant entities, processes and locations. Although primarily focused on important controls for financial reporting, this effort also includes related operational and compliance controls. For more details, please refer to the Internal control statement in the Corporate governance report.

Risks to our reputation and strategic risks

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

Strategic business decisions by nature involve risks. We work to reduce the unintended risks of those decisions through our risk assessment processes and tools, including the Total Risk Profiling® process. The Group Executive Committee regularly assesses key strategic risk scenarios for the Group as a whole, and we specifically evaluate the risks of M&A transactions. The Group further manages such risks by assigning clear responsibilities, authorities and limits for review and approval of strategic decisions. In 2008, we strengthened our policies and procedures regarding M&A transactions, especially for valuation methodology, data confidentiality and integrity, and integration planning. Additionally, we conduct risk assessments after M&A transactions to evaluate risks specifically related to the integration of acquired businesses.

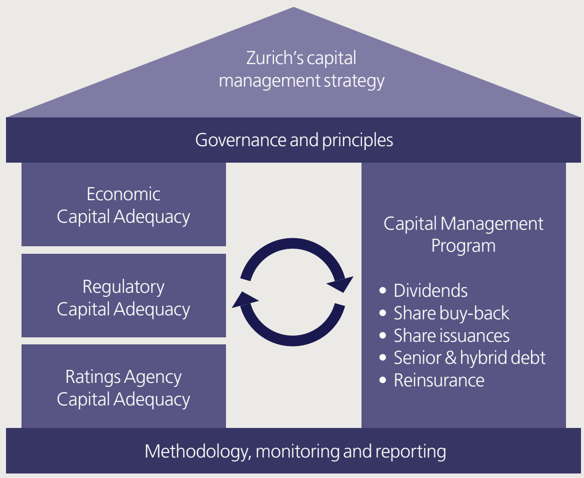
Capital management

The Group's capital management strategy is to maximize long term shareholder value by optimizing capital allocation while managing the balance sheet at 'AA' level and in accordance with regulatory, solvency and rating agency requirements. In particular, the Group endeavors to manage its capital such that the Group and all of its regulated entities are adequately capitalized according to the respective regulatory capital adequacy requirements.

Capital management framework

Our capital management framework forms the basis for actively managing the capital within Zurich.

Capital management framework



Zurich's policy is to manage its capital position by allocating capital to businesses earning the highest returns and pooling risks and capital as much as possible to operationalize our global risk diversification subject to local and Group regulatory solvency requirements and ratings agency capital adequacy constraints.

We manage capital and solvency through an integrated and comprehensive framework of principles, governance structures as well as methodology, monitoring and reporting processes. At a Group executive level, the Group Balance Sheet Committee defines the capital management strategy and sets the principles, standards and policies for the execution of the strategy. Group Treasury and Capital Management is responsible for the execution of the capital management strategy within the mandate, set by the Group Balance Sheet Committee.

Within these defined principles, the Group manages its capital using a number of different capital models taking into account regulatory, economic and rating agency constraints. Our capital and solvency position is monitored and reported on a regular basis. Based on the results of the capital models and the defined standards and principles, Group Treasury and Capital Management have a set of measures and tools available to manage capital within the defined constraints. This tool set is referred to as the capital management program.

Capital management program

Our capital management program comprises various measures to optimize shareholders' return and to meet capital needs, while enabling Zurich to take advantage of growth opportunities as they arise. Such measures are used as and when required and include efficient balance sheet structuring as well as cash dividends, share buy-backs, special dividends, issuances of shares or senior and subordinated debt and purchase of reinsurance.

The Group seeks to maintain the balance between higher returns for shareholders on equity raised, which may be possible with higher levels of borrowing, and the 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 13, 2008 the Board of Zurich Financial Services authorized a share buy-back program of up to CHF 2.2 billion over the course of 2008. 3,750,000 fully paid shares, with a nominal value CHF 0.10, were bought back as of December 31, 2008 at an average price of CHF 293 per share and a total cost of USD 1.1 billion.

For information regarding issuances and redemptions of debt during the year, please see note 21 of the consolidated financial statements.

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 a 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, 2008, the amount of the general legal reserve exceeded 20 percent of the paid-in share capital of the Group. Similarly, the company laws in many countries in which the Group's subsidiaries operate may restrict the amount of dividends payable by those 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 U.S., 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 in the insurer's state of domicile.

The regulatory, ratings agency and economic capital adequacy are major elements of our capital management framework.

Regulatory capital adequacy

The Group endeavors to manage its capital such that all of its regulated entities meet local regulatory capital requirements at all times.

In each country in which the Group operates, the local regulator specifies the minimum amount and type of capital that each of the regulated entities must hold in addition to their liabilities. The Group targets to hold, in addition to the minimum capital required to comply with the solvency requirements, an adequate buffer to ensure that each of its regulated subsidiaries meets the local capital requirements. The Group is subject to different capital requirements depending on the country in which it operates. The two main areas are Europe (both European Union (EU) and non-EU countries) and the U.S.

In EU countries, insurance entities 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 entities operating in Switzerland. In certain European countries, both EU and non-EU, further requirements have been imposed by regulators.

In 2007, the European Commission proposed a 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 where all material risks and their interactions are considered. As part of the risk management system, all insurance and reinsurance entities 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's current timetable is to introduce the new solvency regime in 2012.

Some countries have already introduced, or are in the process of introducing, a requirement for an economic risk-based capital assessment. In the UK, this is known as Pillar 2. In Switzerland, the Insurance Supervisory Law 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 'solo' companies. Groups, conglomerates and reinsurers are required to use company-specific internal models, which must be approved by the Swiss Financial Market Supervisory Authority (FINMA), which has replaced the Federal Office of Private Insurance (FOPI) as per January 1, 2009. In 2008 Zurich has continued to further enhance and refine its internal RBC model, initiated the approval process with FOPI and filed SST results as required.

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

The Group's banking operations, based in Europe, adopted Basel II as of January 1, 2008. Under Basel II, required capital is calculated on a risk-based approach.

At a Group level, we endeavor to pool risk and capital as much as possible and, in so doing, benefit in regimes where diversification benefits are recognized (e.g. U.S., UK and Switzerland).

The Group continues to be subject to Solvency I requirements based on the Swiss Insurance Supervisory Law. The following table sets out the Solvency I position as filed with the Swiss regulator for 2007 and as drafted for filing with the Swiss regulator for 2008.

Table 18

The Group's solvency as of December 31

in USD millions, as of December 31	2008	2007
Eligible equity		
Total equity	**23,781**	**29,318**
Net of intangibles, other assets and free reserves for policyholder dividends	(3,966)	(2,915)
Subordinated debt[1]	3,683	3,975
Deferred policy acquisition costs general insurance	(3,571)	(3,394)
Dividends, share buy-back and nominal value reduction[2]	(1,411)	(3,867)
Total eligible equity	**18,516**	**23,117**
Total required solvency capital	**12,142**	**12,383**
Excess margin	**6,375**	**10,734**
Solvency ratio	**153%**	**187%** [3]

[1] Under guidelines issued by FOPI during 2007, dated subordinated debt issuances are admissable up to 25 percent of the capital requirement, undated issuances up to 50 percent of the capital requirement.
[2] Amount for dividend reflects the proposed dividend for the respective financial year, not yet approved by the Annual General Meeting.
[3] Adjusting the 2007 filed solvency position for refinements in principle accepted by FINMA for 2008 (inclusion of free reserves for policyholder dividends) the solvency ratio would have been 211 percent.

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

Throughout 2007 and 2008, the Group and all its material, regulated subsidiaries complied with the applicable regulatory minimum capital requirements.

Ratings agency capital adequacy

Ratings agencies apply their own models to evaluate the relationship between the required risk capital for a company or Group and its available capital resources. We maintain a continuous dialogue with ratings agencies regarding the assessment of our capital adequacy.

The financial strength ratings of the Group's main operating entities are an important element of our competitive position. Moreover, the Group's credit ratings derived from the financial strength ratings affect the cost of capital. As of December 31, 2008 the financial strength rating of Zurich Insurance Company and other key operating entities of the Group was rated by Standard and Poor's as 'AA -,' by A.M. Best as 'A,' by Fitch as 'A+' and by Moody's as 'A1.'

Economic capital adequacy
(unaudited)

The Group uses an additional capital management tool, its internal Risk-Based Capital model (RBC) which is calibrated to an "AA" financial strength target level.

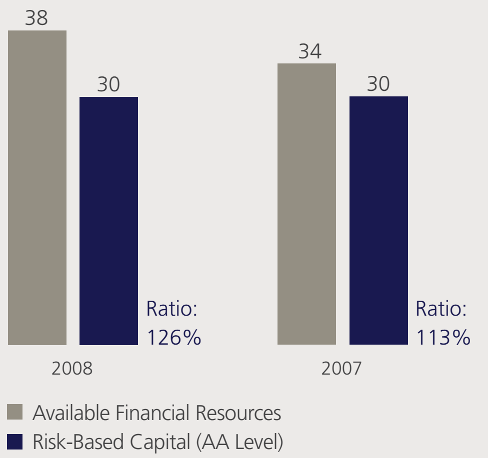
We define RBC as being the capital required to protect the Group's policyholders against any economic insufficiency to meet their claims over a one year time horizon and at a confidence level of 99.95 percent.

We use RBC to assess the economic capital consumption of our business on a one-balance sheet approach. The RBC framework is an integral part of how we manage the Group. It is embedded in our organization and decision making, and is used in capital allocation, business performance management, pricing, reinsurance purchasing, transaction evaluation, risk optimization, and regulatory and rating agency communication.

At the Group level, we compare RBC to the Group's Available Financial Resources (AFR) to derive Economic Capital Adequacy. AFR reflects financial resources available to cover policyholder liability claims in excess of their expected value. It is derived by adjusting the IFRS shareholders' equity to reflect the full economic capital base available to absorb any unexpected volatility in our business activities.

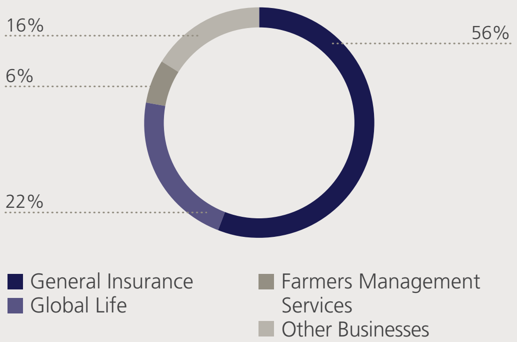
The chart below shows the AFR at the beginning of the respective year (based on the IFRS balance sheet as of December 31 of the prior year) to cover the risks that could materialize during the year indicated.

Available Financial Resources over Risk-Based Capital
(USD billions)



As of January 1, 2008 our AFR amounted to USD 38 billion, while our latest assessment of internal risk based capital requirements for the year 2008 amounted to USD 30 billion, resulting in an economic capital adequacy ratio of 126 percent compared 113 percent for 2007. The increase in available financial resources was primarily driven by economic profits (including changes in value in force) generated in 2007. The Zurich internal risk based capital after diversification for 2008 is broken down as follows by segments and risk types:

Allocated capital by segment
(%)



RBC by risk type
(%)

Total allocated capital = USD 30 billion RBC plus USD 2 billion direct allocation to Farmers Management Services

The largest proportion of RBC arises from general insurance insurance risk, followed by market and credit risk. Life insurance risk only includes biometric risks such as mortality and morbidity risk.

For the beginning of 2009 we estimate our AFR to amount to USD 27 billion, including the deduction of the proposed dividend for the respective financial year, not yet approved by the Annual General Meeting. The estimates for our internal risk based capital requirements amount to USD 28 billion for the calendar year 2009. The reduction in AFR arose mainly from the severe financial market turmoil, specifically relating to losses related to our equity holdings, impairments on our debt securities and widening of credit spreads. The reduction in RBC is mainly driven by changes in economic parameters such as interest rates and exchange rates. The economic capital adequacy ratio would be at 95 percent. These estimates are based on preliminary numbers which are not yet final.

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In USD millions, for the years ended December 31	Notes	2008	2007
Revenues			
Gross written premiums and policy fees		51,894	47,456
Less premiums ceded to reinsurers[1]		(6,226)	(13,197)
Net written premiums and policy fees		45,667	34,259
Net change in reserves for unearned premiums	11	(1,560)	(495)
Net earned premiums and policy fees		44,107	33,763
Farmers management fees and other related revenues	14	2,458	2,266
Net investment result on Group investments	6	5,832	10,094
Net investment income on Group investments		8,725	8,591
Net capital gains/(losses) and impairments on Group investments		(2,893)	1,503
Net investment result on unit-linked investments	6	(21,731)	7,142
Net gain/(loss) on divestments of businesses	5	16	118
Other income		1,665	1,900
Total revenues		32,349	55,285
Benefits, losses and expenses			
Insurance benefits and losses, gross of reinsurance[1]	11	31,387	34,923
Less ceded insurance benefits and losses[1]	11	3,425	(11,632)
Insurance benefits and losses, net of reinsurance[1]	11	34,811	23,291
Policyholder dividends and participation in profits, net of reinsurance	11	(21,514)	8,526
Underwriting and policy acquisition costs, net of reinsurance	11	8,287	7,559
Administrative and other operating expense	13	6,729	6,679
Interest expense on debt	21	599	685
Interest credited to policyholders and other interest		773	957
Total benefits, losses and expenses		29,685	47,698
Net income before income taxes		2,663	7,587
Income tax expense	20	452	(1,791)
attributable to policyholders	20	1,184	83
attributable to shareholders	20	(732)	(1,874)
Net income after taxes		**3,116**	**5,797**
attributable to non-controlling interests		77	83
attributable to shareholders		3,039	5,714
in USD			
Basic earnings per share	22	21.80	39.73
Diluted earnings per share	22	21.63	39.29
in CHF			
Basic earnings per share	22	23.53	47.63
Diluted earnings per share	22	23.35	47.11

[1] In 2007, premiums ceded to reinsurers included USD 7.3 billion and ceded insurance benefits and losses included USD 7.0 billion relating to the reinsurance of a UK annuity portfolio. Subsequent to the approval from the UK High Court, effective on June 30, 2008, the underlying contracts have been transferred to the reinsurer. This transaction had no impact on the consolidated income statement in 2008.

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

Consolidated statements of comprehensive income

in USD millions, for the years ended December 31	Net income attributable to shareholders	Net unrealized gains/(losses) on available-for-sale investments
Notes		6
2007		
Comprehensive income for the period	5,714	(609)
Detail of movements during the period		–
Change (excluding tax, reclassification and currency translation effects and after allocation to policholders)		(686)
Reclassification to income statement		(182)
Foreign currency translation effects		33
Deferred income tax		225
2008		
Comprehensive income for the period	3,039	(3,159)
Detail of movements during the period		
Change (excluding tax, reclassification and currency translation effects and after allocation to policholders)		(6,316)
Reclassification to income statement		2,071
Foreign currency translation effects		121
Deferred income tax		965

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

	Cash flow hedges	Cumulative translation adjustment	Revaluation reserve	Net actuarial gains/(losses) on pension plans	Total other comprehensive income attributable to shareholders	Total comprehensive income attributable to shareholders	Comprehensive income attributable to non-controlling interests	Total comprehensive income
	7			23				
	(103)	561	83	468	401	6,115	90	6,205
	(25)	564	101	661	616			
	(111)	(3)	–	–	(296)			
	(7)	–	–	(6)	20			
	40	–	(17)	(188)	61			
	87	(2,725)	16	(1,115)	(6,897)	(3,858)	6	(3,852)
	60	(2,707)	21	(1,690)	(10,634)			
	54	(18)	–	–	2,107			
	(7)	–	–	114	228			
	(20)	–	(5)	461	1,401			

Consolidated balance sheets

Assets

in USD millions, as of December 31	Notes	2008	2007
Investments			
Total Group investments		179,570	193,600
Cash and cash equivalents		11,965	13,943
Equity securities		14,242	20,416
Debt securities		118,103	123,762
Real estate held for investment		7,524	7,563
Mortgage loans		12,820	12,718
Other loans		12,531	12,936
Investments in associates		220	238
Other investments		2,165	2,024
Investments for unit-linked contracts		78,203	122,092
Total investments	6	257,773	315,693
Reinsurers' share of reserves for insurance contracts[1]	8	18,595	26,970
Deposits made under assumed reinsurance contracts		2,397	1,359
Deferred policy acquisition costs	12	14,323	14,941
Deferred origination costs	12	770	1,003
Accrued investment income		2,429	2,593
Receivables	15	13,229	12,846
Other assets		4,095	3,405
Mortgage loans given as collateral	16	1,233	2,243
Deferred tax assets	20	2,901	1,682
Property and equipment	17	1,889	1,972
Goodwill	18	1,846	1,730
Other intangible assets	18	6,464	2,906
Total assets		**327,944**	**389,342**

[1] In 2007, reinsurers' share of reserves for insurance contracts included USD 7.1 billion related to the reinsurance of a UK annuity portfolio. Subsequent to the approval from the UK High Court, effective on June 30, 2008, the underlying contracts were transferred to the reinsurer, resulting in a reduction of reinsurers' share of reserves for insurance contracts.

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	2008	2007
Liabilities			
Reserve for premium refunds		620	625
Liabilities for investment contracts	9	35,979	54,485
Deposits received under ceded reinsurance contracts		1,619	1,739
Deferred front-end fees		4,695	5,791
Reserves for insurance contracts[1]	8	222,179	252,740
Obligations to repurchase securities		3,608	5,370
Accrued liabilities		2,820	2,755
Other liabilities	19	16,944	20,257
Collateralized loans	16	1,233	2,243
Deferred tax liabilities	20	3,485	4,057
Debt related to capital markets and banking activities	21	2,527	1,663
Senior and subordinated debt	21	8,455	8,300
Total liabilities		**304,163**	**360,023**
Equity			
Share capital	22	10	10
Additional paid-in capital		10,131	10,289
Net unrealized gains/(losses) on available-for-sale investments		(2,957)	202
Cash flow hedges		(16)	(103)
Cumulative translation adjustment		(1,341)	1,385
Revaluation reserve		99	83
Retained earnings		15,616	16,406
Common shareholders' equity		21,542	28,273
Preferred securities	22	561	671
Shareholders' equity		22,103	28,945
Non-controlling interests		1,678	374
Total equity		**23,781**	**29,318**
Total liabilities and equity		**327,944**	**389,342**

[1] In 2007, reserves for insurance contracts included USD 7.1 billion related to the reinsurance of a UK annuity portfolio. Subsequent to the approval from the UK High Court, effective on June 30, 2008, the underlying contracts were transferred to the reinsurer, resulting in a reduction of reserves for insurance contracts.

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	2008	2007
Cash flows from operating activities		
Net income attributable to shareholders	3,039	5,714
Adjustments for:		
Net (gain)/loss on divestments of businesses	(16)	(118)
Share of equity in income from investments in associates	(8)	(13)
Depreciation, amortization and impairments of fixed and intangible assets	654	515
Other non-cash items	1,373	310
Underwriting activities:	(24,587)	(3,346)
Reserves for insurance contracts, gross[1]	*(19,773)*	*2,319)*
Reinsurers' share of reserves for insurance contracts[1]	*7,056*	*(6,403)*
Liabilities for investment contracts	*(9,486)*	*2,213)*
Deferred policy acquisition costs	*(975)*	*(928)*
Deferred origination costs	*8*	*(166)*
Deposits made under assumed reinsurance contracts	*(1,307)*	*715)*
Deposits received under ceded reinsurance contracts	*(110)*	*(1,096)*
Investments:	30,373	(2,594)
Net capital (gain)/loss on investments and impairments	*27,809*	*(5,645)*
Net change in trading securities	*2,069*	*(80)*
Sales and maturities		
Debt securities[1]	*67,403*	*70,307)*
Equity securities	*66,830*	*70,725)*
Other (primarily other investments)	*43,273*	*32,426)*
Purchases		
Debt securities	*(69,913)*	*(64,327)*
Equity securities	*(63,314)*	*(73,044)*
Other (primarily other investments)	*(43,783)*	*(32,955)*
Proceeds from sale and repurchase agreements	(443)	(865)
Movements in receivables and payables	(3,174)	350
Net changes in debt for capital markets and banking activities	1,035	(279)
Net changes in other operational assets and liabilities	509	(1,611)
Deferred income tax, net	(1,705)	357
Net cash provided by operating activities	7,050	(1,580)

[1] In 2007, the consolidated statements of cash flows included 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 related to the reinsurance of a UK annuity portfolio. Subsequent to the approval from the UK High Court, effective on June 30, 2008, the underlying contracts were transferred to the reinsurer, resulting in a reduction of both the reinsurers' share of reserves for insurance contracts and gross reserves for insurance contracts.

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	2008	2007
Cash flows from investing activities		
Sales of property and equipment	309	274
Purchase of property and equipment	(444)	(338)
Investments in associates, net	11	(73)
Acquisitions of companies, net of cash acquired	(1,319)	(543)
Divestments of companies, net of cash balances	(5)	58
Other acquisitions and divestments related cashflow	–	–
Dividends from associates	5	5
Net cash used in investing activities	(1,442)	(617)
Cash flows from financing activities		
Dividends paid	(2,104)	(1,339)
Net movement in treasury shares	(812)	(1,669)
Redemption of preferred securities and repayments to non-controlling interests	(124)	–
Issuance of debt	2,420	1,898
Payments on debt outstanding	(1,930)	(1,576)
Net cash used in financing activities	(2,551)	(2,686)
Foreign currency translation effects on cash and cash equivalents	(1,896)	640
Change in cash and cash equivalents excluding change in cash held as collateral for securities lending[1]	1,161	(4,243)
Cash and cash equivalents as of January 1, excluding cash held as collateral for securities lending	15,059	19,302
Cash and cash equivalents as of December 31, excluding cash held as collateral for securities lending	**16,220**	**15,059**
Change in cash held as collateral for securities lending	(1,700)	(1,943)
Cash and cash equivalents as of January 1, including cash held as collateral for securities lending	16,936	23,122
Cash and cash equivalents as of December 31, including cash held as collateral for securities lending	**16,397**	**16,936**
thereof:		
– cash and cash equivalents – Group Investments	11,965	13,943
– cash and cash equivalents – unit linked	4,431	2,993
Other supplementary cash flow disclosures		
Other interest income received	8,859	8,519
Dividend income received	2,943	3,136
Other interest expense paid	(1,478)	(1,603)
Income tax paid	(1,253)	(1,998)

As of December 31, 2008 and 2007, cash and cash equivalents restricted as to use were USD 1,097 million and USD 1,150 million, respectively. Cash and cash equivalents held for the benefit of policyholders in connection with unit-linked products amounted to USD 4,431 million and USD 2,993 million as of December 31, 2008 and 2007, respectively.

Cash and cash equivalents

in USD millions, as of December 31	2008	2007
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	7,737	5,567
Cash equivalents	8,482	9,492
Cash held as collateral for securities lending	177	1,877
Total	**16,397**	**16,936**

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	Share capital	Additional paid-in capital	Net unrealized gains/(losses) on available-for-sale investments
Balance as of December 31, 2006, as previously reported	10	10,448	819
Total adjustments due to restatement	–	–	(8)
Balance as of December 31, 2006, as restated	10	10,448	811
Issuance of share capital	–	147	–
Dividends to shareholders	–	–	–
Share-based payment transactions	–	30	–
Treasury share transactions[1]	–	(335)	–
of which: share buy-back program	–	*(208)*	–
Total comprehensive income for the period, net of tax	–	–	(609)
Net income	–	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–	*(609)*
Cash flow hedges	–	–	–
Cumulative translation adjustment	–	–	–
Revaluation reserve	–	–	–
Net actuarial gains/(losses) on pension plans	–	–	–
Net changes in capitalization and non-controlling interests	–	–	–
Balance as of December 31, 2007	10	10,289	202
Balance as of December 31, 2007, as previously reported	10	10,289	195
Total adjustments due to restatement	–	–	7
Balance as of December 31, 2007, as restated	10	10,289	202
Issuance of share capital	–	1	–
Dividends to shareholders	–	–	–
Redemption of preferred securities	–	(14)	–
Share-based payment transactions	–	48	–
Treasury share transactions[1]	–	(194)	–
of which: share buy-back program	–	*(245)*	–
Total comprehensive income for the period, net of tax	–	–	(3,159)
Net income	–	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–	*(3,159)*
Cash flow hedges	–	–	–
Cumulative translation adjustment	–	–	–
Revaluation reserve	–	–	–
Net actuarial gains/(losses) on pension plans	–	–	–
Net changes in capitalization and non-controlling interests	–	–	–
Balance as of December 31, 2008	**10**	**10,131**	**(2,957)**

[1] Please refer to table 22.3 for information regarding treasury share transactions.

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

	Cash flow hedges	Cumulative translation adjustment	Revaluation reserve	Retained earnings	Common shareholders' equity	Preferred securities	Shareholders' equity	Non-controlling interests	Total equity
	–	823	–	12,816	24,917	671	25,588	517	26,105
	–	–	–	64	55	–	55	–	55
	–	823	–	12,880	24,972	671	25,643	517	26,161
	–	–	–	–	147	–	147	–	147
	–	–	–	(1,293)	(1,293)	(46)	(1,339)	(10)	(1,349)
	–	–	–	–	30	–	30	–	30
	–	–	–	(1,317)	(1,652)	–	(1,652)	–	(1,652)
	–	–	–	*(817)*	*(1,025)*	–	*(1,025)*	–	*(1,025)*
	(103)	561	83	6,136	6,070	46	6,115	90	6,205
	–	–	–	*5,668*	*5,668*	*46*	*5,714*		
	–	–	–	–	*(609)*	–	*(609)*		
	(103)	–	–	–	*(103)*	–	*(103)*		
	–	*561*	–	–	*561*	–	*561*		
	–	–	*83*	–	*83*	–	*83*		
	–	–	–	*468*	*468*	–	*468*		
	–	–	–	–	–	–	–	(223)	(223)
	(103)	1,385	83	16,406	28,273	671	28,945	374	29,318
	(103)	1,385	101	16,254	28,132	671	28,804	374	29,177
	–	–	(17)	152	141	–	141	–	141
	(103)	1,385	83	16,406	28,273	671	28,945	374	29,318
	–	–	–	–	1	–	1	–	1
	–	–	–	(2,064)	(2,064)	(32)	(2,096)	(8)	(2,104)
	–	–	–	–	(14)	(110)	(124)	–	(124)
	–	–	–	–	48	–	48	–	48
	–	–	–	(618)	(812)	–	(812)	–	(812)
	–	–	–	*(800)*	*(1,045)*	–	*(1,045)*	–	*(1,045)*
	87	(2,725)	16	1,892	(3,890)	32	(3,858)	6	(3,853)
	–	–	–	*3,007*	*3,007*	*32*	*3,039*		
	–	–	–	–	*(3,159)*	–	*(3,159)*		
	87	–	–	–	*87*	–	*87*		
	–	*(2,725)*	–	–	*(2,725)*	–	*(2,725)*		
	–	–	*16*	–	*16*	–	*16*		
	–	–	–	*(1,115)*	*(1,115)*	–	*(1,115)*		
	–	–	–	–	–	–	–	1,307	1,307
	(16)	**(1,341)**	**99**	**15,616**	**21,542**	**561**	**22,103**	**1,678**	**23,781**

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, branch offices and representations.

Zurich Financial Services, a Swiss corporation, is the holding company of the Group and is listed on the SIX 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 4, 2009 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 2, 2009.

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, IFRS permits reference to another comprehensive body of accounting principles that uses a similar conceptual framwork. In these cases, the Group typically refers to accounting principles generally accepted in the United States of America (US GAAP) for guidance.

Disclosures under IFRS 4 "Insurance Contracts" and IFRS 7 "Financial Instruments: Disclosures" relating to the nature and extent of risks, and capital disclosures under IAS 1 "Presentation of Financial Statements" have been included in the "Risk review" on pages 90 to 125, and they form an integral part of the consolidated financial statements.

Significant subsidiaries included in the scope of consolidation are disclosed on pages 236 to 238.

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.

During the year, the presentation of certain items in the consolidated financial statements has been amended in order to better reflect their economic substance. These changes in presentation have no effect on the previously reported net income or shareholders' equity and comparative amounts have been amended accordingly. Material changes in presentation are described as follows:

- Investments held by investment companies, previously reported under other investments and amounting to USD 1,827 million as of December 31, 2007 are now presented under equity securities at fair value through profit or loss, as this presentation better reflects the nature and measurement basis of these investments. This change in presentation is reflected in the consolidated balance sheet, consolidated statement of cash flows, note 6 and note 25.

- Recurring payments made to distributors of life products after the initial sale, over the lifetime of the policy, are now presented as part of administrative and other operating expense. They were previously reported as part of underwriting and policy acquisition costs and amounted to USD 266 million for the year ended December 31, 2007. This change in presentation is reflected in the consolidated income statement, note 11 and note 13.

- Income from profit participation relating to life reinsurance contracts are now presented as part of other income. This was previously reported as part of underwriting and policy acquisition costs and amounted to USD 133 million for the year ended December 31, 2007. This change in presentation is reflected in the consolidated income statement and note 11.

- Amortization charges for deferred origination costs, previously reported as part of administrative and other operating expense and amounting to USD 103 million for the year ended December 31, 2007, are now included in underwriting and policy acquisition costs. This change in presentation is reflected in the consolidated income statement, note 11 and note 13.

- Amortization and impairments of intangible assets, previously reported separately in the consolidated income statement and amounting to USD 302 million for the year ended December 31, 2007, are now included in administrative and other operating expense. This change in presentation is also reflected in note 13.

- Movements shown in the development tables throughout the consolidated financial statements have been translated at average rather than end-of-period foreign exchange rates as they were presented in previous years.

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, 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 mixed in nature (including both current and non-current portions): debt securities, mortgage loans, other loans, other investments, 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 and investments 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 13 in "Risk review"), liabilities for investment contracts (table 14 in "Risk review"), debt securities (table 6.4), derivative assets and derivative liabilities (tables 7.1 and 7.2), collateralized loans (table 16) and outstanding debt (table 21.3).

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.

The table below summarizes the principal exchange rates that have been used for translation purposes. Net gains on foreign currency transactions included in the consolidated income statements were USD 26 million and USD 131 million for the years ended December 31, 2008 and 2007, respectively. Foreign currency exchange forward and swap losses included in these amounts were USD (801) million and USD (249) million for the years ended December 31, 2008 and 2007, respectively.

Table 1.1

Principal exchange rates

USD per foreign currency unit, as of or for the year ended December 31	Balance sheets		Income statements and cash flows	
	2008	2007	**2008**	2007
Euro	1.3924	1.4601	1.4719	1.3706
Swiss franc	0.9371	0.8822	0.9265	0.8341
British pound	1.4620	1.9849	1.8556	2.0019

Change in accounting policies in 2008

The accounting policy for three run-off blocks of disability business in Centre, included in Other Businesses, has been changed by exercising the option in IFRS 4 to remeasure designated insurance liabilities using current financial and non-financial assumptions. All financial assets related to these insurance liabilities are designated as "at fair value through profit or loss." This is a better reflection of the way these blocks of business are managed. As a consequence of this change in accounting policy, prior year figures have been restated to ensure comparability as shown in the following tables.

Table 1.2

in USD millions, unless otherwise stated	As reported	Amount of restatement	As restated
as of December 31, 2007			
Total equity	29,177	141	29,318
Reserves for insurance contracts	252,886	(146)	252,740
Reinsurers' share of reserves for insurance contracts	26,977	(7)	26,970
Deferred tax assets	1,678	4	1,682
Deferred tax liabilities	4,055	2	4,057
for the year ended December 31, 2007			
Net capital gains/(losses) and impairments on Group Investments	1,498	5	1,503
Insurance benefits and losses, net of reinsurance	23,378	87	23,465
Income tax expense	1,787	(4)	1,783
Net income attributable to shareholders	5,626	88	5,714
Basic earnings per share in CHF	46.88	0.75	47.63
Diluted earnings per share in CHF	46.37	0.74	47.11

Table 1.3

in USD millions	As reported	Amount of restatement	As restated
as of December 31, 2006			
Total equity	26,105	56	26,161
Reserves for insurance contracts	240,648	(55)	240,593
Reinsurers' share of reserves for insurance contracts	20,063	(3)	20,060
Deferred tax assets	2,336	4	2,340
Deferred tax liabilities	4,804	–	4,804

Significant transactions and events

Transfer of UK annuity business

The Group entered into a reinsurance agreement to transfer the risk associated with a significant annuities portfolio effective as of January 1, 2007. In 2007 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 reinsurer's share of reserves for insurance contracts increased by USD 7.1 billion. In April 2008, the UK High Court approved as a second step of this transaction the collective novation of all policies of this significant annuity portfolio, which became effective as of June 30, 2008. As a result the underlying contracts have been transferred to the reinsurer. This had no further impact on the income statement, but resulted in a reduction of reinsurers' share of reserves for insurance contracts of USD 7.1 billion and a corresponding reduction in the reserves for insurance contracts.

Sale of North America Commercial Small Business Solutions (SBS)

On June 13, 2008, effective on June 1, 2008, the Group completed the sale of the rights to access renewals of its North America Commercial Small Business Solutions (SBS) book of business to Truck Insurance Exchange (TIE), one of the Farmers Exchanges, which the Group manages but does not own. As part of the transaction, the Group has entered into a 100% quota share reinsurance agreement for the in-force business as of June 1, 2008. This resulted in the Group paying TIE the balance of unearned premium reserve related to the business ceded to TIE of USD 425 million and TIE compensating the Group for its deferred acquisition cost balance as of the effective date of the transaction by paying a ceding commission of USD 120 million. In addition, the management of the in-force SBS book of business has been transferred together with certain assets and liabilities to Farmers Group, Inc. This transaction had no impact on the scope of consolidation.

Changes in the German Insurance Supervisory Law

Effective January 1, 2008, the German Insurance Supervisory Law changed its requirements for policyholder participations for life insurance. While, in the past, it was required that a minimum of 90 percent of the gross surplus was allocated to the policyholder, a more specific allocation is now required. A minimum of 90 percent of the total investment return less 100 percent of the minimum guaranteed interest on the policyholder account, a minimum of 75 percent of the risk profits and a minimum of 50 percent of the positive expense result is now allocated to the policyholder. In 2008, the Group has recognized a gain of USD 357 million net of income taxes as a result of this change in the law.

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 through global distribution and proposition pillars to develop leadership positions in its chosen segments.

- Farmers Management Services which through Farmers Group, Inc. and its subsidiaries (FGI) provides non-claims related management services to the Farmers Exchanges, are 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 Farmers 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 of the Group.

- 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 immaterial transfer between primary segments has been made for 2008 financial reporting:

- Zurich Eurolife S.A. from Other Businesses to Global Life

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 immaterial transfer between secondary segments has been made for 2008 financial reporting:

- Zurich Eurolife S.A. from Central Region to Europe

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, realized capital gains as well as gains and losses on transfer of net assets, which are eliminated against equity.

2. Implementation of new accounting standards and amendments to published accounting standards

Standards published and effective as of January 1, 2008 and relevant for the Group's operations

IFRIC 14 "IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction" has been implemented for the financial year beginning January 1, 2008 and had no significant impact on the Group's financial position or performance.

Amendments effective as of July 1, 2008 and relevant for the Group's operations

In October 2008, the IASB issued amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures". The amendments in IAS 39 permit an entity to reclassify certain non-derivative financial assets out of the "fair value through profit or loss" and "available-for-sale" categories in limited circumstances. The amendment to IFRS 7 requires additional disclosures for such non-derivative financial assets reclassified out of the "fair value through profit or loss" and "available-for-sale" categories. The Group has not made any such reclassifications.

Standards and amendments early adopted by the Group

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 main objective of revising the standard is to aggregate information in financial statements on the basis of shared characteristics and introduce a statement of comprehensive income. The revised standard requires an entity to present, in a statement of changes in equity, all owner changes in equity. All non-owner changes in equity (comprehensive income) are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and statement of comprehensive income). The Group has opted to present comprehensive income in two statements.

Standards, amendments and interpretations issued that are not yet effective

The following standards, amendments and interpretations of existing published standards are not yet effective but will be relevant to the Group's operations. The Group is currently evaluating the impact of adopting these standards, amendments and interpretations.

In November 2006, the IASB issued IFRS 8 "Operating Segments". 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 same basis as internal reporting 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 to recognize all borrowing costs immediately as an expense.

In January 2008, the IASB issued the revised IFRS 3 "Business Combinations". The standard is mandatory for reporting periods beginning on or after July 1, 2009. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt and subsequently re-measured at fair value through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs must be expensed.

In January 2008, the IASB issued amendments to IAS 27 "Consolidated and Separate Financial Statements". The amendments are mandatory for reporting periods beginning on or after July 1, 2009. The amended standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer give rise to goodwill or gains and losses.

