Segmental Financial Analysis

In the following sections we discuss the results of operations for each of our segments. It should be noted that results for 2003 in this Segmental Financial Analysis are restated for the implementation of a new accounting standard. Business operating profit figures for 2003 have been restated to conform with the current year presentation. Details are set out in the sections "Basis of Current and Future Presentation and Comparability" and "Investment Performance" in the Group Financial Review. The analysis of the results for the year ended December 31, 2004 is made against the restated results of the prior year period, unless otherwise stated.

Business Operating Profit and Net Income by Segment

Business operating profit and net income by segment in USD millions, for the years ended December 31	**Business operating profit**			**Net income / (loss)**		
	2004	2003	Change	**2004**	2003	Change
General Insurance	**1,380**	2,146	(36%)	**1,427**	1,779	(20%)
Life Insurance	**1,063**	856	24%	**873**	1,148	(24%)
Farmers Management Services	**1,077**	970	11%	**686**	604	14%
Other Businesses	**137**	(958)	nm	**96**	(1,012)	nm
Corporate Center	**(514)**	(698)	nm	**(495)**	(510)	nm
Total	**3,143**	2,316	36%	**2,587**	2,009	29%

Reconciliation of net income and business operating profit by business segment for 2004 in USD millions, for the year ended December 31, 2004	**General Insurance**	**Life Insurance**	**Farmers Mgmt Services**	**Other Businesses**	**Corporate Center**	**Total**
Net income/(loss)	**1,427**	**873**	**686**	**96**	**(495)**	**2,587**
Adjusted for:						
Net capital (gains) on investments and impairments, excluding capital markets and banking activities	**(87)**	**(4,525)**	**(1)**	**(43)**	**(115)**	**(4,771)**
Policyholder allocation of net capital gains	**–**	**4,429**	**–**	**64**	**–**	**4,493**
Tax expense, adjusting for life policyholder tax	**1**	**219**	**392**	**52**	**149**	**813**
Net loss/(gain) on divestments of businesses	**34**	**(37)**	**–**	**(32)**	**(53)**	**(88)**
Restructuring provisions	**5**	**50**	**–**	**–**	**–**	**55**
Implementation of Swiss "legal quote"	**–**	**54**	**–**	**–**	**–**	**54**
Business operating profit	**1,380**	**1,063**	**1,077**	**137**	**(514)**	**3,143**

Reconciliation of net income and business operating profit by business segment for 2003 in USD millions, for the year ended December 31, 2003	General Insurance	Life Insurance	Farmers Mgmt Services	Other Businesses	Corporate Center	Total
Net income/(loss)	1,779	1,148	604	(1,012)	(510)	2,009
Adjusted for:						
Net capital (gains) on investments and impairments, excluding capital markets and banking activities	(278)	(4,380)	–	(138)	(180)	(4,976)
Policyholder allocation of net capital gains	–	4,150	–	104	–	4,254
Tax expense/(benefit), adjusting for life policyholder tax	556	357	366	104	(8)	1,375
Net loss/(gain) on divestments of businesses	89	(427)	–	(13)	–	(351)
Restructuring provisions	–	8	–	(3)	–	5
Business operating profit	2,146	856	970	(958)	(698)	2,316

General Insurance

Operational review

Our 2004 result has shown significant improvements in both business operating profit and net income in all regions other than in North America Corporate. Overall our business operating profit fell by USD 766 million to USD 1.4 billion which was achieved after total hurricane and tsunami costs of USD 762 million and net strengthening of reserves of USD 2.1 billion.

Our businesses have continued to take advantage of attractive, though competitive, rates. We have maintained our disciplined underwriting approach and, where in some lines of business the rates were not adequate to meet our technical price targets, we have continued to choose not to write that business. The benign catastrophe experience of the last two years came to an end when the four hurricanes struck the US and the Caribbean in the third quarter and this was followed by the tragic events of the tsunami in South Asia. These events brought out the best in us in meeting the needs of our customers.

In 2004, we have introduced our new approach to reserving which involves rolling reviews, peer review, greater oversight from the Corporate Center, use of consistent actuarial methodologies and processes and, when necessary, the use of third-party actuaries. As a result there has been significant strengthening of our reserves in North America Corporate relating to soft market years of 1997 through 2001 when cash flow underwriting was prevalent and claims subsequently inflated. These reviews have also identified redundancies in reserves in UK, Ireland and Continental Europe.

