

Remuneration Report

To better structure the Annual Report and enable the information relating to the remuneration of Directors and Management to be more easily available to the reader, the Remuneration Report is presented as a separate report under its own heading. This Remuneration Report follows the recommended structure outlined in chapter five of the Directive on Information Relating to Corporate Governance of the SWX Swiss Exchange. The rest of the information to be disclosed according to the Directive of the SWX Swiss Exchange is included in the "Corporate Governance Report", preceding this Remuneration Report.

Remuneration principles

Recognizing that Zurich Financial Services 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. Directors' fees are currently paid in cash and the Directors do not participate in any of the share-based programs established for the executive management of the Group.

The remuneration principles for the members of the Group Executive Committee ("GEC") are structured to reflect the global and competitive nature of the Group's businesses and to ensure that individuals with the required knowledge and experience can be attracted, motivated and retained to manage operations effectively. Actual compensation levels and overall terms and conditions are established to reflect the line of business; the relevant marketplace; and the skills, experience and contribution of the individual concerned. Significant emphasis is placed on variable compensation to ensure linkage between the rewards of executives and the performance achievements of the individual and the Group. Given the international mix of the members of the top management team, an appropriate balance of the compensation elements ensures that the overall package is competitive in their respective local marketplace.

The remuneration package for senior management, including the GEC, comprises a base salary and participation in short and long-term incentive programs, together with pension and other employee benefits. The performance drivers for the short and long-term incentive plans were redefined in 2003 to place a much greater emphasis on the Group's financial and operating results and to further increase the alignment with shareholder interests. The size of the incentive pool under the short-term plan is directly linked to the Group's profitability, while the long-term program includes performance-based vesting criteria on both share and share option grants. The actual level of performance vesting, which is assessed annually, is based on the Group's actual Return on Equity (ROE) performance as well as the relative positioning of the Group's total return to shareholders compared to a global industry peer group of insurance companies.

Further details of the performance share and share option plans are set out on pages 132 to 134.

Compensation for active members during 2004

As of December 31, 2004, all of the Directors of Zurich Financial Services are non-executives, independent of management. The compensation for Directors and for members of the Group Executive Committee is therefore disclosed separately in accordance with the requirements of the Directive of the SWX Swiss Exchange.

Directors' Fees

The fees paid to the non-executive Directors of Zurich Financial Services who held office in 2004 are shown in the table below.

All Directors, except the current Chairman and Vice-Chairman are remunerated on the basis of an annual fee of USD 125,000 together with an additional fee of USD 25,000 in respect of each committee on which they served. Directors who reside in the United States receive an additional fee of USD 10,000 per annum. With effect from July 1, 2003, it was agreed that the chairman of the audit committee would receive an additional fee of USD 10,000 per annum.

The current Chairman of Zurich Financial Services received an annual fee of USD 500,000 in 2004. The current Vice-Chairman received an annual fee of USD 250,000 in 2004. These were the same levels as received in 2003. None of the Directors' fees is pensionable.

The total aggregate fees paid to the Directors of Zurich Financial Services for the year ended December 31, 2004, were USD 1,992,500, excluding fees paid to the Directors of Zurich Insurance Company referred to below.

	Fees paid in 2004 USD	Fees paid in 2003 USD
L. C. van Wachem	500,000	500,000
Ph. Pidoux	250,000	250,000
T. Escher ¹	112,500	–
R. E. J. Gilmore	175,000	175,000
M. Granzio ²	75,000	143,750
D. G. Mead	185,000	185,000
A. Meyer	175,000	175,000
V. L. Sankey	175,000	175,000
G. Schulmeyer	195,000	190,000
R. Watter	150,000	150,000
Total	1,992,500	1,943,750

¹ Joined the Board of Directors on April 16, 2004.

² Resigned from the Board of Directors on April 16, 2004.

Mrs. Gilmore is a member of a group health insurance plan in the UK with a benefit valued at USD 1,661 (2003: USD 1,315). There were no other benefits in kind provided to Directors of Zurich Financial Services.

In addition, fees are paid to the members of the board of directors of the Zurich Insurance Company. The membership of the Board and the fee structure was reviewed in 2004 and with effect from April 1, 2004, in addition to Messrs. Mead, Meyer, Pidoux, van Wachem and Watter all other members of the Board of Zurich Financial Services became members of the board of Zurich Insurance Company. Also with effect from this date, a fee level of CHF 100,000 per annum was established, a reduction from the CHF 130,000 that had previously applied.