In February 2008, the IASB issued amendments to IAS 32 "Financial Instruments: Presentation" and to IAS 1 "Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation". The amendments are mandatory for reporting periods beginning on or after January 1, 2009. The amended standards require entities to classify as equity all puttable financial instruments, and instruments or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, provided such financial instruments have particular features and meet specific conditions.

In July 2008, the IASB issued amendments to IAS 39 "Eligible Hedged Items". The amendments are mandatory for reporting periods beginning on or after July 1, 2009. The amendments clarify how the principles that determine whether a hedged risk or portion of cash flows is eligible for hedge designation should be applied in particular situations.

In January 2008, the IASB issued amendments to IFRS 2 "Vesting Conditions and Cancellations". The amendments are mandatory for reporting periods beginning on or after January 1, 2009. The amended standard clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or the valuation thereof subsequent to the date of grant. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

Additionally, the IASB issued several minor amendments as part of the IASB's annual improvements project. The amendments are mandatory for reporting periods beginning on or after January 1, 2009 with the exception of the amendment regarding IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" which is mandatory for reporting periods beginning on or after July 1, 2009.

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 November 2008, IFRIC 17 "Distributions of Non-cash Assets to Owners" was issued. IFRIC 17 is mandatory for reporting periods beginning on or after July 1, 2009. The interpretation clarifies when a dividend payable should be recognized and how distributions of assets other than cash should be measured when an entity pays dividends to its owners.

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.

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 voting rights. Under the equity method of accounting, investments in associates, partnerships or joint ventures are initially recognized at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the investment.

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. The effects on the Group's consolidated financial statements are not material.

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

IFRS does not provide specific guidance on all aspects of recognition and measurement of insurance and reinsurance contracts. The Group's accounting policies for insurance and reinsurance contracts are therefore based on those developed by the Group before the adoption of IFRS 4. At the time of adoption, the Group primarily considered the US GAAP pronouncements issued by the Financial Accounting Standards Board (FASB) on insurance and reinsurance contracts in areas where IFRS4 did not include specific requirements.

Classification

Insurance and reinsurance 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;
- the amount or timing of which 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 net income 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 can be made 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.

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. Certain direct response marketing costs for efforts which solicit a direct response that is specific and quantifiable are also deferred, when it can be demonstrated that such marketing results in future economic benefits. 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 in the actual result from estimated experience on the amortization of DAC reflected in earnings.

DAC for other traditional life insurance and annuity policies is 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 is 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.

Unamortized DAC for life business accrues interest at a rate consistent with the related assumptions for reserves.

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).

DAC for general insurance contracts is amortized over the period in which the related premiums written are earned.

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 at the time of replacement.

Liability adequacy tests

Liability adequacy testing is performed by portfolio of contracts at each reporting date, 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 using current assumptions. If a premium deficiency is identified, the DAC asset is written down by the amount of the deficiency. If, after writing down the DAC asset to nil (for the respective 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 future profits of acquired insurance contracts (PVFP) is compared with 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 respective 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 including mortality, persistency, expenses and investment return including a margin for adverse deviation. These assumptions are locked-in at inception and are regularly assessed as part of the related liability adequacy testing over the period of the contract.

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 they are recorded directly in equity in accordance with the Group's 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 net unrealized gains/(losses) 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 as of 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 any 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 at an amount 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), 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 expected 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 historical 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. An impairment is considered to have taken place if it is probable that the Group will not be able to collect the amounts expected from reinsurers. The carrying amount of a reinsurance asset is reduced through the use of an allowance account, and the amount of any 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 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).

Liabilities for investment contracts (unit-linked)

These represent portfolios maintained to meet specific investment objectives of policyholders who bear the credit and market and liquidity risks related to those investments. The liabilities are carried at fair value, with fair value of the liabilities determined by reference to the underlying financial assets. 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. Changes in the fair value of the assets and liabilities are recorded 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 with fixed and guaranteed terms 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 as of each reporting date. 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 of investment contracts 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. If market data is not observable, the Group uses assumptions based on its own experience. 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.

As of each reporting date, the Group re-estimates 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 original effective interest rate for the financial liability. Any adjustment is immediately recognized as income or expense in the income statement.

Deferred origination costs (DOC)

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 capitalized and amortized in line with the revenue generated by the investment management service. DOC is 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

Fees for the provision of non-claims related management services by FGI to the Farmers Exchanges are 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 directly responsible for their own claims functions, including the settlement and payment of claims and claims adjustment expenses, as well as 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 flows 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 an accruals 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 an accruals basis.

f) Investments

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

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 investments

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.

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 recognized in 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 and deferred acquisition costs. 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 or losses previously recognized in shareholders' equity are recognized in 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 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 shareholders' 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 pricing models making maximum use of market inputs and relying as little as possible on entity specific inputs.

Other items
Cash and cash equivalents are short-term highly liquid investments that are readily convertible into cash. This includes cash in hand, deposits held at call with banks, other short-term investments with original maturities of three months or less. Cash and cash equivalents also includes cash received as collateral for securities lending. Cash and cash equivalents are stated at face value.

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.

Real estate held for investment 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 and is recognized in income when the disposal is completed.

Impairments of non-derivative financial instruments
General
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 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 flows 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 as well as loans and receivables, 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 impairment for held-to-maturity financial assets is measured as the difference between the carrying amount of the assets and the present value of estimated future cash flows, using the original effective interest rate for the financial assets. The carrying amount of mortgage loans or receivables is reduced through the use of an allowance account, and the movement in the impairment 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. If the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through income. This reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

Financial assets carried at fair value
When a decline in the fair value of an available-for-sale equity security has been recognized directly in shareholders' equity and there is objective evidence that the security is impaired, the cumulative loss already recognized directly in shareholders' equity is recognized in income. Such an impairment 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 security 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 and current fair value, less any impairment loss on that security previously recognized in income. Impairment losses recognized in income on equity securities classified as available-for-sale are not reversed through income. When a previously impaired equity security increases in fair value, unrealized gains will be recognized through shareholders' equity. Any subsequent losses, including any portion attributable to foreign currency changes, are also reclassified from shareholders' equity to income as impairments until the equity instrument is derecognized.

When a decline in the fair value of an available-for-sale debt security has been recognized directly in shareholders' equity and there is objective evidence that the security is impaired, the cumulative loss already recognized directly in shareholders' equity is recognized in income. The amount of the cumulative loss that is removed from shareholders' equity and recognized in income is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that debt security previously recognized in income. Impairment losses are 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. This reversal would be recognized in income only up to the amount of the previously recognized impairment loss, adjusted for any amortization already recognized in income. Any subsequent gains are recognized directly in shareholders' equity. Any subsequent losses, to the extent they do not represent impairment losses, are also recognized in shareholders' equity.

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, except those qualifying for hedge accounting are classified as held for trading assets or liabilities and carried at fair value on the balance sheet with changes in fair value recognized in income.

Fair values are obtained from quoted market prices, dealer price quotations, discounted cash flow models and option pricing models, which use various inputs including current market and contractual prices for the underlying instrument, time to expiry, correlations, yield curves, prepayment rates and volatility of the underlying instrument. Such inputs used in pricing models are generally market observable or derived from market observable data.

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 designation. Where hedge accounting 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 of the 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 the gain or loss on the re-measurement of the cash flow hedging instrument is recognized directly in shareholders' equity. The ineffective portion is recognized immediately in 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.

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 hedging instruments 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 hedging instrument no longer qualifies as an effective fair value hedge, the hedging instrument 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 as part of the gain or loss on disposal of the hedged item.

When hedge accounting is discontinued for a cash flow hedge, the net gain or loss will remain in comprehensive income 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 hedging instrument 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 comprehensive income 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 comprehensive income 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, is cancelled or has 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 received as colleteral for loaned securities is recorded as an asset and a corresponding liability is established.

k) Repurchase and reverse repurchase transactions

Securities sold under agreements to repurchase at a certain later date (Repurchase agreements) and securities purchased under agreements to resell (Reverse repurchase agreements) are generally accounted for as collateralized financing transactions. The securities sold under the repurchase agreement are not derecognized from the balance sheet, when all or substantially all of the risk and rewards are retained. The proceeds of the sale are reported as a liability under Obligation to repurchase securities. Interest expense is charged to income using the effective interest rate method over the life of the agreement.

In a reverse repurchase agreement, the securities that serve as a collateral are not recognized on the balance sheet, as long as the risk and rewards of ownership have not been obtained by the Group. The cash delivered is derecognized and a corresponding receivable is recorded. Interest income is recognized in income using the effective interest rate method over the life of the agreement.

In cases such as in events of default by a third party, it may be determined that the risks and rewards of ownership over the collateral have been obtained by the Group. At such point in time, the securities held under the reverse repurchase agreement are recognized on the balance sheet at fair value and the original receivable is derecognized. Any shortfall is recorded as a loss in income.

l) Borrowings

Borrowings (debt issued) are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried 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.

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' (CGU)), and that is largely independent of the cash inflows of other assets or groups of assets. The Group's CGUs, 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. Impairments are recorded in income if the recoverable amount is less than the carrying amount including goodwill of the CGU. 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, as of 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.

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 include customer relationships and contracts, affinity partnerships, distributions agreements, computer software licenses and capitalized software development costs.

Intangible assets acquired in a business combination are recognized separately from goodwill at the acquisition date if their fair values can be measured reliably, the assets are separable or arise from contractual or other legal rights, and they are controlled by the entity.

The useful lives of customer relationships and contracts, affinity partnerships and distribution agreements extend up to 30 years and are estimated based on the period of time over which they are expected to provide economic benefits and taking into account all relevant economic and legal factors such as usage of the assets, typical product life cycles, potential obsolescence, stability of the industry, competitive position and the period of control over the assets.

The useful lives of computer software licenses and capitalized software development costs generally do not exceed 5 years. In some exceptional circumstances, capitalized software development costs may be amortized over a period of up to 10 years, taking into account the effects of obsolescence, technology, competition and other economic and legal factors.

Other intangible assets are amortized using the straight-line method over their useful life. They are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recorded in income when 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 insurance contracts 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 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. AIF is not subject to amortization but is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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 distributions 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 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 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 comprehensive income. 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 past service costs represent non-vested benefits on the date of a change in the amount of benefits following an amendment to the plan and are amortized on a straight-line basis over the average vesting period.

Other post-employment benefits

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

q) Share-based compensation and cash incentive plans

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

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

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

Under the Group's cash-settled, share-based payment compensation plan, the Group allows participants to take their option award in the form of Share Appreciation Rights (SAR). Hence, the Group incurs a liability which is measured at the fair value of the SAR. 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. 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 SAR 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.

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. These assets are depreciated usually on a straight-line basis to income over the following estimated useful lives:

- buildings 25 to 50 years;
- furniture and fixtures five to ten years; and
- computer equipment three to six 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. The costs of IT systems purchased from third party vendors are capitalized and amortized over expected useful lives. Gains and losses on the disposal of property and equipment are determined by comparing the proceeds with the carrying amounts and are recorded in other income or administrative and other operating expense, respectively.

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. Assets are grouped on a cash generating unit level if the recoverable amount cannot be separately determined.

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, unless another systematic basis is representative of the time pattern of the user's benefit even if the payments are not on that basis.

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 discounted when the effect of the time value of money is considered material.

Restructuring provisions comprise employee termination costs and costs related to onerous contracts. Restructuring provisions are recognized when the Group has a present obligation as a result of a detailed formal plan, which has been announced to those affected and the amount can be reasonably estimated.

u) Treasury shares

Zurich Financial Services shares held by the Group are classified as treasury shares and are deducted from share capital 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 exchange rates. The resulting exchange differences are recorded in income, 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. Revenues and expenses are translated using the exchange rate at the date of the transaction or, for practical reasons, a weighted average rate, if exchange rates do not fluctuate significantly.

4. Critical accounting judgements 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 asset 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.

The Group has given proper consideration to the current economic environment and the impact it has across these areas. Management has ensured, inter alia, that economic assumptions, used in determination of insurance and investment contract assets and liabilities and in preparation of cash flow forecasts for the purposes of testing financial and non-financial assets for impairment, have been properly updated to reflect the current economic outlook; fair values of financial instruments reflect the current market conditions, including liquidity risk and current credit spreads; and long-term rates of return and discount rates, used in calculating the defined benefit pension plans assets and respective liabilities, have been updated accordingly.

a) Reserves for losses and loss adjustment expenses

The Group is required 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 claims.

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 reserves for losses and loss adjustment expenses, 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 may 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

As described in note 3, all financial assets and liabilities are recorded initially at fair value. Subsequently, derivative financial instruments, financial assets classified as held for trading, designated at fair value, available-for-sale and financial liabilities designated at fair value are carried at fair value. While all the other financial instruments are carried at amortized cost, their fair values are disclosed in note 26.

The determination of fair value for financial assets and liabilities is based generally on quoted market prices or broker/dealer price quotations. If prices are not readily available, fair value is based on either internal valuation models (for example, discounted cash flow models) or management estimates of amounts that could be realized under current market conditions.

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

Discounted cash flow models are used for mortgage and other loans and long term receivables. The discount rates used in these models are either current interest rates charged by the Group on these instruments or a calculated rate that reflects the return a market participant would expect to receive on instruments with similar remaining maturity, cash flow pattern, currency, credit risk, collateral and interest basis.

Fair values of debt instruments issued by the Group are estimated using discounted cash flow models based upon the Group's current incremental borrowing rates for similar types of borrowings, with maturities consistent with those remaining for the debt instruments being valued.

Fair values of derivative instruments are obtained from quoted market prices, dealer price quotations, discounted cash flow models and option pricing models, which use various inputs including current market and contractual prices for underlying instruments, time to expiry, correlations, yield curves, prepayment rates and volatility of underlying instruments. Such inputs used in pricing models are generally market observable or derived from market observable data.

Fair value of liabilities related to unit-linked investment contracts equals the fair value of financial assets backing these liabilities. Fair values of liabilities related to other investment contracts are determined using discounted cash flow models. A variety of factors are considered in the Group's valuation techniques, including credit risk, embedded derivatives (such as unit-linking features), volatility factors (including contract holder behavior), servicing costs and surrenders of similar instruments.

For certain financial instruments, the carrying amounts approximate to fair value because of the short term nature of the instruments. Such instruments include short-term investments, receivables, obligations to repurchase securities and other short term financial assets and liabilities.

The Group makes extensive use of third party pricing providers in determining fair values of invested assets and only in rare cases places reliance on prices that are derived from internal models. The Group's control environment and the process of selection of pricing providers ensures that fair values of invested assets are sourced only from independent, reliable and reputable third party pricing providers.

The Group employs third party asset managers who manage a significant percentage of assets on behalf of the Group, but are not responsible for determining the fair values used in the financial statements. Investment accounting and operations functions, are completely independent from those responsible for buying and selling the assets, and are responsible for receiving, challenging and verifying values provided by third parties to ensure that fair values are reliable and comply with the applicable accounting and valuation policies. The quality control procedures used depend on the nature and complexity of the invested assets and include regular reviews of valuation techniques and inputs used by pricing providers (for example, default rates of collateral for asset backed securities), variance and stale price analysis and comparisons with fair values of similar instruments and with alternative values obtained from asset managers and brokers.

In cases where significant reliance is placed on an independent price provider, the Group has engaged with that price provider to ensure that the control environment conforms to the high standards that the Group expects. In addition, the Group ensures that independently sourced prices are determined based on valuation techniques that incorporate all factors that market participants would consider in setting a price and are consistent with best practice methodologies for pricing financial instruments. Such models make maximum use of market inputs such as benchmark yields, reported trades and broker/dealer quotes. The Group holds certain asset classes that are not actively traded, in particular hedge funds and private equity investments. Fair values of such instruments are based on regular reports from the issuing hedge funds and private equity funds. Performance of these investments and determination of their fair value are monitored closely by the Group's in-house investment professionals.

Refer to notes 6, 7 and 26 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 there is objective evidence of impairment as a result of a loss event that has an impact on the estimated future cash flows of 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 asset. For a quoted available-for-sale asset the impairment decision is further based on an assessment of the probability that the current market price will recover to former levels within the foreseeable future. The recoverable amount is determined by reference to the market price. For non-quoted available-for-sale financial assets, the recoverable amount is determined by applying recognized valuation techniques.

For held-to-maturity financial assets and loans and receivables, 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.

For goodwill the recoverable amount is the higher of its fair value less costs to sell and its value in use. Fair value of CGUs is determined, considering quoted market prices, current share values in the market place for similar publicly traded entities, and recent sale transactions of similar businesses. Value in use is determined using the present value of estimated future cash flows expected to be generated from or used by the CGU. Cash flow projections are based on financial budgets, which are approved by management, typically covering a five-year period or if appropriate, a longer period. Cash flows beyond this period are extrapolated using amongst others estimated growth rates. The discount rates applied reflect the respective risk fee interest rate adjusted for the relevant risk factors to the extent not already considered in the underlying cash flows.

For attorney-in-fact (AIF) relationships, 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. Cash flows beyond that 5-year period are extrapolated for 20 years assuming zero growth.

Refer to notes 3, 6, 15, 17 and 18 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 of financial assets and liabilities and insurance liabilities are determined as described in the respective sections above.

Fair values of identifiable intangible assets are based on market-participant assumptions and applicable valuation techniques, depending on the nature of the assets valued. For customer relationship and contract intangibles, including banc-assurance agreements, the multi-period excess earnings or cash flow method is applied, using pre-tax future cash-flows expected to be generated from such assets and discounting at applicable market rates. For brand intangibles the relief from royalty method is generally applied and resulting cash-flows are discounted at applicable market rates. For information technology intangibles the replacement cost method is generally applied.

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 judgments as to which issuance costs are directly related to and vary with the acquisition. The related asset is amortized over the premium earning pattern for non-life and certain traditional life products. For most life products, amortization is based on the estimated profitability of the contract throughout its life. The estimation of profitability considers both historical and future experience as regards assumptions, such as expenses, lapse rates or investment income.

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 20 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 23 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 24 for further information on share-based compensation and cash incentives plans.

5. Acquisitions and divestments

Transactions in 2008

Acquisitions

During 2008, the Group completed several acquisitions that were accounted for as business combinations. The acquisitions indicated in the following table were individually significant to the Group and are therefore presented separately. The other acquisitions are presented in aggregate.

Business combinations[1]

Table 5.1

in USD millions	TEB Sigorta	Caixa Sabadell	Banco Sabadell	Other	Total
Book value of net assets prior to acquisition	22	140	202	104	468
Fair value of net tangible assets acquired	35	140	190	102	468
Identifiable intangible assets, net of deferred tax	76	548	1,762	219	2,606
Goodwill	253	–	–	66	320
Non-controlling interests	–	(344)	(976)	(77)	(1,397)
Total acquisition costs	364	344	976	311	1,996
Cash consideration	363	343	968	254	1,928
Transaction costs	1	1	8	2	12
Present value of deferred payments	–	–	–	55	55
Cash and cash equivalents acquired	48	172	337	64	621

[1] The purchase price allocations shown in the table are provisional.

"TEB Sigorta" sets out the acquisition of 100 percent of TEB Sigorta A.Ş., a general insurer based in Turkey, from TEB Mali Yatırımlar A.Ş. (TEB Mali), which the Group completed on March 31, 2008. Total acquisition costs amounted to USD 364 million and, based on the initial purchase price allocation, include net tangible assets acquired of USD 35 million and identifiable intangible assets, net of deferred tax, of USD 76 million (USD 94 million before tax, mainly relating to distribution arrangements with TEB Mali subsidiaries including Türk Ekonomi Bankası A.Ş. (TEB) for the distribution of general insurance products in Turkey on an exclusive basis). The residual goodwill of USD 253 million represents expected growth opportunities from the banc-assurance partnership with TEB and the expansion of other sales channels.

"Caixa Sabadell" sets out the acquisition of 50 percent of both the life and general insurance companies CaixaSabadell Vida, S.A. de Seguros y Reaseguros (CSV) and CaixaSabadell Companyia d'Assegurances Generals, S.A. (CSG), both of them based in Spain, from Caixa d'Estalvis de Sabadell (Caixa Sabadell), which the Group completed on August 14, 2008. Total acquisition costs for CSV amounted to USD 300 million and, based on the initial purchase price allocation, include net tangible assets acquired of USD 128 million and identifiable intangible assets, net of deferred tax, of USD 472 million (USD 674 million before tax, mainly relating to the life insurance distribution agreement with Caixa Sabadell of USD 552 million and to the present value of profits of acquired insurance contracts of USD 122 million). Total acquisition costs for CSG amounted to USD 45 million and, based on the initial purchase price allocation, include net tangible assets acquired of USD 13 million and identifiable intangible assets, net of deferred tax, of USD 77 million (USD 109 million before tax, relating to the general insurance distribution agreement with Caixa Sabadell). 50 percent of net tangible assets acquired and of identifiable intangible assets, net of deferred tax, reflect non-controlling interests in CSV and CSG, amounting to USD 344 million. The Group has management control of the jointly owned companies and fully consolidates them.

"Banco Sabadell" sets out the acquisition of 50 percent of life insurance, pension and general insurance operations of Banco Sabadell S.A. (Banco Sabadell), all based in Spain, which the Group completed on September 18, 2008. Total acquisition costs for BanSabadell Vida S.A. de Seguros y Reaseguros (BSV) and BanSabadell Pensiones E.G.F.P., S.A. (BSP) amounted to USD 832 million and, based on the initial purchase price allocation, include net tangible assets acquired of USD 181 million and identifiable intangible assets, net of deferred tax, of USD 1,483 million (USD 2,117 million before tax, mainly relating to the life insurance and pension distribution agreement with Banco Sabadell of USD 1,665 million and the present value of profits of acquired insurance contracts of USD 449 million). Total acquisition costs for BanSabadell Seguros Generales, S.A. de Seguros y Reaseguros (BSG) amounted to USD 145 million and, based on the initial purchase price allocation, include net tangible assets acquired of USD 10 million and identifiable intangible assets, net of deferred tax, of USD 280 million (USD 396 million before tax, mainly relating to the general insurance distribution agreement with Banco Sabadell). 50 percent of net tangible assets acquired and of identifiable intangible assets, net of deferred tax, reflect non-controlling interests in BSV, BSP and BSG, amounting to USD 976 million. The Group has management control of the three jointly owned companies and fully consolidates them.

"Other" sets out in aggregate the acquisition of 100 percent of the Italian life insurer DWS Vita S.p.A. (DWS Vita), completed on June 3, 2008, the acquisition of 50 percent of Can Soluciones Integrales S.A. (Can Soluciones), a general insurance company based in Spain, completed on June 20, 2008, and the acquisition of 100 percent of Baden-Badener Versicherung Aktiengesellschaft (Baden-Badener), an accident insurer based in Germany, completed on August 5, 2008. Further details of these acquisitions are given below.

Total acquisition costs for DWS Vita amounted to USD 138 million and, based on the initial purchase price allocation, include net tangible assets acquired of USD 64 million and identifiable intangible assets, net of deferred tax, of USD 75 million (USD 110 million before tax, relating to the present value of profits of acquired insurance contracts of USD 69 million and a distribution agreement of USD 41 million which DWS Vita entered into with Finanza & Futuro Banca S.p.A. for the distribution of life insurance products as part of the transaction).

Total acquisition costs for Can Soluciones amounted to USD 133 million, including the present value of an expected earn-out payment of USD 55 million, and, based on the initial purchase price allocation, include net tangible assets acquired of USD 14 million and identifiable intangible assets, net of deferred tax, of USD 140 million (USD 199 million before tax, relating to a distribution agreement with Caja de Ahorros y Monte de Piedad de Navarra). The residual goodwill of USD 56 million represents expected synergies from the efficiencies gained through a service level agreement with Can Soluciones relating to the management and administration of the business. 50 percent of net tangible assets acquired and of identifiable intangible assets, net of deferred tax, reflect non-controlling interests in Can Soluciones, amounting to USD 77 million. The Group has management control of the jointly-owned company, which is therefore fully consolidated.

Total acquisition costs for Baden-Badener amounted to USD 40 million and, based on the initial purchase price allocation, include net tangible assets acquired of USD 25 million, identifiable intangible assets, net of deferred tax, of USD 5 million (USD 6 million before tax), and residual goodwill of USD 10 million, representing expected synergies and growth opportunities.

Table 5.1 does not include the acquisition of the remaining 34 percent of Zurich Retail Insurance Company Ltd., Russia, for USD 203 million which the Group completed on November 20, 2008. The acquisition had no material impact on the Group's financial statements and did not affect its scope of consolidation, as the present value of the estimated deferred consideration for the 34 percent was recognized in 2007.

The acquisition of 87.35 percent of Companhia de Seguros Minas Brasil, a general insurer based in Brazil, and of 100 percent of Minas Brasil Seguradora Vida e Previdência S.A., a life insurer based in Brazil, from Banco Mercantil do Brasil S.A. (Banco Mercantil) and two private investors was completed on November 28, 2008. As part of this transaction, the Group entered into an exclusive distribution agreement with Banco Mercantil for both life and general insurance products. The initial purchase price for both companies including the consideration for the distribution agreement amounted to USD 127 million. In addition, an earn-out component of up to USD 21 million based on future performance under the distribution agreement has been agreed. The Group is currently in the process of preparing the initial accounting and, therefore, as of December 31, 2008, the initial purchase price was recorded as an unconsolidated investment in other assets and is not included in table 5.1.

The impact of the acquisitions on current period income statement is immaterial.

Divestments

During the year ended December 31, 2008, the Group sold all of its shares in Financial Lifestyle Solutions Pty Ltd based in Australia, of Nova Scotia Company, a Canadian investment holding company, and of Zurich Insurance (Guam), Inc., recording in aggregate a pre-tax gain on disposal of USD 16 million. Total cash and net assets divested in 2008 were USD 19 million and USD 12 million, respectively. The total consideration received in 2008, net of transaction costs of USD 2 million, amounted to USD 13 million.

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, which was subsequently renamed Zurich Retail Insurance Company Ltd., Russia, with an agreed path to 100 percent ownership by 2010. The total consideration for the acquisition of 100 percent interest in Nasta was 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.

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 expected earn-out 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 represents, among others, expected growth opportunities and synergies.

Divestments

The Group divested all of its shares in Truckwriters, Inc., Valiant Insurance Company, and Risk Enterprise Management Limited all based in the United States. The Group sold Finium Trustee Limited and the Zurich Master Super Fund and sold its interest in Lonsdale Financial Group Limited and Wrap Account Limited all based in Australia.

In 2007, the Group recorded a gain on divestments before tax of USD 118 million. This gain included 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.

6. Investments

Table 6.1a

Investment result for total investments

in USD millions, for the years ended December 31	Net investment income		Net capital gains/(losses) on investments and impairments		Investment result	
	2008	2007	**2008**	2007	**2008**	2007
Cash and cash equivalents	647	621	(60)	27	588	648
Equity securities	2,971	3,134	(25,444)	6,934	(22,473)	10,068
Debt securities	6,598	6,151	(1,887)	(746)	4,711	5,406
Real estate held for investment	933	927	(1,596)	(419)	(664)	508
Mortgage loans	647	580	(29)	(10)	618	570
Other loans	616	575	2	4	617	579
Investments in associates	8	13	(4)	(1)	4	12
Other investments	333	366	1,209	(145)	1,542	221
Short-term investments	*84*	*115*	*(37)*	*1*	*47*	*116*
Other [1]	*248*	*251*	*1,246*	*(146)*	*1,494*	*105*
Investment result, gross	12,752	12,366	(27,809)	5,645	(15,056)	18,011
Investment expenses	(842)	(775)	–	–	(842)	(775)
Investment result, net	**11,910**	**11,591**	**(27,809)**	**5,645**	**(15,898)**	**17,236**

[1] Including net capital gains/(losses) on derivative financial instruments of USD 1,241 million and USD (147) million for the years ended December 31, 2008 and 2007, respectively, of which net capital gains/(losses) on derivatives attributable to cash flow hedge ineffectiveness amounted to USD 5 million and USD (9) million for the years ended December 31, 2008 and 2007, respectively.

Rental operating expenses for real estate held for investment included in investment expenses for total investments amounted to USD 179 million and USD 170 million for the years ended December 31, 2008 and 2007, respectively,

Table 6.1b

Investment result for Group investments

in USD millions, for the years ended December 31	Net investment income		Net capital gains/(losses) on investments and impairments		Investment result	
	2008	2007	**2008**	2007	**2008**	2007
Cash and cash equivalents	493	590	1	(4)	494	586
Equity securities	604	708	(2,827)	1,897	(2,223)	2,604
Debt securities	6,066	5,773	(1,573)	(455)	4,494	5,318
Real estate held for investment	491	438	210	101	700	539
Mortgage loans	647	580	(29)	(10)	618	570
Other loans	616	575	2	4	617	579
Investments in associates	8	13	(4)	(1)	4	12
Other investments	62	162	1,327	(29)	1,389	133
Short-term investments	*30*	*71*	*–*	*1*	*30*	*72*
Other [1]	*32*	*92*	*1,327*	*(30)*	*1,359*	*61*
Investment result, gross for Group investments	8,987	8,838	(2,893)	1,503	6,094	10,342
Investment expenses for Group investments	(261)	(247)	–	–	(261)	(247)
Investment result, net for Group investments	**8,725**	**8,591**	**(2,893)**	**1,503**	**5,832**	**10,094**

[1] Including net capital gains/(losses) on derivative financial instruments of USD 1,352 million and USD (33) million for the years ended December 31, 2008 and 2007, respectively, of which net capital gains/(losses) on derivatives attributable to cash flow hedge ineffectiveness amounted to USD 5 million and USD (9) million for the years ended December 31, 2008 and 2007, respectively.

Impairment charges on Group investments included in net capital losses amounted to USD 2,457 million and USD 136 million for the years ended December 31, 2008 and 2007, respectively, of which impairment charges on mortgage loans and other investments comprised USD 49 million and USD 12 million for the years ended December 31, 2008 and 2007, respectively.

Table 6.1c

Investment result for unit-linked contracts

in USD millions, for the years ended December 31	Net investment income		Net capital gains/(losses) on investments		Investment result	
	2008	2007	**2008**	2007	**2008**	2007
Cash and cash equivalents	154	31	(60)	31	94	62
Equity securities	2,367	2,426	(22,617)	5,037	(20,250)	7,463
Debt securities	532	379	(314)	(290)	218	88
Real estate held for investment	442	489	(1,806)	(520)	(1,364)	(31)
Other investments	271	204	(118)	(116)	152	88
Short-term investments	*55*	*44*	*(38)*	*–*	*17*	*44*
Other [1]	*216*	*159*	*(80)*	*(116)*	*135*	*43*
Investment result, gross for unit-linked contracts	3,766	3,528	(24,916)	4,142	(21,150)	7,670
Investment expenses for unit-linked contracts	(581)	(528)	–	–	(581)	(528)
Investment result, net unit-linked contracts	**3,185**	**3,000**	**(24,916)**	**4,142**	**(21,731)**	**7,142**

[1] Including net capital losses on derivative financial instruments of USD 111 million and USD 114 million for the years ended December 31 2008 and 2007, respectively.

Table 6.2

Net capital gains, losses and impairments on equity and debt securities – total investments

in USD millions, for the years ended December 31	Equity securities		Debt securities		Total	
	2008	2007	**2008**	2007	**2008**	2007
Securities at fair value through profit or loss:	(23,672)	5,835	(511)	(331)	(24,183)	5,504
of which: trading securities						
Net capital gains/(losses) on Group investments	(319)	229	(23)	(10)	(343)	219
of which: securities designated at FV						
Net capital gains/(losses) on Group investments	(736)	569	(173)	(31)	(909)	538
Net capital gains/(losses) for unit-linked contracts	(22,617)	5,037	(314)	(290)	(22,931)	4,747
Available-for-sale securities:	(1,772)	1,099	(1,307)	(413)	(3,078)	686
Realized capital gains on Group investments	556	1,273	458	482	1,013	1,755
Realized capital losses on Group investments	(1,130)	(130)	(622)	(813)	(1,752)	(944)
Impairments on Group investments	(1,197)	(44)	(1,142)	(81)	(2,340)	(125)
Held-to-maturity securities	–	–	(69)	(1)	(69)	(1)
Total net capital gains/(losses) and impairments	**(25,444)**	**6,934**	**(1,887)**	**(746)**	**(27,331)**	**6,189**

Details of total investments by category

Table 6.3a

as of December 31	Total investments			
	2008		2007	
	USD millions	**% of total**	USD millions	% of total
Cash and cash equivalents	16,397	6.4	16,936	5.4
Equity securities:				
Fair value through profit or loss	65,089	25.3	106,786	33.8
of which: trading	*1,358*	*0.5*	*2,652*	*0.8*
of which: trading equity portfolios in capital markets and banking activities	*786*	*0.3*	*1,606*	*0.5*
Available-for-sale	9,307	3.6	13,807	4.4
Total equity securities	74,397	28.9	120,593	38.2
Debt securities:				
Fair value through profit or loss	16,319	6.3	18,954	6.0
of which: trading	*159*	*0.1*	*616*	*0.2*
Available-for-sale	105,875	41.1	109,278	34.6
Held-to-maturity	5,244	2.0	5,642	1.8
Total debt securities	127,438	49.4	133,874	42.4
Real estate held for investment	11,601	4.5	15,386	4.9
Mortgage loans	12,820	5.0	12,718	4.0
Other loans	12,533	4.9	12,938	4.1
Investments in associates	220	0.1	238	0.1
Other investments:				
Short-term investments	2,307	0.9	2,929	0.9
Other	61	0.0	80	0.0
Total other investments	2,369	0.9	3,009	1.0
Total investments	**257,773**	**100.0**	**315,693**	**100.0**

Details of Group investments by category

Table 6.3b

as of December 31	Group investments			
	2008		2007	
	USD millions	**% of total**	USD millions	% of total
Cash and cash equivalents	11,965	6.7	13,943	7.2
Equity securities:				
Fair value through profit or loss	4,935	2.7	6,609	3.4
of which: trading	*1,358*	*0.8*	*2,652*	*1.4*
of which: trading equity portfolios in capital markets and banking activities	*786*	*0.4*	*1,606*	*0.8*
Available-for-sale	9,307	5.2	13,807	7.1
Total equity securities	14,242	7.9	20,416	10.5
Debt securities:				
Fair value through profit or loss	6,984	3.9	8,843	4.6
of which: trading	*159*	*0.1*	*616*	*0.3*
Available-for-sale	105,875	59.0	109,278	56.4
Held-to-maturity	5,244	2.9	5,642	2.9
Total debt securities	118,103	65.8	123,762	63.9
Real estate held for investment	7,524	4.2	7,563	3.9
Mortgage loans	12,820	7.1	12,718	6.6
Other loans	12,531	7.0	12,936	6.7
Investments in associates	220	0.1	238	0.1
Other investments:				
Short-term investments	2,103	1.2	1,944	1.0
Other	61	0.0	80	0.0
Total other investments	2,165	1.2	2,024	1.0
Total Group investments	**179,570**	**100.0**	**193,600**	**100.0**

Cash and investments with a carrying value of USD 5,235 million and USD 4,617 million were deposited on behalf of regulatory authorities as of December 31, 2008 and 2007, respectively.

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

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

As of December 31, 2008 and 2007, investments included USD 2,917 million and USD 12,204 million, respectively, of loaned securities. These loaned securities were mainly debt securities. Cash and cash equivalents included USD 177 million and USD 1,877 million of cash received as collateral for loaned securities as of December 31, 2008 and 2007, respectively. Liabilities for cash collateral received for securities lending comprised USD 182 million and USD 1,889 million as of December 31, 2008 and 2007, respectively. Non-cash collaterals received for loaned securities comprised USD 3,274 million and USD 10,911 million as of December 31, 2008 and 2007, 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 by a counterparty.

As of December 31, 2008 and 2007, respectively, debt securities with a carrying value of USD 3,608 million and USD 5,370 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 3,608 million and USD 5,370 million as of December 31, 2008 and 2007, 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.

Details of investments held for unit-linked contracts

Table 6.3c

as of December 31	Investments for unit-linked contracts			
	2008		2007	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	4,431	5.7	2,993	2.5
Equity securities	60,154	76.9	100,178	82.1
Debt securities	9,335	11.9	10,112	8.3
Real estate held for investment	4,077	5.2	7,823	6.4
Other loans	2	0.0	2	0.0
Short-term investments	204	0.3	985	0.8
Total investments for unit-linked contracts	**78,203**	**100.0**	**122,092**	**100.0**

Investments held under unit-linked investments contracts are classified as designated at fair value through profit or loss.

Debt securities maturity schedule (total investments)

Table 6.4

in USD millions, as of December 31	Held-to-maturity		Available-for-sale		Fair value through profit or loss	
	2008	2007	2008	2007	2008	2007
Debt securities:						
< 1 year	571	413	7,294	6,614	2,183	1,985
1 to 5 years	1,190	1,257	34,314	33,241	3,297	3,858
6 to 10 years	1,220	1,181	22,245	23,445	4,632	5,199
> 10 years	2,263	2,791	19,991	20,164	4,769	5,699
Subtotal	5,244	5,642	83,845	83,462	14,881	16,743
Mortgage and asset-backed securities:						
< 1 year	–	–	759	983	68	254
1 to 5 years	–	–	4,891	5,118	307	227
6 to 10 years	–	–	5,392	6,214	323	398
> 10 years	–	–	10,988	13,501	741	1,332
Subtotal	–	–	22,030	25,816	1,438	2,211
Total	**5,244**	**5,642**	**105,875**	**109,278**	**16,319**	**18,954**

The analysis is 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.