We have commenced many programs to further improve our operational excellence, some of which have evolved from The Zurich Way initiatives to develop the highest operational standards using a consistent approach across all our businesses. In underwriting, these include the targeting of key customer segments, the improvement of workflow processes to improve productivity, re-underwriting and re-pricing of certain books of business. In claims management, we seek ways to improve our effectiveness. Examples of this are our European motor claims handling process, the introduction of a systematic fraud detection system using voice monitoring and reviews of our claims handling legal expenses. We are also constantly seeking ways to reduce our cost base through sharing of services, improvements in structure and improved procurement processes.

During 2004, we have put in place the management and structure to implement the geographical and line of business focus that we announced in April. In 2005, we will report based on this organization which geographically will consist of North America, Europe and International Businesses (consisting of Asia Pacific, Latin America and Southern Africa). In addition, we will manage and report our results based on our customer segments which are Global Corporate, Commercial and Personal.

These initiatives, our continued focus on our core disciplines of underwriting and claims management, our diversified portfolio across geographies and lines of business and our new operational structure should enable us to further develop our business in 2005.

Financial review

General Insurance – highlights

in USD millions, for the years ended December 31	2004	2003	Change
Gross written premiums and policy fees	**37,638**	36,250	4%
Net earned premiums and policy fees	**30,160**	27,138	11%
Total benefits, losses and expenses	**31,697**	27,366	16%
Net underwriting result	**(469)**	578	nm
Business operating profit	**1,380**	2,146	(36%)
Net income	**1,427**	1,779	(20%)
Loss ratio	**77.6%**	73.1%	(4.5 pts)
Expense ratio[1]	**24.0%**	24.8%	0.8 pts
Combined ratio	**101.6%**	97.9%	(3.7 pts)

[1] Including policyholder dividends and participation in profits.

Business operating profit and net income / (loss) by geographic region

in USD millions, for the years ended December 31	Business operating profit 2004	Business operating profit 2003	Business operating profit Change	Net income / (loss) 2004	Net income / (loss) 2003	Net income / (loss) Change
North America Corporate	**(1,165)**	664	nm	**(506)**	671	nm
North America Consumer	**224**	115	95%	**200**	98	104%
Continental Europe	**1,004**	603	67%	**767**	359	114%
UKISA	**1,112**	441	152%	**761**	286	166%
Rest of the World	**180**	150	20%	**145**	105	38%
Centrally Managed Businesses[1]	**25**	173	(86%)	**60**	260	(77%)
Total	**1,380**	2,146	(36%)	**1,427**	1,779	(20%)

[1] Centrally Managed Businesses includes internal reinsurance and businesses in run-off.

Business operating profit decreased by USD 766 million from USD 2.1 billion to USD 1.4 billion for 2004. Our strong underwriting performance in the North America Consumer, Continental Europe, UKISA and Rest of the World regions as well as higher net investment income, were more than offset by large losses due to the hurricanes that struck the US and the Caribbean, the December tsunami and further reserve strengthening in North America Corporate relating to prior years.

Net income decreased by USD 352 million, or 20%, from USD 1.8 billion for 2003 to USD 1.4 billion for 2004. Impacted by the same factors as business operating profit, net income benefited from lower tax expenses and lower losses on divestments, partially offset by lower net capital gains on investments.

Gross written premiums and net earned premiums by geographic region	**Gross written premiums and policy fees**			**Net earned premiums and policy fees**		
in USD millions, for the years ended December 31	**2004**	2003	Change	**2004**	2003	Change
North America Corporate	**15,709**	15,476	2%	**10,561**	9,038	17%
North America Consumer	**3,128**	3,175	(1%)	**3,063**	3,184	(4%)
Continental Europe	**10,712**	10,052	7%	**9,153**	8,457	8%
UKISA	**6,509**	6,314	3%	**5,674**	4,821	18%
Rest of the World	**2,201**	2,140	3%	**1,465**	1,238	18%
Centrally Managed Businesses[1]	**470**	796	(41%)	**244**	400	(39%)
Eliminations	**(1,091)**	(1,703)	nm	**–**	–	nm
Total	**37,638**	36,250	4%	**30,160**	27,138	11%

[1] Centrally Managed Businesses includes internal reinsurance and businesses in run-off.

Gross written premiums and policy fees increased by USD 1.4 billion, or 4%, to USD 37.6 billion for 2004. Taking into account the effects of divestments and exchange rate movements, premiums remained level in 2004. Despite the slowing down of rate increases in certain markets, we still experienced higher overall average rates in 2004 compared with the prior year. Volumes have decreased in certain competitive lines of business, as we have chosen not to write business that does not meet our technical price targets.