	Fees paid in 2004 CHF	Fees paid in 2003 CHF
L. C. van Wachem	107,500	130,000
Ph. Pidoux	107,500	130,000
Th. Escher ¹	75,000	–
R. E. J. Gilmore ¹	75,000	–
D. G. Mead	107,500	130,000
A. Meyer	107,500	130,000
V. L. Sankey ¹	75,000	–
G. Schulmeyer ¹	75,000	–
R. Watter	107,500	130,000
Total	837,500	650,000

¹ Joined the board of directors in April, 2004.

Group Executive Committee Remuneration

The total aggregate remuneration paid to the members of the GEC was USD 27 million during 2004 (USD 20 million during 2003). Aggregate remuneration consists of the base salary paid, any cash awards received under the short and long-term incentive plans and the estimated value of other compensation-related items, for example, the value of pension benefits accruing during the year, overseas allowances, perquisites, cars and mortgage loans. Aggregate remuneration includes the remuneration payments received during the period that the executive is a member of the GEC. Equity based remuneration is addressed below.

The increase in aggregate remuneration arises predominantly from the increase in cash based incentive awards paid in 2004 for the performance achievements in 2003 relative to the awards paid in 2003 for the 2002 performance year. Incentive awards for the 2002 performance year were significantly reduced following the loss incurred in that year. Furthermore, the modest increase in the average membership and the changes in exchange rates also impacted the aggregate remuneration over the period.

The following table specifies the number of members whose aggregate remuneration falls within the following bands:

		2004	2003
Above	USD 3,250,000	4	2
Between	USD 1,625,001 and USD 3,250,000	2	4
Between	USD 1,300,001 and USD 1,625,000	2	1
Between	USD 975,001 and USD 1,300,000	1	–
Between	USD 650,000 and USD 975,000	–	1
Below	USD 650,000	2	1

Included in aggregate remuneration is approximately USD 4 million in 2004 (USD 3 million in 2003) to provide for accrued pension, retirement and similar benefits for the GEC members. The members of the GEC participate in various pension plans, typically providing benefits based on final salary and the number of years of service with the Group. Normal retirement ages vary from age 60 to age 65. Accrual rates vary in line with practice in each country and typically lead to overall pension levels of between 40% and 67% of the defined final pensionable salary.

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

One member of the GEC gave up his function during 2004. In line with his contractual agreements, an amount of USD 2.6 million was available to the individual and this was predominantly used to increase the member's pension benefits. The payment was made subject to compliance with certain post employment obligations. No termination arrangements were entered into with members of the Board of Directors, who left in 2004.

Compensation for former directors and executives

For former members of the GEC (including its equivalent prior to its formation), the Group paid amounts totaling USD 2.4 million to one former member during 2004. No payments have been made to any other former members of the Board of Directors.

Share plans in the year under review

Share plans for the Directors

The members of the Board of Directors of Zurich Financial Services do not participate in the Long-Term Performance Share Plan for executive management; hence no shares have been allotted to them in the year under review or in earlier years.

Share Plans for members of the Group Executive Committee

Under the Group's Long Term Incentive Plan running for the period January 1, 2003, to December 31, 2005, the first tranche of shares and share options became eligible for vesting in 2004 based on the performance achievements in 2003. Vesting was assessed in relation to the Group's Return on Equity (ROE) in 2003 and the position of Zurich's total shareholder return in comparison to an international peer group of insurance companies during 2003. The overall performance in 2003 led to a vesting percentage of 129%.

Under the Group's Long-Term Performance Share Plan running for the period January 1, 2002, to December 31, 2004, the actual number of shares to be awarded is dependent on the financial performance of the Group during this three-year period and any awards will be made in 2005.

Under the Group's Long-Term Performance Share Plan running for the period January 1, 2001, to December 31, 2003, the actual number of shares to be awarded in 2004 was dependent on the financial performance of the Group during the period relative to defined hurdles. Based on the financial performance of the Group over the three-year period, no awards were made under this Group Long-Term Performance Share Plan in 2004. However, for those members joining the GEC during the performance period, pro rata awards could be made to such members if the business division plans in which they participated paid awards for this performance period.

Under the plans, a further condition of payment is that the individual must remain employed throughout the performance period. One half of the shares awarded under the plans at the end of each performance period are sales-restricted for a further period of three years. In addition, certain members of the GEC participated in an all-employee share plan in Switzerland and were able to receive three-year sales restricted shares under the terms of that plan. As a result, the total number of share awards made under the various performance share plans to members of the GEC during 2004 was as follows

<i>Share Awards</i>	2004	2003
Total performance share awards made	22,948 ¹	1,066 ¹
Relevant share price at beginning of performance cycle	CHF 120 to 448	CHF 627
Market value of shares at the date of award	CHF 213	CHF 161

¹ To the extent that the share awards have not been deferred or sold prior to the end of 2004, these shares are included in the share interest table on page 133.

