

# Letter to Shareholders

## Dear shareholders

In 2004, we continued to make substantial progress in improving our Group's profitability. We strengthened our balance sheet and positioned Zurich for sustained profitable growth. Net income grew by 29 percent to USD 2.6 billion. This generated a return on equity of 13.3 percent, an increase of 1.2 percentage points compared with 2003. Our result was based on strong underlying improvements both in our General Insurance and Life Insurance businesses, record earnings contribution from Farmers Management Services and an excellent investment performance. It was a challenging year, but we demonstrated our ability to absorb earnings shortfalls in some areas while dealing with extraordinary events.

The year 2004 marked the end of an unprecedented two-year period characterized by the absence of large catastrophes. In August and September, four hurricanes struck the US and Caribbean leading to record insurance industry losses of more than USD 22 billion. And just before the end of the year, a powerful tsunami destroyed vast coastal areas from Indonesia to East Africa, leaving a tragic toll of death and destruction. In the wake of these unparalleled events, Zurich recognized claims payments net of reinsurance and taxes of USD 585 million.

The Group continued to strengthen its capital base and reserve position. Shareholders' equity grew by 17 percent to USD 22.2 billion and total financial capital in support of our operations increased by 18 percent to USD 28.1 billion. We strengthened our net insurance loss reserves by USD 2.0 billion. Reserve strengthening of USD 2.6 billion in North America Corporate was mitigated by reserve releases in other regions without departing from our overall conservative stance. Total net insurance loss reserves are now USD 43.5 billion compared with USD 37.0 billion at the end of 2003. These actions contributed to a significant strengthening of the Group's balance sheet.

Our business operating profit increased 36 percent over last year, generating a business operating profit return on equity after tax of 11.5 percent, up 1.7 percentage points from 2003 and approaching our medium-term performance target of 12 percent. We recorded excellent underwriting results in Continental Europe, the United Kingdom and International Businesses. These mitigated the impact of two factors on our commercial business in North America – extraordinary catastrophes in 2004 and the impact of the poor underwriting record in the years 1997 to 2001.

Our response was swift and determined. We improved our performance by focusing on the fundamentals of our business. We are committed to perform in the industry's top tier, based on our underwriting performance and competitive advantage as a major provider of general and life insurance services with a well-diversified mix of business, both by line of business and geography.



Lodewijk C. van Wachem  
Chairman of the  
Board of Directors

In line with our strategic goal to become the leading insurer in our chosen markets, we are committed to operational excellence and focusing on the most attractive sectors in general and life insurance. To ensure that operational improvements are ingrained in our culture and replicated across different units around the world, we are implementing one consistent and uniform Zurich Way of doing business. Using common methodologies to govern processes in underwriting, claims management, distribution, finance and talent management, we are driving the Zurich organization toward excellence.

The Zurich Way has become an integral part of our planning and is designed to generate operational improvements in 2005 and subsequent years, with the anticipated benefit in the first year amounting to USD 500 million after tax.

In 2004, we made two appointments to the Group Executive Committee. Geoff Riddell leads our Global Corporate business and Dieter Wemmer heads Europe General Insurance. After 34 years with Farmers and the Zurich Group, Martin D. Feinstein will retire effective March 31, 2005 as Chief Executive Officer of Farmers Group, Inc. (FGI) and from the GEC. We thank him for his dedicated service and welcome his successor Paul N. Hopkins as a member of the GEC effective April 1, 2005.



Lodewijk C. van Wachem  
Chairman of the Board

Last year, the insurance industry, including Zurich, came under heightened scrutiny by public authorities and regulators concentrating primarily on certain business practices involving insurance carriers and brokers, the use of non-traditional products and reinsurance. We proactively performed our own reviews and have taken remedial actions where necessary. In particular, we completed our response to the information requests relating to certain business practices involving insurance brokers and insurance carriers. We continue to strengthen our processes and are committed to comply with laws, regulations and ethical standards as embodied in Zurich *Basics*, our internal core values and basic principles.

In the last two years, Zurich has laid a firm foundation for sustained profitability. Financial and operational discipline has been instilled throughout the organization, and we are operating from a position of improved financial strength. Once again, we would like to extend our thanks to our employees who made this possible. Their dedication to our customers and their hard work and commitment contributed to the Group's performance. We would also like to thank our customers for their continuing loyalty and our shareholders for the support they have shown us in 2004.



James J. Schiro  
Chief Executive Officer



James J. Schiro  
Chief Executive Officer



Pictured from left to right: R. Watter, G. Schulmeyer, P. Pidoux, T. Escher, L. van Wachem, D. Mead, V. Sankey, R. Gilmore, A. Meyer

## Board of Directors

### **Lodewijk C. van Wachem**

Chairman of the Board, chairman of the Nominations Committee and member of the Remuneration Committee

### **Philippe O. Pidoux**

Vice-Chairman of the Board, member of the Nominations Committee and of the Audit Committee

### **Thomas K. Escher**

Director, member of the Audit Committee

### **Rosalind E.J. Gilmore**

Director, member of the Remuneration Committee and of the Audit Committee

### **Dana G. Mead**

Director, chairman of the Remuneration Committee and member of the Nominations Committee

### **Armin Meyer**

Director, member of the Nominations Committee and of the Remuneration Committee

### **Vernon L. Sankey**

Director, member of the Nominations Committee and of the Remuneration Committee

### **Gerhard H. Schulmeyer**

Director, chairman of the Audit Committee and member of the Remuneration Committee

### **Rolf U. Watter**

Director, member of the Audit Committee

As of December 31, 2004



Pictured from left to right: J. Amore, M. Feinstein, P. O'Sullivan, P. van de Geijn, J. Schiro, G. Riddell, P. Eckert, D. Wasserman, A. Lehmann, D. Wemmer

## Group Executive Committee

**James J. Schiro**

Chief Executive Officer

**Peter Eckert**

Chief Operating Officer

**Patrick H. O'Sullivan**

Group Finance Director

**David L. Wasserman**

Chief Investment Officer  
Head of Group Strategic Planning

**Paul van de Geijn**

Chief Executive Officer  
Global Life Insurance

**John J. Amore**

Chief Executive Officer  
General Insurance

**Martin D. Feinstein**

Chief Executive Officer  
Farmers Group, Inc.

**Axel P. Lehmann**

Chief Executive Officer  
North America Commercial

**Geoff Riddell**

Chief Executive Officer  
Global Corporate

**Dieter Wemmer**

Chief Executive Officer  
Europe General Insurance

As of December 31, 2004