Net earned premiums and policy fees increased by USD 3.0 billion, or 11% (6% in local currency), from USD 27.1 billion for 2003 to USD 30.2 billion for 2004. This increase is the consequence of strong pricing in prior periods now flowing into earnings and higher premium retentions reflecting the reduction in our reinsurance program as our balance sheet has strengthened.

Net underwriting result and combined ratio by geographic region	**Net underwriting result**			**Combined ratio**		
in USD millions, for the years ended December 31	**2004**	2003	Change	**2004**	2003	Change
North America Corporate	**(1,832)**	100	nm	**117.3%**	99.0%	(18.3 pts)
North America Consumer	**124**	41	202%	**95.9%**	98.7%	2.8 pts
Continental Europe	**550**	140	293%	**94.0%**	98.3%	4.3 pts
UKISA	**691**	125	453%	**87.8%**	97.5%	9.7 pts
Rest of the World	**95**	82	16%	**93.5%**	93.4%	(0.1 pts)
Centrally Managed Businesses and eliminations	**(97)**	90	nm	**nm**	nm	nm
Total	**(469)**	578	nm	**101.6%**	97.9%	(3.7 pts)

The Group's diversified portfolio across geographies, segments and lines of businesses softened the impact on the underwriting losses arising from the four hurricanes which struck the US and the Caribbean, the December tsunami, and the adverse prior year reserve strengthening in North America Corporate. The strong operational performance of our North America Consumer, Continental Europe, UKISA and other operations throughout Rest of the World was mainly the result of our disciplined approach to underwriting and pricing, which partially compensated for the losses in North America Corporate. The **net underwriting result** declined from a profit of USD 578 million in 2003 to a loss of USD 469 million in 2004. The **combined ratio** was 101.6% in 2004, an increase of 3.7 percentage points compared with 97.9% in 2003. The hurricanes and the tsunami caused 2.5 percentage points of this increase.

Loss ratio by significant geographic region			
for the years ended December 31	**2004**	2003	Change
Total	**77.6%**	73.1%	(4.5 pts)
North America Corporate	**97.8%**	78.2%	(19.6 pts)
North America Consumer	**55.0%**	61.8%	6.8 pts
Continental Europe	**71.1%**	74.6%	3.5 pts
UKISA	**65.2%**	74.1%	8.9 pts
Rest of the World	**57.4%**	56.1%	(1.3 pts)

Overall, the **loss ratio** increased by 4.5 percentage points to 77.6 % for 2004. This development was mainly due to increases in **insurance benefits and losses** of USD 3.5 billion, or 18% (13% in local currency), to USD 23.4 billion for 2004. In 2004, USD 680 million of net hurricane losses, USD 82 million of December tsunami losses and USD 2.1 billion of further reserve strengthening were recorded. Moreover, the Group has continued to benefit from the positive effects of our profit improvement initiatives as well as from the favorable current year loss development.

Expense ratio by significant geographic region[1]
for the years ended December 31

	2004	2003	Change
Total	**24.0%**	24.8%	0.8 pts
North America Corporate	**19.5%**	20.8%	1.3 pts
North America Consumer	**40.9%**	36.9%	(4.0 pts)
Continental Europe	**22.9%**	23.7%	0.8 pts
UKISA	**22.6%**	23.4%	0.8 pts
Rest of the World	**36.1%**	37.3%	1.2 pts

[1] Including policyholder dividends and participation in profits.

The **expense ratio** improved by 0.8 percentage point to 24.0% in 2004. **Total net technical expenses** increased by USD 526 million, or 8%, from USD 6.7 billion for 2003 to USD 7.2 billion for 2004. This increase was below the growth rate of net earned premiums, reflecting the reduction in commission expenses. Administration expenses were lower due to expense management initiatives.

General Insurance – North America Corporate

North America Corporate – highlights
in USD millions, for the years ended December 31

	2004	2003	Change
Gross written premiums and policy fees	**15,709**	15,476	2%
Net earned premiums and policy fees	**10,561**	9,038	17%
Total benefits, losses and expenses	**12,611**	9,134	38%
Net underwriting result	**(1,832)**	100	nm
Business operating profit	**(1,165)**	664	nm
Net income/(loss)	**(506)**	671	nm
Loss ratio	**97.8%**	78.2%	(19.6 pts)
Expense ratio[1]	**19.5%**	20.8%	1.3 pts
Combined ratio	**117.3%**	99.0%	(18.3 pts)

[1] Including policyholder dividends and participation in profits.

