

Principal activity and review of the year

Zurich Financial Services is the holding company of the Group with a primary listing on the SWX Swiss Exchange and a secondary listing on the London Stock Exchange. Zurich Financial Services was incorporated on April 26, 2000, with a share capital of CHF 100,000. As of December 31, 2004, the shareholders' equity totaled CHF 16,267,755,044 (December 31, 2003: CHF 16,097,175,155).

Its principal activity is the holding of subsidiaries. Revenues consist mainly of dividends and interests. Net income of Zurich Financial Services was CHF 530,597,277 for 2004 (CHF 94,351,041 for 2003).

Statements of income

in CHF thousands, for the years ended December 31

	Notes	2004	2003
Revenues			
Interest income		207,527	111,002
Dividend income		350,000	–
Other financial income		21	115
Total revenues		557,548	111,117
Expenses			
Administrative expense	3	(4,064)	(5,055)
Other financial expense		(178)	(381)
Tax expenses	4	(22,709)	(11,330)
Total expenses		(26,951)	(16,766)
Net income		530,597	94,351

Balance sheets

(before appropriation of available earnings)

in CHF thousands, as of December 31

Assets	Notes	2004	2003
Non-current assets			
Investments in subsidiaries	5	10,662,917	10,662,917
Subordinated loans to subsidiaries		4,000,000	4,000,000
Total non-current assets		14,662,917	14,662,917
Current assets			
Cash and cash equivalents		500,229	80
Loans to subsidiaries		1,015,791	1,372,193
Accrued income from third parties		4	–
Accrued income from subsidiaries		104,094	100,000
Total current assets		1,620,118	1,472,273
Total assets		16,283,035	16,135,190
Liabilities and shareholders' equity			
Short-term liabilities			
Loans from third parties		–	25,000
Other liabilities to subsidiaries		1,042	1,197
Other liabilities to third parties		13,800	11,300
Other liabilities to shareholders		389	363
Accrued liabilities		49	155
Total short-term liabilities		15,280	38,015
Shareholders' equity (before appropriation of available earnings)			
Common stock	7	936,045	1,296,063
Legal reserves:			
General legal reserve		9,215,782	9,215,782
Reserve for treasury stock	8	77,235	150,814
Free reserve		5,376,597	5,303,017
Retained earnings:			
Beginning of year		131,499	37,148
Net income		530,597	94,351
Retained earnings, end of year		662,096	131,499
Total shareholders' equity (before appropriation of available earnings)		16,267,755	16,097,175
Total liabilities and shareholders' equity		16,283,035	16,135,190

Notes to the financial statements

1. Basis of presentation

Zurich Financial Services presents its financial statements in accordance with Swiss law.

2. Summary of accounting policies

(a) Exchange rates

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.

3. Administrative expense

Administrative expenses are primarily directors' fees of CHF 2,455,679 (prior year CHF 2,587,289).

4. Taxes

The tax expense consists mainly of income and capital taxes.

5. Investments in subsidiaries

Investments in subsidiaries include a 57% interest in Zurich Group Holding with a carrying value of CHF 6,064,302,120 (prior year CHF 6,064,302,120) and a 100% interest in Allied Zurich p.l.c., with a carrying value of CHF 4,595,865,096 (prior year CHF 4,595,865,096). Allied Zurich p.l.c. holds a 43% interest in Zurich Group Holding. Additionally, Zurich Financial Services holds 49,000 shares of Zurich Insurance Company with a carrying value of CHF 2,750,192 (prior year CHF 2,750,190).

6. Commitments and contingencies

Zurich Financial Services has provided an unlimited guarantee 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 guarantees and a support agreement for the benefit of its subsidiaries. These contingencies amounted to CHF 319 million as of December 31, 2004 (CHF 413 million as of December 31, 2003).

Zurich Financial Services knows of no event that would require it to satisfy the guarantees or to take action under a support agreement.

7. Shareholders' equity

Issued stock

At the Annual General Meeting of April 16, 2004, shareholders approved a share capital reduction in the form of a capital nominal value reduction of each registered share from CHF 9 to CHF 6.50. As a result of this reduction, the share capital was reduced by CHF 360,017,387.50 from CHF 1,296,062,595 to a new total of CHF 936,045,207.50. In the previous year, shareholders approved, at the Annual General Meeting of April 30, 2003, a share capital reduction in the form of a capital nominal value reduction of each registered share from CHF 10 to CHF 9. As a result of that reduction, the share capital was reduced by CHF 144,006,955 from CHF 1,440,069,550 to CHF 1,296,062,595.

As of December 31, 2004 and 2003, Zurich Financial Services had 144,006,955 shares of CHF 6.50 par value and CHF 9 par value, respectively, common stock issued and fully paid.