Available-for-sale securities

Table 6.5

in USD millions, as of December 31	Cost or amortized cost[1]		Gross unrealized gains		Gross unrealized losses		Fair value	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
Equity securities								
Common stock	5,052	8,325	352	1,508	(1,015)	(832)	4,389	9,000
Unit trusts	5,556	4,348	157	383	(944)	(136)	4,769	4,595
Non-redeemable preferred stock	190	206	–	11	(40)	(4)	149	212
Total equity securities	**10,798**	**12,878**	**509**	**1,902**	**(1,999)**	**(973)**	**9,307**	**13,807**
Debt securities								
Swiss federal and cantonal governments	3,657	4,815	212	26	(1)	(54)	3,868	4,788
United Kingdom government	5,743	8,271	397	92	(2)	(24)	6,138	8,339
United States government	5,221	4,038	484	173	(38)	(82)	5,667	4,130
Other governments and supra-nationals	24,945	27,218	1,042	169	(207)	(702)	25,780	26,686
Corporate securities	44,625	40,249	1,098	744	(3,373)	(1,567)	42,351	39,425
Mortgage and asset-backed securities	24,412	25,953	310	197	(2,692)	(334)	22,030	25,816
Redeemable preferred stocks	56	92	–	3	(15)	–	41	95
Total debt securities	**108,661**	**110,637**	**3,542**	**1,404**	**(6,328)**	**(2,763)**	**105,875**	**109,278**

[1] Net of impairments. For details reference is made to table 6.2.

Fair value through profit or loss securities

Table 6.6

as of December 31	Group investments				Investments for unit-linked products		Total investments	
	2008		2007		2008	2007	2008	2007
	USD millions	**% of total**	USD millions	% of total	**USD millions**	USD millions	**USD millions**	USD millions
Equity securities								
Common stock	4,341	36.4%	5,869	38.0%	33,068	62,225	37,409	68,094
of which: trading equity portfolios in capital markets and banking activities	*786*	*6.6%*	*1,606*	*10.4%*	–	–	*786*	*1,606*
of which: common stock portfolios backing participating with profit policyholder contracts	*630*	*5.3%*	*1,274*	*8.2%*	–	–	*630*	*1,274*
Unit trusts	594	5.0%	740	4.8%	27,069	37,935	27,663	38,675
Non-redeemable preferred stock	–	0.0%	–	0.0%	17	17	17	17
Total equity securities	**4,935**	**41.4%**	**6,609**	**42.8%**	**60,154**	**100,178**	**65,089**	**106,786**
Debt securities								
Debt securities	5,804	48.7%	6,960	45.0%	9,077	9,783	14,881	16,743
of which: trading debt securities in capital markets and banking activities	*121*	*1.0%*	*117*	*0.8%*	–	–	*121*	*117*
Mortgage and asset-backed securities	1,180	9.9%	1,882	12.2%	258	329	1,438	2,211
Total debt securities	**6,984**	**58.6%**	**8,843**	**57.2%**	**9,335**	**10,112**	**16,319**	**18,954**
Total	**11,919**	**100.0%**	**15,451**	**100.0%**	**69,489**	**110,289**	**81,408**	**125,741**

Held-to-maturity debt securities

Table 6.7

as of December 31	2008		2007	
	USD millions	**% of total**	USD millions	% of total
Swiss federal and cantonal governments	1,590	30.3	1,498	26.6
United States government	1,669	31.8	1,598	28.3
Other governments and supra-nationals	819	15.6	901	16.0
Corporate securities	1,165	22.2	1,645	29.2
Total held-to-maturity debt securities	**5,244**	**100.0**	**5,642**	**100.0**

Financial instruments of interest in the current economic environment

As a consequence of current market conditions, certain asset types (i.e. mortgage and other asset-backed securities, collateralized debt obligations, hedge funds and private equity funds), have received increased interest from both the Group's management and external stakeholders.

Mortgage and other asset-backed securities

The majority of mortgage and other asset-backed securities and collateralized debt obligations are valued by external pricing providers, based on market prices and models that take into account market inputs (including observed transactions, indexes and market research reports), cash flow projections, based on, for example, observed prepayment and default rates, and interest rate spreads that reflect the type and risks of underlying collateral. As of December 31, 2008 and 2007, the Group had investments in mortgage and other asset-backed securities with a fair value of USD 23.2 billion and USD 27.7 billion, respectively.

Table 6.8

Exposure to asset-backed securities for Group investments by rating category

in USD millions, unless otherwise stated, as of December 31, 2008	AAA	AA	A	BBB	< BBB	Total fair value
US mortgage-backed securities	97.7%	0.5%	1.2%	0.2%	0.4%	15,696
US other asset-backed securities	87.0%	2.0%	5.0%	4.9%	1.1%	3,056
UK asset-backed securities	88.0%	4.5%	2.9%	4.2%	0.4%	2,406
German asset-backed securities	74.5%	0.8%	24.7%	–	–	334
Swiss asset-backed securities	100.0%	–	–	–	–	642
Other	90.0%	4.5%	4.6%	0.8%	0.1%	1,077
Total asset-backed securities	**94.7%**	**1.3%**	**2.3%**	**1.3%**	**0.5%**	**23,210**

Table 6.9

Exposure to asset-backed securities for Group investments by rating category

in USD millions, unless otherwise stated, as of December 31, 2007	AAA	AA	A	BBB	< BBB	Total fair value
US mortgage-backed securities	98.5%	0.7%	0.8%	–	–	17,547
US other asset-backed securities	86.0%	2.5%	6.1%	5.4%	–	3,088
UK asset-backed securities	84.8%	6.2%	3.8%	4.7%	0.5%	4,625
German asset-backed securities	64.6%	4.3%	31.1%	–	–	517
Swiss asset-backed securities	100.0%	–	–	–	–	635
Other	82.6%	6.8%	5.8%	2.3%	2.6%	1,285
Total asset-backed securities	**93.5%**	**2.2%**	**2.7%**	**1.5%**	**0.2%**	**27,698**

Only a small portion of the US mortgage-backed securities were below investment grade as of December 31, 2008. USD 8.8 billion of these securities are backed by Fannie Mae and Freddie Mac, which have both received significant support from the US Government.

Asset-backed securities included USD 155 million and USD 289 million as of December 31, 2008 and 2007, respectively, of exposure directly to US sub-prime mortgages. 93% (100% in 2007) of these asset-backed securities remain investment grade and only USD 12 million relates to mortgages issued in 2006, which was characterized by less stringent lending standards.

Collateralized debt obligations

The Group's exposure to collateralized debt obligations (CDOs) was USD 694 million and USD 384 million as of December 31, 2008 and 2007, respectively. These securities include no exposure to sub-prime mortgages and no significant impairments were recorded on CDOs during 2008 or 2007.

Hedge funds

The Group has investments in external hedge funds of USD 2.3 billion and USD 3.3 billion as of December 31, 2008 and 2007, respectively. The Group does not have any in-house hedge funds. Investments in hedge funds are classified as financial assets at fair value through profit or loss and gains and losses are, therefore, reported immediately in income. All the hedge fund exposure is invested with third party managers, who are subject to a thorough due diligence processes. A dedicated team of in-house investment professionals monitor closely the hedge funds' performance and valuation. The Group actively manages the exposure to hedge funds by up-grading, de-risking and tactically redeeming portions of the hedge fund portfolio. These hedge funds are invested in funds with approximately 20 different strategies. USD (397) million and USD 231 million in 2008 and 2007 respectively of (losses)/gains were included in income.

Private equity funds

The Group has investments in private equity funds of USD 1.3 billion and USD 1.0 billion as of December 31, 2008 and 2007, respectively. These investments are managed in external funds and the majority of them are classified as available-for-sale securities. These private equity investments are also widely diversified. Private equity investments are carried at values determined based on the latest available financial statements. These valuations are reviewed by a team of in–house investment professionals and may be adjusted based on their understanding of the circumstances relating to each specific private equity stake.

Real estate held for total investments

Table 6.10

in USD millions	Total 2008	Total 2007
As of January 1	15,386	15,281
Additions and improvements	664	325
Disposals	(1,061)	(210)
Market value revaluation	(1,823)	(685)
Transfer from/(to) assets held for own use	(45)	6
Foreign currency translation effects	(1,520)	671
As of December 31	**11,601**	**15,386**

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

Table 6.11

in USD millions, as of December 31	Carrying value		Share in profit		Ownership interest	
	2008	2007	2008	2007	2008	2007
DKN Financial Group Limited	50	63	2	–	31.84%	31.55%
MCIS Zurich Insurance Berhad	37	37	2	1	40.00%	40.00%
Euclid Office, L.P.[1]	25	24	1	1	99.00%	99.00%
Other	109	114	3	11	n/m	n/m
Total	**220**	**238**	**8**	**13**	**n/m**	**n/m**

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

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

Table 6.12

in USD millions, as of December 31	Total 2008	2007
Equity securities: available-for-sale	(1,490)	929
Debt securities: available-for-sale	(2,786)	(1,359)
Other	(7)	49
Less: net unrealized gains/(losses) on investments attributable to:		
Life policyholder dividends and other policyholder liabilities	236	459
Life deferred acquisition costs	256	78
Deferred income taxes	837	(48)
Non-controlling interests	(18)	(8)
Total	**(2,973)[1]**	**99**

[1] The unrealized losses include net losses arising on cash flow hedges of USD 16 million and USD 103 million as of December 31, 2008 and 2007, respectively.

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 resulting from changes in foreign exchanges rates, interest rates, equity prices, the credit quality of its assets and liabilities and third parties from which the Group has commitments that give rise to credit risk. In certain circumstances these instruments may meet the requirements of an effective hedge for accounting purposes. Where this is the case, hedge accounting may be applied. Details of the accounting for these instruments are set out in note 3, with table 7.1 disclosing notional and maturity of derivative instruments including those qualifying for hedge accounting. Table 7.2 sets out further details for instruments 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 in the consolidated balance sheets.

The following table sets out the details of the outstanding positions of the Group:

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

Table 7.1

in USD millions, as of December 31	Maturity profile			Notional principal amounts		Fair values	
	< 1 year	1 to 5 years	> 5 years	**2008**	2007	**2008**	2007
Swaps							
Interest rate swaps	60	335	882	1,277	1,468	145	24
Currency swaps	–	–	2,185	2,185	2,497	175	329
Total return equity swaps	–	–	74	74	80	(2)	(3)
Other swaps	49	727	–	776	1,122	85	2
Options							
Purchased call options	394	1,006	4,458	5,858	6,433	491	176
Purchased put options	735	1,387	2,477	4,599	8,254	442	240
Written call options	617	427	257	1,301	2,496	(40)	(121)
Written put options	1	1,084	1,596	2,681	2,245	(320)	84
Futures/forwards							
Purchased futures/forwards	3,188	–	–	3,188	8,159	55	30
Written futures/forwards	13,083	–	–	13,083	4,026	(695)	18
Total	**18,126**	**4,966**	**11,929**	**35,022**	**36,780**	**336**	**779**
of which:							
financial assets	–	–	–	–	–	*1,724*	*1,055*
financial liabilities	–	–	–	–	–	*(1,388)*	*(276)*

Swaps

Interest rate swaps consist mostly of fixed rate receiver swaps to manage asset liability mismatch and to hedge risks from a decrease in interest rates. The notional principal amounts of interest rate swaps decreased by USD 191 million due to exchange rate effects and matured positions.

The notional principal amounts of currency swaps include cross currency interest rate swaps. Other swaps include credit default swaps with notional principal amounts of USD 557 million and USD 803 million as of December 31, 2008 and 2007, respectively, which protect certain of the Group's assets exposed to credit risk. USD 219 million and USD 126 million, as of December 31, 2008 and 2007 respectively, are credit default swaps embedded in purchased credit linked notes.

Options

Purchased call options principally include long receiver swaptions and long interest rate caps used to economically hedge interest rate related risks and purchased equity call options hedging equity risks embedded in guaranteed equity bonds issued.

Purchased put options consist of long equity put options to hedge the Group's equity investments against a decline in equity market prices, as well as long payer swaptions to hedge risks from an increase in interest rates. The change in notional principal amounts of purchased put options between December 31, 2008 and December 31, 2007 is mainly driven by the expiration of long equity put options, which were not replaced.

Written call options relate to equity collars entered into to manage the risk return profile of equity exposures of some with-profit funds and to written equity call options embedded in the above mentioned guaranteed equity bond issues.

Written put options include written equity put options, which are mostly offset by purchased equity put options. Written put options also include stable value options. Stable value options (SVO) have been provided by the Group to certain bank and corporate customers (policyholders) in the US, in respect of the investment returns which arise on investments underlying Bank Owned Life Insurance (BOLI) and Company Owned Life Insurance (COLI) policies. Premiums received from policyholders under these policies are invested in separate account portfolios. Throughout the life of the policies, policyholders are entitled, in addition to mortality cover, to tax-exempt investment returns linked to the performance of the underlying investments. The policies are long duration contracts providing charges and benefits over a policy life that can be greater than 45 years. SVO reduce the volatility of the policyholders' investment returns. In the event that a policy is surrendered, the policyholder would be entitled to recover the excess of the notional SVO derived value over the market value of the underlying investments. Certain policy features as well as certain regulations provide disincentives for surrender. We monitor and manage the risk of surrender on an ongoing basis and consider the likelihood of surrender as one input factor to the model to determine the fair value of SVO. The fair value of the derivative liability recognized in respect of SVO, included in written put options, was USD 23 million and USD 5 million as of December 31, 2008 and 2007, respectively. The difference between the notional SVO derived value and market value of the underlying investments for BOLI/COLI policies was USD 929 million and USD 207 million as of December 31, 2008 and 2007, respectively, which would have been the total net market value loss after surrender charges if all policies would have been surrendered on those dates.

Futures/forwards

Purchased futures/forwards and written futures/forwards mainly consist of foreign exchange forward contracts with the principal notional amounts of USD 15,613 million and USD 11,867 million as of December 31, 2008 and 2007, respectively. Foreign exchange forwards are used to economically hedge the Group's foreign currency exposures. Due to higher hedging volumes and foreign currency translation effects, the notional principal amounts of foreign exchange forwards increased by USD 3,746 million from December 31, 2007 to December 31, 2008.

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

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

Table 7.2

in USD millions, as of December 31	Maturity profile			Notional principal amounts		Fair values	
	< 1 year	1 to 5 years	> 5 years	**2008**	2007	**2008**	2007
Fair value hedges:							
Cross currency interest rate swaps			975	975	1,022	141	118
Total fair value hedges			**975**	**975**	**1,022**	**141**	**118**
Cash flow hedges:							
Options on interest rate swaps			3,373	3,373	3,176	209	58
Currency swaps			1,114	1,114	1,168	63	153
Total cash flow hedges			**4,487**	**4,487**	**4,344**	**272**	**211**
of which:							
assets						*413*	*329*
liabilities						*–*	*–*

Fair value hedges

Designated 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.

A fair value hedge relationship on the EUR 500 million 4.5 percent subordinated bond due June 2025 issued by Zurich Finance (USA), Inc. (see note 21), 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 issued by Zurich Finance (USA), Inc. (see note 21), was entered into on January 1, 2007 and will end at maturity of the underlying debt instrument in 2014.

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

Gains/(losses) arising from fair value hedges

Table 7.3

in USD millions, as of December 31	**2008**	2007
Gains/(losses)		
on hedging instruments[1]	*21*	*72*
on hedged debt issued attributable to the hedged risk	*(26)*	*(71)*

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

Cash flow hedges

Designated cash flow hedges, such as options on interest rate swaps are used to protect the Group against variability of future cash flows due to changes in interest rates associated with expected future purchases of debt securities (during the years 2011, 2016, 2021 and 2026) required for certain life insurance policies. The effective portion of the gains and losses on these swaps are initially recognized in comprehensive income. Subsequently the gains or losses will be recycled to income when the underlying investments are purchased and recognized on the balance sheet and affect income through the recognition of interest income between the years ended December 31, 2011 and 2036. The gains and losses relating to the ineffective portion of these hedges are recognized immediately in income within net capital gains/(losses) on investments and impairments.

The Group also uses currency swaps for cash flow hedging to protect against exposures to variability of cash flows due to movements in the Euro exchange rate against the USD, the presentational currency of the Group, on 80 percent of the 4.5% EUR 1 billion debt issued by Zurich Finance (USA), Inc (see note 21). The change in the fair value of the hedging instrument is recognized directly in comprehensive income. The ineffecitve portion of the change in fair value is recognized directly in income within administrative and other expense. The effective portion, related to spot rate changes in fair value of the hedging instrument, is reclassified to income within administrative and other operating expense as an offset to the foreign currency revaluation on the underlying hedged debt. This hedge relationship is expected to remain in place until the maturity of the debt in September 2014.

The net loss deferred in shareholders' equity on derivatives designated as cash flow hedges was USD 107 million and USD 144 million before tax for the years ended December 31, 2008 and 2007, respectively. During 2008, the portion recognized in income was a loss of USD 54 million and a gain of USD 111 million before tax for the years ended December 31, 2008 and 2007, respectively, as an offset to the foreign currency revaluation on the underlying hedged debt. A net gain of USD 2 million and net loss of USD 9 million for the years ended December 31, 2008 and 2007, respectively, was recognized due to hedge ineffectiveness.

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	2008	2007
Gross		
Reserves for losses and loss adjustment expenses	65,218	67,890
Reserves for unearned premiums	16,399	15,941
Future life policyholders' benefits[1]	76,218	80,147
Policyholders' contract deposits and other funds	17,047	18,687
Reserves for unit-linked contracts	47,297	70,075
Total reserves for insurance contracts, gross	222,179	252,740
Ceded		
Reserves for losses and loss adjustment expenses	(12,232)	(13,179)
Reserves for unearned premiums	(1,889)	(1,720)
Future life policyholders' benefits[1]	(1,873)	(9,258)
Policyholders' contract deposits and other funds	(2,690)	(2,976)
Reinsurers' share of reserves for insurance contracts, gross[2]	(18,684)	(27,133)
Net		
Reserves for losses and loss adjustment expenses	52,986	54,712
Reserves for unearned premiums	14,510	14,221
Future life policyholders' benefits	74,345	70,889
Policyholders' contract deposits and other funds	14,357	15,711
Reserves for unit-linked contracts	47,297	70,075
Total reserves for insurance contracts, net	**203,495**	**225,607**

[1] In 2007, ceded future life policyholders' benefits include an amount of USD 7.1 billion related to the reinsurance of a UK annuity portfolio. Subsequent to the approval from the UK High Court, effective on June 30, 2008, the underlying contracts have been transferred to the reinsurer, resulting in a reduction of gross and ceded future life policyholders' benefits.
[2] Gross of allowance for uncollectible amounts of USD 89 million and USD 164 million as of December 31, 2008, and 2007, respectively.

Development of reserves for losses and loss adjustment expenses

Table 8.2

in USD millions	Gross		Ceded		Net	
	2008	2007	2008	2007	2008	2007
As of January 1	67,890	64,535	(13,179)	(13,722)	54,712	50,814
Losses and loss adjustment expenses incurred:						
Current year	28,296	25,798	(2,879)	(2,424)	25,416	23,374
Prior years	(1,354)	(847)	83	(372)	(1,271)	(1,219)
Total	26,942	24,951	(2,796)	(2,796)	24,145	22,155
Losses and loss adjustment expenses paid:						
Current year	(10,190)	(9,007)	591	388	(9,599)	(8,619)
Prior years	(15,080)	(14,613)	2,528	3,375	(12,551)	(11,237)
Total	(25,269)	(23,619)	3,119	3,763	(22,150)	(19,856)
Acquisitions/(divestments) of companies and businesses	105	57	(28)	(6)	77	51
Foreign currency translation effects	(4,450)	1,967	653	(419)	(3,798)	1,548
As of December 31	**65,218**	**67,890**	**(12,232)**	**(13,179)**	**52,986**	**54,712**

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 8.2 shows the development of reserves for losses and loss adjustment expenses during the year. Of the decrease in the total net reserves during the year, USD 1,271 million has arisen due to favourable development emerging from reserves established in prior years. The positive development arose across a number of countries and lines of business primarily from our General Insurance business.

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. 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 in 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, 2008. 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	2001	2002	2003	2004	2005	2006	2007	**2008**
Gross reserves for losses and loss adjustment expenses	37,694	45,306	51,068	57,765	60,425	64,535	67,890	65,218
Reinsurance recoverable	(13,605)	(14,940)	(14,055)	(14,279)	(14,231)	(13,722)	(13,179)	(12,232)
Initial net reserves for losses and loss adjustment expenses	24,089	30,366	37,013	43,486	46,194	50,814	54,712	52,986
Cumulative paid as of:								
One year later	*(7,976)*	*(8,923)*	*(9,930)*	*(9,464)*	*(11,423)*	*(11,237)*	*(12,551)*	
Two years later	*(12,855)*	*(14,472)*	*(15,550)*	*(16,273)*	*(18,044)*	*(18,362)*		
Three years later	*(16,698)*	*(18,001)*	*(20,407)*	*(21,234)*	*(23,077)*			
Four years later	*(19,255)*	*(21,390)*	*(23,941)*	*(24,945)*				
Five years later	*(21,634)*	*(23,814)*	*(26,616)*					
Six years later	*(23,471)*	*(25,799)*						
Seven years later	*(24,849)*							
Net reserves re-estimated as of:								
One year later	*26,908*	*32,239*	*38,977*	*43,627*	*45,976*	*49,594*	*53,441*	
Two years later	*28,471*	*34,471*	*40,413*	*45,006*	*45,827*	*48,642*		
Three years later	*30,636*	*36,118*	*42,004*	*45,325*	*45,297*			
Four years later	*31,784*	*37,691*	*42,254*	*45,294*				
Five years later	*33,326*	*37,880*	*42,470*					
Six years later	*33,799*	*38,282*						
Seven years later	*34,004*							
Cumulative (deficiency) / redundancy	(9,915)	(7,916)	(5,457)	(1,808)	897	2,171	1,271	
Cumulative (deficiency) / redundancy as a percentage of initial net reserves	(41.2%)	(26.1%)	(14.7%)	(4.2%)	1.9%	4.3%	2.3%	
Gross reserves re-estimated as of December 31, 2008	51,569	56,223	59,056	60,916	60,509	62,430	66,536	
Cumulative (deficiency) / redundancy	(13,875)	(10,917)	(7,988)	(3,151)	(84)	2,105	1,354	
Cumulative (deficiency) / redundancy as a percentage of initial gross reserves	(36.8%)	(24.1%)	(15.6%)	(5.5%)	(0.1%)	3.3%	2.0%	

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 from 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 such claims were USD 2,800 million and USD 3,564 million as of December 31, 2008 and 2007, 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	2008		2007	
	Gross	**Net**	Gross	Net
Asbestos				
As of January 1	3,799	3,238	3,499	3,142
Losses and loss adjustment expenses incurred	240	196	454	180
Losses and loss adjustment expenses paid	(339)	(278)	(188)	(109)
Divestments, commutations, settlements and other	–	–	–	(18)
Foreign currency translation effects	(699)	(632)	33	43
As of December 31	**3,001**	**2,523**	**3,799**	**3,238**
Environmental				
As of January 1	394	326	433	366
Losses and loss adjustment expenses incurred	(11)	–	22	8
Losses and loss adjustment expenses paid	(57)	(51)	(60)	(48)
Foreign currency translation effects	6	2	(1)	–
As of December 31	**332**	**277**	**394**	**326**

Table 8.5

Development of future life policyholders' benefits

in USD millions	Gross		Ceded		Net	
	2008	2007	**2008**	2007	**2008**	2007
As of January 1	80,147	76,448	(9,258)	(1,482)	70,889	74,966
Premiums and claims	(9,583)	(5,959)	6,913	(6,609)	(2,670)	(12,568)
Interest and bonuses credited to policyholders	2,983	2,915	(252)	(161)	2,730	2,754
Change in assumptions	(344)	1,240	349	(1,014)	5	226
Acquisitions/transfers	6,737	–	(288)	–	6,450	–
(Decrease)/increase recorded in shareholders' equity	(11)	(526)	–	5	(11)	(520)
Foreign currency translation effects	(3,712)	6,029	664	3	(3,049)	6,030
As of December 31	**76,218**	**80,147**	**(1,873)**	**(9,258)**	**74,345**	**70,889**

In 2007, ceded future life policyholders' benefits included an amount of USD 7.1 billion related to the reinsurance of a UK annuity portfolio. Subsequent to the approval from the UK High Court, effective on June 30, 2008, the underlying contracts have been transferred to the reinsurer, resulting in a reduction of gross and ceded future life policyholders' benefits.

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.

The impact of changes in assumptions on net future life policyholders' benefits was USD 5 million and USD 226 million for the years ended December 31, 2008 and 2007, respectively. The net changes include the following significant movements:

- interest rate assumptions increased the benefits by USD 229 million in 2008 and by USD 361 million in 2007;
- expense assumptions reduced the benefits by USD 4 million in 2008 and by USD 40 million in 2007;
- longevity assumptions increased the benefits by USD 85 million in 2008 and reduced them by USD 62 million in 2007;
- morbidity assumptions reduced the benefits by USD 192 million in 2008 and by USD 46 million in 2007;
- investment return assumptions reduced the benefits by USD 118 million in 2008 and increased them by USD 6 million in 2007.

Policyholders' contract deposits and other funds gross

Table 8.6

in USD millions, as of December 31	2008	2007
Annuities	2,393	2,451
Universal life and other contracts	10,365	10,510
Policyholder dividends	4,289	5,725
Total	**17,047**	**18,687**

Development of policyholders' contract deposits and other funds

Table 8.7

in USD millions	Gross		Ceded		Net	
	2008	2007	**2008**	2007	**2008**	2007
As of January 1	18,687	18,934	(2,976)	(3,258)	15,711	15,676
Premiums and claims	(871)	(1,323)	384	411	(487)	(912)
Interest and bonuses credited to policyholders	(385)	1,215	(105)	(120)	(490)	1,095
Change in assumptions	(2)	(1)	1	–	(1)	(1)
Acquisitions/transfers	16	–	(9)	–	7	–
(Decrease)/increase recorded in shareholders' equity	188	(1,101)	–	5	188	(1,095)
Foreign currency translation effects	(585)	962	14	(15)	(571)	947
As of December 31	**17,047**	**18,687**	**(2,690)**	**(2,976)**	**14,357**	**15,711**

Development of reserves for unit-linked contracts

Table 8.8

in USD millions	Gross		Ceded		Net	
	2008	2007	**2008**	2007	**2008**	2007
As of January 1	70,075	66,008	–	–	70,075	66,008
Premiums and claims	(1,901)	(1,714)	–	–	(1,901)	(1,714)
Interest and bonuses credited/(charged) to policyholders	(12,223)	4,275	–	–	(12,223)	4,275
Acquisitions/transfers	833	–	–	–	833	–
Foreign currency translation effects	(9,486)	1,506	–	–	(9,486)	1,506
As of December 31	**47,297**	**70,075**	**–**	**–**	**47,297**	**70,075**

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 contain 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 policyholders 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. After 2001 the Group no longer issued new policies with such features.

Information on guaranteed liabilities

Table 8.9

in USD millions (except average attained age)	2008	2007
Account balance for products with guarantee features as of December 31		
Gross	1,966	4,112
Ceded	(187)	(374)
Net	**1,778**	**3,738**
Amount at risk from minimum death benefits (GMDB) as of December 31		
Gross	1,744	539
Ceded	(290)	(186)
Net	**1,453**	**353**
Average attained age of policyholders (in years)	**64**	**64**

The net amount at risk is the present value of payouts exceeding the current policyholder account balance assuming the payout criteria in all policies would have been collectively triggered as of the balance sheet date. The net amount at risk is not the same as the fair value of these benefits, as it does not fully take the option value accruing to the policyholder into account. In determining the excess benefit reserve, the Group follows the 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 a benefit ratio (determined based on expected policyholder excess payouts and expected policyholder assessments) to excess payout and assessment experience to date is applied to determine the new reserve level. The liability for future life policyholder benefits net of reinsurance includes an excess benefit reserve of USD 513.2 million and USD 123.7 million as of December 31, 2008 and 2007, respectively.

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

Liabilities for investment contracts

Table 9.1

in USD millions, as of December 31	2008	2007
Liabilities related to unit-linked investment contracts	30,397	48,187
Liabilities related to investment contracts (amortized cost)	122	117
Liabilities related to investment contracts with DPF	5,461	6,182
Total	**35,979**	**54,485**

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. The discount rate is determined by the current market assessment of the time value of money and risk specific to the liability.

Development of liabilities for investment contracts

Table 9.2

in USD millions	2008	2007
As of January 1	54,485	50,705
Premiums and claims	(838)	(1,080)
Interest and bonuses charged/(credited) to policyholders	(8,647)	3,324
Divestments/transfers	790	(514)
Increase/(decrease) recorded in shareholders' equity	9	(31)
Foreign currency translation effects	(9,819)	2,081
As of December 31	**35,979**	**54,485**

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 results 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 to policyholder liabilities.

Development of the equity component relating to contracts with DPF

Table 10

in USD millions	2008	2007
As of January 1	1,309	1,414
Net unrealized (losses)/gains on investments	(371)	(226)
Current period profit	230	17
Foreign currency translation effects	53	104
As of December 31	**1,221**	**1,309**

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	
	2008	2007	2008	2007	2008	2007
Losses and loss adjustment expenses	26,942	24,951	(2,796)	(2,796)	24,145	22,155
Life insurance death and other benefits	11,315	11,903	(778)	(1,065)	10,538	10,837
Increase/(decrease) in future life policyholders' benefits	(6,870)	(1,931)	6,999	(7,770)	128	(9,701)
Total insurance benefits and losses[1]	**31,387**	**34,923**	**3,425**	**(11,632)**	**34,811**	**23,291**

[1] In 2007, ceded insurance benefits and losses included USD 7.0 billion relating to the reinsurance of a UK annuity portfolio. Subsequent to the approval from the UK High Court, effective on June 30, 2008, the underlying contracts have been transferred to the reinsurer. This transaction had no impact on the income statement in 2008.

Policyholder dividends and participation in profits

Table 11.2

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2008	2007	2008	2007	2008	2007
Change in policyholders' contract deposits and other funds	(602)	1,134	40	(13)	(562)	1,121
Change in reserves for unit-linked products	(13,239)	4,077	–	–	(13,239)	4,077
Change in liabilities for investment contracts – unit-linked	(8,384)	3,165	–	–	(8,384)	3,165
Change in liabilities for investment contracts – other	147	180	–	–	147	180
Change in unit-linked liabilities related to UK capital gains tax	524	(16)	–	–	524	(16)
Total policyholder dividends and participation in profits	**(21,554)**	**8,540**	**40**	**(13)**	**(21,514)**	**8,526**

Underwriting and policy acquisition costs

Table 11.3

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2008	2007	2008	2007	2008	2007
Underwriting and policy acquisition costs	**9,285**	**8,358**	**(998)**	**(799)**	**8,287**	**7,559**

Change in reserves for unearned premiums

Table 11.4

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2008	2007	2008	2007	2008	2007
Change in reserves for unearned premiums	**1,781**	**286**	**(220)**	**209**	**1,560**	**495**

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	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
As of January 1	3,306	2,959	11,547	10,113	89	124	14,941	13,197
Acquisition costs deferred and transfers	2,918	2,594	1,736	1,567	316	35	4,970	4,197
Amortization	(2,851)	(2,375)	(1,028)	(804)	(87)	(65)	(3,967)	(3,244)
Amortization charged/(credited) to shareholders' equity	–	–	128	154	2	(5)	130	149
Foreign currency translation effects	(125)	127	(1,631)	517	4	(1)	(1,752)	643
As of December 31	**3,247**	**3,306**	**10,752**	**11,547**	**324**	**89**	**14,323**	**14,941**

[1] Net of eliminations from intersegment transactions.

Development of deferred origination costs

Table 12.2

in USD millions	**2008**	2007
As of January 1	1,003	815
Origination costs deferred	119	271
Amortization	(122)	(103)
Foreign currency translation effects	(230)	19
As of December 31	**770**	**1,003**

13. Administrative and other operating expenses

Administrative and other operating expenses

Table 13

in USD millions, for the years ended December 31	**2008**	2007
Wages and salaries	2,504	2,330
Other employee benefits	453	452
Amortization and impairments of intangible assets	437	302
Rent, leasing and maintenance	369	290
Marketing costs	372	401
IT costs	816	759
Other	1,778	2,146
Total	**6,729**	**6,679**

14. Farmers management fees and other related revenues

Farmers management fees and other related revenues

Table 14 in USD millions, for the years ended December 31	2008	2007
Farmers management fees and other related revenues	**2,458**	**2,266**

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 16,541 million and USD 15,547 million for the years ended December 31, 2008 and 2007, respectively.

15. Receivables

Receivables

Table 15.1 in USD millions, as of December 31	2008	2007
Receivables from policyholders	3,107	2,972
Receivables from insurance companies, agents, brokers and intermediaries	6,348	5,972
Receivables arising from ceded reinsurance	1,166	1,372
Other receivables	3,066	3,084
Allowance for impairments[1]	(457)	(554)
Total	**13,229**	**12,846**

[1] Allowance for impairments includes USD 206 million and USD 239 million as of December 31, 2008, and 2007, respectively, for receivables arising from ceded reinsurance.

Receivables are generally settled within one year.

Development of allowance for impairments (deducted from receivables)

Table 15.2 in USD millions	2008	2007
As of January 1	(554)	(468)
Decrease/(increase) in allowance for impairments	11	(83)
Recoveries	(6)	2
Amounts written-off against receivables	68	3
Foreign currency translation effects	24	(8)
As of December 31	**(457)**	**(554)**

16. 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 on mortgage loans given as collateral were recorded in income for both years ended December 31, 2008 and 2007.

The table below shows the maturity schedule of collateralized loans as of December 31, 2008 and 2007, respectively.

Maturity schedule of collateralized loans

Table 16

in USD millions, as of December 31	2008	2007
< 1 year	125	259
1 to 2 years	121	325
2 to 3 years	556	287
3 to 4 years	181	622
4 to 5 years	127	269
> 5 years	123	480
Total	**1,233**	**2,243**

17. Property and equipment

Property and equipment

Table 17.1

in USD millions	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other equipment	Total
Gross carrying value as of January 1, 2008	393	1,577	436	765	615	3,787
Less: accumulated depreciation/impairments	(1)	(571)	(359)	(561)	(324)	(1,815)
Net carrying value as of January 1, 2008	392	1,006	78	204	292	1,972
Additions, improvements and transfers	1	61	36	130	217	445
Disposals and transfers	(31)	(152)	1	(28)	(56)	(265)
Depreciation and impairments	–	(45)	(23)	(87)	(63)	(218)
Foreign currency translation effects	(3)	(20)	(5)	–	(17)	(44)
Net carrying value as of December 31, 2008	**359**	**851**	**86**	**219**	**374**	**1,889**
Plus: accumulated depreciation/impairments	–	547	351	548	361	1,808
Gross carrying value as of December 31, 2008	**359**	**1,398**	**438**	**767**	**735**	**3,697**

Property and equipment

Table 17.2

in USD millions	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other equipment	Total
Gross carrying value as of January 1, 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, improvements and transfers	3	95	30	95	114	336
Disposals and transfers	(24)	(70)	–	(3)	(76)	(173)
Depreciation and impairments	–	(50)	(33)	(76)	(55)	(214)
Foreign currency translation effects	28	69	4	6	10	118
Net carrying value as of December 31, 2007	**392**	**1,006**	**78**	**204**	**292**	**1,972**
Plus: accumulated depreciation/impairments	1	571	359	561	324	1,815
Gross carrying value as of December 31, 2007	**393**	**1,577**	**436**	**765**	**615**	**3,787**

The fire insurance value of the Group's own-use property and equipment totalled USD 3,676 million and USD 3,973 million as of December 31, 2008 and 2007, respectively.