Business operating profit was impacted by the exceptional claims of USD 612 million in 2004, from the hurricanes which struck the US and the Caribbean in the third quarter of 2004 and by the prior year development reserve strengthening of USD 2.6 billion. Business operating profit decreased from a profit of USD 664 million in 2003 to a loss of USD 1.2 billion in 2004. The adverse underwriting result was partly offset by a 27% higher net investment income reflecting strong net cash inflows in both 2003 and 2004.

Net income decreased by USD 1.2 billion to a loss of USD 506 million in 2004. In addition to the factors that affected business operating profit, net income included tax benefits partially offset by a decline in net capital gains on investments.

The growth of **gross written premiums and policy fees** of USD 233 million, or 2%, to USD 15.7 billion in 2004 arose from rate increases compared to 2003. Average rate increases were 2.6% in 2004 over 2003 compared with nearly 16% in 2003 over 2002. Volumes slightly decreased, as we have chosen not to write business that does not meet our technical price targets.

The growth in **net earned premiums** of 17% to USD 10.6 billion in 2004 is mainly attributable to the reduction of premiums ceded to reinsurers as well as earnings from premium growth in prior periods now being earned as revenue.

The **net underwriting result** declined by USD 1.9 billion to a negative technical result of USD 1.8 billion for 2004 as a result of the hurricanes, the tsunami and the reserve strengthening. The **combined ratio** increased by 18.3 percentage points to 117.3%, of which 5.8 percentage points is attributable to the hurricanes and 24.3 percentage points to the reserve strengthening. Overall, the **loss ratio** increased from 78.2% in 2003 to 97.8% in 2004. The improvement in the **expense ratio** was driven mainly by the results of initiatives to improve expense and commission management.

General Insurance – North America Consumer

North America Consumer – highlights in USD millions, for the years ended December 31	**2004**	2003	Change
Gross written premiums and policy fees	**3,128**	3,175	(1%)
Net earned premiums and policy fees	**3,063**	3,184	(4%)
Total benefits, losses and expenses	**2,941**	3,144	(6%)
Net underwriting result	**124**	41	202%
Business operating profit	**224**	115	95%
Net income	**200**	98	104%
Loss ratio	**55.0%**	61.8%	6.8 pts
Expense ratio[1]	**40.9%**	36.9%	(4.0 pts)
Combined ratio	**95.9%**	98.7%	2.8 pts

[1] Including policyholder dividends and participation in profits.

The amounts reported in our North America Consumer region represent the gross written premiums and related financial results from quota share reinsurance treaties assumed from the Farmers Exchanges, which we manage but do not own. The decline in net earned premiums and total benefits, losses and expenses relate to a reduction in the premiums ceded in one of those treaties as compared with the prior year. The net underwriting result and the combined ratio improvement resulted mainly from the underlying business performance assumed from the Farmers Exchanges.

General Insurance – Continental Europe

Continental Europe is our second largest General Insurance region. Financial information is provided for our four most significant markets, namely Switzerland, Germany, Spain and Italy as well as for Continental Europe Corporate (CEC), which writes business for large corporate customers in Europe and is managed centrally.

Continental Europe – highlights in USD millions, for the years ended December 31	**2004**	2003	Change
Gross written premiums and policy fees	**10,712**	10,052	7%
Net earned premiums and policy fees	**9,153**	8,457	8%
Total benefits, losses and expenses	**9,058**	8,691	4%
Net underwriting result	**550**	140	293%
Business operating profit	**1,004**	603	67%
Net income	**767**	359	114%
Loss ratio	**71.1%**	74.6%	3.5 pts
Expense ratio[1]	**22.9%**	23.7%	0.8 pts
Combined ratio	**94.0%**	98.3%	4.3 pts

[1] Including policyholder dividends and participation in profits.

Business operating profit improved by 67% to USD 1.0 billion and **net income** increased by 114% to USD 767 million for 2004 mainly due to the strong improvement in the net underwriting result as described below.

Breakdown of premiums by largest markets	**Gross written premiums and policy fees**			**Net earned premiums and policy fees**		
in USD millions, for the years ended December 31	**2004**	2003	Change	**2004**	2003	Change
Total Continental Europe	**10,712**	10,052	7%	**9,153**	8,457	8%
Switzerland[1]	**1,750**	1,677	4%	**1,655**	1,614	3%
Germany[1]	**2,887**	2,682	8%	**2,077**	1,908	9%
Spain[1]	**1,475**	1,225	20%	**881**	885	0%
Italy[1]	**1,661**	1,410	18%	**1,308**	1,044	25%
CEC[1]	**3,041**	2,402	27%	**1,879**	1,610	17%

[1] Before elimination of intra-region transactions.