Authorized stock

Until June 1, 2005, the Board of Zurich Financial Services is authorized to increase its share capital by an amount not exceeding CHF 39,000,000 by issuing up to 6,000,000 fully paid registered shares with a nominal value of CHF 6.50 each. An increase in partial amounts is permitted. The Board determines the date of issue of such new shares, the issue price, type of payment, conditions for exercising pre-emptive rights, and the beginning of the dividend entitlement. The Board may issue such new shares by means of a firm underwriting by a banking institution or syndicate with subsequent offer of those shares to the current shareholders. The Board may allow the expiry of pre-emptive rights which have not been exercised, or it may place these rights as well as shares, the pre-emptive rights of which have not been exercised, at market conditions.

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

Contingent stock

Capital market instruments and option rights to shareholders: The share capital of Zurich Financial Services may be increased by an amount not exceeding CHF 35,631,882 by issuing up to 5,481,828 fully paid registered shares with a nominal value of CHF 6.50 each (1) through the exercise of conversion and/or option rights which are granted in connection with the issuance of bonds or similar debt instruments by Zurich Financial Services or one of its Group companies in national or international capital markets and/or (2) by the exercise of option rights which are granted to the shareholders. When issuing bonds or similar debt instruments connected with conversion and/or option rights, the pre-emptive rights of the shareholders will be excluded. The current owners of conversion and/or option rights shall be entitled to subscribe for the new shares. The conversion and/or option conditions are to be determined by the Board.

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

Employee participation: The share capital may be increased by an amount not exceeding CHF 9,750,000 by issuing up to 1,500,000 fully paid registered shares with a nominal value of CHF 6.50 each to employees of Zurich Financial Services and Group companies. The pre-emptive rights of the shareholders, as well as the right for advance subscription, are excluded. The issuance of shares or respective option rights to employees shall be subject to one or more regulations to be issued by the Board of Directors and taking 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.

8. Reserve for treasury stock

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.

	Number of shares 2004	Purchase value ¹ 2004	Number of shares 2003	Purchase value ¹ 2003
Reserve for treasury shares				
As of January 1 (opening balance)	762,507	150,814	1,975,663	441,142
Additions during the year	–	–	163,993	28,388
Sales during the year	(464,394)	(72,415)	(1,377,149)	(316,776)
Decrease due to nominal value reduction of common stock	–	(1,164)	–	(1,940)
As of December 31 (closing balance)	298,113	77,235	762,507	150,814
Average purchase price of additions, in CHF		–		173
Average selling price, in CHF		182		189

¹ In CHF thousands.

9. Shareholders

The shares registered in the share ledger as of December 31, 2004, were owned by 128,655 shareholders of which 122,017 were private individuals holding 22.0% of the registered shares (or 13.8% of all outstanding shares), 2,556 were foundations and pension funds holding 10.0% of the registered shares (or 6.3% of all outstanding shares), and 4,082 were other legal entities holding 68% of the registered shares (or 42.6% of all outstanding shares).

According to the information available to us, Brandes Investment Partners L.P., San Diego, USA, represented an important shareholder holding more than 5% and less than 10% of common stock as specified in article 663c of the Swiss Code of Obligations, on December 31, 2004 and 2003, respectively.

Proposed/approved appropriation of available earnings

	2004	2003
Registered shares eligible for dividends		
Shares eligible as of February 16, 2005 and February 18, 2004, respectively	144,006,955	144,006,955
in CHF thousands	2004 (proposed)	2003 (approved)
Appropriation of available earnings as proposed by the Board of Directors		
Net income	530,597	94,351
Balance brought forward	131,499	37,148
Available earnings	662,096	131,499
Dividend	–	–
Transfer to general legal reserve	–	–
Balance carried forward	662,096	131,499

The Board of Directors proposes to the Annual General Meeting to appropriate the available earnings in accordance with the table above.

No dividend is proposed to be paid out for 2004. For 2003, no dividend was paid either. Instead for 2003, the Board of Directors proposed to repay CHF 2.50 of the nominal value of each registered share, as a result of a reduction of the nominal value from CHF 9 to CHF 6.50 per registered share. This proposal was approved by the Annual General Meeting on April 16, 2004.

Proposed payout of nominal value reduction

The Board of Directors proposes to repay CHF 4.00 of the nominal value of each registered share, as a result of a reduction of the nominal value from CHF 6.50 to CHF 2.50 per registered share. The proposed payout would reduce the share capital by CHF 576,027,820. The proposed payout of the nominal value reduction of CHF 4.00 per each registered share is expected at the beginning of July, 2005, subject to approval by the Annual General Meeting and subject to the fulfilment of the necessary requirements and the entry of the share capital reduction in the Commercial Register of the Canton of Zurich.

Zurich, February 16, 2005

On behalf of the Board of Directors of Zurich Financial Services

Lodewijk C. van Wachem

Report of the statutory auditors

To the General Meeting of Zurich Financial Services, Zurich

As statutory auditors, we have audited the accounting records and the financial statements (statements of income, balance sheets and notes on pages 136 to 139) of Zurich Financial Services for the year ended December 31, 2004.

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

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

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings (on page 140) comply with Swiss law and the company's articles of incorporation.

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

PricewaterhouseCoopers AG

W Eriksen-Grundbacher

C Stöckli

Zurich, February 16, 2005