18. Goodwill and other intangible assets

Intangible assets – current period

Table 18.1

in USD millions	Goodwill	Present value of profits of acquired insurance contracts	Other intangible assets	Attorney-in-fact relationships	Total
Gross carrying value as of January 1, 2008	1,754	2,392	2,787	1,025	7,957
Less: accumulated amortization/impairments	(24)	(1,612)	(1,687)	–	(3,323)
Net carrying value as of January 1, 2008	1,730	780	1,100	1,025	4,636
Additions and transfers	337	640	3,655	–	4,631
Divestments and transfers	–	–	(22)	–	(22)
Amortization	–	(56)	(299)	–	(354)
Amortization charged to shareholders' equity	–	50	–	–	50
Impairments	(14)	(64)	(5)	–	(83)
Foreign currency translation effects	(206)	(97)	(244)	–	(548)
Net carrying value as of December 31, 2008	**1,846**	**1,252**	**4,186** [1]	**1,025**	**8,310**
Plus: accumulated amortization/impairments	38	1,364	1,880	–	3,282
Gross carrying value as of December 31, 2008	**1,884**	**2,617**	**6,066**	**1,025**	**11,593**

[1] Other intangible assets include software of USD 1'156 million as well as intangible assets at fair value on acquisitions.

USD 339 million additions to goodwill, USD 640 million additions to present value of profits of acquired insurance contracts, and USD 3,069 million additions to other intangible assets resulted from the acquisitions in 2008 as disclosed in note 5. Thereof, USD 285 million additions to present value of profits of acquired insurance contracts and USD 1,462 million additions to other intangible assets relate to non-controlling interests.

Intangible assets by segment – current period

Table 18.2

in USD millions, as of December 31, 2008	Goodwill	Present value of profits of acquired insurance contracts	Other intangible assets	Attorney-in-fact relationships	Total
General Insurance	895	–	1,303	–	2,199
Global Life	565	1,252	2,503	–	4,320
Farmers Management Services	382	–	182	1,025	1,589
Other Businesses	–	–	13	–	13
Corporate Functions	5	–	185	–	190
Net carrying value as of December 31, 2008	**1,846**	**1,252**	**4,186** [1]	**1,025**	**8,310**

[1] Other intangible assets include software of USD 1'156 million as well as intangible assets at fair value on acquisitions.

Intangible assets – prior period

Table 18.3

in USD millions	Goodwill	Present value of profits of acquired insurance contracts	Other intangible assets	Attorney-in-fact relationships	Total
Gross carrying value as of January 1, 2007	672	2,329	2,041	1,025	6,068
Less: accumulated amortization/impairments	(12)	(1,554)	(1,415)	–	(2,981)
Net carrying value as of January 1, 2007	660	775	626	1,025	3,086
Additions and transfers	1,015	–	733	–	1,748
Divestments and transfers	(12)	–	(59)	–	(71)
Amortization	–	(56)	(200)	–	(256)
Amortization charged to shareholders' equity	–	26	–	–	26
Impairments	(12)	–	(34)	–	(46)
Foreign currency translation effects	79	35	34	–	148
Net carrying value as of December 31, 2007	**1,730**	**780**	**1,100** [1]	**1,025**	**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**	**1,025**	**7,957**

[1] Other intangible assets include software of USD 907 million as well as intangible assets at fair value on acquisitions.

Intangible assets by segment – prior period

Table 18.4

in USD millions, as of December 31, 2007	Goodwill	Present value of profits of acquired insurance contracts	Other intangible assets	Attorney-in-fact relationships	Total
General Insurance	706	–	538	–	1,244
Global Life	635	780	284	–	1,698
Farmers Management Services	385	–	171	1,025	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]	**1,025**	**4,636**

[1] Other intangible assets include software of USD 907 million as well as intangible assets at fair value on acquisitions.

In 2008 impairment charges of USD 83 million were recorded in income comprising impairment of PVFP of USD 64 million in the UK and German Life operations, impairment of goodwill of USD 14 million as a result of updated cash flow assumptions in the German Life operations and other intangible assets of USD 5 million relating to impairments on capitalized software.

In 2007 impairment charges of USD 46 million were recorded in income 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.

19. Other liabilities

Other liabilities

Table 19.1

in USD millions, as of December 31	2008	2007
Other financial liabilities		
Amounts due to reinsurers, agents and other insurance companies	1,778	1,712
Amounts due to life policyholders	559	722
Liabilities for cash collateral received for securities lending	182	1,889
Derivative liabilities	1,388	276
Liabilities for defined benefit plans	2,294	908
Other liabilities for employee benefit plans	105	110
Other liabilities	8,233	11,449
Other non-financial liabilities		
Current tax payables	1,025	1,643
Restructuring provisions	88	162
Other liabilities	1,291	1,387
Total other liabilities	**16,944**	**20,257**

The undiscounted amounts of the financial liabilities as of December 31, 2008 and 2007 are not materially different from the carrying amounts. Financial liabilities other than those related to defined benefit plans of USD 1,110 million and USD 1,284 million as of December 31, 2008 and 2007 respectively, had a maturity greater than one year.

Restructuring provisions

Table 19.2

in USD millions	2008	2007
As of January 1	162	128
Provisions made during the period	141	110
Provisions used during the period	(200)	(81)
Provisions reversed during the period	(2)	(4)
Foreign currency translation effects	(10)	9
Other changes	(2)	–
As of December 31	**88**	**162**

During the year ended December 31, 2008, the Group entered into four main restructuring programs, recording a total charge to income of USD 141 million. The UK General Insurance Business recorded restructuring costs totalling approximately USD 66 million, of which, USD 53 million related to a restructuring program aligned to the operational transformation strategy of the Group. The remainder related to a decision to close all retail outlets of one of the UK subsidiaries in order to focus on internet based sales.

The Group's North America Commercial business division also entered into an operational transformation program. The impact is predominantly headcount related, with costs approximating USD 24 million. A further USD 32 million restructuring charge was recorded, to cover costs associated with the sale of Zurich American Insurance Company's Commercial Small Business Solutions book of business to Truck Insurance Exchange, one of the Farmers Exchanges. The costs are mainly related to IT infrastructure but also include severance payments.

During the year ended December 31, 2007, a total of USD 110 million restructuring charges were recorded. USD 92 million related to a restructuring program in the Group's German operations, across both Life and General Insurance, of which USD 80 million was paid during 2008. The program involved an organisational restructure to facilitate strengthened customer focus as well as a more effective integrated distribution channel. The provision is expected to be fully utilised during 2009.

20. Income taxes

Income tax expense – current/deferred split

Table 20.1 in USD millions, for the years ended December 31	2008	2007
Current	737	1,515
Deferred	(1,189)	275
Total income tax expense	**(452)**	**1,791**

Income tax expense – policyholder/shareholder attribution

Table 20.2 in USD millions, for the years ended December 31	2008	2007
Total income tax expense attributable to policyholders	(1,184)	(83)
Total income tax expense attributable to shareholders	732	1,874
Total income tax expense	**(452)**	**1,791**

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 insurance benefits and losses.

Expected and actual income tax expense

Table 20.3 in USD millions, for the years ended December 31	Rate	2008	Rate	2007
Net income before income taxes		2,663		7,587
Less: income tax (expense)/benefit attributable to policyholders		1,184		83
Net income before income taxes attributable to shareholders		3,847		7,671
Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%	846	22.0%	1,688
Increase/(reduction) in taxes resulting from:				
Tax rate differential in foreign jurisdictions		*164*		231
Tax exempt and lower taxed income		*(10)*		(123)
Non-deductible expenses		*98*		74
Tax losses previously unrecognized or no longer recognized		*(262)*		(185)
Prior year adjustments and other		*(104)*		189
Actual income tax expense attributable to shareholders	19.0%	732	24.4%	1,874
Plus: income tax expense/(benefit) attributable to policyholders		(1,184)		(83)
Actual income tax expense	**(17.0%)**	**(452)**	**23.6%**	**1,791**

The table above sets out the factors that cause the actual income tax expense to differ from the expected expense. In 2007, the expected to actual tax expense reconciliation was performed using the expected weighted average statutory income tax rate derived from the weighted average of the tax rates of the various jurisdictions in which the Group operates. In 2008 the Swiss Statutory tax rate of 22 percent was used instead. This is the rate applicable in the juristiction where the ultimate parent company is resident. This presentation is considered to be more relevant for the Group as it will produce greater comparability of the components of the income tax expenses in the future. Comparatives have been amended accordingly. The change had no impact on the actual tax rate applied in 2007.

Table 20.4

Current tax receivables and payables

in USD millions, as of December 31	2008	2007
Current tax receivables	621	743
Current tax payables	(1,025)	(1,643)
Net current tax payables	**(404)**	**(900)**

Table 20.5

Deferred tax assets and liabilities

in USD millions, as of December 31	2008	2007
Deferred tax assets	2,901	1,682
Deferred tax liabilities	(3,485)	(4,057)
Net deferred tax liabilities	**(583)**	**(2,375)**

Table 20.6

Development of net deferred tax liabilities

in USD millions	2008	2007
As of January 1	(2,375)	(2,030)
Net change recognized in the income statement	1,189	(275)
Net change recognized in equity	1,380	58
Net changes due to acquisitions/(divestments)	(1,029)	7
Foreign currency translation effects	253	(135)
As of December 31	**(583)**	**(2,375)**

The cumulative amount of deferred tax credited to shareholders' equity, net of foreign currency translation effects, amounted to USD 1,720 million and USD 340 million for the years ended December 31, 2008 and 2007, respectively.

USD 1,029 million increase in deferred tax liabilities resulted from the acquisitions in 2008 as disclosed in note 5, of which USD 485 million relates to non-controlling interests.

Table 20.7

Deferred taxes – policyholder/shareholder attribution

in USD millions, as of December 31	2008	2007
Net deferred tax assets/(liabilities) attributable to policyholders	544	(566)
Net deferred tax assets/(liabilities) attributable to shareholders	(1,128)	(1,809)
Net deferred tax liabilities	**(583)**	**(2,375)**

Deferred tax assets/(liabilities) analysis by source

Table 20.8

in USD millions, as of December 31	2008 Assets	2008 Liabilities	2007 Assets	2007 Liabilities
Gross deferred tax				
Deferred acquisition and origination costs	65	(584)	134	(605)
Depreciable and amortizable assets	22	(43)	32	(8)
Life policyholders' benefits and deposits[1]	20	–	11	–
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	965	(332)	284	(288)
Accruals & deferred income	239	–	109	–
Reserves for losses and loss adjustment expenses	569	(46)	585	–
Reserves for unearned premiums	744	(253)	700	(296)
Pensions and other employee benefits	384	–	228	–
Other assets/liabilities	658	(30)	652	(31)
Tax loss carryforwards	691	–	568	–
Gross deferred tax assets/(liabilities) before valuation allowance	4,357	(1,289)	3,303	(1,228)
Valuation allowance	(167)	–	(393)	–
Gross deferred tax assets/(liabilities) after valuation allowance	4,190	(1,289)	2,910	(1,228)
Deferred tax assets	**2,901**		**1,682**	
Deferred acquisition and origination costs	22	(2,330)	10	(2,130)
Depreciable and amortizable assets	191	(1,592)	131	(1,817)
Life policyholders' benefits and deposits[1]	421	(816)	176	(578)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	710	(355)	218	(285)
Accruals & deferred income	66	(125)	92	(132)
Reserves for losses and loss adjustment expenses	268	(575)	5	(683)
Reserves for unearned premiums	201	(53)	218	–
Deferred front-end fees	629	–	669	–
Pensions and other employee benefits	435	(21)	364	(36)
Other assets/liabilities	970	(1,706)	386	(591)
Tax loss carryforwards	183	–	20	–
Gross deferred tax assets/(liabilities) before valuation allowance	4,095	(7,573)	2,289	(6,252)
Valuation allowance	(6)	–	(94)	–
Gross deferred tax assets/(liabilities) after valuation allowance	4,089	(7,573)	2,195	(6,252)
Deferred tax liabilities		**(3,485)**		**(4,057)**
Net deferred tax liabilities		**(583)**		**(2,375)**

[1] Includes reserves for unit-linked contracts.

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 first part of the table above includes single taxpayers with a net deferred tax asset position and the second part includes single taxpayers with a net deferred tax liability position.

As of December 31, 2008 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 recognized approximated USD 17 billion. In the remote scenario in which these temporary differences were to reverse simultaneously, the resulting tax liabilities would be very limited due to participation exemption rules.

Tax losses carryforwards and tax credits

Table 20.9

in USD millions, as of December 31	**2008**	2007
For which deferred tax assets have been recognized, expiring		
< 5 years	42	17
> 5 and < 20 years	1,399	765
> 20 years or with no time limitation	1,715	110
Subtotal	3,156	892
For which deferred tax assets have not been recognized, expiring		
> 5 and < 20 years	203	1,226
Subtotal	203	1,226
Total	**3,359**	**2,118**

The tax rates applicable to tax losses for which a deferred tax asset has not been recognized are 35 percent for both the years 2008 and 2007.

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.

Management assesses the recoverability of the deferred tax assets carrying values based on future years taxable income projections and believes that the carrying values of the deferred tax assets as of December 31, 2008, are recoverable.

21. Debt

Debt

Table 21.1

in USD millions, as of December 31		2008	2007
a) Debt related to capital markets and banking activities			
Zurich Capital Markets	Various debt instruments payable within 1 year	2,079	800
	Various debt instruments payable in more than 1 year	–	48
Zurich Financial Services EUB Holdings Limited	Various debt instruments payable within 1 year	447	814
	Various debt instruments payable in more than 1 year	1	1
Debt related to capital markets and banking activities		**2,527**	**1,663**
b) Senior debt			
Zurich Finance (USA), Inc.	3.50% CHF 300 bond, due July 2008	–	264
	3.50% CHF 300 bond, due November 2011[1]	283	–
	4.50% EUR 1,000 bond, due September 2014[2]	1,395	1,441
Kemper Corporation	Various debt instruments, due in 2009	23	26
Zurich Insurance Company	3.875% CHF 1,000 bond, due July 2011	938	884
	3.75% CHF 500 bond, due September 2013	463	–
	Various debt instruments payable within 1 year	100	50
Other	Various debt instruments payable within 1 year	1	54
	Various debt instruments payable in more than 1 year	156	111
Senior debt		3,358	2,830
c) Subordinated debt			
Zurich Finance (UK) plc	6.625% GBP 450 bond, undated notes[3]	648	879
Zurich Finance (USA), Inc.	5.75% EUR 500 bond, due October 2023	687	720
	4.5% EUR 500 bond, due June 2025[4]	691	670
ZFS Finance (USA) Trust I	Series I 6.15% USD 600 ECAPS, due December 2065	569	595
ZFS Finance (USA) Trust II	Series II 6.45% USD 700 ECAPS, due December 2065	672	690
ZFS Finance (USA) Trust III	Series III Floating Rate USD 400 ECAPS, due December 2065	318	397
ZFS Finance (USA) Trust IV	Series IV 5.875% USD 500 Trust Preferred Securities, due May 2062	498	497
ZFS Finance (USA) Trust V	Series V 6.5% USD 1,000 Trust Preferred Securities, due May 2067	994	994
Other	Various debt instruments payable in more than 1 year	21	29
Subordinated debt		5,096	5,471
Total senior and subordinated debt		**8,455**	**8,300**
Total debt		**10,981**	**9,963**

[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). (see note 7)
[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) Trusts 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] This bond is part of a qualifying fair value hedge relationship (see note 7).

None of the debt instruments listed above were in default as of December 31, 2008 and 2007.

a) Debt related to capital markets and banking activities

Debt related to capital markets and banking activities increased from USD 1,663 million as of December 31, 2007 to USD 2,527 million as of December 31, 2008. This is largely due to ZCM Holdings having increased its debt by USD 1.2 billion, of which USD 700 million was lent to our banking operation and classified as operational debt. This funding was used to finance increased banking activity and to replace corporate and interbank deposits which decreased from USD 815 million to USD 448 million.

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 10 billion. All issuances are guaranteed by Zurich Insurance Company. Zurich Finance (USA), Inc., Zurich Finance (UK) p.l.c. and Zurich Insurance Company, are issuing entities under the EMTN Programme and all entities have debt outstanding as of December 31, 2008.

CHF 300 million of senior bonds matured on July 22, 2008. On September 23, 2008 CHF 300 million of senior bonds were issued by Zurich Finance (USA), Inc. with a fixed coupon of 3.5 percent and a maturity of November 2011. On September 23, 2008 CHF 500 million of senior bonds were issued by Zurich Insurance Company with a fixed coupon of 3.75 percent and a maturity of September 2013. Both issues were made under the existing EMTN Programme.

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 March 27, 2008, Zurich Holding Company of America (ZHCA), a subsidiary of the Group, purchased USD 80.5 million of Series III Floating Rate ECAPS. This purchase resulted in the Group recognizing a pre-tax gain of USD 18 million. On December 18, 2008 ZHCA purchased USD 28 million of Series I 6.15 percent ECAPS and USD 20 million of Series II 6.45 percent ECAPS. This purchase resulted in the Group recognizing a pre-tax gain of USD 23 million.

No new subordinated debt issuances took place in 2008.

Description and features of significant subordinated debt

Table 21.2

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 21.3

in USD millions, as of December 31	2008		2007	
	Carrying value	**Undiscounted cash flow**	Carrying value	Undiscounted cash flow
< 1 year	2,650	3,139	1,983	2,449
1 to 2 years	11	446	76	541
2 to 3 years	1,237	1,659	10	453
3 to 4 years	13	392	884	1,329
4 to 5 years	463	835	1	415
5 to 10 years	1,513	2,857	1,541	3,415
> 10 years	5,096	7,123	5,469	8,811
Total	**10,981**	**16,451**	**9,963**	**17,413**

Debt maturities shown in table 21.3 reflect original contractual dates without taking early redemption options into account. For call/redemption dates, refer to table 21.2. The total notional amount of debt due in each period is not materially different from the total carrying amount disclosed in table 21.3. Undiscounted cash flows include interest and principal cash flows on debt outstanding as at December 31, 2008 and December 31, 2007. All debt is assumed to mature within 20 years of the balance sheet date without refinancing and where the Group has the option to repay the debt, the option is assumed to expire. Floating rates of interest are assumed to be constant as at December 31, 2008 (December 31, 2007 respectively) going forward. The aggregated cash flows are converted into USD at the balance sheet date.

Interest expense on debt

Table 21.4

in USD millions, for the years ended December 31	**2008**	2007
Debt related to capital markets and banking activities	127	148
Senior debt	141	132
Subordinated debt	331	404
Total	**599**	**685**

Interest expense on debt

Interest expense on debt decreased from USD 685 million to USD 599 million. This was predominantly due to prior year interest expense on subordinated debt including a one-off charge of USD 55 million related to the early redemption of USD 1 billion of Capital Trust Securities in May 2007 and related refinancing at lower interest rates.

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, 2008.

Dunbar Bank and Zurich Bank have access to various committed credit facilities totaling GBP 405 million and GBP 230 million, respectively. As of December 31, 2008, GBP 50 million had been drawn under these credit facilities.

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, 2008, USD 100 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, 2008 and December 31, 2007 financial debt consisted of the following components.

Table 21.5

Financial debt

in USD millions, as of December 31	2008 Reported	2008 Adjustments	2008 Financial Debt	2007 Financial Debt
Debt related to capital markets and banking activities	2,527	(1,148)	1,379	848
Senior debt	3,358	(200)	3,158	2,680
Subordinated debt	5,096	–	5,096	5,471
Total	**10,981**	**(1,348)**	**9,633**	**8,999**

The USD 1,148 million adjustment relates to USD 448 million of Zurich Financial Services EUB Holdings Limited notes and loans payable and USD 700 million issued by ZCM Holdings and then lent to our banking operation as described above, while the USD 200 million adjustment contains USD 100 million of non-recourse debt and USD 100 million drawn under the above mentioned Leschi credit facility.

22. Shareholders' equity

Share capital

Table 22.1

	Share capital in CHF	Number of shares	Par value in CHF
Issued share capital			
As of December 31, 2006	14,474,940	144,749,399	0.10
New shares issued from contingent capital in 2007	79,742	797,421	0.10
As of December 31, 2007	14,554,682	145,546,820	0.10
Capital reduction by canceling shares bought back under the share buy-back program announced in 2007	(343,250)	(3,432,500)	0.10
New shares issued from contingent capital in 2008	830	8,300	0.10
As of December 31, 2008	14,212,262	142,122,620	0.10
Authorized, contingent and issued share capital			
As of December 31, 2007	16,023,123	160,231,227	0.10
As of December 31, 2008	15,679,873	156,798,727	0.10

a) Issued share capital

As of December 31, 2008, Zurich Financial Services had 142,122,620 issued and fully paid registered shares of CHF 0.10 par value, amounting to total issued share capital of CHF 14,212,262.00. As of December 31, 2007, the share capital amounted to CHF 14,554,682.00, divided into 145,546,820 fully paid registered shares of CHF 0.10 par value.

At the Annual General Meeting on April 3, 2008 the shareholders approved a share capital reduction of CHF 343,250.00 from CHF 14,554,682.00 to CHF 14,211,432.00 by cancelling 3,432,500 registered shares that were bought back under the share buy-back program announced on February 15, 2007. The effective date of the capital reduction was June 27, 2008. During the year 2008, a total of 8,300 shares have been issued to employees out of the contingent capital.

In 2007, the shareholders at the Annual General Meeting on April 3, 2007 approved an 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 were issued to employees.

b) Authorized share capital

Until June 1, 2010, the Board of Zurich Financial Services is authorized to increase the share capital by an amount not exceeding CHF 600,000.00 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

On February 14, 2007, the Board of Directors of Zurich Financial Services decided to allow the issuance of up to 4,000,000 shares out of the contingent share capital to employees of the Group. A respective proposal for the increase of the contingent share capital was made by the Board of Directors to the shareholders and was approved at the Annual General Meeting on April 3, 2007. On December 31, 2007, the contingent share capital, to be issued to employees of Zurich Financial Services and Group companies, amounted to CHF 320,257.90 or 3,202,579 fully paid registered shares with a nominal value of CHF 0.10 each. During 2008, 8,300 shares were issued to employees out of the contingent share capital under the program described above. As a result, on December 31, 2008 the remaining contingent share capital, which can be issued to employees of Zurich Financial Services and its subsidiaries, amounts to CHF 319,427.90 or 3,194,279 fully paid registered shares with a nominal value of CHF 0.10 each. The pre-emptive rights of the shareholders, as well as the right for advance subscription, are excluded. The issuance of shares or respective option rights to employees is subject to one or more regulations to be issued by the Board of Directors and take into account performance, functions, levels of responsibility and criteria of profitability. Shares or option rights may be issued to the employees at a price lower than that quoted on the stock exchange.

d) Preferred securities

Table 22.2

Preferred securities

	Preferred securities in USD	Number of securities	Par value in USD
As of December 31, 2006	700,000,000	700,000	1,000
Redeemed securities	–	–	1,000
As of December 31, 2007	700,000,000	700,000	1,000
Redeemed securities	(125,000,000)	(125,000)	1,000
As of December 31, 2008[1]	575,000,000	575,000	1,000

[1] The amount excludes issuance costs of USD 14 million and USD 29 million as of December 31, 2008 and 2007, respectively.

In February 2001, the Group placed six series of Trust Capital Securities (Zurich RegCaPS) for a total amount of USD 1,125 million (USD 1,096 million net of issuance costs) with a limited number of qualified institutional and corporate U.S. investors. The securities, which were issued under Rule 144A in the U.S., are perpetual, non-cumulative and have a par value of USD 1,000 each. They have no voting rights, except in certain specified circumstances and are linked to Farmers Group, Inc. Class C shares. On March 30, 2006, April 11, 2006 and April 18, 2008, the Group redeemed the Series I, III and IV of the Zurich RegCaPS, respectively. The liquidation amounts totaled USD 550 million in aggregate. Of the remaining series totaling USD 575 million, one has a fixed rate coupon of 6.58 percent and two have floating rate coupons at LIBOR +71 basis points. These coupon rates step up after the first call dates. The Group has the option to call all outstanding securities in 2011.

e) Additional paid-in capital

This reserve is not ordinarily available for distribution.

f) Treasury shares

Table 22.3

Treasury shares

number of shares, as of December 31	2008	2007
Treasury shares	5,219,803	5,839,154

Treasury shares comprise shares repurchased under the share buy-back program and shares acquired in the market held to cover employee share and option plans. The number of treasury shares amounted to 5,219,803 and 5,839,154 as of December 31, 2008 and 2007, respectively.

On February 13, 2008 the Board of Zurich Financial Services authorized a share buy-back program for the repurchase of up to CHF 2.2 billion worth of shares over the course of 2008. As of December 31, 2008 3,750,500 fully paid shares, with a nominal value of CHF 0.10, were bought back at an average price of CHF 293 per share, at a total cost of CHF 1.1 billion.

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 CHF 0.10, have been bought back at an average price of CHF 364 per share, at a total cost of CHF 1.2 billion. The shareholders at the Annual General Meeting of April 3, 2008 approved a share capital reduction by CHF 343,250.00 from CHF 14,554,682.00 to CHF 14,211,432.00 by cancelling these 3,432,500 registered shares. The effective date of the capital reduction was June 27, 2008.

g) Earnings per share

Earnings per share

Table 22.4

for the twelve months ended December 31	Net income attributable to common shareholders (in USD millions)	Weighted average number of shares	Per share (USD)	Per share (CHF)[1]
2008				
Basic earnings per share	**3,007**	**137,943,218**	**21.80**	**23.53**
Effect of potentially dilutive shares related to share-based compensation plans		1,049,425	(0.16)	(0.18)
Diluted earnings per share	**3,007**	**138,992,643**	**21.63**	**23.35**
2007				
Basic earnings per share	**5,668**	**142,685,268**	**39.73**	**47.63**
Effect of potentially dilutive shares related to share-based compensation plans		1,572,388	(0.43)	(0.52)
Diluted earnings per share	**5,668**	**144,257,656**	**39.29**	**47.11**

[1] The translation from USD to CHF is shown for information purposes only and has been calculated at the Group's average exchange rates for the years ended December 31, 2008 and 2007, respectively.

Basic earnings per share is computed by dividing net income attributable to shareholders by the weighted average number of shares outstanding for the year, 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.

23. Employee benefits

The Group had 57,609 and 58,220 employees (full-time equivalents) as of December 31, 2008 and 2007, respectively. Personnel and other related costs incurred for the year ended December 31, 2008 and 2007, were USD 5,262 million and USD 4,922 million, including wages and salaries of USD 4,344 million and USD 4,181 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 US, 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 provides oversight of the Group's benefits policy.

a) Defined benefit plans

Defined benefit pension plans

Employees of the Group's operating companies are covered under various pension plans, the largest of which are in the UK, US, Germany and Switzerland. Certain companies provide 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 accumulated with credits reflecting for example 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 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 estimated at USD 451 million for 2009 compared with USD 470 million estimated in the previous year for 2008. The actual amount may differ.

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 plans' assets at fair value less the pension plans' liabilities based on the present value of the obligations. Plans that are wholly unfunded are shown separately from plans that are wholly or partly funded.

Table 23.1

Status of funded defined benefit plans

in USD millions, as of December 31	Defined benefit pension plans			Other defined post-employment benefits		
	2008	2007	2006	**2008**	2007	2006
Present value of funded obligations	(12,680)	(13,653)	(12,190)	(93)	(66)	(70)
Fair value of plan assets	10,879	13,285	11,071	–	5	10
Funded status	(1,801)	(368)	(1,119)	(92)	(61)	(60)
Unrecognized past service cost	(1)	–	2	–	–	–
Cumulative impact of asset ceiling	(7)	(62)	–	–	–	–
Liability – funded obligations	**(1,808)**	**(430)**	**(1,117)**	**(92)**	**(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 included in comprehensive income.

Table 23.2

Status of unfunded defined benefit plans

in USD millions, as of December 31	Defined benefit pension plans			Other defined post-employment benefits		
	2008	2007	2006	**2008**	2007	2006
Present value of unfunded obligations	(210)	(207)	(985)	(183)	(208)	(196)
Unrecognized past service cost	–	–	–	(1)	(2)	(1)
Liability – unfunded obligations	**(209)**	**(207)**	**(985)**	**(184)**	**(210)**	**(197)**

Expense recognized in income

Table 23.3

in USD millions, as of December 31	Defined benefit pension plans		Other defined post-employment benefits	
	2008	2007	**2008**	2007
Current service cost	(300)	(305)	(5)	(6)
Interest cost	(715)	(659)	(15)	(14)
Expected return on plan assets	727	704	–	–
Past service cost	(14)	(8)	–	–
Gains on curtailment or settlement	2	–	–	–
Net pension expense	**(300)**	**(269)**	**(19)**	**(19)**

Pension expense is recognized in other employee benefits, which are included in administrative and other operating expense.

Fair value of assets held in funded defined benefit pension plans

Table 23.4

in USD millions, as of December 31	Defined benefit pension plans		Other defined post-employment benefits	
	2008	2007	**2008**	2007
Mortgage loans	409	383	–	–
Cash and cash equivalents	111	126	–	–
Short-term investments	16	6	–	4
Equity securities	2,847	4,530	–	–
Debt securities	6,742	7,404	–	1
Real estate	671	793	–	–
Other investments	83	43	–	–
Total	**10,879**	**13,285**	**–**	**5**

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 23.5

in USD millions	Defined benefit pension plans		Other defined post-employment benefits	
	2008	2007	**2008**	2007
Benefit obligation as of January 1	(13,860)	(13,175)	(274)	(266)
Current service cost	(300)	(305)	(5)	(6)
Past service cost including plan amendments	(15)	(5)	–	2
Interest cost	(715)	(659)	(15)	(14)
Actuarial gain/(loss) included in other comprehensive income	(320)	433	3	3
Employee contributions	(42)	(35)	(4)	(3)
Effect of curtailments or settlements	2	–	–	–
Benefits paid	512	462	16	17
Effects of business combinations and other transfers	(42)	(156)	(15)	2
Foreign currency translation effects	1,894	(419)	13	(8)
Benefit obligation as of December 31	**(12,886)**	**(13,860)**	**(280)**	**(274)**

Movement in fair value of plan assets – funded plans

Table 23.6

in USD millions	Defined benefit pension plans		Other defined post-employment benefits	
	2008	2007	**2008**	2007
Fair value of plan assets as of January 1	13,286	11,071	5	10
Expected return on plan assets	727	704	–	–
Actuarial gain/(loss) included in other comprehensive income	(1,485)	188	–	–
Employer contributions	533	1,265	7	10
Employee contributions	42	36	4	3
Benefits paid	(512)	(462)	(16)	(17)
Effects of business combinations and other transfers	52	90	–	–
Foreign currency translation effects	(1,763)	394	–	–
Fair value of plan assets as of December 31	**10,879**	**13,286**	**–**	**5**

The actual returns on defined benefit pension plan assets for the years ended December 31, 2008 and 2007 were losses of USD 758 million and gains of USD 892 million, respectively.

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 23.7

in USD millions	Defined benefit pension plans		Other defined post-employment benefits	
	2008	2007	**2008**	2007
Liability as of January 1	(637)	(2,102)	(271)	(257)
Current year expense	(300)	(269)	(19)	(19)
Contributions paid	533	1,264	7	10
Change in liability due to asset ceiling	51	(56)	–	–
Actuarial gain/(loss) passed through other comprehensive income	(1,805)	697	3	3
Effects of business combinations and other transfers	(6)	(58)	(9)	21
Foreign currency translation effects	148	(113)	11	(29)
Liability as of December 31	**(2,017)**	**(637)**	**(277)**	**(271)**

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 23.8

in USD millions	**2008**	2007	2006
Actuarial gain/(loss) as of January 1	(1,308)	(1,870)	(2,420)
Experience adjustments on plan liabilities	(147)	(118)	(375)
Experience adjustments on plan assets	(1,485)	188	447
Changes due to discount rate assumptions	223	975	–
Changes due to other actuarial assumptions	(392)	(345)	528
Asset ceiling recognition	51	(64)	–
Foreign currency translation effects	152	(75)	(50)
Total actuarial gain/(loss) as of December 31	**(2,907)**	**(1,308)**	**(1,870)**

The actuarial gain/(loss) net of policyholder participation and taxes amounts to a loss of USD 1,933 million and USD 818 million as of December 31, 2008 and 2007, respectively.

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 expenses are as follows:

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

Table 23.9

as of December 31	**2008**				2007			
	Switzer-land	**UK**	**US**	**Germany**	Switzer-land	UK	US	Germany
Discount rate	2.9%	5.9%	6.1%	5.7%	3.7%	5.5%	6.2%	5.5%
Inflation rate	1.6%	3.0%	2.1%	1.8%	1.5%	2.5%	2.2%	1.6%
Expected long-term rate of return on assets	4.1%	5.9%	6.8%	5.0%	4.1%	5.4%	7.3%	5.0%
Expected future salary increases	2.2%	4.3%	4.4%	3.1%	2.1%	3.7%	4.6%	3.0%
Expected future pension increases	1.1%	3.2%	0.3%	1.8%	1.0%	2.5%	0.3%	1.6%
Current average life expectancy for a 65 year old male	22.5	25.0	19.3	18.0	22.5	22.0	19.7	18.0

The expected long-term rate of return on assets is derived separately for each of the Group's funded 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 mortality assumptions in each country have been based on the most up to date mortality tables in accordance with the general use in that market. Where appropriate these tables make allowance for projected future improvements in life expectancy.

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

Table 23.10

as of December 31	**2008**	2007
	US	US
Discount rate	6.0%	6.2%
Expected long-term rate of return on assets	0.0% [1]	3.1%
Expected increase in long-term health cost	7.2%	8.5%

[1] Assets expected to be reduced to zero in January 2009.

The actuarial assumptions of healthcare cost trend rates have an impact on the amounts recognized. A one percentage point change in the health care cost trend rate would have the effects on amounts recognized in 2008 as set out in table 23.11:

Effect of a change in the health care cost trend

Table 23.11

	1% increase	1% decrease
Effect on total service cost and interest cost	–[1]	–[1]
Effect on benefit obligation	5	(1)

[1] Below USD 1 million.

b) Defined contribution pension plans

Certain of the Group's operating companies sponsor defined contribution pension plans. Eligibility for participation in such plans is either based on completion of a specified period of continuous service or the 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 a number of factors. The Group's contributions under these plans amounted to USD 52 million and USD 51 million in 2008 and 2007, respectively.

24. 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 compensation 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 285 million and USD 365 million for the years ended December 31, 2008 and 2007, respectively.

b) Share-based compensation plans for employees and executives

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

Expenses recognized in income

Table 24.1

in USD millions, as of December 31	2008	2007
Total option-based expenses	35	49
Total share-based expenses	139	121
Total expenses	**174**	**170**

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

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 420 and 439 participants in the partnership element of the plan as of December 31, 2008 and 2007, 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, 2008 and 2007 was 6,269 and 6,952 respectively.

Share Incentive Plans for employees in Switzerland

The Share Incentive Plan introduced for employees in Switzerland continued to operate in 2008. 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 2008, 6,282 employees participated in the Employee Incentive Plan compared with 6,369 in 2007. For the year ended December 31, 2008, 1,909 employees received shares under the 2007 employee performance share plan. For the year ended December 31, 2007, 1,929 employees received shares under the 2006 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. For 2007 and future grants we are looking back to a three year performance period. 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 170 and 159 participants in this plan as of December 31, 2008 and 2007, respectively.

Executive long-term performance share plans

Each year, selected executives are granted performance shares 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 granted, depends on the performance of the Group during the previous calendar year. For 2007 and future grants we are looking back to a three year performance period. 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. 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. One half of the shares that actually vest are sales-restricted for a further period of three years. There were a total of 833 and 746 participants in this plan as of December 31, 2008 and 2007, respectively.

c) Further information on performance share and option plans

Table 24.2

Movements in options granted under the various equity participation plans

	Number of shares under option		Weighted average exercise price (in CHF)	
	2008	2007	**2008**	2007
As of January 1	2,387,357	2,272,040	273	260
Options granted	855,214	702,402	314	317
Options forfeited	(61,701)	(75,513)	321	302
Options exercised	(288,287)	(422,451)	182	217
Options expired during period	(132,674)	(89,139)	461	554
As of December 31	**2,759,909**	**2,387,357**	**284**	**273**
Exercisable options as of December 31	1,912,112	1,468,492	284	273

Certain plan participants elected in 2002 to take their option award in the form of Share Appreciation Rights (SAR). Included in table 24.2 and 24.3 are 61,318 SAR as of both December 31, 2008 and 2007, 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 the Black-Scholes option pricing model. The model inputs were the same as used for calculating the value of the share options.

The average share price for Zurich Financial Services shares in 2008 and 2007 was CHF 280.49 and CHF 350.32, respectively.

Table 24.3

Share options exercised during the period

	Amount	Average share price in CHF
Exercise date		
January-April, 2008	149,446	317
May-August, 2008	60,301	293
September-December, 2008	78,540	283

Table 24.4

Range of exercise prices of options outstanding as of December 31, 2008

in CHF	Number of options	Weighted average contractual life in years	Weighted average remaining expected life in years
100–200	126,561	7.0	1.3
201–300	860,355	7.0	2.9
301–400	1,773,451	7.1	4.7

Options and shares granted during the period

Table 24.5

for the years ended December 31	Number		Weighted average fair value at grant date (in CHF)	
	2008	2007	**2008**	2007
Shares granted during the period	271,374	270,367	337	356
Options granted during the period[1]	855,214	702,420	67	68

[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 year 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. In case the performance achievements deviate from the initial assumptions, the expense is being adjusted.