Gross written premiums and policy fees in Continental Europe grew by USD 660 million, or 7% (–2% in local currency), to USD 10.7 billion. This region benefited from the appreciation of the euro (10%) and Swiss franc (8%) against the US dollar, which was partially offset by the effects of several divestments closed in 2003. Adjusted for these factors, Continental Europe, in total, showed a slight increase in premiums.

In **Switzerland,** gross written premiums and policy fees increased by 6% adjusted for exchange rate movements and the intra-segment transfer of certain business in 2004. This increase was largely attributable to rate increases in the health and automobile lines of business. In **Germany,** our largest market within Continental Europe, gross written premiums and policy fees decreased by 2% in local currency, reflecting the reduction in new business mainly in the automobile line of business following the tightening of our underwriting standards. **Spain** experienced a 10% increase in gross written premiums and policy fees in local currency. The growth was most significant in the automobile, third-party liability and fire lines of business. Gross written premiums and policy fees in **Italy** increased by 7% in local currency driven by the growth in the automobile line of business. Finally, **CEC** experienced a 8% increase in gross written premiums and policy fees in local currency and after adjusting for intra-region transactions and divestments.

The growth in **net earned premiums** of 8% to USD 9.2 billion slightly outpaced the increase in gross written premiums and policy fees in this region, benefiting from the growth in net written premiums in 2003 earned as revenue in 2004 and from a reduction in premiums ceded as reinsurance.

Net underwriting result and combined ratio by largest markets
in USD millions, for the years ended December 31

	Net underwriting result			Combined ratio		
	2004	2003	Change	**2004**	2003	Change
Total Continental Europe	**550**	140	293%	**94.0%**	98.3%	4.3 pts
Switzerland	**46**	(75)	nm	**97.2%**	104.6%	7.4 pts
Germany	**114**	91	25%	**94.5%**	95.1%	0.6 pts
Spain	**66**	20	230%	**92.5%**	97.8%	5.3 pts
Italy	**99**	45	120%	**92.5%**	95.7%	3.2 pts
CEC	**150**	71	111%	**92.0%**	95.6%	3.6 pts

The **net underwriting result** for Continental Europe almost quadrupled to USD 550 million for the year 2004. Each of our largest markets contributed to the improvement in the technical insurance result. The **combined ratio** improved by 4.3 percentage points to 94.0%.

In **Switzerland,** the underwriting result improved from a loss of USD 75 million in 2003 to a positive technical result of USD 46 million in 2004. We have benefited from the tightened underwriting standards associated with the profit improvement initiatives, partially offset by losses from the large hailstorms in July and August 2004. **Germany's** net underwriting result increased by 25% mainly due to ongoing realization of cost saving initiatives and lower frequency of claims. **Spain** benefited from the absence of large claims, lower frequency of claims and lower average losses, as well as the positive prior year loss development resulting in a significant improvement in the underwriting result. The positive development of **Italy's** net underwriting result was mainly the result of achieved cost savings. **CEC's** net underwriting result more than doubled reflecting the improved losses resulting from strict underwriting policy and favorable loss development.

Overall, the **loss ratio** improved by 3.5 percentage points to 71.1% for 2004 from 74.6% in the prior year. Total net technical expenses increased by 5% to USD 2.1 billion, at a lower rate than net earned premiums, reflecting the impact of the cost savings and profit improvement initiatives implemented across the region. This resulted in an improvement in the **expense ratio** by 0.8 percentage point to 22.9%.

General Insurance – UKISA

UKISA – highlights
in USD millions, for the years ended December 31

	2004	2003	Change
Gross written premiums and policy fees	**6,509**	6,314	3%
Net earned premiums and policy fees	**5,674**	4,821	18%
Total benefits, losses and expenses	**5,295**	4,915	8%
Net underwriting result	**691**	125	453%
Business operating profit	**1,112**	441	152%
Net income	**761**	286	166%
Loss ratio	**65.2%**	74.1%	8.9 pts
Expense ratio[1]	**22.6%**	23.4%	0.8 pts
Combined ratio	**87.8%**	97.5%	9.7 pts

[1] Including policyholder dividends and participation in profits.

Business operating profit more than doubled to USD 1.1 billion in 2004 driven by the improved underwriting result and an increase in net investment income following positive cash flow generation in both 2003 and 2004.

UKISA recorded an increase of USD 475 million in **net income** to USD 761 million in 2004 driven by the same factors as business operating profit.