Conditional share allocations

The total number of performance share allocations available to be delivered in future years to members of the GEC, if specified performance targets are met during the performance periods, was 71,851 as of December 31, 2004 (67,935 as of December 31, 2003), as set out in the table below.

Performance period	Performance share allocation	Allocated price CHF	Year of award
2002–2004	15,662	301.00	2005
2003–2005	29,276	120.50	2005–2006
2004–2006	26,913	213.25	2005–2007

Within the context of the long-term incentive program, the performance share allocations made in 2004 will be considered for vesting on a uniform basis during 2005, 2006 and 2007. The actual level of vesting each year (0 to 150% of the allocation) will depend upon the Group's performance in relation to the ROE achievement and the positioning of the Group's total return to shareholders compared to a global industry peer group of insurance companies.

In addition to the above, there were 21,137 restricted shares outstanding for members of the GEC as of December 31, 2004. 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. There were no grants of restricted shares in 2004.

Share ownership

Shareholdings of the 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, and include shares held by closely linked persons.

Number of shares, as of December 31	Ownership of Zurich Financial Services shares 2004	Ownership of Zurich Financial Services shares 2003
L. C. van Wachem	1,666	1,666
Ph. Pidoux	1,750	1,500
Th. Escher	2,000	–
R. E. J. Gilmore	828	778
D. G. Mead	1,086	76
A. Meyer	1,124	1,124
V. L. Sankey	1,170	1,170
G. Schulmeyer	2,000	1,000
R. Watter	2,968	1,968
Total	14,592	9,300

Shareholdings of the members of the Group Executive Committee

The shareholdings of the members of the GEC, who held office at the end of the year in the shares of Zurich Financial Services, are shown below. All holdings are beneficial, and include shares held by closely linked persons.

Number of shares, as of December 31	Ownership of Zurich Financial Services shares 2004	Ownership of Zurich Financial Services shares 2003
J. J. Schiro	5,372	1,000
P. Eckert	8,748	6,136
P. O'Sullivan	8,337	3,638
D. Wasserman	2,952	–
P. van de Geijn	1,212	–
J. Amore	3,031	79
M. D. Feinstein	1,564	1,154
A. P. Lehmann	2,846	1,500
G. Riddell	1,402	n/a
D. Wemmer	1,382	n/a
Total	36,846	13,507

This table does not include the share interests of the members of the GEC through their participation in either the conditional share plans or the share option plans or if they have elected to defer receipt of their share awards.

Share options

Share options held by Directors

The members of the Board of Directors of Zurich Financial Services do not participate in the share option plan for executive management; hence no share options have been allotted in the year under review or in earlier years.

Share options held by the members of the Group Executive Committee

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% 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 under the option grant made in 2004, which includes performance based vesting criteria, was set at the market price on the day prior to the date of grant. The vesting schedule for the option grant is the same as for the performance shares.

Under the share option program, the total number of shares under option for the GEC members as of December 31, 2004 is set out in the table below.

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
1999	6,274		6,274	885.85	2006
2000	9,800		9,800	689.95	2007
2001	23,502		23,502	492.55	2008
2001	23,899		23,889	322.30	2012
2002		78,241	78,241	331.10	2009
2003	51,258	74,105	125,363	120.50	2010
2004		85,914	85,914	213.25	2011

The performance based share options granted in 2004 will be considered for vesting on a uniform basis during 2005, 2006 and 2007. The actual level of vesting each year (0 to 150% of the allocation) will depend upon the Group's performance in relation to the ROE achievement and the positioning of the Group's total return to shareholders compared to a global industry peer group of insurance companies.

Additional honoraria and remuneration

None of the Directors or members of the GEC received any other compensation as set out above from the Group or from any of the Group's companies.

Personal loans

As of December 31, 2004, the total amount of loans, including guarantee commitments, outstanding was USD 3 million for two members of the GEC. These loans represent mortgage loans, which are available to employees and customers in certain countries. Employees, including members of the GEC, benefit from a reduced interest rate of up to 1% less than the prevailing market interest rates on mortgage balances up to a maximum of USD 1 million. As of December 31, 2004 none of the Directors had loans.

No other guarantees and/or outstanding loans, advances or credits have been granted to the members of the Board of Directors or the GEC. Except as disclosed above, the Directors and the members of the GEC of Zurich Financial Services have no interest in any transactions which are or were unusual in the nature of their conditions or significant to the business of the Group.

Highest remuneration for Directors

As set out in the previous section, the highest paid remuneration for the Directors was USD 587,000 for Mr. van Wachem.