The fair value of options granted is estimated using the Black-Scholes option pricing model, with the assumptions shown in table 24.6.

Black-Scholes assumptions for fair value of options

Table 24.6

	2008	2007
Share price, in CHF[1]	337	356
Exercise price, in CHF	337	356
Assumed volatility	29.50%	25.25%
Risk-free interest rate	3.21%	2.87%
Expected dividend rate	4.50%	3.50%
Contracted option life	7 years	7 years

[1] Share price as at date of grant.

The risk-free interest rate was determined by using the seven year CHF swap rate applicable in 2008 and 2007. The implied volatility was determined based on the average of a number of several independent quotes.

25. Contingent liabilities, contractual commitments and financial guarantees

The Group has provided contractual commitments and financial guarantees 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 25.1

in USD millions, as of December 31	**2008**	2007
Commitments under investment agreements	4,205	4,082
Less funded commitments	(3,423)	(3,300)
Remaining commitments under investment agreements	782	782
Guarantees and letters of credit[1]	915	939
Future rent commitments	1,261	1,613
Undrawn loan commitments (capital markets and banking activities)	646	926
Other commitments and contingent liabilities	47	40

[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 and private equity funds. Commitments may be called by the counterparty over the term of the investment (generally 3–5 years) and must be funded by the Group on a timely basis.

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 198 million and USD 203 million for the years ended December 31, 2008 and 2007, respectively.

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

Table 25.2

in USD millions, as of December 31, 2008	Rental payments
< 1 year	229
1 to 2 years	208
2 to 3 years	177
3 to 4 years	134
4 to 5 years	112
> 5 years	401
Total	**1,261**

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 (now Scor Holding (Switzerland) AG) and its successor companies' net exposure for losses arising out of the September 11, 2001 event at USD 289 million. As of December 31, 2008, and 2007 respectively, 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 3,469 million and USD 5,251 million as of December 31, 2008 and 2007, respectively.

Terms and conditions associated with the financial assets pledged to secure the 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. The Quota Share Retrocession Agreements were amended at the end of February 2008. According to the amendment Converium no longer has the right to call for payments in cash for certain amounts of the funds withheld on pre-determined dates, as it was the case prior to the amendment.

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, in December 2008, Zurich Financial Services entered into a settlement with the U.S. Securities and Exchange Commission (SEC) resolving the SEC's investigation of certain reinsurance transactions engaged in by the Group and its subsidiaries. The SEC was investigating Converium's February 28, 2006 restatement of its financial results for the years 1998 through 2004. In that context, the Staff of the SEC made inquiries of Zurich Financial Services and certain of its subsidiaries related to reinsurance contracts entered into before 2001. Zurich agreed to pay a USD 25 million penalty and USD 1 in disgorgement to settle, without admitting or denying, charges that it had aided and abetted Converium's violations of Section 10(b) of the Exchange Act and Rule 10b-5.

Furthermore, Zurich Financial Services is a defendant in putative class-action securities lawsuits relating to its divestiture of its interest in Converium. On July 25, 2008, Zurich Financial Services and the class-action plaintiffs entered into an amended stipulation of settlement that calls for a payment of USD 28 million to settle the case in two parts on behalf of all persons and entities who purchased Converium securities between January 7, 2002 and September 2, 2004: one settlement in the US court, covering all US persons and entities, and all other persons who purchased Converium securities on US markets, and another settlement in the Amsterdam Court of Appeals, in the Netherlands, covering all non-US persons and entities who purchased Converium securities on the SWX Swiss Exchange (now SIX Swiss Exchange). The proposed US and Dutch settlements are both subject to court approval and are independent of each other. The US court approved the US settlement on December 12, 2008. A notice of appeal was filed on January 9, 2009 from various rulings by the US court. The statement of issues does not challenge or object to the settlement's terms, but rather, focuses on the court's dismissal of the plaintiff's Securities Act claims as untimely and the court's denial of plaintiff's motion to amend the complaint. The proposed Dutch settlement has not yet been presented to the Dutch court.

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.

26. Fair value of financial assets and financial liabilities

The methods and assumptions used by the Group in estimating fair value of the financial assets and liabilities are set out in note 4.

Table 26.1

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

in USD millions, as of December 31	Total fair value		Total carrying value	
	2008	2007	**2008**	2007
Cash and cash equivalents	16,397	16,936	16,397	16,936
Available-for-sale:				
Debt securities	105,875	109,278	105,875	109,278
Equity securities	9,307	13,807	9,307	13,807
Total available-for-sale	115,182	123,085	115,182	123,085
Securities at FV through profit or loss:				
Trading:				
Debt securities	159	616	159	616
Equity securities	1,358	2,652	1,358	2,652
Designated at FV:				
Debt securities	16,160	18,338	16,160	18,338
Equity securities	63,731	104,134	63,731	104,134
Total securities at FV through profit or loss	81,408	125,741	81,408	125,741
Derivative assets	1,724	1,055	1,724	1,055
Held-to-maturity debt securities	5,482	5,739	5,244	5,642
Loans and receivables:				
Mortgage loans	13,090	12,800	12,820	12,718
Other loans	13,021	12,545	12,533	12,938
Deposits made under assumed reinsurance contracts	2,391	1,358	2,397	1,359
Mortgage loans given as collateral	1,313	2,266	1,233	2,243
Receivables	13,127	12,716	13,229	12,846
Other financial assets	14	18	14	18
Total loans and receivables	42,956	41,703	42,225	42,122
Other Investments:				
Short-term investments	2,307	2,929	2,307	2,929
Other	61	80	61	80
Total financial assets	**265,517**	**317,268**	**264,549**	**317,589**
Financial liabilities af FV through profit or loss:				
Trading:				
Obligation to repurchase securities	(3,608)	(5,370)	(3,608)	(5,370)
Designated at FV:				
Liabilities related to unit-linked investment contracts	(30,397)	(48,187)	(30,397)	(48,187)
Derivative liabilities	(1,388)	(276)	(1,388)	(276)
Financial liabilities held at amortized cost:				
Liabilities related to investment contracts	(122)	(117)	(122)	(117)
Liabilities related to investment contracts with DPF	(5,314)	(5,789)	(5,461)	(6,182)
Debt	(11,011)	(9,913)	(10,981)	(9,963)
Deposits received under ceded reinsurance contracts	(1,537)	(1,611)	(1,619)	(1,739)
Collateralized loans	(1,313)	(2,266)	(1,233)	(2,243)
Other financial liabilities	(2,844)	(5,162)	(2,850)	(5,272)
Total financial liabilities	**(57,534)**	**(78,691)**	**(57,658)**	**(79,347)**

27. Related party transactions

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

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

Related party transactions included in the consolidated financial statements

Table 27.1

in USD millions	2008	2007
Consolidated income statements for the years ended December 31		
Net earned premiums and policy fees	10	9
Net investment income	9	16
Other income/(expense)	11	(3)
Losses and loss adjustment expenses	(8)	(8)
Consolidated balance sheets as of December 31		
Policyholders' collateral and other loans	15	15
Receivables	7	6
Reserves for losses and loss adjustment expenses	(8)	(3)

Table 27.2 summarizes related party transactions with key personnel reflected in the consolidated financial statements. Key personnel includes Directors of Zurich Financial Services and Zurich Insurance Company and the Members of the Group Executive Committee.

Related party transactions – key personnel

Table 27.2

in USD millions, for the years ended December 31	2008	2007
Remuneration of key personnel of the Group		
Cash compensation, current benefits and fees	39	34
Post-employment benefits	4	4
Share-based compensation	34	23
Total remuneration of key personnel	**77**	**61**

Outstanding loans and guarantees granted to Members of the Group Executive Committee amounted to USD 1 million for both the years ended December 31, 2008 and 2007. Outstanding loans and guarantees granted to Members of the Board of Directors amounted to USD 2 million and nil for the years ended December 31, 2008 and 2007, respectively. 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 3.3 million and USD 3.1 million, in 2008 and 2007 respectively.

No provision for non-repayment has been required in 2008 and 2007 for the loans or guarantees made to Members of the Group Executive Committee.

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

The cash compensation, current benefits and fees are short term in nature.

28. Farmers Exchanges

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

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

As of December 31, 2008 and 2007, FGI and other Group companies held the following surplus note and certificates of contribution issued by the Farmers Exchanges. Originally these were purchased by FGI in order to supplement the policyholders' surplus of the Farmers Exchanges.

Table 28

Surplus Notes

in USD millions, as of December 31	2008	2007
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
10.30% certificates of contribution, due December 2013	300	–
Various other certificates of contribution	23	23
Total	**1,230**	**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.

Effective September 30, 2008, Farmers Re and ZIC entered into a new 25.0 percent All Lines Quota Share reinsurance treaty under which each assumes a percentage of all lines of business written by the Farmers Exchanges, prospectively. Under this treaty, which amended the 5.0 percent All Lines Quota Share reinsurance treaty in effect since December 31, 2007, Farmers Re and ZIC assume a 5.0 percent and 20.0 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 are subject to a maximum of USD 1.0 billion. As a result, Farmers Re and ZIC are subject to a maximum annual catastrophe loss of USD 50 and USD 200 million, respectively. This reinsurance agreement, which can be terminated after 90 days notice by any of the parties, also provides for the Farmers Exchanges to receive a provisional ceding commission of 25.0 percent of premiums for acquisition expenses, 8.8 percent of premiums for unallocated loss adjustment expense and 5.3 percent of premiums for other expenses with additional experience commissions that depend on loss experience. Unearned premiums totaling USD 1,079.3 billion were transferred from the Farmers Exchanges to Farmers Re and ZIC effective September 30, 2008 as a result of their increased participation in this treaty. In addition, Farmers Re and ZIC remitted USD 269.8 million of reinsurance commissions to the Farmers Exchanges for acquisition expenses due to the increased participation in the All Lines treaty.

For the year ended December 31, 2008, assumed premiums by Group companies under the All Lines Quota Share reinsurance treaty were USD 2,380.8 million with a combined ratio of 97.7 percent and an underwriting gain of USD 31.1 million. For the year ended December 31, 2007, assumed premiums under the All Lines Quota Share reinsurance treaty were USD 731 million with a combined ratio of 95.1 percent and an underwriting gain of USD 38.0 million.

c) North America Commercial Small Business Solutions (SBS)

On June 13, 2008, the Group completed the sale of the rights to access renewals of its North America Commercial Small Business Solutions (SBS) book of business to Truck Insurance Exchange (TIE), one of the Farmers Exchanges, which the Group manages but does not own. As part of the transaction, the Group has entered into a 100 percent quota share reinsurance agreement for the in-force business as of June 1, 2008. This resulted in the Group paying TIE the balance of unearned premium reserve related to the business ceded to TIE of USD 425 million and TIE compensating the Group for its deferred acquisition cost balance as of the effective date of the transaction by paying a ceding commission of USD 120 million. In addition, the management of the in-force SBS book of business has been transferred together with certain assets and liabilities to Farmers Group, Inc. This transaction had no impact on the scope of consolidation.

29. Segment information

Table 29.1

Income statements by business segment

in USD millions, for the years ended December 31	General Insurance		Global Life	
	2008	2007	**2008**	2007
Revenues				
Direct written premiums and policy fees	35,357	34,199	10,684	9,506
Assumed written premiums	1,794	1,451	100	117
Gross written premiums and policy fees	37,151	35,650	10,784	9,623
Less premiums ceded to reinsurers[1]	(5,646)	(5,345)	(739)	(8,002)
Net written premiums and policy fees	31,505	30,305	10,046	1,622
Net change in reserves for unearned premiums	(583)	(574)	(16)	(5)
Net earned premiums and policy fees	30,922	29,731	10,030	1,617
Farmers management fees and other related revenues	–	–	–	–
Net investment result on Group investments	2,452	3,913	3,258	4,741
Net investment income on Group investments	3,712	3,662	4,496	4,226
Net capital gains/(losses) and impairments on Group investments	(1,260)	250	(1,237)	514
Net investment result on unit-linked investments	–	–	(19,039)	6,479
Net gain/(loss) on divestments of businesses	14	13	4	74
Other income	735	644	1,205	1,203
Total revenues	34,123	34,300	(4,542)	14,114
Intersegment transactions	(1,244)	(987)	(76)	(246)
Benefits, losses and expenses				
Losses and loss adjustment expenses, net of reinsurance	22,388	20,916	33	90
Life insurance death and other benefits, net of reinsurance	53	50	9,867	10,385
(Decrease)/increase in future life policyholders' benefits, net of reinsurance	–	–	(689)	(9,781)
Insurance benefits and losses, net of reinsurance[1]	22,441	20,966	9,211	694
Policyholder dividends and participation in profits, net of reinsurance	16	11	(18,943)	7,755
Underwriting and policy acquisition costs, net of reinsurance	5,679	5,358	1,880	1,629
Administrative and other operating expense	3,400	3,226	2,400	1,962
Interest expense on debt	235	310	45	17
Interest credited to policyholders and other interest	195	268	521	585
Total benefits, losses and expenses	31,967	30,138	(4,886)	12,642
Net income/(loss) before income taxes	**2,156**	**4,162**	**344**	**1,472**
Income tax benefit/(expense) attributable to policyholders				
Income tax expense attributable to shareholders				
Net income attributable to non-controlling interests				
Net income/(loss) attributable to shareholders				
Supplementary segment information				
Additions and capital improvements of property/equipment and intangible assets	1,614	996	3,127	331
Depreciation and impairments of property and equipment	77	85	42	43
Amortization and impairments of intangible assets	133	96	224	143

[1] In 2007, for the Global Life segment, premiums ceded to reinsurers included USD 7.3 billion and ceded insurance benefits and losses included USD 7.0 billion relating to the reinsurance of a UK annuity portfolio. Subsequent to the approval from the UK High Court, effective on June 30, 2008, the underlying contracts have been transferred to the reinsurer. This transaction had no impact on the income statement in 2008.

Farmers Management Services		Other Businesses		Corporate Functions		Eliminations		Total	
2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
–	–	478	381	(6)	6	19	11	46,532	44,103
–	–	3,565	1,969	182	160	(279)	(344)	5,362	3,353
–	–	4,043	2,350	176	166	(260)	(333)	51,894	47,456
–	–	(41)	(32)	(61)	(152)	260	333	(6,226)	(13,197)
–	–	4,001	2,318	115	14	–	–	45,667	34,259
–	–	(962)	82	–	1	–	–	(1,560)	(495)
–	–	3,040	2,401	116	15	–	–	44,107	33,763
2,458	2,266	–	–	–	–	–	–	2,458	2,266
68	134	507	1,219	544	1,309	(998)	(1,221)	5,832	10,094
84	167	903	1,025	528	731	(998)	(1,221)	8,725	8,591
(16)	(33)	(396)	193	16	578	–	–	(2,893)	1,503
–	–	(2,692)	663	–	–	–	–	(21,731)	7,142
–	–	(1)	33	–	(2)	–	–	16	118
1	62	–	176	1,044	898	(1,321)	(1,082)	1,665	1,900
2,528	2,462	854	4,491	1,704	2,220	(2,318)	(2,303)	32,349	55,285
(86)	(52)	(154)	(332)	(759)	(686)	2,318	2,303	–	–
–	–	1,724	1,174	1	–	–	(25)	24,145	22,155
–	–	517	362	101	18	–	23	10,538	10,837
–	–	743	110	73	(32)	1	2	128	(9,701)
–	–	2,984	1,646	175	(14)	–	–	34,811	23,291
–	–	(2,587)	761	–	–	–	–	(21,514)	8,526
–	–	717	578	14	–	(3)	(7)	8,287	7,559
1,331	1,215	(238)	264	1,118	1,061	(1,282)	(1,047)	6,729	6,679
9	9	198	264	1,122	1,317	(1,009)	(1,233)	599	685
–	–	71	111	9	9	(24)	(16)	773	957
1,341	1,224	1,144	3,623	2,438	2,373	(2,318)	(2,303)	29,685	47,698
1,188	**1,238**	**(291)**	**868**	**(734)**	**(153)**	**–**	**–**	**2,663**	**7,587**
								1,184	83
								(732)	(1,874)
								(77)	(83)
								3,039	**5,714**
171	610	13	13	151	134	–	–	5,076	2,084
63	54	4	3	33	28	–	–	218	214
59	53	3	–	18	10	–	–	437	302

Assets and liabilities by business segment

Table 29.2

in USD millions, as of December 31	General Insurance		Global Life	
	2008	2007	**2008**	2007
Total Group investments	77,328	84,996	94,399	95,740
Cash and cash equivalents	9,279	10,896	5,095	3,713
Equity securities	5,965	7,011	4,816	8,336
Debt securities	53,444	60,005	56,456	54,939
Real estate held for investment	2,922	2,744	4,228	4,408
Mortgage loans	1,794	1,453	8,953	9,203
Other loans	3,340	1,975	13,385	13,296
Investments in associates	26	24	113	134
Other investments	559	887	1,353	1,710
Investments for unit-linked contracts	–	–	65,977	106,355
Total investments	77,328	84,996	160,377	202,094
Reinsurers' share of reserves for insurance contracts[1]	12,749	13,149	1,999	9,555
Deposits made under assumed reinsurance contracts	68	68	–	–
Deferred policy acquisition costs	3,247	3,306	10,752	11,547
Deferred origination costs	–	–	770	1,003
Goodwill	895	706	565	635
Other related intangible assets	–	–	1,252	780
Other assets	17,423	15,652	9,336	8,155
Total assets after consolidation of investments in subsidiaries	**111,710**	**117,876**	**185,051**	**233,769**
Liabilities for investment contracts	–	–	36,230	54,736
Reserves for losses and loss adjustment expenses, gross	*61,396*	*63,383*	*9*	*6*
Reserves for unearned premiums, gross	*14,874*	*15,428*	*210*	*157*
Future life policyholders' benefits, gross	*95*	*97*	*72,699*	*77,422*
Policyholders' contract deposits and other funds, gross	*1,102*	*1,024*	*12,611*	*14,173*
Reserves for unit-linked contracts, gross	–	–	*35,069*	*54,337*
Reserves for insurance contracts, gross[1]	77,468	79,932	120,598	146,096
Debt related to capital markets and banking activities	–	–	–	–
Senior debt	3,031	5,673	694	239
Subordinated debt	2,189	2,311	412	72
Other liabilities	14,680	16,291	15,351	20,758
Total liabilities	**97,368**	**104,207**	**173,284**	**221,901**
Supplementary segment information				
Reserves for losses and loss adjustment expenses, net	50,530	51,935	8	6
Reserves for unearned premiums, net	12,996	13,721	204	154
Future life policyholders' benefits, net	95	97	70,837	68,019
Policyholders' contract deposits and other funds, net	1,072	1,006	12,481	14,026
Reserves for unit-linked contracts, net	–	–	35,069	54,337
Reserves for insurance contracts, net	64,693	66,759	118,599	136,542

[1] In 2007, for the Global Life segment, reinsurers' share of reserves for insurance contracts included USD 7.1 billion related to the reinsurance of a UK annuity portfolio. Subsequent to the approval from the UK High Court, effective on June 30, 2008, the underlying contracts have been transferred to the reinsurer, resulting in a reduction of both the reinsurers' share of reserves for insurance contracts and gross reserves for insurance contracts.

	Farmers Management Services		Other Businesses		Corporate Functions		Eliminations		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	2,158	2,311	17,085	18,758	15,193	18,560	(26,593)	(26,764)	179,570	193,600
	349	264	3,288	4,862	6,682	8,459	(12,728)	(14,250)	11,965	13,943
	–	–	1,185	2,063	2,277	3,006	–	–	14,242	20,416
	76	83	7,058	7,396	1,434	1,769	(365)	(430)	118,103	123,762
	156	172	175	197	44	42	–	–	7,524	7,563
	–	–	2,104	2,095	–	–	(32)	(33)	12,820	12,718
	1,517	1,714	2,764	1,999	4,708	4,872	(13,184)	(10,921)	12,531	12,936
	–	–	78	76	3	4	–	–	220	238
	60	79	432	69	44	410	(283)	(1,130)	2,165	2,024
	–	–	12,226	15,738	–	–	–	–	78,203	122,092
	2,158	2,311	29,311	34,495	15,193	18,560	(26,593)	(26,764)	257,773	315,693
	209	207	5,486	6,392	–	107	(1,849)	(2,440)	18,595	26,970
	–	–	2,362	1,323	–	2	(32)	(34)	2,397	1,359
	–	–	324	89	–	–	–	(1)	14,323	14,941
	–	–	–	–	–	–	–	–	770	1,003
	382	385	–	–	5	5	–	–	1,846	1,730
	1,025	1,025	–	–	–	–	–	–	2,278	1,805
	1,352	1,337	2,006	1,384	2,092	1,793	(2,246)	(2,482)	29,962	25,841
	5,125	**5,266**	**39,488**	**43,684**	**17,290**	**20,468**	**(30,721)**	**(31,721)**	**327,944**	**389,342**
	–	–	–	–	–	–	(251)	(251)	35,979	54,485
	–	–	*4,991*	*6,084*	*44*	*114*	*(1,223)*	*(1,697)*	*65,218*	*67,890*
	–	–	*1,319*	*381*	*5*	*43*	*(10)*	*(68)*	*16,399*	*15,941*
	–	–	*3,656*	*2,871*	*366*	*415*	*(598)*	*(657)*	*76,218*	*80,147*
	–	–	*3,334*	*3,489*	–	–	–	–	*17,047*	*18,687*
	–	–	*12,228*	*15,738*	–	–	–	–	*47,297*	*70,075*
	–	–	25,529	28,562	415	572	(1,831)	(2,423)	222,179	252,740
	–	–	3,632	3,385	–	–	(1,106)	(1,722)	2,527	1,663
	–	–	1,047	622	19,893	18,397	(21,306)	(22,102)	3,358	2,830
	180	180	73	99	5,169	5,588	(2,926)	(2,780)	5,096	5,470
	1,612	1,480	3,974	5,004	2,707	1,745	(3,301)	(2,443)	35,024	42,836
	1,792	**1,660**	**34,255**	**37,673**	**28,184**	**26,302**	**(30,721)**	**(31,721)**	**304,163**	**360,023**
	–	–	2,404	2,733	44	43	–	(7)	52,986	54,712
	–	–	1,304	339	5	6	–	–	14,510	14,221
	(209)	(207)	3,257	2,559	366	415	–	7	74,345	70,889
	–	–	786	662	–	–	18	17	14,357	15,711
	–	–	12,228	15,738	–	–	–	–	47,297	70,075
	(209)	(207)	19,979	22,031	415	465	18	17	203,495	225,607

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

Table 29.3

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	
	2008	2007	**2008**	2007	**2008**	2007
North America	18,486	17,461	17,745	18,589	68,907	70,600
Europe	29,810	26,712	13,707	29,942	225,596	275,828
International Businesses	4,243	3,855	2,780	3,919	12,207	14,434
Central Region	1,321	1,295	(57)	4,472	47,889	54,234
Eliminations	(1,967)	(1,867)	(1,827)	(1,636)	(26,654)	(25,754)
Total	**51,894**	**47,456**	**32,349**	**55,285**	**327,944**	**389,342**

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

Table 29.4

in USD millions, for the years ended December 31	Property and equipment		Intangible assets	
	2008	2007	**2008**	2007
North America	107	136	124	562
Europe	258	128	4,349	1,086
International Businesses	26	16	48	9
Central Region	54	55	110	92
Total	**445**	**336**	**4,631**	**1,748**

Report of Group auditors

To the General Meeting of Zurich Financial Services

As statutory auditors, we have audited the consolidated financial statements of Zurich Financial Services, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity and related notes (pages 129 to 232 and 90 to 123), for the year ended December 31, 2008.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended December 31, 2008 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.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

PricewaterhouseCoopers AG

Patrick Shouvlin	Ray Kunz
Audit expert	Audit expert
Auditor in charge	

Zurich, February 4, 2009

Significant subsidiaries

Significant subsidiaries

as of December 31, 2008

	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
Austria						
Zürich Versicherungs-Aktiengesellschaft	Vienna	General Insurance	99.98	99.98	EUR	12.0
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	137.0
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 Finance (Bermuda) Ltd.	Hamilton	Corporate Functions	100	100	USD	0.01
Zurich International (Bermuda) Ltd.	Hamilton	Other Businesses	100	100	USD	9.9
Brazil						
Zurich Participações e Representações Ltda.	Sao Paulo	General Insurance	100	100	BRL	446.0
Zurichpar Participações Ltda.	Sao Paulo	Corporate Functions	100	100	BRL	447.5
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	RUB	1.3
Germany						
DA Deutsche Allgemeine Versicherung Aktiengesellschaft	Oberursel	General Insurance	100	100	EUR	24.5
Deutscher Herold Aktiengesellschaft[3]	Bonn	Life Insurance	78.83	78.83	EUR	18.4
Zürich Beteiligungs-Aktiengesellschaft (Deutschland)	Frankfurt/Main	General Insurance	100	100	EUR	152.9
Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft	Bonn	Life Insurance	85.70	85.70	EUR	68.5
Zurich Versicherung Aktiengesellschaft (Deutschland)	Frankfurt/Main	General Insurance	95.39	95.39	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 99.9% of Zurich Retail Insurance Company Ltd. in Russia which is a fully owned subsidiary of the Group.
3 In addition buy out options exist which allow the minority shareholders to sell another 16.17 percent of the shares of Deutscher Herold Aktiengesellschaft to the Group.

Significant subsidiaries (continued)

as of December 31, 2008	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
Zurich Financial Services EUB Holdings Limited	Dublin	Other Businesses	100	100	GBP	0.001
Zurich Holding Ireland Limited	Dublin	Corporate Functions	100	100	EUR	0.1
Zurich Insurance Ireland Limited[4]	Dublin	General Insurance	100	100	EUR	4.9
Italy						
Zurich Investments Life S.p.A.	Milan	Life Insurance	100	100	EUR	54.0
Zurich Life and Pensions S.p.A.	Milan	Life Insurance	100	100	EUR	40.5
Zurich Life Insurance Italia S.p.A.	Milan	Life Insurance	100	100	EUR	25.9
Luxembourg						
Zurich Group Funding Luxembourg S.A.	Howald	Corporate Functions	100	100	EUR	0.03
Morocco						
ZURICH Assurances Maroc	Casablanca	General Insurance	98.86	98.86	MAD	90.0
Portugal						
Zurich – Companhia de Seguros S.A.	Lisbon	General Insurance	100	100	EUR	10.0
South Africa						
Zurich Insurance Company South Africa Limited[5]	Bryanston	General Insurance	73.61	73.61	ZAR	3.0
Spain						
Bansabadell Pensiones, E.G.F.P, S.A.	Barcelona	Life Insurance	50	50	EUR	7.8
Bansabadell Seguros Generales, S.A. de Seguros y Reaseguros	Barcelona	General Insurance	50	50	EUR	10.0
Bansabadell Vida S.A. de Seguros y Rease-guros	Barcelona	Life Insurance	50	50	EUR	43.9
CaixaSabadell Vida, S.A. Companyia d´Assegurances i Reassegurances	Sabadell	Life Insurance	50	50	EUR	39.1
CAN Soluciones Integrales SAU	Pamplona	General Insurance	50	50	EUR	9.0
Zurich Vida, Compañía de Seguros y Rease-guros, S.A. – Sociedad Unipersonal	Madrid	Life Insurance	100	100	EUR	50.4
"Zurich España, Compañía de Seguros y Reaseguros, S.A."	Barcelona	General Insurance	99.89	99.89	EUR	33.6

[4] As from January 2009 renamed Zurich Insurance plc.
[5] Listed on the Johannesburg Stock Exchange. On December 31, 2008, the company had a market capitalization of ZAR 2’216.7 m (ISIN Number 000094496).

Significant subsidiaries (continued)

as of December 31, 2008

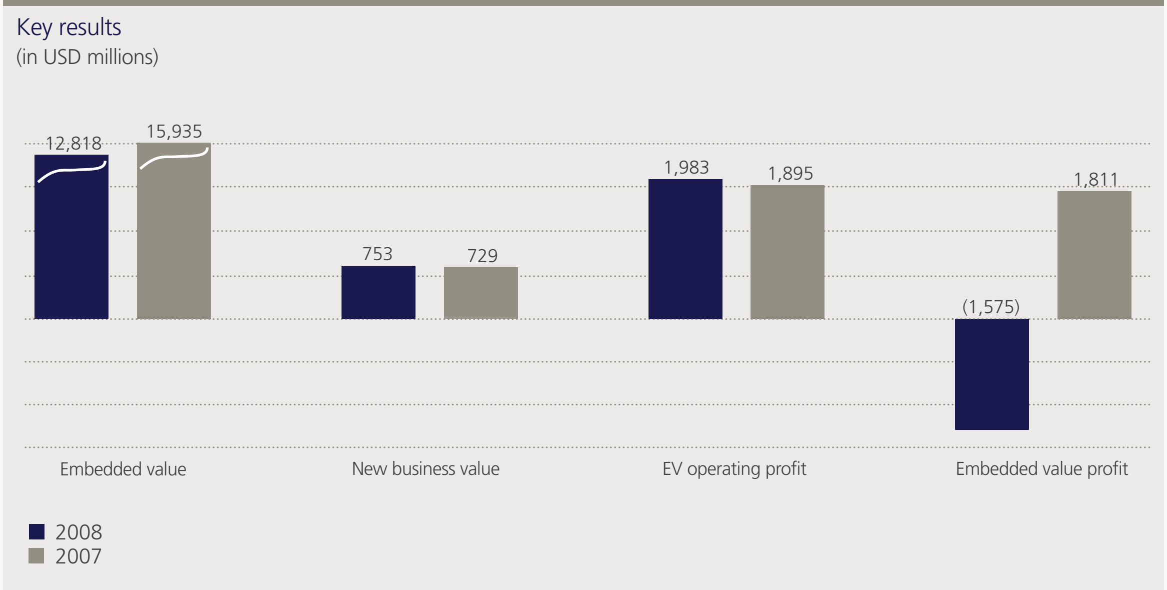
	Domicile	Segment	Voting rights %	Ownership interest %		Nominal value of common stock (in local currency millions)
Switzerland						
Genevoise, Life Insurance Company Ltd[6]	Geneva	Life Insurance	100	100	CHF	17.0
Zurich Group Holding	Zurich	Corporate Functions	100	100	CHF	1,600.0
Zurich Insurance Company	Zurich	Corporate Functions	100	100	CHF	825.0
Zurich Life Insurance Company Ltd	Zurich	Corporate Functions	100	100	CHF	60.0
"Zurich" Investment Management AG	Zurich	Corporate Functions	100	100	CHF	10.0
Taiwan						
Zurich Insurance (Taiwan) Ltd.	Taipei	General Insurance	99.73	99.73	TWD	2,000.0
Turkey						
Zurich Sigorta A.S.	Fındıklı, Istanbul	General Insurance	100	100	TRY	47.3
United Kingdom						
Allied Zurich Limited	Swindon, England	Corporate Functions	100	100	GBP	378.1
Allied Zurich Holdings Limited	Jersey, Channel Islands	Corporate Functions	100	100	GBP	90.7
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	50.0
Zurich Assurance Ltd	Swindon, England	Life Insurance	100	100	GBP	236.1
Zurich Financial Services (UKISA) Limited	Swindon, England	Corporate Functions	100	100	GBP	1,492.1
Zurich Holdings (UK) Limited	Fareham, England	Corporate Functions	100	100	GBP	87.1
Zurich International (UK) Limited	Fareham, England	General Insurance	100	100	GBP	40.0
Zurich International Life Limited	Douglas, Isle of Man	Life Insurance	100	100	GBP	105.6
Zurich Specialties London Limited	Fareham, England	Other Businesses	100	100	GBP	150.0
United States of America						
Farmers Group, Inc.	Reno, NV	Farmers Management Services	98.28	100	USD	0.001
Farmers New World Life Insurance Company	Mercer Island, WA	Life Insurance	98.28	100	USD	6.6
Farmers Reinsurance Company	Los Angeles, CA	Other Businesses	98.28	100	USD	5.0
Kemper Corporation	Schaumburg, IL	Other Businesses	100	100	USD	220.0
Kemper Investors Life Insurance Company	Bellevue, WA	Life Insurance	100	100	USD	2.5
ZFS Finance (USA) LLC V[7]	Wilmington, DE	Corporate Functions	100	100	USD	–
ZFUS Services, LLC[7]	Wilmington, DE	Corporate Functions	100	100	USD	–
Zurich American Insurance Company (and subsidiaries)	New York, NY	General Insurance	100	100	USD	5.0
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

[6] As from January 2009 renamed Genevoise Real Estate Company Ltd.
[7] This entity is a LLC that has no share capital.

Embedded value report

Embedded value report – Global Life

Highlights



Embedded value key results

in USD millions, as of December 31	2008	2007	Change	
			Amount	Percent
Embedded value	**12,818**	**15,935**	**(3,117)**	**(20%)**
New business value	753	729	24	3%
EV operating profit	1,983	1,895	88	5%
Embedded value profit	(1,575)	1,811	(3,386)	(187%)

This report describes the development in 2008 of the embedded value (EV) of the Global Life division of the Zurich Financial Services Group.

New business value has increased by 3 percent. Disciplined pricing has allowed the maintenance of a strong aggregate profit margin despite increasing competitive pressures in some markets, most notably the United Kingdom.

EV operating profit increased by 5 percent. Operating variance proved resilient, and pressures on expenses and persistency were more than offset by mortality profits and tax efficiencies.

EV profit was USD (1,575) million. The negative economic variance came from falling bond values, lower interest rates (which predominantly affected Germany and Switzerland) and declining equity markets (mainly affecting the United Kingdom and Ireland).

The **embedded value**, as of December 31, 2008, was USD 12,818 million, a decrease of 20 percent. This includes a strong negative impact from foreign currency translation effects.

Contents

1. Embedded value results

a) Embedded value

Embedded value

Table 1.1

in USD millions, for the years ended December 31	2008	2007
Shareholders' net assets	5,447	6,982
Value of business in-force	7,371	8,953
Certainty equivalent value of business in-force	*9,328*	*10,705*
Frictional costs	*(579)*	*(771)*
Time value of financial options and guarantees	*(752)*	*(476)*
Cost of non-market risk	*(627)*	*(505)*
Embedded value	**12,818**	**15,935**

Shareholders' net assets are based on local statutory accounting. The EV is adjusted to reflect the shareholders' interest in the market value of net assets after the exclusion of goodwill. Net assets decreased due to the economic downturn in 2008 by USD 1.5 billion.

Value of business in-force is the present value of future projected profits from companies and business in Global Life, and is defined as the certainty equivalent value of business in-force less frictional costs, the time value of financial options and guarantees, and the cost of non market risk. Further details of the methodology used in the calculation of these items are given in Section 3. The largest part of the decrease in value of business in-force by USD 1.6 billion comes from the increase in both intrinsic value and time value of the costs for financial options and guarantees and other non-market risks.

Frictional costs are applied to the total capital held by Global Life. The breakdown of shareholders' net assets as of December 31, 2008 is shown in the table below.