The region experienced a USD 195 million, or 3%, increase in **gross written premiums and policy fees** to USD 6.5 billion for 2004, benefiting from the appreciation of the British pound sterling (12%) in the UK, the euro (10%) in Ireland and the rand (17%) in South Africa against the US dollar. Excluding exchange rate movements, gross written premiums and policy fees decreased by 8%. The decrease predominantly reflects reductions in fronted business although this has been partially offset by positive development in personal lines. Despite increasing competition, the region experienced stable rates compared to 2003 reflecting our adherence to rigorous underwriting standards.

Net earned premiums increased by USD 853 million, or 18%, to USD 5.7 billion for 2004. Excluding exchange rate movements, the increase was 5%. The rate and volume increases in written premiums experienced in the prior year have flowed through to earned premiums in 2004.

The **net underwriting result** increased by USD 566 million to USD 691 million in 2004, with the **combined ratio** improving by 9.7 percentage points to 87.8%. **Insurance benefits and losses** increased by 4% (–7% in local currency), or USD 129 million, at a significantly lower growth rate than net earned premiums, to USD 3.7 billion for 2004. This development reflected favorable loss experience and net prior year reserve redundancies resulting in an improvement of the **loss ratio** to 65.2% for 2004. This region recorded USD 42 million of tsunami costs. Net technical expenses also increased at a lower growth rate than net earned premiums due to a continued focus on expense reduction resulting in an improvement in the **expense ratio** of 0.8 percentage point to 22.6% in 2004.

General Insurance – Rest of the World

Rest of the World – highlights
in USD millions, for the years ended December 31

	2004	2003	Change
Gross written premiums and policy fees	**2,201**	2,140	3%
Net earned premiums and policy fees	**1,465**	1,238	18%
Total benefits, losses and expenses	**1,415**	1,176	20%
Net underwriting result	**95**	82	16%
Business operating profit	**180**	150	20%
Net income	**145**	105	38%
Loss ratio	**57.4%**	56.1%	(1.3 pts)
Expense ratio[1]	**36.1%**	37.3%	1.2 pts
Combined ratio	**93.5%**	93.4%	(0.1 pts)

[1] Including policyholder dividends and participation in profits.

The improvement in **business operating profit** by USD 30 million, or 20%, to USD 180 million in 2004 was driven by the improved underwriting result and higher investment income.

Net income increased by 38% to USD 145 million in 2004. Besides the factors that impacted business operating profit, net income benefited from higher net capital gains on investments.

Gross written premiums and policy fees increased by 3% to USD 2.2 billion in 2004. The largest increases in gross written premiums and policy fees were experienced in Australia, Japan and Venezuela. In Venezuela, we recorded strong growth in local currency benefiting particularly from sales in the automobile line of business. The Australian dollar appreciated 13% and the Japanese yen 7% against the US dollar, which also contributed to the overall reported growth in gross written premiums and policy fees expressed in US dollars.

The increase in **net earned premiums** to USD 1.5 billion represented an improvement of USD 227 million, or 18%, compared with USD 1.2 billion in 2003. This development was significantly above the growth rate of gross written premiums and was mainly driven by changes in our ceded reinsurance arrangements, which led to higher retention of premiums particularly in Taiwan, Venezuela and Mexico.

The **net underwriting result** increased to USD 95 million for 2004 compared with USD 82 million in 2003 with positive contributions from most of our businesses in this region. The **combined ratio** increased slightly by 0.1 percentage point to 93.5% for 2004.

Insurance benefits and losses increased by 21% to USD 842 million in 2004. The **loss ratio** increased by 1.3 percentage points to 57.4% for 2004 mainly caused by the extraordinary typhoon losses in Japan and the December tsunami costs partially offset by favorable claims experience elsewhere, particularly in Australia and Taiwan. The **expense ratio** improved by 1.2 percentage points to 36.1% in 2004 reflecting the strict financial discipline instilled in our businesses in this region.

General Insurance – Centrally Managed Businesses

The use of reinsurance, both internally and externally, is a key component of the Group's risk mitigation and capital management strategies. Our Centrally Managed Businesses region includes internal reinsurance programs and businesses in run-off.

Centrally Managed Businesses – highlights

in USD millions, for the years ended December 31	2004	2003	Change
Gross written premiums and policy fees	**470**	796	(41%)
Net earned premiums and policy fees	**244**	400	(39%)
Total benefits, losses and expenses	**474**	315	50%
Net underwriting result	**(137)**	92	nm
Business operating profit	**25**	173	(86%)
Net income	**60**	260	(77%)

Business operating profit declined from USD 173 million in 2003 to USD 25 million in 2004 and **net income** to USD 60 million for 2004 as compared with USD 260 million in 2003 substantially affected by our operations in run-off.