Shareholders' net assets

Table 1.2

in USD millions, for the years ended December 31	2008	2007
Minimum regulatory required capital	3,566	3,748
Addditional required capital	852	1,056
Excess	1,029	2,178
Shareholders' net assets	**5,447**	**6,982**

b) Movement in embedded value

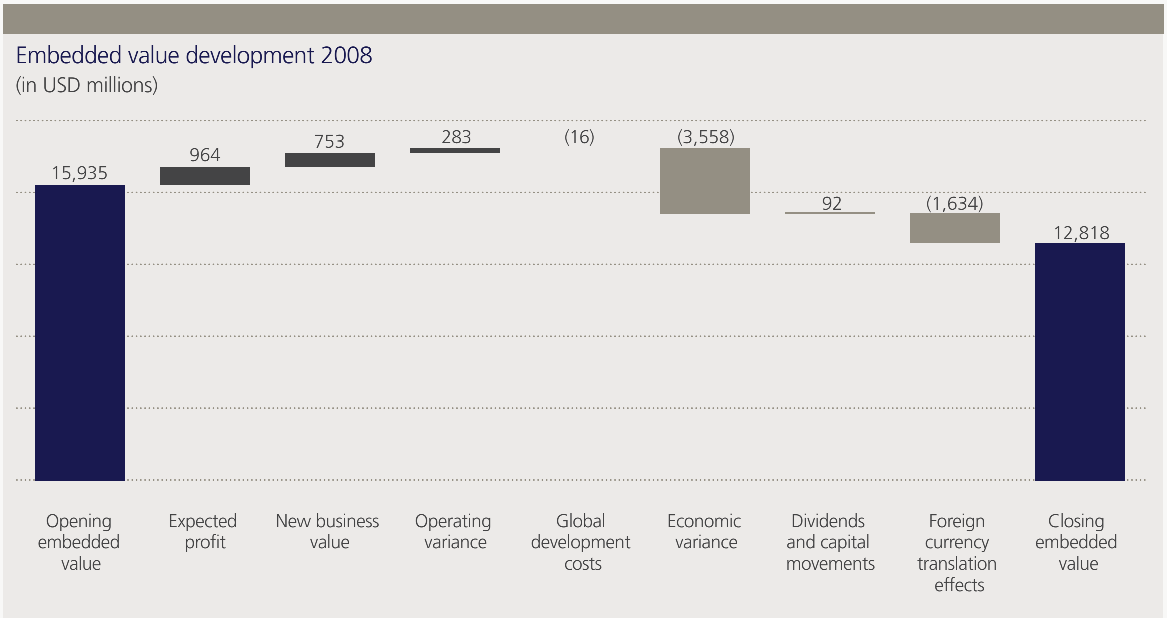


Table 1.3

Movement in embedded value, after tax

in USD millions, for the years ended December 31	2008							2007
	Share-holders' net assets	Value of business in-force	Certainty equivalent value	Frictional costs	TVFOG[1]	CNMR[2]	Total	Total
Opening embedded value	**6,982**	**8,953**	**10,705**	**(771)**	**(476)**	**(505)**	**15,935**	**14,092**
Expected transfer to shareholders' net assets	1,179	(1,179)	(1,196)	18	–	–	–	–
Expected profit	262	701	635	15	37	14	964	889
New business value	(685)	1,437	1,526	(59)	45	(75)	753	729
Operating variance	356	(73)	(234)	23	72	66	283	277
Global development costs	(16)						(16)	N/A
Operating profit	**1,096**	**887**	**731**	**(3)**	**153**	**6**	**1,983**	**1,895**
Economic variance	(1,612)	(1,946)	(1,416)	139	(513)	(156)	(3,558)	(83)
Embedded value profit	**(515)**	**(1,059)**	**(686)**	**136**	**(359)**	**(150)**	**(1,575)**	**1,811**
Dividends and capital movements	(217)	309	353	(17)	(11)	(17)	92	(651)
Foreign currency translation effects	(802)	(831)	(1,044)	73	95	45	(1,634)	683
Closing embedded value	**5,447**	**7,371**	**9,328**	**(579)**	**(752)**	**(627)**	**12,818**	**15,935**

[1] TVFOG is the time value of financial options and guarantees
[2] CNMR is the cost of non-market risk

c) Expected transfer

The expected transfer to shareholders' net assets shows the profits expected to emerge during the period in respect of business that was in force at the beginning of the period. The net effect is zero, as the reduction in value of business in-force is offset by the increase in shareholders' net assets. The expected profits do not include changes in the solvency margin over the period.

d) Expected profit

The expected profit is the expected change in the EV resulting from a projection of the assets and liabilities over the period using expected "real world" returns.

e) New business

Table 1.4

New business volumes, after tax, gross of minority interests

in USD millions, for the years ended December 31	2008	2007
New business value[1]	**753**	**729**
Annual premiums	2,118	1,854
Single premiums	11,433	10,929
New business annual premium equivalent (APE)[2]	3,261	2,947
Present value of new business premiums (PVNBP)[3]	25,883	23,781
New business margin (as % APE)	23.1%	24.7%
New business margin (as % PVNBP)	2.9%	3.1%

[1] In certain countries, particularly in the UK, where life insurance companies pay tax in respect of both policyholders and shareholders, the results shown in the above table are before shareholders' tax but after allowing for policyholders' tax.
[2] APE is taken as new annual premiums plus 10% of single premiums.
[3] PVNBP is equal to new single premiums plus the present value of annual premiums.

New business value reflects the value added by new business written during the period. This item is calculated at the point of sale, using the methodology described in Section 3. The reduction in shareholders' net assets shown in respect of new business (i.e. new business strain) excludes the solvency margin set up in respect of new business. Including the solvency margin, new business strain in 2008 is USD 0.9 billion.

Table 1.5

New business value, after tax gross of minority interests

in USD millions, for the years ended December 31	2008	2007
Certainty equivalent new business value	842	856
Frictional costs	(59)	(54)
Time value of financial options and guarantees (TVFOG)	45	(2)
Cost of non market risk (CNMR)	(75)	(71)
New business value, after tax	**753**	**729**

EV is shown net of minority interests. Where the Group has a majority interest in a subsidiary company, the new business value and the premium information are shown gross of minority holdings.

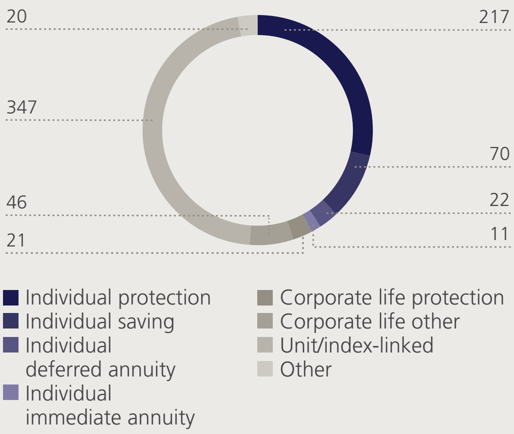
In 2008, new business has reduced the overall cost of financial options and guarantees in the covered business. Higher asset volatilities and changes in interest rate curves have amplified this effect.

Table 1.6

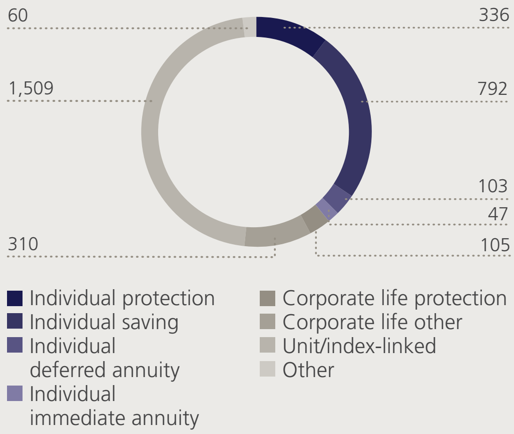
New business value, after tax net of minority interests

in USD millions, for the years ended December 31	2008	2007
New business value, after tax	730	725
New business annual premium equivalent (APE)	3,118	2,927
Present value of new business premiums (PVNBP)	24,624	23,603

New business value
(in USD millions)



APE
(in USD millions)

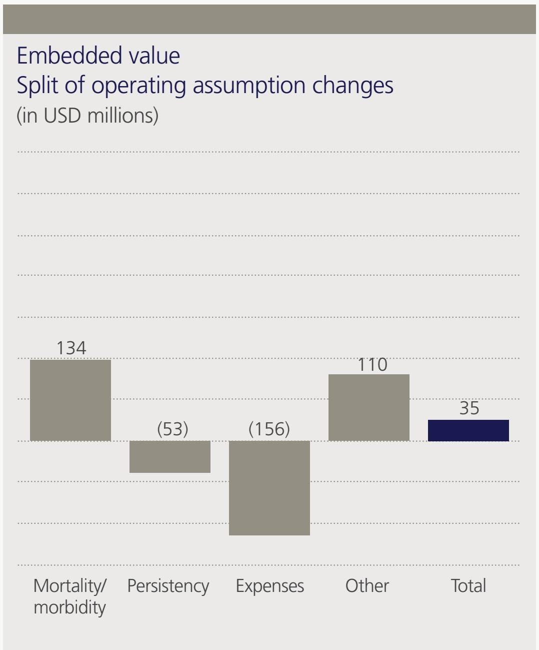


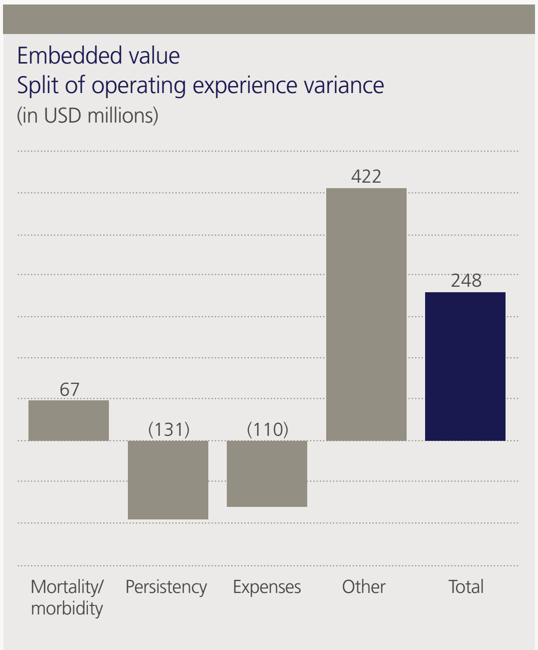
New business by line of business

Table 1.7

in USD millions, for the year ended December 31, 2008	Individual protection	Individual saving	Individual deferred annuity	Individual immediate annuity	Corporate protection	Corporate other	Unit/index-linked	Other	Total
New business value	217	70	22	11	21	46	347	20	753
APE	336	792	103	47	105	310	1,509	60	3,261
New business margin	64.4%	8.9%	21.2%	22.5%	20.3%	14.8%	23.0%	33.1%	23.1%

f) Operating variance





Operating variance is the difference between actual experience during the period and that expected based on the operating assumptions. It also includes the impact of changes in assumptions about future operating experience.

Operating variance, after tax

Table 1.8

in USD millions, for the year ended December 31, 2008	Shareholders' net assets	Value of business in-force	Total
Operating assumption changes			
Mortality/morbidity	–	134	134
Persistency	–	(53)	(53)
Expenses	–	(156)	(156)
Other	(49)	159	110
Total	**(49)**	**84**	**35**
Operating experience variance			
Mortality/morbidity	68	(1)	67
Persistency	15	(145)	(131)
Expenses	(110)	–	(110)
Other	433	(11)	422
Total	**405**	**(157)**	**248**
Total operating variance	**356**	**(73)**	**283**

g) Global development costs

Where significant development work is performed in one country that is intended to have wider application across Global Life, that cost is shown under Global development costs.

h) Economic variance

Economic variance is the difference between actual experience during the period and that expected based on the economic assumptions. It also includes the impact of changes in assumptions in respect of future economic experience and the impact of legal, tax and regulatory changes in the period.

i) Dividends, capital movements

Dividends and capital movements reflect dividends paid by Global Life to the Group and capital received from the Group. Capital movements can also relate to the value of business in-force in respect of acquisitions and disposals, or corporate restructuring.

j) Foreign currency translation effects

Foreign currency translation effects represent the impact of adjusting values to end-of-period exchange rates.

k) Reconciliation of IFRS net assets to embedded value.

Table 1.9

Reconciliation of Global Life IFRS net assets to embedded value

in USD billions, for the years ended December 31	Total	
	2008	2007
Goodwill	0.6	0.6
Intangible net assets[1]	6.1	3.5
Tangible net assets	5.1	7.8
Global Life IFRS net assets	**11.8**	**11.9**
Adjustments to Global Life IFRS net assets for embedded value		
Minorities	*(0.1)*	*(0.2)*
Reserves and investments valuation differences	*0.0*	*(0.7)*
Intangible assets[1]	*(6.1)*	*(3.5)*
Goodwill	*(0.6)*	*(0.6)*
IAS 19 Employee benefit related items	*0.4*	*0.1*
Certainty equivalent value of business in-force	9.3	10.8
Frictional costs	(0.6)	(0.8)
Time value of financial options and guarantees	(0.8)	(0.5)
Cost of non market risk	(0.6)	(0.5)
Embedded value	**12.8**	**15.9**

[1] Intangible assets are defined as deferred policy acquisition costs, deferred origination costs and other related intangible assets less deferred front-end fees.

l) Sensitivities

A number of sensitivities have been produced to indicate the sensitivity of the EV and the new business value to changes in certain assumptions. These are in line with the CFO Forum's Additional Guidance on European Embedded Value Disclosures issued in October 2005.

Table 1.10

Sensitivities

in USD millions, for the year ended December 31, 2008	Change in embedded value			Change in new business value
	Shareholders' net assets	Value of business in-force	Total	Total
Actual embedded value			**12,818**	**753**
Operating sensitivities				
10% decrease in voluntary discontinuance rates	–	479	479	78
10% decrease in maintenance expenses	23	334	357	59
10% decrease in initial expenses and commissions	n/a	n/a	n/a	91
5% improvement in mortality and morbidity for assurances	3	234	236	24
5% improvement in mortality for annuities	(3)	(110)	(113)	(6)
Frictional costs applied to 150% of minimum solvency margin	–	151	151	13
Economic sensitivities				
100 basis points increase in risk free yield curve	(111)	142	31	71
100 basis points decrease in risk free yield curve	(599)	(634)	(1,233)	(262)
10% fall in equity and property market values	(102)	(528)	(630)	n/a
100 basis points increase in risk discount rate	–	(775)	(775)	(111)
10% increase in implied volatilities for equities and properties	–	(75)	(75)	(20)
10% increase in implied volatilities for risk free yields	(371)	(557)	(928)	(118)

The key assumption changes represented by each of these sensitivities are as follows.

Operating sensitivities

- A 10 percent decrease in voluntary discontinuance rates means that, for example, a base assumption of 5 percent p.a. would decrease to 4.5 percent p.a.

- A 10 percent decrease in maintenance expenses means that, for example a base assumption of USD 30 p.a. would decrease to USD 27 p.a.

- A 10 percent decrease in initial expenses and commissions was considered for new business values only.

- A 5 percent improvement in mortality and morbidity assumptions for assurances means that for example if the base mortality assumption for assurances was 90 percent of a particular table this would decrease to 85.5 percent.

- A 5 percent improvement in mortality assumptions for annuities means that, for example if the base mortality assumption for annuities was 90 percent of a particular table this would decrease to 85.5 percent);

- Frictional costs applied to 150 percent of minimum solvency margin, rather than to total capital for in-force business or minimum solvency margin for new business.

Economic sensitivities

- A 100 basis points increase and decrease (subject to a minimum of zero percent) was applied to the risk free yield curve across all durations.
- A 10 percent fall in equity and property market values was assessed for EV only. This is not applicable for new business.
- A 100 basis points increase in the discount rates means that for example a discount rate of 6 percent p.a. would increase to 7 percent p.a.
- A 10 percent increase in implied equity and property volatilities means that for example 15 percent p.a. would increase to 25 percent p.a.
- A 10 percent increase in implied risk free volatilities means that, for example 15 percent p.a. would increase to 25 percent p.a.

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised conditions. The results include any impact of the assumption changes on the time value of options and guarantees.

The 100 basis points increase in risk free yield curve reduces the value of some products, such as term assurance, with fixed cash flows which are discounted at higher rates. This reduction is more than offset by the increase in the value of other products, such as those with profit sharing, due to the higher assumed investment returns on investment of net cash flows.

The sensitivity to a 100 basis points increase in discount rates represents an increase in the rates used to discount projected shareholder profits, with no change to the assumed investment returns. This moves away from market consistent methodology and hence is not strictly pertinent under a market consistent approach. For stochastic modeling, the increase in discount rates applies to each year in each projected simulation.

m) Life business included in Other Businesses

The Group has written life business in Kemper Investors Life Insurance Company and in Centre operations, some of which is not managed in Global Life. The main products that have been written by these businesses outside Global Life are:

- Variable annuity contracts that provide annuitants with guarantees related to minimum death and income benefits;
- Disability business; and
- Bank owned life insurance business.

The Group has estimated the EV of these businesses based on the same principles as for the Global Life business, including deductions for the time value of financial options and guarantees, frictional costs and the cost of non market risks, but using more approximate models. The results are set out in the following table.

Estimated embedded value of life businesses in Other Businesses

Table 1.11

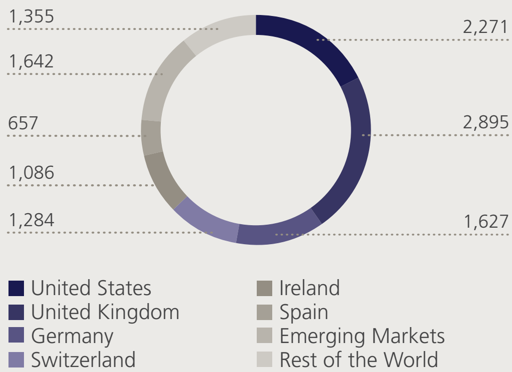
in USD millions, for the years ended December 31	**2008**	2007
Shareholders' net assets	1.2	1.4
Value of business in-force	(1.1)	0.3
Certainty equivalent value of business in-force	*(0.6)*	*1.0*
Frictional costs	*(0.0)*	*(0.0)*
Time value of financial options and guarantees	*(0.0)*	*(0.3)*
Cost of non-market risk	*(0.4)*	*(0.4)*
Embedded value	**0.2**	**1.6**

2. Geographical analysis

EV results for December 31, 2008 and December 31, 2007 are translated from local currency using different exchange rates. The comments in this section relate to business issues only and not to movements in exchange rates.

a) Embedded value

Embedded value at December 31, 2008
(in USD millions)



Embedded value at December 31, 2007
(in USD millions)

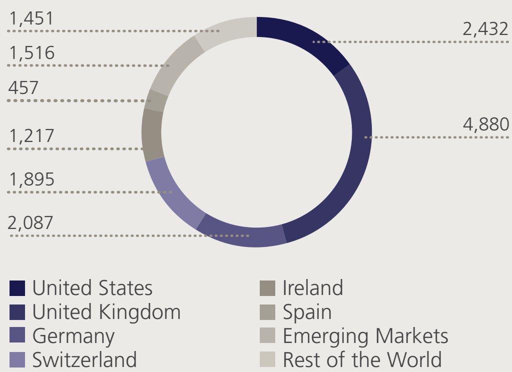


Table 2.1

Geographical analysis of embedded value, 2008

in USD millions, for the year ended December 31, 2008	Share-holders' net assets	Value of business in-force	Certainty equivalent value	Frictional costs	TVFOG[1]	CNMR[2]	Total
United States	528	1,743	2,064	(67)	(48)	(205)	2,271
United Kingdom	1,386	1,509	1,982	(138)	(283)	(51)	2,895
Germany	1,362	265	863	(257)	(220)	(121)	1,627
Switzerland	32	1,251	1,402	(2)	(96)	(53)	1,284
Ireland	374	712	771	(18)	(8)	(33)	1,086
Spain	477	181	252	(26)	(10)	(35)	657
Emerging Markets	473	1,169	1,252	(21)	(1)	(61)	1,642
Rest of the World	814	541	742	(50)	(84)	(67)	1,355
Global Life	**5,447**	**7,371**	**9,328**	**(579)**	**(752)**	**(627)**	**12,818**

[1] TVFOG is the time value of financial options and guarantees.
[2] CNMR is the cost of non-market risk.

Geographical analysis of embedded value, 2007

Table 2.2

in USD millions, for the year ended December 31, 2007	Share-holders' net assets	Value of business in-force	Certainty equivalent value	Frictional costs	TVFOG[1]	CNMR[2]	Total
United States	645	1,787	2,207	(112)	(163)	(144)	2,432
United Kingdom	2,383	2,498	2,832	(154)	(94)	(86)	4,880
Germany	1,410	676	1,079	(322)	(39)	(42)	2,087
Switzerland	256	1,639	1,795	(20)	(81)	(55)	1,895
Ireland	448	768	833	(29)	(2)	(34)	1,217
Spain	353	104	170	(23)	(25)	(19)	457
Emerging Markets	535	981	1,092	(33)	(9)	(69)	1,516
Rest of the World	951	499	696	(79)	(63)	(55)	1,451
Global Life	**6,982**	**8,953**	**10,705**	**(771)**	**(476)**	**(505)**	**15,935**

[1] TVFOG is the time value of financial options and guarantees
[2] CNMR is the cost of non-market risk

Frictional costs

Frictional costs have decreased in 2008, broadly in line with shareholders' net assets.

Time value of financial options and guarantees (TVFOG)

In the **United Kingdom** and **Germany**, the increased cost was due to higher swaption implied volatilities and generally lower interest rates, which increased the time value of financial options and guarantees for products with interest rate guarantees.

In the **United States** and **Spain**, the TVFOG became less expensive. This is due to the fact that in these two countries, interest rate guarantees are deeply in the money. This means the cost of guarantees is mostly captured by the certainty equivalent value. The TVFOG measures the remaining cost of these interest rate guarantees arising due to their asymmetry, which is highest when the options are right at the money.

Cost of non market risk (CNMR)

The CNMR increased for **Germany**. This was caused by a reduction in the sharing of risks with policyholders.

b) Movement in embedded value

Movement in embedded value, after tax

Table 2.3

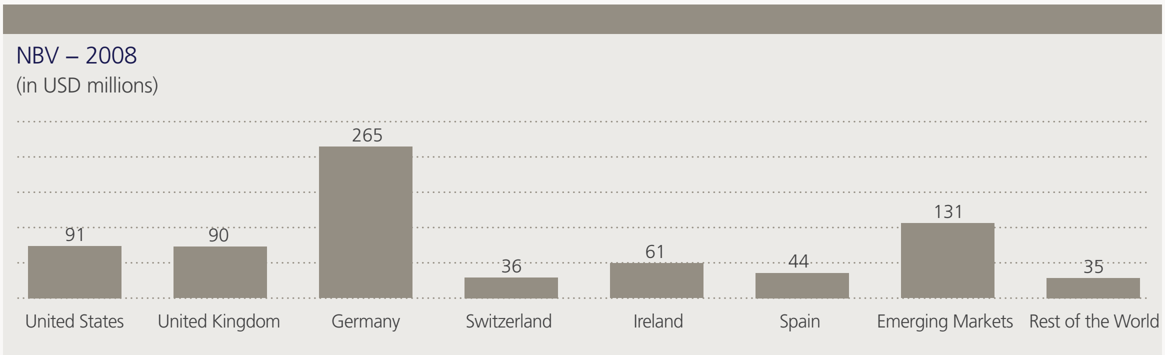
in USD millions, for the year ended December 31, 2008	United States	United Kingdom	Germany	Switzer-land	Ireland	Spain	Emerging Markets	Rest of the World	Global Life
Opening embedded value	2,432	4,880	2,087	1,895	1,217	457	1,516	1,451	15,935
Expected profit	184	287	96	120	62	41	83	91	964
New business value	91	90	265	36	61	44	131	35	753
Operating variance	50	109	47	71	30	4	(57)	30	283
Global development costs	(8)	–	–	–	(4)	–	(5)	–	(16)
Total operating profit	317	485	408	226	149	89	152	156	1,983
Economic variance	(384)	(1,195)	(676)	(783)	(197)	(178)	120	(264)	(3,558)
EV profit	(67)	(710)	(268)	(557)	(48)	(89)	272	(108)	(1,575)
Dividends and capital movements	(94)	(178)	(116)	(164)	(31)	340	204	131	92
Foreign currency translation effects	–	(1,097)	(76)	110	(52)	(50)	(350)	(118)	(1,634)
Closing embedded value	**2,271**	**2,895**	**1,627**	**1,284**	**1,086**	**657**	**1,642**	**1,355**	**12,818**

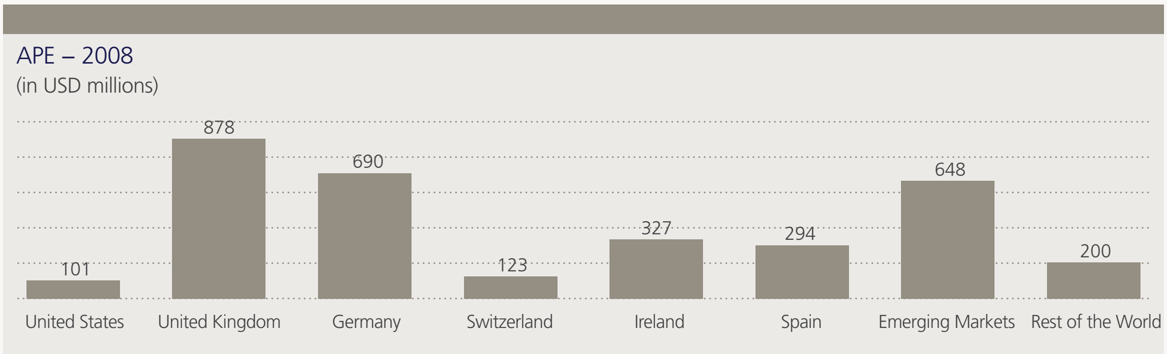
In 2008, there have been two diverging effects on the movement in embedded value. Zurich showed clearly its capability to run an efficient business with the generation of a high EV operating profit. On the other hand, it was also affected by a very difficult economic situation, with a strong downturn in equity markets, falling interest rates and record high volatilties, both for equities and interest rate instruments. Credit spreads have increased as well, which caused corporate bonds to depreciate, and some markets showed a downturn in property prices.

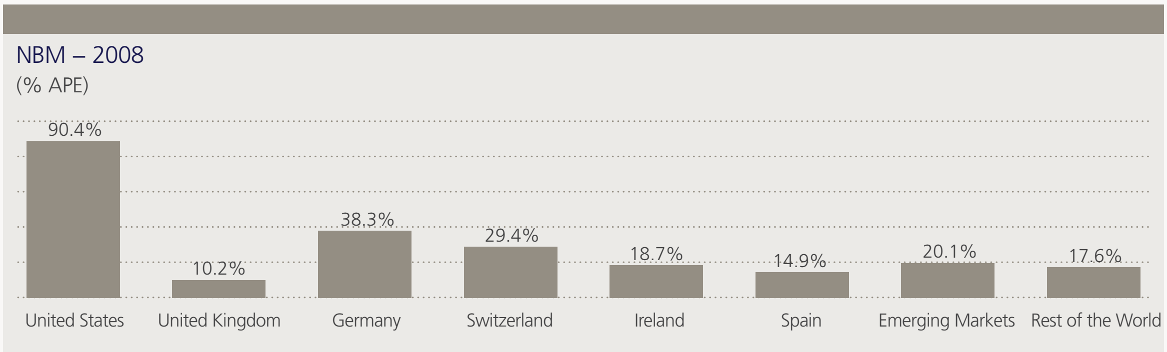
On the currency side, sterling depreciated against Zurich's group currency, the U.S. dollar, with a significant decrease in the embedded value of **United Kingdom** when measured against the U.S. dollar.

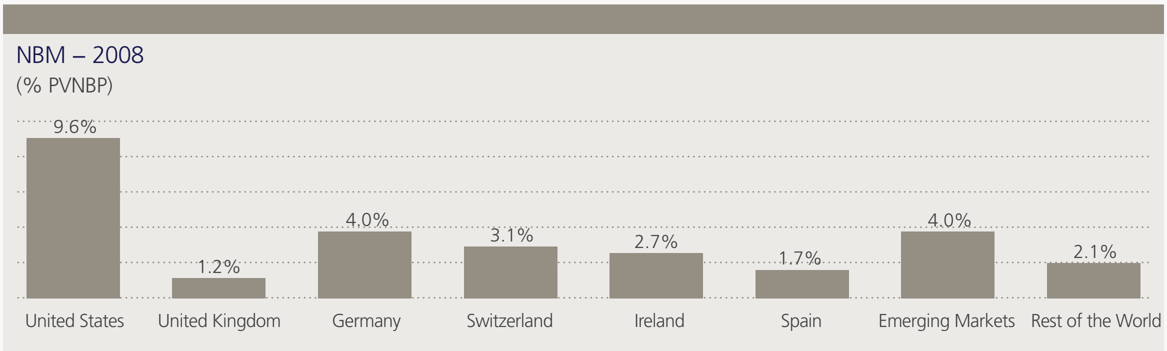
In **Germany**, the contribution from new business was particulary good, with strong sales in state funded pension products and an increase in the allowance for tax deductible contributions for these products. Germany benefited also from a change in profit sharing rules which implies higher shareholder transfers.

c) New business









New business value, after tax

Table 2.4

in USD millions, for the years ended December 31	New business value, after tax[1]		New business margin, after tax as % APE		New business margin, after tax as % PVNBP	
	2008	2007	2008	2007	2008	2007
United States	91	108	90.4%	90.8%	9.6%	10.2%
United Kingdom	90	121	10.2%	13.1%	1.2%	1.5%
Germany	265	184	38.3%	32.3%	4.0%	3.5%
Switzerland	36	33	29.4%	31.4%	3.1%	3.3%
Ireland	61	69	18.7%	23.0%	2.7%	3.1%
Spain	44	14	14.9%	20.8%	1.7%	2.2%
Emerging Markets	131	177	20.1%	26.6%	4.0%	4.7%
ZIS[2]	*84*	*93*	*18.7%*	*20.4%*	*3.8%*	*3.2%*
Hong Kong	*17*	*65*	*21.6%*	*48.2%*	*4.6%*	*10.8%*
Latin America	*30*	*19*	*24.6%*	*25.4%*	*4.5%*	*5.9%*
Rest of the World	35	23	17.6%	11.8%	2.1%	1.3%
Italy	*26*	*22*	*21.1%*	*18.3%*	*2.6%*	*2.2%*
Other	*10*	*1*	*12.2%*	*1.6%*	*1.4%*	*0.2%*
Global Life	**753**	**729**	**23.1%**	**24.7%**	**2.9%**	**3.1%**

[1] In certain countries, particularly in the UK, where life insurance companies pay tax in respect of both policyholders and shareholders, the results shown in the above table are before shareholders' tax but after allowing for policyholders' tax.
[2] ZIS results include USD 7 million of development costs that were incurred centrally.

New business volumes

Table 2.5

in USD millions, for the years ended December 31	Annual premiums		Single premiums		APE[1]		PVNBP[2]	
	2008	2007	2008	2007	2008	2007	2008	2007
United States	94	110	68	84	101	119	947	1,053
United Kingdom	378	338	4,999	5,883	878	926	7,272	8,087
Germany	633	526	570	445	690	570	6,681	5,292
Switzerland	75	70	483	336	123	104	1,177	989
Ireland	199	167	1,283	1,334	327	301	2,277	2,240
Spain	71	16	2,231	507	294	66	2,632	619
Emerging Markets	548	535	1,001	1,289	648	664	3,241	3,790
ZIS	*378*	*342*	*710*	*1,115*	*449*	*453*	*2,220*	*2,861*
Hong Kong	*75*	*130*	*25*	*50*	*77*	*135*	*359*	*601*
Latin America	*96*	*64*	*266*	*123*	*122*	*76*	*662*	*328*
Rest of the World	120	92	799	1,052	200	197	1,656	1,712
Italy	*63*	*43*	*585*	*763*	*122*	*119*	*981*	*1,011*
Other	*57*	*49*	*214*	*289*	*78*	*78*	*675*	*701*
Global Life	**2,118**	**1,854**	**11,433**	**10,929**	**3,261**	**2,947**	**25,883**	**23,781**

[1] New business annual premium equivalent (APE) is taken as new annual premiums plus 10% of single premiums.
[2] Present value of new business premiums (PVNBP) is equal to new single premiums plus the present value of annual premiums.

New business value by component, after tax in 2008

Table 2.6

in USD millions, for the year ended December 31, 2008	Net asset strain	Value of business in-force	Certainty equivalent value	Frictional costs	TVFOG[1]	CNMR[2]	Total
United States	(86)	177	121	(10)	(3)	(17)	91
United Kingdom	(241)	331	110	(4)	(7)	(8)	90
Germany	(23)	288	233	(24)	66	(10)	265
Switzerland	(62)	98	49	(2)	(3)	(7)	36
Ireland	(104)	165	70	(2)	–	(7)	61
Spain	(7)	50	53	(3)	(4)	(3)	44
Emerging Markets	(117)	248	150	(4)	–	(16)	131
Rest of the World	(45)	80	56	(10)	(4)	(7)	35
Global Life	**(685)**	**1,437**	**842**	**(59)**	**45**	**(75)**	**753**

[1] TVFOG is the time value of financial options and guarantees
[2] CNMR is the cost of non-market risk

New business value by component, after tax in 2007

Table 2.7

in USD millions, for the year ended December 31, 2007	Net asset strain	Value of business in-force	Certainty equivalent value	Frictional costs	TVFOG[1]	CNMR[2]	Total
United States	(76)	184	138	(10)	(3)	(18)	108
United Kingdom	(318)	439	149	(4)	(14)	(9)	121
Germany	(8)	193	194	(24)	20	(6)	184
Switzerland	(59)	91	41	(2)	(2)	(5)	33
Ireland	(100)	170	79	(3)	–	(7)	69
Spain	(6)	20	16	(1)	(1)	(1)	14
Emerging Markets	(65)	242	197	(1)	–	(19)	177
Rest of the World	(37)	60	42	(10)	(3)	(6)	23
Global Life	**(670)**	**1,398**	**856**	**(54)**	**(2)**	**(71)**	**729**

[1] TVFOG is the time value of financial options and guarantees
[2] CNMR is the cost of non-market risk

In the **United States**, the new business value decreased due to the lower volume of new business and lower margins as acquisition costs did not decrease as much as the volume of new business.

In the **United Kingdom**, the certainty equivalent value decreased due to lower sales volumes and higher costs to acquire business.

In **Germany**, new business increased due to sales of state funded pension products, changes in profit sharing regulations and a higher time value of financial options and guarantees for new business. The last quantity has a positive effect on the new business value, because new business with lower levels of guarantees provides a cross subsidy to business in-force.

In **Switzerland**, the new business value is overall at prior year level, with a change in business mix towards corporate pensions business.

While sales were nearly stable in **Ireland**, new business profit margins fell in an increasingly competitive market environment. This translated into an overall reduction of new business value.

In **Spain**, the overall new business value increased in 2008 due to the acquisitions in line with Zurich's growth strategy.

In **Emerging Markets**, the new business value fell mostly due to adverse market conditions in Hong Kong, which made it more difficult to sell investment products.

The **Rest of the World** increased mainly due to Italy, following the acquisition of DWS Vita S.p.A. in 2008.

d) Return on opening embedded value

Return on opening EV, after tax

Table 2.8

in USD millions, for the year ended December 31, 2008	Expected return	Operating return	Embedded value return
United States	7.6%	13.1%	(2.7%)
United Kingdom	5.9%	10.0%	(14.6%)
Germany	4.6%	19.6%	(12.9%)
Switzerland	6.3%	12.0%	(29.4%)
Ireland	5.2%	12.6%	(4.0%)
Spain	11.3%	24.6%	(24.7%)
Emerging Markets	5.3%	9.6%	17.2%
Rest of the World	6.0%	10.2%	(7.1%)
Global Life	**6.1%**	**12.5%**	**(10.0%)**

The above presented return measures are based on the opening EV, after tax, adjusted for capital movements.

Expected return is based on a risk free rate assumption plus an asset specific risk premium.

Operating return measures the return achieved from operational activity.

Embedded value return is the sum of operating return and the impact of the economic variance.

Overall, Global Life achieved a positive operating return, but a negative economic variance resulting from the turmoil in financial markets led to an overall negative embedded value return.

Operating return was particularly high for **Germany** and **Spain**, due to their strong increase in new business value. While in Germany this reflects general business growth and a change in shareholder participation rates, Spain has increased its new business substantially through acquisitions.

The negative Embedded value return for **Germany**, **Switzerland** and **Spain** was caused by a particularly strong exposure to interest rate guarantees. As interest rates decreased and swaption volatilities increased, these countries were negatively affected.

The positive return of **Emerging Markets** was partially offset by foreign exchange rate movements.

3. Embedded value methodology

Zurich Financial Services Group (the Group) has applied the European Embedded Value Principles issued by the CFO Forum in May 2004, for its Embedded Value (EV) Report for the companies and business in its Global Life segment (the covered business) for the financial year 2008 and for the comparative period. Certain other life businesses are included in the Other Businesses segment and have been excluded from the EV. This report primarily relates to Global Life, but information relating to the Other Businesses is given in section 1.m. The EV methodology adopted by the Group is based on a "bottom-up" market consistent approach to allow explicitly for market risk. In particular:

- Asset and liability cash flows are valued using risk discount rates consistent with those applied to similar cash flows in the capital markets; and
- Options and guarantees are valued using market consistent models calibrated to observable market prices. Where markets exhibit a limited capacity, the valuation is based on historical averages.

EV represents the shareholders' interests in the entities included in Global Life as set out in the Group's consolidated IFRS Financial Statements. EV excludes any value from future new business.

a) Covered business

Covered business includes all business written by companies that are included in Global Life, in particular:

- life and critical illness insurance;
- savings business (with profit, non-profit and unit-linked);
- pensions and annuity business; and,
- long-term health and accident insurance.

For certain smaller companies, no EV has been calculated but these companies have been included in the EV at their shareholders' equity value, as calculated in accordance with IFRS. The contribution from these companies to the EV is approximately 2 percent.

This EV Report reflects recent acquisitions by the Group. The values reported include the contribution from the insurance operations acquired in Italy and Spain.

b) Calculation of embedded value

EV presented in this document is derived through calculations which are performed separately for each business unit.