The USD 326 million, or 41%, decrease in **gross written premiums and policy fees** to USD 470 million is primarily the consequence of the gradual transfer, starting in 2003, of our intra-group reinsurance transactions to the regions that wrote the underlying premiums as well as further optimization of our reinsurance purchasing. This development was partially offset by businesses put into run-off during 2004, which were allocated to Centrally Managed Businesses and were still earning residual premiums.

Life Insurance

Operational review

In 2004, we saw the first rewards from our continuing efforts to strengthen the Life Insurance result. We made good progress in refocusing our business portfolio, redefining our business model, rebalancing our product portfolio, de-risking our balance sheet and optimizing our expense base. These efforts are now being reflected in our business results. Our business operating profit rose 24% to USD 1.1 billion. The profitability of new business, as measured by the new business profit margin, further improved to 11.4% in 2004, up from 9.0% for 2003. The operating return on the embedded value of our life business was 10.8% within our target range of 10–12%. And our refocused product range is gaining acceptance in the marketplace, with total new business measured by annual premiums equivalent (APE) up by 15% after adjusting for divestments and discontinued business, the redesign of the Swiss group pension business model by the partial transfer to an external foundation and foreign exchange movements.

Since 2002, we have divested numerous life businesses to focus on profitable growth in our key markets. We are making major changes to our business model in Switzerland and in the UK. In Switzerland we restructured our group pension model, which started positively due to favorable capital markets in 2004. In the UK we are consolidating our remaining life portfolios into a single entity, permitting further operating and commercial synergies. We are reconstituting our distribution unit, now renamed Openwork, in partnership with our franchisees. Openwork will sell products manufactured by Zurich and other selected partners, to take full advantage of new flexibility permitted by UK regulation. The value realized by Openwork will be shared between Zurich and its franchise partners, who have shown very strong support for the new model.

We made further progress in reducing expenses with administrative and other operating expenses declining 19% over 2003 levels. In 2004, we committed to a wide range of initiatives impacting both revenues and expenses designed to increase our business operating profit by USD 280 million, a target we exceeded by 25%. We have refocused our product mix, concentrating on protection and lump sum savings, especially unit-linked business, and de-emphasizing guaranteed products or those with low margins. Our new product range is gaining traction in the marketplace. Our innovative products and service levels are being recognized with Germany, Ireland and the UK all receiving awards in the closing months of 2004. We took full advantage of an opportunity in Germany, where an impending tax change has led to exceptional demand for savings products. Our sales rose 54% (28% in local currency) to USD 794 million APE, with especially strong growth through our Deutsche Bank channel. Our IFA channel in the UK also grew strongly, and total new business premiums in the UK rose 38% (24% in local currency) to USD 4.7 billion. We also had strong growth at Farmers New World Life and in Italy.

Our Zurich Way initiatives will enable us to build on this momentum. Our Zurich Way Sales Excellence program aims to improve the productivity of our tied agents. Also under The Zurich Way, we are looking at further opportunities for efficiencies and cost savings. And we will continue to develop innovative products focused in market niches where we have competitive advantage. Despite the encouraging progress we face continuing challenges in the future. Our markets are highly competitive with margins under pressure. Our lack of scale in certain markets remains a concern as does increasing regulatory focus on our industry. Nonetheless we believe we have laid solid foundations for the future.

Financial review

The adoption of the new accounting standard (SOP 03-01), which affected mainly the Life Insurance business, resulted in a restatement of 2003 comparative figures. The main impacts of this restatement were on North America Consumer and UKISA. The impact of new accounting standards is set out in note 3 of the Consolidated Financial Statements and in the Group Financial Review.

Life Insurance – highlights

in USD millions, for the years ended December 31	**2004**	2003	Change
Gross written premiums, policy fees and insurance deposits	**19,272**	20,163	(4%)
Gross written premiums and policy fees	**10,979**	11,625	(6%)
Net investment income	**6,224**	5,883	6%
Net capital gains on investments and impairments	**4,525**	4,380	3%
Net gain on divestments of businesses	**37**	427	(91%)
Total benefits, losses and expenses	**20,556**	20,969	(2%)
Business operating profit	**1,063**	856	24%
Net income	**873**	1,148	(24%)

Business operating profit and net income by geographic region

in USD millions, for the years ended December 31	**Business operating profit**			**Net income**		
	2004	2003	Change	**2004**	2003	Change
North America Consumer	**235**	245	(4%)	**159**	56	184%
Continental Europe	**355**	294	21%	**323**	482	(33%)
UKISA	**402**	271	48%	**337**	564	(40%)
Rest of the World	**71**	46	54%	**54**	46	17%
Total	**1,063**	856	24%	**873**	1,148	(24%)

Life Insurance achieved an increase in **business operating profit** of USD 207 million, or 24%, to USD 1.1 billion compared with USD 856 million for 2003. UKISA and Continental Europe recorded the largest increase, partially offset by lower business operating profit in North America Consumer.