In Germany, a revision of the the German supervisory law (VAG) mandated changes for policyholder participation. The EV model has been updated accordingly and results from previous quarters of 2008 have been restated, increasing new business value after tax by USD 12 million.

c) Reporting of embedded value

In line with the European Embedded Value Principles, the EV is broken down into the following components:

- shareholders' net assets, including free surplus and required capital; and,
- the value of business in-force.

The results are disclosed in a format that the Group considers to be appropriate for the market consistent methodology adopted.

d) Shareholders' net assets

Shareholders' net assets represent the market value of net assets held in respect of the covered business, and consist of the required capital and free surplus. The level of required capital reflects the amount of capital considered by the Directors to be appropriate to manage the business. The free surplus comprises the market value of shareholders' net assets allocated to the covered business in excess of the assets backing the required capital.

The shareholders' net assets are based on local statutory and regulatory accounting. Adjustments are made to the EV where appropriate, for example in respect of any unrealized gains attributable to shareholders. Any such adjustments are made consistently with the calculation of the value of business in-force.

e) Value of business in-force

The value of business in-force is the present value of future projected profits from the covered business, and it is defined as the certainty equivalent value of business in-force less frictional costs, time value of financial options and guarantees, and cost of non market risk. These components are explained below.

Certainty equivalent value is the value calculated using discount rates consistent with those applied to the underlying cash flows in the capital markets. It includes the intrinsic value but excludes the time value of financial options and guarantees which is allowed for separately, as described below.

Frictional costs reflect a deduction for the cost of holding shareholder capital. Under the Group's market consistent framework, these frictional costs represent tax in respect of future investment income on total available capital plus investment management costs. In Germany, they also include the policyholders' share of investment income on the capital.

The application of frictional costs to the total capital of each life business is in line with the Group's holistic approach to the EV. The tax and costs in respect of total capital will in practice have to be met, and it is appropriate therefore that this is allowed for in the EV. For the purpose of these calculations, required capital is assumed to run down in line with existing business. Free surplus is also assumed to run down in line with existing business except where there are specific plans for the earlier distribution of the free surplus.

For any life business where part of the capital requirements can be met by free assets other than shareholders' net assets, the frictional costs allow only for the amount of capital supported by shareholders.

The allowance for frictional costs is included both in the value of business in-force, and in the new business value. For new business, frictional costs are applied to the minimum solvency margin required to be held in respect of that business.

No allowance is made for "agency costs" as these are considered to be subjective and depend on the view of each shareholder.

Time value of financial options and guarantees represents additional costs in excess of the intrinsic value of options and guarantees which are already allowed for in the certainty equivalent value. These are based on the variability of investment returns which need to be allowed for explicitly under the European Embedded Value Principles. The time value has been calculated on a market consistent basis using stochastic modeling techniques, and making allowance for expected management and policyholder behavior.

For products with significant guarantees, the time value has been calculated on a market consistent basis by deducting the average present value of shareholder cash flows using at least 1,000 stochastic economic simulations from the certainty equivalent value (both for the value of business in-force and for new business value). For most products, the average value has been calculated using Monte Carlo simulations. For a small number of products, the time value of financial options and guarantees has been derived using closed form solutions.

Where appropriate, the calculation of the time value of financial options and guarantees makes allowance for:

- dynamic actions that would be taken by Management under different economic simulations, for example to implement a life business' investment strategy; and
- dynamic policyholder behavior, for example changes in surrender behavior as interest rates rise or fall, or take-up rates of guaranteed annuity options.

Cost of non market risk is an explicit additional deduction from the value of in-force business, over and above the frictional costs, reflecting an allowance for the impact on shareholder value of variability in insurance, business and operational risks.

The Group's approach to the cost of non market risk is based on a valuation of the potential impacts on shareholder value of variance in certain best estimate assumptions to allow explicitly, at product level, for insurance (mortality, longevity and morbidity), business and operational risk.

The mortality, morbidity, persistency and expense assumptions used to calculate the value of business in-force and new business value are best estimates based on recent past experience. To the extent that the impact on shareholder value of variations in experience around the best estimate is symmetrical (for example, where the loss on a 10 percent increase in expenses is equal and opposite to the profit on a 10 percent reduction), and not correlated with investment markets, no further allowance for non market risk would be required. In such circumstances, the risk is considered to be diversifiable, and financial markets do not charge a risk premium for diversifiable risks.

However, in certain cases this symmetry does not hold, and the Group considers that it is appropriate to make explicit allowance for this within the EV.

f) New business

New business covers new contracts sold during the reporting period and includes recurring single premiums; new premiums written during the period on existing contracts; and variations to premiums on existing contracts where these premiums and variations have not previously been assumed as part of business in-force. Where recurring single premiums are projected over time to derive the corresponding new business value, they are treated as annual premium for the volume definition. Group Life business which is valued with a renewal assumption of the contracts is treated as annual premium.

The new business is valued as at point of sale. Explicit allowance is made for frictional costs, time value of financial options and guarantees, and cost of non market risk. New business value is valued consistently with new business volumes.

The value generated by new business written during the period is the present value of the projected stream of after tax distributable profits from that business.

In certain profit sharing funds, the new business written can affect the time value of financial options and guarantees for business written in prior years, and this effect is taken into account in the new business value.

Quarterly new business is valued on a discrete basis. New business value is calculated separately for each quarter using assumptions, both operating and economic, as of the start of the relevant quarter. New business strain is also calculated on a quarterly discrete basis, meaning that it takes account only of cash flows during that quarter and makes no allowance for any subsequent reduction in strain during the remainder of the period. Once calculated, the new business value will not change in local currency terms.

g) Asset and liability data

For 2008, the Group has adopted a combination of approaches for obtaining the asset and liability data and for performing the EV calculations.

- The majority of the Group's EV, has been calculated using a "hard close" approach. This means that all asset as well as liability data reflect the actual position as of the valuation date.

- Spain has used asset and liability data as of November 30 with adjustments made to asset data to reflect the change in swap curves between November 30 and December 31. New business value takes into account the most important lines of business written to December 31.

- Germany has chosen an approach where asset and liability model points were set up in advance and then were projected to year end 2008 values using the respective forecasts as of mid December 2008. Asset data is based on November 30 figures and the structure of the liability data has been created for a previous run and then been scaled to match the expected balance sheet figures. The new business model points were set up at October 31, and scaled along the expected development of the APE.

h) Market consistent discounting

The Group has adopted a "bottom-up" market consistent approach for the projection and discounting of future cash flows in the calculation of the EV. As a result, the risks inherent in the cash flows are allowed for in a way that is consistent with the way the market is expected to allow for such risks.

In principle, this method values each cash flow using a discount rate consistent with that applied to such a cash flow in the capital markets. For example, an equity cash flow is valued using an equity risk discount rate, and a bond cash flow is valued using a bond discount rate. If a higher return is assumed for equities, the equity cash flow is discounted at this higher rate.

In practice, the Group has applied a computational method known as a "risk neutral" approach. This involves projecting the assets and liabilities using a distribution of asset returns where all asset types, on average, earn the same risk free rate.

The risk free yield curve assumptions are based on the swap curve in each major currency (US dollars, Euros, British pounds sterling and Swiss francs).

For liabilities where payouts are either independent or move linearly with markets, deterministic techniques (referred to as "certainty equivalent") have been used. In such cases, the projection and discounting are based on the same risk free yield curve.

i) Economic scenario generator

All operations use actual yield curves observable as of December 31 for the calculation of the certainty equivalent value of business in-force.

The calculations of the time value of financial options and guarantees are based on stochastic simulations using an Economic Scenario Generator ("ESG") provided by Barrie & Hibbert. The outputs ("simulations") have been calibrated to conform to the economic parameters specified by the Group.

The simulations used for calculation of time value of financial options and guarantees reflect the actual yield curves observable as of December 31, 2008 and implied volatilities averaged over the year 2008.

Simulations are produced for the economies in the United States, United Kingdom, Switzerland and the Euro-Zone. In each economy, risk free nominal interest rates are modeled using a LIBOR market model. The excess return on other asset classes relative to the total returns on risk free assets are then modeled using a multi-factor lognormal model. Hong Kong uses US dollar simulations as their principal liabilities are US dollar denominated. Chile uses closed form solutions rather than simulations. The other operations not mentioned above have no significant options and guarantees. Further details are set out under "Economic assumptions" in section 5.

j) Corporate Center costs

Corporate Center costs that relate to covered business have been allocated to the relevant companies and included in the projected expenses.

k) Holding companies

Holding companies that belong to Global Life have been consolidated in EV at their local statutory net asset value. Related expenses are small and so have been excluded from the projection assumptions. Holding companies outside Global Life are not included in the EV of the covered business.

l) Consolidation adjustments

Where a reassurance arrangement exists between two life companies in Global Life, the value of the reassurance is shown in the EV of the ceding company. This has no material impact on the reported results.

EV is shown net of minority interests. Where the Group has a majority interest in a subsidiary company, the new business value and the premium information are shown gross of minority interests. The minorities' share of new business value is eliminated through "operating variance, after tax".

m) Debt

Where a loan exists between a company in Global Life and a Group company not within Global Life, the loan is valued for EV purposes consistently with the value shown in the Group's IFRS financial statements.

n) "Look through" principle – service companies

There are some companies within Global Life that provide administration and distribution services. These are valued on a "look through" basis. The results do not include any Group service companies outside Global Life.

In the United Kingdom, a multi-tie distribution company (Openwork) has replaced the former tied distribution network. This is included in the EV on a "look through" basis. After allowance for certain one-off expenses, profits and losses are attributed to new business value. Certain future revenue streams, mainly renewal commissions on business sold, are discounted and contribute to the new business value and to the value of business in-force.

In Germany, the majority of distribution and administration is provided by service companies. These are valued on a "look through" basis. These companies also provide limited services to companies outside Global Life. The value of business inforce and new business value reflect the services provided to companies within Global Life. Net asset value consists, however, of the full statutory equity of these service companies.

In Switzerland, an investment management company provides asset management services to pension schemes written in foundations and other pension funds. The present value of the net asset management fees, after tax, is included in the EV and the new business value.

o) Employee pension schemes

Since 2007, the Group adopted the Statement of Recognized Income and Expense (SoRIE) option under IAS 19 Employee Benefits to recognize actuarial gains and losses arising from defined benefit pension and other defined benefit post-retirement plans as a liability. In the consolidated financial statements, an allowance is made for IAS 19 Employee Benefits deficits. This adjustment has not been made in the detailed EV described in this Embedded value report. If the adjustment had been made the EV as of December 31, 2008 would have been lower by USD 393 million. Similarly the EV as of December 31, 2007 would have been lower by USD 85 million. The actuarial and economic assumptions used for this adjustment are consistent with that used for the equivalent allowance made in the Group's Consolidated IFRS Financial Statements.

As previously reported, expense assumptions for each life business include expected pension scheme costs in respect of future service entitlements.

p) Employee share options

The costs of share options granted to employees are not included in the EV, other than to the extent that they are allowed for in the local statutory accounts upon which the shareholders' net assets are based. Further information on the costs of share options is given in the Group's IFRS financial statements.

q) Change in legislation or solvency regime

The impacts of changes in legislation or solvency regimes are included in economic variance for the analysis of movement.

r) Translation to Group presentation currency

To align embedded value reporting with the Group's consolidated IFRS Financial Statements, relevant results have been converted to Group presentation currency, US dollar, using average exchange rates for the period. This applies to new business value, new business volumes (APE and PVNBP) and comparative figures for 2007. This approach has also been applied to the analysis of movement. Valuations are translated at end-of-period exchange rates.

4. Embedded Value assumptions

Projections of future shareholder cash flows expected to emerge from covered business are determined using best estimate operating assumptions. These assumptions, including mortality, morbidity, persistency and expenses, reflect recent experience and are actively reviewed. Allowance is made for future improvements in annuitant mortality based on experience and externally published data. Favorable changes in operating efficiency are not anticipated in the assumptions – in particular for expenses and persistency.

Future economic assumptions, for example, investment returns and inflation, are based on period end conditions and assumed risk discount rates are consistent with these. For new business, the future economic (and operating) assumptions are based on conditions at the start of the relevant quarter.

Details of the economic assumptions for the major economies in which Zurich Global Life carries out business can be downloaded in a spreadsheet from the Investors section at www.zurich.com.

a) Economic assumptions

Market consistent framework

The Group has adopted a computational method known as "risk neutral". With this method the key economic assumptions are:

- risk free rates;
- implied volatilities of different assets; and,
- correlations between different asset returns.

Expected asset returns in excess of the risk free rate have no bearing on the calculated EV other than in the expected return used for the analysis of movement.

Choice of "risk free yield curve"

The risk free yield curve is derived from mid-markets swap rates applicable to each economy as of December 31, 2008. These curves were used to extract forward reinvestment yields that are used for all asset classes. The yield curves are consistent with the assumptions used by investment banks to derive their option prices and their use ensures consistency with the derivation of implied volatilities. They also have the advantage of being available for most of the markets in which the Group operates. Domestic yield curves are used by businesses in other countries, except Hong Kong and Argentina which use US dollar, as their liabilities are principally US dollar dominated.

Implied asset volatility

Zurich's EV model is based on market consistent assumptions. Zurich believes that the market in the fourth quarter of 2008 did not represent a deep and liquid market, and so it chose to base its volatility assumptions on 12 month averages. Interest volatility is derived from the implied volatility of interest rate swaptions. Swaption implied volatilities vary both by the term of the option and also the term of the underlying swap contract, a fact that is reflected in the ESG data. For the interest rate instruments, for the USD, GBP and EUR economies, the average was based on end-of-month volatilities from 2008. For CHF interest rate volatility, and equity derivatives in all economies, the average was based on end-of-quarter data. The equity volatilities are based on at-the-money forward European options on capital indices, consistent with traded options in the market. Volatility of property investments is derived from relevant historical return data for each modelled economy.

Inflation

Inflation assumptions have been derived from the yields on index linked bonds relative to the risk free yield curve, where index linked bonds exist. Elsewhere, a statistical approach based on past inflation has been used. Appropriate allowance has been made for expense inflation to exceed the assumed level of price inflation as life company expenses include a large element of salary related expenses.

Risk discount rate

Under the "risk neutral" approach, risk discount rates are based on the same risk free yield curves as those used to project the investment return.

For stochastic modeling, the risk discount rates are simulation specific and also vary by calendar year consistently with the projected risk free yields in each simulation.

"Expected return" for the analysis of movement – Investment return assumptions

The expected return for the analysis of movement is based on a projection from beginning of period to end-of-period. This requires assumptions regarding the investment returns expected to be achieved over the period on different asset classes. The investment return assumptions (for this purpose only) are based on the "real world" returns expected by the Group. The use of real world investment assumptions gives a more realistic basis for the expected return calculation and allows for the risk underlying each asset. Any under or over performance will be reported through economic variance.

For fixed interest assets, the "real world" investment return assumptions are based on the gross redemption yield on the assets, less an allowance for defaults where appropriate, together with an adjustment to reflect the change over the year implied in the yield curve assumptions.

For equity and property assets, the investment return assumptions are based on the 10 year swap rate at the beginning of period plus a margin to reflect the additional risk associated with investment in these asset classes.

These assumptions have been set by asset class and separately for each sub-fund in each life business in order to best reflect the actual assets held.

Participating business

Rates of future bonus or crediting rates have been set at levels consistent with the risk neutral investment return assumptions and current bonus plans. In the United Kingdom, bonus rates have been set so as to exhaust any remaining assets in the relevant long-term funds. In other European life businesses and in the United States, bonuses have been set to be consistent with the investment return assumptions and with the book value approach used by these life businesses in practice.

Taxation

Current tax legislation and rates have been assumed to continue unaltered, except where changes in future tax rates or practices have been announced.

Exchange rates

EV for December 31, 2008 and December 31, 2007 have been converted to Group presentation currency, US dollar, using the respective balance sheet exchange rates. The rates can be found in the Financial Supplement. The analysis of movements, including new business, has been translated at average exchange rates over the period.

b) Operating assumptions

Demographic assumptions

The assumed future mortality, morbidity and lapse rates have been derived from recent operating experience and relevant industry statistics. Where operating experience or industry statistics are limited, the assumptions are derived from a best estimate of future developments and are subject to regular review as more experience emerges. Where appropriate, surrender and option take-up rate assumptions that vary according to the investment simulation under consideration have been used, based on our assessment of likely policyholder behavior.

Expense assumptions

Management expenses have been analyzed between expenses related to acquisition of new business, the maintenance of in-force business and, where appropriate, one-off project costs. Future expense assumptions allow for expected levels of maintenance expenses. In addition, Corporate Center expenses relating to covered business have been allocated to business units and are reflected in assumed future expenses.

The maintenance expense assumptions allow for the expected cost of providing future service benefits in respect of the Group staff pension schemes. An adjustment to the EV is noted in section 3.o for pension scheme liabilities under IAS 19 and no allowance is made in the expense assumptions for any contributions as a result of past service benefits.

No allowance has been made for future productivity improvements in the expense assumptions.

None of the life companies included in the EV is considered to be in a "start-up" situation and so no allowance has been made for future development expenses.

Where service companies have been valued on a look through basis, the value of profits or losses arising from these services have been included in the EV and new business value.

c) Dynamic decisions

To reflect more realistically the outcome of stochastic simulations, the assumptions for each simulation make allowance for the behaviors of policyholders and management actions in response to the investment conditions modeled.

In many life businesses, policyholders can exercise an option against the life company in certain circumstances, such as to surrender a policy. This leads to an increase in the assumed lapse rates when interest rates rise (or a corresponding reduction when interest rates fall). This dynamic effect in relation to lapse rates has been allowed for in the stochastic models.

The stochastic models allow, where appropriate, for management actions to change investment strategy in response to market conditions.

Embedded Value – Global Life

Embedded value results, after tax – Global Life

in USD millions, for the years ended December 31	United States		United Kingdom	
	2008	2007	**2008**	2007
New business premiums including deposits, of which:	162	194	5,377	6,221
Annual premiums	94	110	378	338
Single premiums	68	84	4,999	5,883
New business annual premium equivalent (APE)	101	119	878	926
Present value of new business premiums (PVNBP)	947	1,053	7,272	8,087
Embedded value information:				
Opening embedded value	2,432	2,326	4,880	5,133
Expected profit	184	159	287	315
New business value	91	108	90	121
Operating variance	50	19	109	25
Global development expenses	(8)	–	–	–
Operating profit	**317**	**286**	**485**	**461**
Economic variance	(384)	(48)	(1,195)	(172)
Embedded value profit	**(67)**	**237**	**(710)**	**289**
Dividends and capital movements	(94)	(131)	(178)	(613)
Foreign currency translation effects	–	–	(1,097)	71
Closing embedded value	**2,271**	**2,432**	**2,895**	**4,880**
Operating return on opening EV	13.1%	12.3%	10.0%	8.8%
Embedded value return on opening EV	(2.7%)	10.2%	(14.6%)	5.5%
Expected return on opening EV	7.6%	6.8%	5.9%	6.0%
New business margin (as % of APE)	90.4%	90.8%	10.2%	13.1%
New business margin (as % of PVNBP)	9.6%	10.2%	1.2%	1.5%

Germany		Switzerland		Ireland		Spain		Emerging Markets		Rest of the World		Global Life	
2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
1,203	971	557	406	1,482	1,501	2,302	523	1,549	1,824	918	1,143	13,551	12,783
633	526	75	70	199	167	71	16	548	535	120	92	2,118	1,854
570	445	483	336	1,283	1,334	2,231	507	1,001	1,289	799	1,052	11,433	10,929
690	570	123	104	327	301	294	66	648	664	200	197	3,261	2,947
6,681	5,292	1,177	989	2,277	2,240	2,632	619	3,241	3,790	1,656	1,712	25,883	23,781
2,087	1,296	1,895	1,570	1,217	998	457	385	1,516	1,223	1,451	1,161	15,935	14,092
96	59	120	135	62	52	41	27	83	72	91	70	964	889
265	184	36	33	61	69	44	14	131	177	35	23	753	729
47	41	71	187	30	9	4	(3)	(57)	(4)	30	5	283	277
–	–	–	–	(4)	–	–	–	(5)	–	–	–	(16)	–
408	**283**	**226**	**354**	**149**	**130**	**89**	**37**	**152**	**244**	**156**	**98**	**1,983**	**1,895**
(676)	95	(783)	(6)	(197)	(24)	(178)	(8)	120	55	(264)	25	(3,558)	(83)
(268)	**378**	**(557)**	**349**	**(48)**	**106**	**(89)**	**29**	**272**	**299**	**(108)**	**124**	**(1,575)**	**1,811**
(116)	235	(164)	(153)	(31)	–	340	–	204	(29)	131	40	92	(651)
(76)	178	110	130	(52)	113	(50)	43	(350)	23	(118)	126	(1,634)	683
1,627	**2,087**	**1,284**	**1,895**	**1,086**	**1,217**	**657**	**457**	**1,642**	**1,516**	**1,355**	**1,451**	**12,818**	**15,935**
19.6%	20.0%	12.0%	22.2%	12.6%	12.5%	24.6%	9.3%	9.6%	20.0%	10.2%	8.5%	12.5%	13.1%
(12.9%)	26.6%	(29.4%)	21.8%	(4.0%)	10.2%	(24.7%)	7.4%	17.2%	24.4%	(7.1%)	10.6%	(10.0%)	12.5%
4.6%	4.1%	6.3%	8.5%	5.2%	5.0%	11.3%	6.7%	5.3%	5.9%	6.0%	6.1%	6.1%	6.1%
38.3%	32.3%	29.4%	31.4%	18.7%	23.0%	14.9%	20.8%	20.1%	26.6%	17.6%	11.8%	23.1%	24.7%
4.0%	3.5%	3.1%	3.3%	2.7%	3.1%	1.7%	2.2%	4.0%	4.7%	2.1%	1.4%	2.9%	3.1%

Embedded Value – Emerging Markets and Rest of the World

Embedded value results, after tax – Emerging Markets and Rest of the World

in USD millions, for the years ended December 31	Emerging Markets			
	ZIS[1]		Hong Kong	
	2008	2007	**2008**	2007
New business premiums including deposits, of which:	1,088	1,457	100	180
Annual premiums	378	342	75	130
Single premiums	710	1,115	25	50
New business annual premium equivalent (APE)	449	453	77	135
Present value of new business premiums (PVNBP)	2,220	2,861	359	601
	–	–	–	–
Opening embedded value	830	673	344	281
Expected profit	40	41	21	17
New business value	84	93	17	65
Operating variance	(6)	26	(35)	(39)
Global development expenses	(4)	–	(1)	–
Operating profit	**114**	**160**	**2**	**43**
Economic variance	210	(13)	(83)	12
Embedded value profit	**323**	**146**	**(81)**	**55**
Dividends and capital movements	142	–	71	9
Foreign currency translation effects	(288)	10	2	(1)
Closing embedded Value	**1,008**	**830**	**336**	**344**
Operating return on opening EV	13.2%	23.2%	0.5%	14.0%
Embedded value return on opening EV	37.6%	21.3%	(21.6%)	18.0%
Expected return on opening EV	4.7%	6.0%	5.6%	5.6%
New business margin (as % of APE)	18.7%	20.4%	21.6%	48.2%
New business margin (as % of PVNBP)	3.8%	3.2%	4.6%	10.8%

[1] ZIS results include USD 7 million of development costs that were incurred centrally.

Emerging Markets				Rest of the World					
Latin America		Total		Italy		Other		Total	
2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
362	187	1,549	1,824	648	806	271	337	918	1,143
96	64	548	535	63	43	57	49	120	92
266	123	1,001	1,289	585	763	214	289	799	1,052
122	76	648	665	122	119	78	78	200	197
662	328	3,241	3,790	981	1,011	675	701	1,656	1,712
–	–	–		–	–	–	–	–	
342	269	1,516	1,223	571	425	879	736	1,451	1,161
22	14	83	72	43	33	48	37	91	70
30	19	131	177	26	22	10	1	35	23
(16)	9	(57)	(4)	2	8	27	(3)	30	5
–	–	(5)		–	–	–	–	–	
36	**42**	**152**	**244**	**71**	**63**	**84**	**35**	**156**	**98**
(7)	56	120	55	(256)	32	(8)	(6)	(264)	25
30	**98**	**272**	**299**	**(185)**	**95**	**77**	**29**	**(108)**	**124**
(9)	(38)	204	(29)	179	–	(48)	40	131	40
(63)	14	(350)	23	(26)	51	(92)	74	(118)	126
299	**342**	**1,642**	**1,516**	**539**	**571**	**816**	**879**	**1,355**	**1,451**
10.6%	17.8%	9.6%	19.9%	10.2%	14.3%	10.3%	4.8%	10.2%	8.5%
8.6%	41.5%	17.2%	24.4%	(26.4%)	21.4%	9.3%	3.9%	(7.1%)	10.6%
6.4%	5.8%	5.3%	5.9%	6.2%	7.6%	5.8%	5.0%	6.0%	6.1%
24.6%	25.4%	20.1%	26.6%	21.1%	18.3%	12.2%	1.6%	17.6%	11.8%
4.5%	5.9%	4.0%	4.7%	2.6%	2.2%	1.4%	0.2%	2.1%	1.4%

Auditor's report on embedded value

To the Board of Directors of
Zurich Financial Services
Zurich

Auditor's report on embedded value

Dear Sirs

We have audited the Embedded value report ("EV Report") for the companies and business reported in Zurich Financial Services' Global Life segment included in pages 240 to 269 of the Financial Report 2008 for the year ended December 31, 2008. The embedded value information included in the EV Report has been prepared in accordance with the European Embedded Value Principles issued in May 2004 by the European Insurance CFO Forum as supplemented by the Additional Guidance on European Embedded Value Disclosures issued in October 2005 (together the "EEV basis") as described on pages 257 to 262.

The Board of Directors of Zurich Financial Services is responsible for the preparation of the EV Report. Our responsibility is to express an opinion whether the EV Report has been properly prepared in accordance with the EEV basis as described on pages 257 to 262.

We conducted our audit in accordance with Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the EV Report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the EV Report. An audit also includes assessing the principles used and significant estimates made by the Board of Directors, as well as evaluating the adequacy of the overall presentation of the EV Report. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the EV Report for the companies and business reported in Zurich Financial Services' Global Life segment for the year ended December 31, 2008 has been properly prepared in accordance with the EEV basis as described on pages 257 to 262.

This report has been prepared solely for the Board of Directors of Zurich Financial Services in accordance with the terms of our engagement letter. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown except where explicitly agreed by our prior consent in writing. This report does not extend to any financial statements of Zurich Financial Services.

Yours faithfully,

PricewaterhouseCoopers AG

Patrick Shouvlin
Auditor in charge

Ray Kunz

Zurich, February 4, 2009

Holding company

Principal activity and review of the year

Zurich Financial Services is the holding company of the Group with a listing on the SIX Swiss Exchange. Zurich Financial Services was incorporated on April 26, 2000, with a share capital of CHF 100,000. As of December 31, 2008, the shareholders' equity totaled CHF 16,783,191,240 and as of December 31, 2007 CHF 17,352,291,968.

Its principal activity is the holding of subsidiaries. Revenues consist mainly of dividends and interest. The net income of Zurich Financial Services was CHF 2,658,037,367 for 2008 and CHF 1,973,433,008 for 2007.

On February 13, 2008 the Board of Zurich Financial Services authorized a share buy-back program for the repurchase of up to CHF 2.2 billion worth of shares over the course of 2008. As of December 31, 2008 3,750,500 fully paid shares, with a nominal value of CHF 0.10 were bought back at an average price of CHF 293 per share, at a total cost of CHF 1.1 billion.

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 CHF 0.10, have been bought back at an average price of CHF 364 per share, with a total cost of CHF 1.2 billion. At the Annual General Meeting on April 3, 2008 shareholders approved a share capital reduction of CHF 343,250.00 from CHF 14,554,682.00 to CHF 14,211,432.00 by cancelling these 3,432,500 registered shares. The effective date of the capital reduction was June 27, 2008.

Income Statements

in CHF thousands, for the years ended December 31	Notes	2008	2007
Revenues			
Interest income		244,463	217,530
Dividend income		2,708,654	1,911,973
Other financial income		46,162	20,380
Total revenues		2,999,279	2,149,883
Expenses			
Administrative expense	3	(12,301)	(12,497)
Other financial expense	4	(306,534)	(141,757)
Tax expense	5	(22,407)	(22,196)
Total expenses		(341,242)	(176,450)
Net income		**2,658,037**	**1,973,433**

Balance sheets

Assets

in CHF thousands, as of December 31	Notes	2008	2007
Non-current assets			
Investments in subsidiaries	6	10,953,361	10,953,361
Subordinated loans to subsidiaries		4,000,000	4,000,000
Total non-current assets		14,953,361	14,953,361
Current assets			
Cash and cash equivalents		1,081	1,960,745
Loans to subsidiaries		2,546,345	640,870
Own shares		850,613	1,140,448
Accrued income from third parties		–	3,526
Accrued income from subsidiaries		100,446	99,341
Derivatives		650	–
Total current assets		3,499,135	3,844,930
Total assets		**18,452,497**	**18,798,291**

Liabilities and shareholder's equity

in CHF thousands, as of December 31	Notes	2008	2007
Short-term liabilities			
Loans from subsidiaries		1,653,549	1,408,167
Other liabilities to subsidiaries		–	8,618
Other liabilities to third parties		14,828	22,281
Other liabilities to shareholders		199	167
Accrued liabilities		730	6,767
Total short-term liabilities		1,669,306	1,446,000
Shareholders' equity (before appropriation of available earnings)			
Share capital	8	14,212	14,555
Legal reserves:			
General legal reserve		*9,525,071*	*9,523,631*
Reserve for treasury stock	9	*1,575,468*	*2,028,863*
Free reserve		2,738,258	3,424,968
Retained earnings:			
Beginning of the year		*2,360,275*	*1,966,213*
Dividends paid		*(2,088,131)*[1]	*(1,579,371)*[2]
Beginning of the year, adjusted for appropriations		*272,144*	*386,842*
Net income		2,658,037	1,973,433
Retained earnings, end of year		2,930,181	2,360,275
Total shareholders' equity (before appropriation of available earnings)		16,783,191	17,352,292
Total liabilities and shareholders' equity		**18,452,497**	**18,798,291**

[1] Dividends paid in the year, proposed in association with the 2007 result
[2] Dividends paid in the year, proposed in association with the 2006 result

Notes to the financial statements

1. Basis of Presentation

Zurich Financial Services presents its financial statements in accordance with Swiss law.

Unless otherwise stated all amounts in these financial statements including the notes are shown in Swiss franc thousands, rounded to the nearest thousand.

2. Summary of significant accounting policies

a) Exchange rates

Unless otherwise stated, assets and liabilities expressed in currencies other than Swiss francs are translated at year-end exchange rates. Revenues and expenses are translated using the exchange rate at the date of the transaction. Unrealized exchange losses are recorded in the statement of income and unrealized exchange gains are deferred until realized.

b) Investments in subsidiaries

Investments in subsidiaries are equity interests, which are held on a long-term basis for the purpose of the holding company's business activities. They are carried at a value no higher than their cost price less adjustments for impairment.

c) Own shares

Own shares are held at lower of cost or market value.

3. Administrative expense

Administrative expense consists mainly of directors' fees of CHF 3,504,058 for 2008 and CHF 3,745,570 for 2007, see note 12 page 278, and overhead fees of CHF 7,000,000 for 2008 and CHF 7,000,000 for 2007.

4. Other financial expense

Other financial expense includes a CHF 250 million write-down in the value of own shares to market value.

5. Taxes

The tax expense consists of income, capital and other taxes.

6. Investments in subsidiaries

Investments in subsidiaries include a 57.7% interest in Zurich Group Holding with a carrying value of CHF 6,354,745,915 for 2008 and CHF 6,354,745,913 for 2007 and a 100% interest in Allied Zurich Limited, with a carrying value of CHF 4,595,865,096 for 2008 and CHF 4,595,865,096 for 2007. Allied Zurich Limited holds the remaining 42.3% interest in Zurich Group Holding. Additionally, Zurich Financial Services holds 49,000 shares of Zurich Insurance Company with a book carrying value of CHF 2,750,190 for 2008 and CHF 2,750,190 for 2007.

7. Commitments and contingencies

Zurich Financial Services has provided unlimited guarantees in support of various entities belonging to the Zurich Capital Markets group of companies. In addition, Zurich Financial Services has agreed with the Superintendent of Financial Institutions, Canada, to provide additional capital in case the applicable capital adequacy tests for the Canadian business are not met and to provide assistance in case of liquidity issues.

Furthermore, Zurich Financial Services has entered into various support agreements and a guarantee for the benefit of certain of its subsidiaries. These contingencies amounted to CHF 4,714 million as of December 31, 2008 and CHF 5,501 million as of December 31, 2007.

Zurich Financial Services knows of no event that would require it to satisfy the guarantees or to take action under a support agreement.

8. Shareholders' equity

a) Issued share capital

As of December 31, 2008, Zurich Financial Services had 142,122,620 issued and fully paid registered shares of CHF 0.10 par value, amounting to total issued share capital of CHF 14,212,262.00. As of December 31, 2007, the share capital amounted to CHF 14,554,682.00, divided into 145,546,820 fully paid registered shares of CHF 0.10 par value.

At the Annual General Meeting on April 3, 2008 shareholders approved a share capital reduction of CHF 343,250.00 from CHF 14,554,682.00 to CHF 14,211,432.00 by cancelling 3,432,500 registered shares that were bought back under the buy-back program announced on February 15, 2007. The effective date of the capital reduction was June 27, 2008. During the year 2008, a total of 8,300 shares have been issued to employees out of the contingent capital. As a result, 142,122,620 fully paid shares with a nominal value of CHF 0.10 were issued as of December 31, 2008, amounting to a share capital of CHF 14,212,262.00.

In 2007, the shareholders at the Annual General Meeting on April 3, 2007 approved an 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.

b) Authorized share capital

Until June 1, 2010, the Board of Zurich Financial Services is authorized to increase the share capital by an amount not exceeding CHF 600,000.00 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:
On February 14, 2007, the Board of Directors of Zurich Financial Services decided to allow the issuance of up to 4,000,000 shares out of the contingent share capital to employees of the Group. A respective proposal for the increase of the contingent share capital was made by the Board of Directors to the shareholders and was approved at the Annual General Meeting on April 3, 2007. On December 31, 2007, the contingent share capital, to be issued to employees of Zurich Financial Services and Group companies, amounted to CHF 320,257.90 or 3,202,579 fully paid registered shares with a nominal value of CHF 0.10 each. During 2008, 8,300 shares were issued to employees out of the contingent share capital under the program described above. As a result, on December 31, 2008 the remaining contingent share capital, which can be issued to employees of Zurich Services and Group companies, amounts to CHF 319,427.90 or 3,194,279 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.

9. Reserve for treasury shares

This reserve fund corresponds to the purchase value of all Zurich Financial Services shares held by Group companies of Zurich Financial Services as shown in the table below.

Reserve for treasury shares

	Number of shares 2008	**Purchase value 2008**[1]	Number of shares 2007	Purchase value 2007[1]
As of January 1	5,839,154	2,028,863	161,451	42,799
Additions during the year	3,750,700	1,100,609	5,907,200	2,057,251
Sales during the year	(937,551)	(304,107)	(229,497)	(71,186)
Decrease due to share cancellations	(3,432,500)	(1,249,897)	–	–
As of December 31	**5,219,803**	**1,575,468**	**5,839,154**	**2,028,863**
Average purchase price of additions, in CHF		293		348
Average selling price, in CHF		264		367

[1] in CHF thousands

10. Shareholders

The shares registered in the share ledger as of December 31, 2008, were owned by 111,852 shareholders of which 106,150 were private individuals holding 19.6% of the shares (or 12.1% of all outstanding shares), 2,071 were foundations and pension funds holding 7.5% of the shares (or 4.6% of all outstanding shares), and 3,631 were other legal entities holding 72.9% of the shares (or 44.9% of all outstanding shares).

According to the information available to us on December 31, 2008, no shareholder of Zurich Financial Services held more than 5% of the voting rights of the issued share capital.

Information required by art. 663c paragraph 3 of the Swiss Code of Obligations on the share and option holdings of the members of the Board of Directors and the members of the Group Executive Committee are disclosed in note 13.

11. Information on the risk assessment process

Refer to the disclosures in the Risk review on pages 90 to 125 of this annual report.

12. Remuneration of the Board of Directors and the Group Executive Committee

This note sets out details of the compensation of the Board of Directors and of the members of the Group Executive Committee (GEC) in accordance with the information required by article 663b^{bis} of the Swiss Code of Obligations. This information should be read in connection with the unaudited Remuneration report, set out on pages 44 to 61, in which additional details of the remuneration principles and plans can be found.

The compensation paid to the Directors for their Board membership of Zurich Financial Services, the holding company of the Group, and Zurich Insurance Company is paid entirely by Zurich Financial Services. The fees for Mr de Swaan's additional Board membership in Zurich Insurance plc are paid by that company. The compensation paid to the members of the GEC is not paid by Zurich Financial Services, but by the Group entities where they are employed. The compensation shown below includes the compensation of the members of the Board and the GEC received for all their functions in the Group. As the financial statements of the holding company are presented in Swiss francs, all figures are shown in Swiss francs, despite the fact that the fees paid by Zurich Financial Services to the Directors are defined in U.S. dollars. To be consistent with the figures in the unaudited Remuneration report the totals of the remuneration paid to the members of the Board and the GEC are also presented in U.S. dollars, as set out in that report. Year-on-year comparison in Swiss francs is affected by the actual exchange rates during the year.

Remuneration of Directors

The following tables set out the total fees paid to Directors of Zurich Financial Services. All the Directors are also Directors of Zurich Insurance Company. The Directors receive a combined fee for their work in connection with Zurich Financial Services and Zurich Insurance Company. In addition, during 2008 Mr. de Swaan has been elected a member of the Board of Zurich Insurance plc in Ireland. There were no changes in the fee structure in 2008 compared with 2007 apart from the increase in the annual basic fee for the Chairman which was increased from USD 580,000 to USD 700,000 with effect from January 1, 2008. A fixed portion of the fee was allocated towards the provision of sales-restricted Zurich Financial Services shares. The portion for the Chairman was set at USD 233,500 (CHF 250,849) for 2008 and at USD 193,500 (CHF 234,616) for 2007. As in 2007 the portion for the other members was set at USD 68,500 (CHF 73,590 for 2008 and CHF 83,055 for 2007). The overall fees are set out in the following tables:

Directors' fees 2008

in CHF [1]	Basic Fee	Committee Fee[3]	Chair Fee[4]	US Residence Fee/Other[5]	Total Fee	Of which paid in Cash[6]	Of which allocated in Shares[7,8]
							2008[2]
M. Gentz, Chairman[9]	752,011	–	–	–	752,011	501,165	250,846
Ph. Pidoux, Vice Chairman[9]	354,519	–	–	–	354,519	280,929	73,590
S. Bies, Member[10]	163,338	31,871	–	7,968	203,177	148,598	54,579
V. Chu, Member[10]	163,338	31,871	–	–	195,209	140,630	54,579
Th. Escher, Member	220,232	42,972	–	–	263,204	189,614	73,590
F. Kindle, Member	220,232	42,972	–	–	263,204	189,614	73,590
A. Meyer, Member	220,232	42,972	–	–	263,204	189,614	73,590
D. Nicolaisen, Member[11]	220,232	42,972	29,454	10,743	303,401	229,811	73,590
V.L. Sankey, Member	220,232	42,972	21,486	–	284,690	211,100	73,590
G. Schulmeyer, Member[10]	56,894	11,101	8,325	2,775	79,095	79,095	–
T. de Swaan, Member[12]	220,232	42,972	15,935	32,408 [13]	311,547	237,957	73,590
R. Watter, Member	220,232	42,972	–	–	263,204	189,614	73,590
Total in CHF[14]	**3,031,724**	**375,647**	**75,200**	**53,894**	**3,536,465**	**2,587,741**	**948,724**
Total in USD	**2,822,042**	**349,667**	**69,999**	**50,167**	**3,291,875**	**2,408,767**	**883,108**

Directors' fees 2007

in CHF [1]	Basic Fee	Committee Fee[3]	Chair Fee[4]	US Residence Fee[5]	Total Fee	Of which paid in Cash[6]	Of which allocated in Shares[7, 15]
							2007[2]
M. Gentz, Chairman[9]	703,242	–	–	–	703,242	468,626	234,616
Ph. Pidoux, Vice Chairman[9]	400,120	–	–	–	400,120	317,065	83,055
Th. Escher, Member	248,560	48,499	–	–	297,059	214,004	83,055
R.E.J. Gilmore, Member[16,17]	64,212	12,529	–	–	76,741	76,741	–
F. Kindle, Member	248,560	48,499	–	–	297,059	214,004	83,055
D.G. Mead, Member[16]	64,212	12,529	6,265	3,131	86,137	86,137	–
A. Meyer, Member	248,560	48,499	–	–	297,059	214,004	83,055
D. Nicolaisen, Member	248,560	48,499	24,249	12,125	333,433	250,378	83,055
V.L. Sankey, Member[18]	248,560	48,499	17,985	–	315,044	231,989	83,055
G. Schulmeyer, Member	248,560	48,499	36,374	12,125	345,558	262,503	83,055
T. de Swaan, Member	248,560	48,499	–	–	297,059	214,004	83,055
R. Watter, Member	248,560	48,499	–	–	297,059	214,004	83,055
Total in CHF[14]	**3,220,266**	**413,050**	**84,873**	**27,381**	**3,745,570**	**2,763,459**	**982,111**
Total in USD	**2,655,918**	**340,666**	**70,000**	**22,583**	**3,089,167**	**2,279,167**	**810,000**

[1] The total fees (including the portion allocated in shares) provided to Directors by Zurich Financial Services amounted to CHF 3,536,465 for 2008 and to CHF 3,745,570 for 2007, calculated on the basis of the exchange rates at the dates of payment. These amounts, except for the fees earned by Mr de Swaan for his Board membership in Zurich Insurance plc, are reflected in the income statement of the holding company. As the fees of the Directors are actually defined in US dollars and the total of fees in US dollars amounts to USD 3,291,875 for 2008 and to USD 3,089,167 for 2007, the average exchange rates were USD/CHF 1.0743 for 2008 and USD/CHF 1.2125 for 2007. All figures shown in Swiss francs in the above table have been translated from US dollars using the relevant average exchange rate.
[2] The remuneration shown in the tables do not include any business related expenses incurred in the performance of the Board members' services.
[3] Committee members receive a cash fee of USD 40,000 for all Committees on which they serve, irrespective of the number. The Committees on which the Board members serve are set out in the Corporate governance report on page 25.
[4] Committee chairs receive an annual fee of USD 20,000 and the chair of the Audit Committee receives an additional USD 10,000. The Committees on which the Board members serve and the chairs are set out in the Corporate governance report on page 25.
[5] Directors who reside in the United States receive a fee of USD 10,000 per annum.
[6] The cash fees are defined in US dollars, but paid in the actual currencies where the Board members reside, based on the relevant exchange rate at the dates of the payment.
[7] The shares allocated to the Directors are sales-restricted for three years.
[8] As of June 30, 2008, Mr Gentz was allocated 861 shares and the other Board members 252 shares based on a full year's membership. The share price (CHF 284.00) and the exchange rate (USD/CHF 1.0476) as of June 15, 2008, were adopted to calculate the number of shares based on the fixed portion of the fee allocated in shares for the respective members. Where the value of the allocated shares did not equal the value of the portion of the fee to be allocated in shares, the difference was paid in cash. The amount shown in the table above reflects the fixed amount in CHF of the portion of the fee to be allocated in shares.
[9] Neither the Chairman nor the Vice Chairman receive any additional fees for their Committee work.

[10] The following membership movements occurred in 2008:
– Ms. Bies and Mr. Chu joined the Board on April 3, 2008 and received pro rata fees in cash and in shares for their Board work from that date.
– Mr. Schulmeyer retired from the Board on April 3, 2008 and received a pro rata fee in cash for his Board work up to that date.

[11] Mr. Nicolaisen became Chairman of the Audit Committee on April 3, 2008 following the retirement of Mr. Schulmeyer. He received a pro rata fee for being Chair. Prior to that he was Chairman of the Risk Committee.

[12] Mr. de Swaan became Chairman of the Risk Committee on April 3, 2008.

[13] In addition to the fees he received as a Director of Zurich Financial Services and Zurich Insurance Company, Mr. de Swaan earned a pro rata fee of USD 28,111 for his membership on the Board of Zurich Insurance plc since April 17, 2008 (based on an annual fee of USD 40,000). He additionally also earned a pro rata fee of USD 2,056 for being Chair of the audit committee of Zurich Insurance plc since October 16, 2008 (based on an annual fee of USD 10,000). These fees are paid by Zurich Insurance plc.

[14] In line with applicable laws, Zurich paid the company related portion of contributions to social security systems, which amounted to USD 69,305 (CHF 74,454) in 2008. Any personal contributions of the Directors to social security systems are included in the amounts shown in the table above. The corresponding contributions in 2007 amounted to USD 68,439 (CHF 82,981).

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

[16] The following membership movements occurred in 2007:
Ms. Gilmore and Mr. Mead retired from the Board of Directors on April 3, 2007 and received pro rata fees for their Board work up to that date.

[17] In addition to the remuneration set out in the table, the company paid contributions for Ms. Gilmore into a group health insurance plan in the UK until her retirement in April 2007 at a cost of USD 631 (CHF 765).

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

The Directors’ fees are not pensionable. None of the Directors received any benefits-in-kind or any other compensation than set out in the tables above.

At the Annual General Meeting in 2008, Gerhard Schulmeyer retired from the Board. No termination payments were made to him during the year.

Except for Mr. Watter none of the Directors had outstanding loans, advances or credits as of December 31, 2008. Unrelated to his Board membership and on terms and conditions available to other customers, Mr. Watter received a collateralized policy loan in the amount of CHF 2.5 million during 2008. The annual interest rate charged on the loan is 4%. None of the Directors had outstanding loans, advances or credits as of December 31, 2007.

No benefits (or waiver of claims) have been provided to former members of the Board during the year 2008, nor during the year 2007. Neither had any former member of the Board outstanding loans, advances or credits as of December 31, 2008 or 2007, respectively.

No benefits (or waiver of claims) have been provided to related parties of the Directors or related parties of former members of the Board during the year 2008, nor during the year 2007. Neither had any related party of the Directors or of former members of the Board outstanding loans, advances or credits as of December 31, 2008 or 2007.

Remuneration of Group Executive Committee

The total remuneration of the members of the GEC for 2008 comprised the value of cash compensation, pensions, other remuneration and the value of the target equity grants made under the Group's Long-Term Incentive Plan in 2008 and is calculated on the same basis as in 2007. Overall compensation of the GEC members in total and the overall compensation of the highest paid executive are set out in the following tables:

All GEC members (incl. the highest paid) as of December 31

in CHF million[1, 2]	2008[3]	2007[4]
Base compensation	14.5	13.5
Cash incentive awards earned for the year	14.4	24.1
Service Costs for pension benefits[5]	4.8	4.7
Value of other remuneration[6]	3.1	4.4
Value of target performance share and restricted share grants[7]	9.9	13.0
Value of target performance option grants[7]	9.9	9.7
Total in CHF[8]	**56.6**	**69.4**
Total in USD as shown in the Remuneration report	**53.9**	**57.6**

1 The figures have been translated from U.S. dollars into Swiss francs using the relevant exchange rates throughout the year.
2 The remuneration shown in the table does not include any business related expenses incurred in the performance of the members' services.
3 On the basis of 12 GEC members all of whom served during the full year 2008.
4 On the basis of 12 GEC members of whom ten served during the full year 2007.
5 The amounts reflect the total value of pension benefits accruing to members of the GEC during 2008 and 2007, respectively, calculated on the basis of the Service Costs for the company as assessed under IAS 19 accounting principles. Service Costs value the amount of the pension benefits accruing during the year and for defined contribution plans takes the amount of the company contribution paid during the year. Service Costs do not include the interest cost on accrued benefits, adjustments for actuarial gains and losses, nor the expected return on any assets held.
6 Includes employee benefits, expatriate allowances, perquisites, benefits-in-kind and any other payments due under employment contract. Benefits-in-kind have been valued using market rates.
7 The share and share option grants will vest in the future according to achievement of defined performance conditions. The value of the share and share options assumes that the grant will vest in the future at 100% of the target level with the valuation of the options based on the Black-Scholes option pricing model as set out in note 24 to the consolidated financial statements, the valuation of the target performance share grants based on the share price on the day prior to the grants (CHF 336.50 for 2008 and CHF 355.75 for 2007) and the valuation of the restricted share grants based on the share price on the date of the grants.
8 In line with applicable laws where the executives are employed, Zurich paid the company related portion of contributions to social security systems, which amounted to USD 3.4 million (CHF 3.7 million) in 2008 and to USD 2.6 million (CHF 3.1 million) in 2007. Since the contributions are based on full earnings, whereas benefits are capped, there is not a direct correlation between the costs paid to the social security system and the benefits received by the executives.

Highest paid executive James J. Schiro, Chief Executive Officer as of December 31

in CHF millions[1], [2]	2008	2007
Base compensation	1.6	1.8
Cash incentive awards earned for the year	2.4	3.4
Service Costs for pension benefits[3]	0.9	1.1
Value of other remuneration[4]	0.5	0.4
Value of target performance share and restricted share grants[5]	2.3	2.7
Value of target performance option grants[5]	2.3	2.7
Total in CHF	**10.0**	**12.1**
Total in USD as shown in the Remuneration report	**9.55**	**10.30**

[1] The figures have been translated from US dollars into Swiss francs using the relevant exchange rates throughout the year.
[2] The remuneration shown in the table does not include any business related expenses incurred in the performance of the CEO's services.
[3] The amounts reflect the total value of pension benefits, calculated on the basis of the Service Costs for the company as assessed under IAS 19 accounting principles. Service Costs value the amount of the pension benefits accruing during the year and for defined contribution plans takes the amount of the company contribution paid during the year. Service Costs do not include the interest cost on accrued benefits, adjustments for actuarial gains and losses, nor the expected return on any assets held.
[4] Includes employee benefits, expatriate allowances, perquisites, benefits-in-kind and any other payments due under the employment contract. Benefits-in-kind have been valued using market rates.
[5] The share and share option grants will vest in the future according to achievement of defined performance conditions. The value of the share and share options assumes that the grant will vest in the future at 100% of the target level with the valuation of the options based on the Black-Scholes option pricing model as set out in note 24 to the consolidated financial statements, the valuation of the target performance share grants based on the share price on the day prior to the grants (CHF 336.50 for 2008 and CHF 355.75 for 2007) and the valuation of the restricted share grants based on the share price on the date of the grants.

As of December 31, 2008, and 2007, the total of loans, advances or credits outstanding from GEC members was CHF 1,082,000 and CHF 1,091,000, respectively. These loans represent mortgage loans, the terms of which are similar to those available to all employees in Switzerland. Mortgage loans are issued with a reduced interest rate of up to one percentage point less than the prevailing market interest rates on mortgage balances, up to a maximum of CHF 1,500,000. As at December 31, 2008 and 2007, the highest mortgage loan was held by Mr Lehmann (Group Chief Risk Officer), in the amount of CHF 782,000 (CHF 791,000 in 2007), which had an overall interest rate of 2.6 % (2.3% in 2007).

One of the GEC members retired at the end of 2008. No termination payments were made.

No benefits (or waiver of claims) have been provided to former members of the GEC during the year 2008, nor during the year 2007. Former members of the GEC are eligible to continue their mortgage loans following retirement on similar terms as when they were employed, in line with the terms available to employees in Switzerland as stated above. In this respect, one former member, Mr Eckert, held an outstanding mortgage loan of CHF 3,000,000 as at December 31, 2008 and 2007, with a reduced interest rate of 2.5% (2.25% in 2007) applying on the first CHF 1,500,000. Apart from this, no former members of the GEC had any outstanding loans, advances or credits as of December 31, 2008, and 2007.

No benefits (or waiver of claims) have been provided to related parties of GEC members or related parties of former members of the GEC during the year 2008, and 2007. Neither had any related party of GEC members or of former members of the GEC outstanding loans, advances or credits as of December 31, 2008 or 2007.

13. Shareholdings of the Board of Directors and the Group Executive Committee

This note sets out the share and share option holdings of the Directors and of the members of the Group Executive Committee (GEC), who held office at December 31, 2008 and 2007, in accordance with the information required by article 663c paragraph 3 of the Swiss Code of Obligations. This information is also included in the unaudited Remuneration report, set out on pages 44 to 61, in which additional details can be found.

Shareholdings of Directors

Directors' shareholdings as of December 31

Number of Zurich Financial Services shares[1]	Ownership of shares	
	2008	2007
M. Gentz, Chairman	2,978	2,117
Ph. Pidoux, Vice Chairman	2,470	2,218
S. Bies, Member	187	n.a.
V. Chu, Member	187	n.a.
Th. Escher, Member	5,470	4,218
F. Kindle, Member	10,470	2,218
A. Meyer, Member	1,794	1,542
D. Nicolaisen, Member	470	218
V.L. Sankey, Member	1,640	1,388
G. Schulmeyer, Member	n.a.	2,218
T. de Swaan, Member	470	218
R. Watter, Member	3,438	3,186
Total	**29,574**	**19,541**

[1] None of the Directors together with related parties to them held more than 0.5% of the voting rights as at December 31, 2008 or 2007, respectively.

All interests are beneficial, include sales-restricted shares allocated to the members as part of their fees and shares held by related parties of the Directors.

None of the Directors, nor any related party of a Director, hold any share options or conversion rights over Zurich Financial Services shares as of December 31, 2008 or 2007.

Share and share option holdings of the Group Executive Committee members

The following table sets out the actual share and share option holdings of GEC members as of December 31, 2008 and 2007. In addition to any shares acquired in the market, the numbers include vested shares, whether sales-restricted or not, and vested share options received under the Group's Long-Term Incentive Plan. However, the table does not include the share interests of the members of the GEC through their participation in the currently unvested performance shares, unvested restricted shares or unvested performance share options.

All interests are beneficial and include Zurich Financial Services shares or share options held by parties related to the GEC members. One vested option gives the right to one share with normal voting and dividend rights. Further details on the overall number of share options allocated under the Group's Long-Term Incentive Plan and the terms of the options are set out in the tables "Summary of outstanding options".

Share and vested share option holdings of the GEC members as of December 31

Number of vested shares and vested share options [1]	2008		2007	
	Ownership of shares	**Ownership of vested options over shares**[2]	Ownership of shares	Ownership of vested options over shares[2]
J.J. Schiro, Chief Executive Officer[3]	85,726	230,415	64,790	173,516
J. Amore, Chief Executive Officer General Insurance	19,606	76,096	17,220	73,880
A. Court, Chief Executive Officer Europe General Insurance[4]	3,062	5,696	–	–
M. Foley, Chief Executive Officer North America Commercial[5]	4,107	3,857	n.a.	n.a.
M. Greco, Chief Executive Officer Global Life[6]	492	–	–	–
P. Hopkins, Chief Executive Officer Farmers Group, Inc	6,678	21,184	4,765	26,290
A. Lehmann, Chief Risk Officer	13,066	49,871	10,813	39,421
P. O'Sullivan, Vice Chairman and Chief Growth Officer	15,848	54,315	19,739	49,031
G. Riddell, Chief Executive Officer Global Corporate	12,410	44,846	8,752	28,446
M. Senn, Chief Investment Officer	6,780	16,019	2,553	3,719
P. van de Geijn, Chief Executive Officer Global Life	10,952	44,034	6,993	24,889
D. Wemmer, Chief Financial Officer	9,267	36,630	5,565	19,549
Total	**187,994**	**582,963**	**141,190**	**438,741**

[1] None of the GEC members together with parties related to them held more than 0.5% of the voting rights as at December 31, 2008 or 2007, either directly or through share options.
[2] The distribution of the vested options according to the grants identified in the tables "Summary of outstanding options" is shown in the table below.
[3] Includes an amount of 3,800 shares as of December 31, 2008 and of 2,000 shares as of December 31, 2007 for Mr. Schiro which are held by family run charitable foundations.
[4] Joined the Group on January 15, 2007.
[5] Joined the GEC on January 1, 2008, but joined the Group on September 1, 2006.
[6] Joined the Group on October 1, 2007.

The following tables show how the totals of vested share options owned by the GEC members as at December 31, 2008 and 2007, are distributed according to the grants identified in the tables "Summary of outstanding options."

Distribution of vested share options as of December 31, 2008

Number of vested share options						Year of grant		Total
	2007	2006	2005	2004	2003	2002	2001	
J.J. Schiro	30,166	61,857	98,567	24,198	–	15,627	–	230,415
J. Amore	8,268	13,002	17,269	15,913	–	12,502	9,142	76,096
A. Court[1]	5,696	–	–	–	–	–	–	5,696
M. Foley[2]	3,857	–	–	–	–	–	–	3,857
M. Greco[3]	–	–	–	–	–	–	–	–
P. Hopkins	6,201	9,752	10	3,503	–	1,718	–	21,184
A. Lehmann	6,201	9,752	15,962	8,632	5,363	3,961	–	49,871
P. O'Sullivan	8,815	11,311	19,955	11,647	–	2,587	–	54,315
G. Riddell	6,782	8,861	15,633	6,373	5,694	1,503	–	44,846
M. Senn	7,342	8,677	–	–	–	–	–	16,019
P. van de Geijn	7,074	9,848	17,386	9,726	–	–	–	44,034
D. Wemmer	7,954	8,677	12,850	2,628	3,290	1,231	–	36,630
Total	**98,356**	**141,737**	**197,632**	**82,620**	**14,347**	**39,129**	**9,142**	**582,963**

[1] Joined the Group on January 15, 2007.
[2] Joined the GEC on January 1, 2008, but joined the Group on September 1, 2006.
[3] Joined the Group on October 1, 2007.

Distribution of vested share options as of December 31, 2007

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

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

The following tables set out additional details of the options outstanding for members of the GEC as at December 31, 2008 and 2007, respectively. Further details can be found in the unaudited Remuneration report, pages 44 to 61.

Summary of outstanding options as of December 31, 2008

Year of grant	Number of options vested	Number of options unvested	Total number of shares under option	Exercise price per share CHF	Year of expiry
2008	–	148,154	148,154	336.50	2015
2007	98,356	99,300	197,656	355.75	2014
2006	141,737	38,181	179,918	308.00	2013
2005	197,632	–	197,632	206.40	2012
2004	82,620	–	82,620	213.25	2011
2003	14,347	–	14,347	120.50	2010
2002	39,129	–	39,129	331.10	2009
2001 (b)	9,142	–	9,142	322.30	2012
Total	**582,963**	**285,635**	**868,598**		

Summary of outstanding options as of December 31, 2007

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

Proposed appropriation of available earnings

as of December 31	2008	2007
Registered shares eligible for dividends		
Eligible shares	142,122,620	145,546,820

in CHF thousands	2008	2007
Appropriation of available earnings as proposed by the Board of Directors		
Net income	2,658,037	1,973,433
Balance brought forward	272,144	386,842
Retained earnings	2,930,181	2,360,275
Dividend	(1,563,349)[2]	(2,088,131)[1]
Balance carried forward	1,366,832 [2]	272,144 [1]

[1] These figures are based on the issued share capital on April 8, 2008. The proposed dividend published in the Annual Report 2007 was CHF 2,183,202 thousand resulting in a balance carried forward of CHF 177,073 thousand. The difference is due to the purchase of treasury shares and the share buy-back program and a resolution of the Board of Directors on February 14, 2007, according to which, contingent capital shares for employees have been issued (as described in note 8).
Treasury shares are not entitled to dividends.

[2] These figures are based on the issued share capital as of December 31, 2008. They may change following a resolution of the Board of Directors dated February 14, 2007, according to which the remaining contingent capital shares for employees may be issued (as described in note 8).
Treasury shares are not entitled to dividends.

The Board of Directors proposes a dividend of CHF 11.00 per share to the Annual General Meeting on April 2, 2009.

If this proposal is approved, a payment of CHF 7.15 per share, after deduction of 35% Swiss withholding tax, is expected to be paid starting from April 7, 2009, free of charge and in accordance with dividend payment instructions.

Zurich, February 4, 2009

On behalf of the Board of Directors of Zurich Financial Services

Manfred Gentz

Report of statutory auditors

To the General Meeting of Zurich Financial Services, Zurich

As statutory auditors, we have audited the financial statements of Zurich Financial Services, which comprise the income statements, balance sheets and notes (pages 273 to 287), for the year ended December 31, 2008.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended December 31, 2008 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings (page 287) complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Richard Burger	Raphael Kissling
Audit expert	Audit expert
Auditor in charge	

Zurich, February 4, 2009

Shareholder information

Contents

Zurich Financial Services registered share data

Key indicators

as of December 31	2008	2007
Number of shares issued	142,122,620	145,546,820
Number of dividend-bearing shares[1]	142,122,620	145,546,820
Market capitalization (in CHF millions at end of period)	32,262	48,394
Authorized capital, number of shares	6,000,000	6,000,000
Contingent capital, number of shares	8,676,107	8,684,407

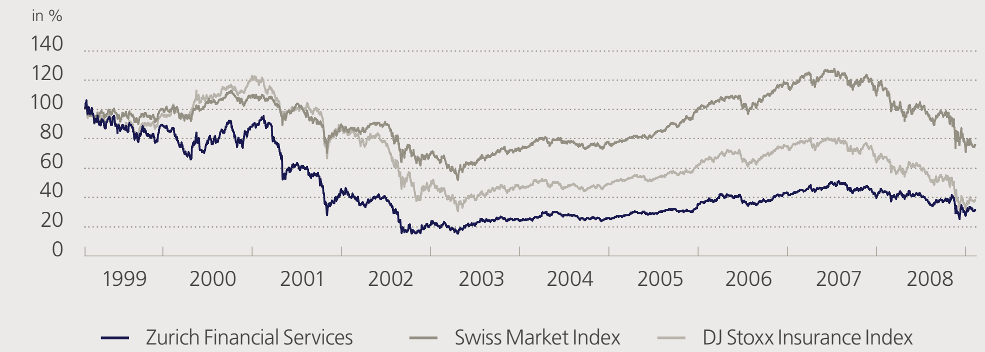
[1] Treasury shares are not entitled to dividends.

Per share data

in CHF	2008	2007
Gross dividend	11.00[1]	15.00
Basic earnings per share	23.53	47.63
Diluted earnings per share	23.35	47.11
Book value per share, as of December 31	167.92	229.39
Nominal value per share	0.10	0.10
Price at end of period	227.00	332.50
Price period high	336.50	393.25
Price period low	175.80	296.00

[1] Proposed gross dividend, subject to approval by shareholders at the Annual General Meeting 2009; expected payment date as from April 7, 2009.

Zurich share performance (indexed) over the last ten years



Dividend/ payout history

	Financial Year	Gross amount per registered share in CHF	Payment date as from
Dividend	2008	11.00[1]	April 7, 2009[1]
Dividend	2007	15.00	April 8, 2008
Dividend	2006	11.00	April 10, 2007
Dividend/nominal value reduction	2005	7.00	July 4, 2006
Nominal value reduction	2004	4.00	July 4, 2005
Nominal value reduction	2003	2.50	July 1, 2004
Nominal value reduction	2002	1.00	July 15, 2003

[1] Proposed gross dividend, subject to approval by shareholders at the Annual General Meeting 2009; expected payment date as from April 7, 2009.

Share trading

Zurich Financial Services shares are listed on the SIX Swiss Exchange and traded on the "EU-regulated" segment of SWX Europe; ticker symbol: ZURN; the Swiss security number (Valorennummer) is 1107539. Trading in Zurich Financial Services shares on SWX Europe is conducted in Swiss francs.

Share buy-back programs 2008 and 2007

On February 13, 2008 the Board of Zurich Financial Services authorized a share buy-back program for the repurchase of up to CHF 2.2 billion worth of shares over the course of 2008. As of December 31, 2008 3,750,500 fully paid shares, with a nominal value of CHF 0.10 were bought back at an average price of CHF 293 per share, at a total cost of CHF 1.1 billion.

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 CHF 0.10, were bought back at an average price of CHF 364 per share, at a total cost of CHF 1.2 billion. The shareholders at the Annual General Meeting on April 3, 2008 approved a share capital reduction by CHF 343,250 from CHF 14,554,682 to CHF 14,211,432 by cancelling these 3,432,500 registered shares. The effective date of the capital reduction was June 27, 2008.

Zurich Financial Services shareholders registered in the share ledger

The shares registered in the share ledger as of December 31, 2008, were owned by 111,852 shareholders of whom 106,150 were private individuals holding 20% of the registered shares (12% of all issued shares), 2,071 were foundations and pension funds holding 7% of the registered shares (or 5% of all issued shares), and 3'631 were other legal entities holding 73% of the registered shares (or 45% of all issued shares).

Significant shareholders

As of December 31, 2008 Zurich Financial Services is not aware of any person, other than Credit Suisse Group, who, directly or indirectly, had an interest as beneficial owner in shares, option rights and/or conversion rights relating to shares of Zurich Financial Services representing 3% or more of its issued shares. Credit Suisse Group, Paradeplatz 8, P.O. Box, 8070 Zurich, along with its subsidiaries, reported as per June 11, 2008, a purchase position of 3.32% and a sales position of 2.66% of registered Zurich Financial Services shares.

Securities custody service

Zurich offers its shareholders the opportunity to deposit a range of Zurich Financial Services securities free of charge at SIX SAG AG in Switzerland. The securities deposit regulations as well as the application form for a securities custody account can be downloaded from their Web site: www.six-sag.com

Financial calendar

Annual General Meeting 2009
April 2, 2009

Dividend – record date
April 6, 2009

Ex-dividend date
April 7, 2009

Dividend payable as from
April 7, 2009

Results Reporting for the Three Months to March 31, 2009
May 7, 2009

Half Year Results Reporting 2009
August 6, 2009

Results Reporting for the Nine Months to September 30, 2009
November 5, 2009

Publications

Business Review 2008
The Business Review contains information about Zurich's products, services and business performance, including a short summary of financial information. It is available in German, French and English.

Financial Report 2008
The Financial Report contains detailed information about Zurich's financial performance, its structure, executive bodies, risk management, corporate governance and remuneration. It is available in German, French and English, with the financials in English only.

www.zurich.com

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American Depositary Receipts
Zurich Financial Services has an American Depositary Receipt program with The Bank of New York Mellon (BNY). For more information call BNY Mellon's Shareowner Services in the USA at +1-888-BNY-ADRs (1-888-269-2377) or outside the USA on +1-212-815-3700. ADR holder assistance may also be obtained from The Bank of New York Mellon at www.adrbny.com.

Glossary

Group

Business operating profit
is a measure that is the basis on which we manage all our business units. It indicates the underlying performance of our business units by eliminating the impact of financial market volatility and other non-operational variables. Business operating profit reflects adjustments for shareholders' taxes, net capital gains on investments and impairments (except for the capital markets and banking operations included in Other Businesses and investments in hedge funds and certain securities held for specific economic hedging purposes), policyholders' share of investment results for the life businesses, non-operational foreign exchange movements, and significant items arising from special circumstances, including gains and losses on divestments of businesses. Adjusted business operating profit is adjusted for notional investment income on the difference between the average actual International Financial Reporting Standards (IFRS) equity and the average allocated IFRS equity using one global swap rate. Allocated IFRS equity is equal to a segment's pro rata share of the Group's risk-based capital at the respective period end. These measures are not a substitute for net income as determined in accordance with IFRS.

Business operating profit (after-tax) return on common shareholders' equity
indicates the level of business operating profit or loss relative to resources provided by common shareholders. It is calculated as business operating profit or loss, annualized on a linear basis and adjusted for preferred shareholder dividends and taxes, divided by the average value of common shareholders' equity on a simple basis using the value at the beginning and end of the period. Adjusted business operating profit return on common shareholders' equity is based on average IFRS Group equity and is allocated to each segment based on its share of risk-based capital.

Group investments
are those for which we bear part or all of the investment risk. They also include investments related to investment policies with discretionary participation features. Average invested assets exclude cash collateral received for securities lending. We manage our diversified Group investments portfolio to optimize benefits for both shareholders and policyholders while ensuring compliance with local regulatory and business requirements under the guidance of our Asset/Liability Management and Investment Committee.

Investments for unit-linked products
include such investments where the policyholder bears the investment risk, and are held for liabilities related to unit-linked investment contracts and reserves for unit-linked insurance contracts. They are managed in accordance with the investment objectives of each unit-linked fund. The investment result for unit-linked products is passed to policyholders through a charge to policyholder dividends and participation in profits.

Operational debt
is a non-IFRS term referring to debt items that are excluded from ratings agency leverage calculations such as collateralized loans, debt related to banking activities and obligations to repurchase securities.

Other related intangible assets
are assets on our Global Life and Farmers Management Services balance sheets and consist of the present value of profits of acquired insurance contracts and attorney-in-fact relationships.

Return on common shareholders' equity (ROE)
is a measure that indicates the level of profit or loss relative to resources provided by common shareholders. It is calculated as net income after taxes attributable to common shareholders, annualized on a linear basis, divided by the average value of common shareholders' equity on a simple basis using the value at the beginning and end of the period.

General Insurance

The following General Insurance measures are net of reinsurance.

Net underwriting result

is calculated as the difference between earned premiums and policy fees and the sum of insurance benefits and losses and net technical expenses.

Total net technical expenses

includes underwriting and policy acquisition costs, as well as the technical elements of administrative and other operating expenses, amortization of intangible assets, interest credited to policyholders and other interest, and other income.

Combined ratio

is a performance measure that indicates the level of claims and net technical expenses during the period relative to earned premiums and policy fees. It is calculated as earned premiums and policy fees minus the net underwriting result, divided by net earned premiums and policy fees.

Loss ratio

is a performance measure that indicates the level of claims during the period relative to earned premiums and policy fees. It is calculated as insurance benefits and losses, which include paid claims, claims incurred but not reported (IBNR) and claims handling costs, divided by earned premiums and policy fees.

Expense ratio

is a performance measure that indicates the level of technical expenses during the period relative to earned premiums and policy fees. It is calculated as the sum of net technical expenses and policyholder dividends and participation in profits, divided by earned premiums and policy fees.

Net non-technical result

includes the non-technical elements of administrative and other operating expenses, amortization of intangible assets, interest credited to policyholders and other interest, other income, as well as net gains and losses on divestments of businesses and interest expense on debt.

Global Life

Embedded value (EV) principles

is a methodology using a "bottom-up" market consistent approach, which explicitly allows for market risk. In particular, asset and liability cash flows are valued using risk discount rates consistent with those applied to similar cash flows in the capital markets, and options and guarantees are valued using market consistent models calibrated to observable market prices.

Insurance deposits

are deposits, similar to customer account balances, not recorded as revenues. However, the fees charged on insurance deposits are recorded as revenue within the gross written premiums and policy fees line item. These deposits arise from investment contracts and insurance contracts that are accounted for under deposit accounting. They represent the pure savings part, which is invested.

New business annual premium equivalent (APE)

is calculated as new business annual premiums plus 10 percent of single premiums. Present value of new business premiums (PVNBP) is calculated as the value of new business premiums discounted at the risk-free rate.

New business value, after tax

is a measure that reflects the value added by new business written during the period, including allowing for frictional costs, time value of options and guarantees, and the cost of non-market risk, and is valued at the point of sale. It is calculated as the present value of the projected after-tax profit from life insurance contracts sold during the period.

Farmers Management Services

Gross management result

is a performance measure calculated as management fees and other related revenues minus management and other related expenses, which include amortization and impairments of intangible assets.

Managed gross earned premium margin

is a performance measure calculated as gross operating profit of Farmers Management Services divided by the gross earned premiums of the Farmers Exchanges, which we manage but do not own.

Disclaimer & Cautionary Statement

Certain statements in this document are forward-looking statements, including, but not limited to, statements that are predications of or indicate future events, trends, plans or objectives. Forward-looking statements include statements regarding our targeted profit improvement, return on equity targets, expense reductions, pricing conditions, dividend policy and underwriting claims improvements, as well as statements regarding our understanding of general economic, financial and insurance market conditions and expected developments. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results and plans and objectives of Zurich Financial Services or the Zurich Financial Services Group (the "Group") to differ materially from those expressed or implied in the forward looking statements (or from past results). Factors such as (i) general economic conditions and competitive factors, particularly in our key markets; (ii) the risk of the global economic downturn and a downturn in the financial services industries in particular (iii) performance of financial markets; (iv) levels of interest rates and currency exchange rates; (v) frequency, severity and development of insured claims events; (vi) mortality and morbidity experience; (vii) policy renewal and lapse rates; and (viii) changes in laws and regulations and in the policies of regulators may have a direct bearing on the results of operations of Zurich Financial Services and its Group and on whether the targets will be achieved. Zurich Financial Services undertakes no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information, future events or circumstances or otherwise.

It should be noted that past performance is not a guide to future performance.

Persons requiring advice should consult an independent adviser.

This communication does not constitute an offer or an invitation for the sale or purchase of securities in any jurisdiction.

THIS COMMUNICATION DOES NOT CONTAIN AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES; SECURITIES MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES ABSENT REGISTRATION OR EXEMPTION FROM REGISTRATION, AND ANY PUBLIC OFFERING OF SECURITIES TO BE MADE IN THE UNITED STATES WILL BE MADE BY MEANS OF A PROSPECTUS THAT MAY BE OBTAINED FROM THE ISSUER AND THAT WILL CONTAIN DETAILED INFORMATION ABOUT THE COMPANY AND MANAGEMENT, AS WELL AS FINANCIAL STATEMENTS.

The Financial Report is published in English, German and French. In the case of inconsistencies in the German and French translations, the English original version shall prevail.

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