Net income decreased by USD 275 million, or 24%, from USD 1.1 billion in 2003 to USD 873 million for 2004 mainly due to higher net gain on divestments of businesses in 2003. Excluding the after-tax gain on divestments, net income increased by USD 123 million, or 17%.

Breakdown of premiums by geographic region in USD millions, for the years ended December 31	**Gross written premiums and policy fees (GWP)**		**Insurance deposits**		**Total GWP and insurance deposits**	
	2004	2003	**2004**	2003	**2004**	2003
North America Consumer	**568**	1,029	**547**	1,405	**1,115**	2,434
Continental Europe	**7,566**	8,215	**1,532**	1,575	**9,098**	9,790
UKISA	**2,224**	1,684	**5,640**	4,887	**7,864**	6,571
Rest of the World	**633**	711	**574**	670	**1,207**	1,381
Eliminations	**(12)**	(14)	**–**	1	**(12)**	(13)
Total	**10,979**	11,625	**8,293**	8,538	**19,272**	20,163

Gross written premiums and policy fees decreased by USD 646 million, or 6% (–13% in local currency), from USD 11.6 billion for 2003 to USD 11.0 billion in 2004. This decrease was due to the sale of certain life operations in the second half of 2003, particularly Zurich Life US and Zurich Life UK, as well as the redesign of Switzerland's group pension business model which has been partially transferred to an external foundation. Excluding these factors and exchange rate movements, premiums increased by 3%.

Insurance deposits decreased by USD 245 million, or 3% (–12% in local currency), from USD 8.5 billion to USD 8.3 billion in 2004. This decrease arose from divestments in our North America Consumer operations and the transfer of Kemper Investors Life Insurance Company (Kemper Investors) to the Other Businesses segment. In UKISA, growth in insurance deposits was driven by an increase in investment bond product sales, whereas the decrease in the Rest of the World region was mainly attributable to the discontinued sales of annuity products in Japan.

Total benefits, losses and expenses decreased by USD 413 million, or 2% (–11% in local currency), from USD 21.0 billion in 2003 to USD 20.6 billion in 2004. This decrease was driven by the reduction in insurance benefits and losses in Switzerland related to the redesign of the group pension business model and to the divestment of businesses in other parts of the world. This development was partially offset by increased policyholder dividends and participation in profits mainly due to improved investment results.

Shareholders' Intangibles and Recoverability

Although not a measure of current profitability, an important factor to consider when evaluating the sustainability of Life Insurance earnings is the recoverability of deferred policy acquisition costs (DAC) and other intangibles that have been capitalized. The following table sets out the amount of shareholders' intangibles to be recovered.

Shareholders' intangibles and recoverability in USD billions, as of December 31	**2004**	2003
DAC asset included in Life Insurance segment balance sheet	**11.0**	9.6
Present value of future profits (linked to acquisitions) and other intangible assets	**1.1**	1.2
Deferred front-end fees liability	**(3.5)**	(3.0)
Investments, less reserves for Life Insurance where the investment risk is carried by the policyholders	**(1.1)**	(1.3)
Policyholders share of DAC and other intangibles	**(2.5)**	(2.1)
Tax deductions on intangibles	**(1.5)**	(1.3)
Net shareholders' intangibles after tax to be recovered from future earnings	**3.5**	3.1

DAC consists of 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. The present value of future profits is the discounted value of the profit on acquired insurance contracts to be amortized over the expected life of these contracts. These are defined in note 2 of the Consolidated Financial Statements.

Some charges assessed against policyholders' balances have been deferred as unearned revenue ("deferred front-end fees") and will be recognized in income over the period for which benefits accrue, using similar assumptions as those used to amortize DAC.

Certain life insurance policies are established to meet specific investment objectives of policyholders who bear the investment risk. In these cases, investment income and investment gains and losses accrue directly to those policyholders. Under the Group's IFRS accounting policies, the benefit of surrender charges cannot be reflected in the liability for policyholder benefits and hence a mismatch arises between invested assets and reserves for those life insurance contracts where the investment risk is carried by the policyholder.

Both of these amounts have been considered when assessing the recoverability of DAC and other intangible assets.

Embedded Value Results

Embedded value highlights are set out below. Further details are set out in the Embedded Value section which follows the Consolidated Financial Statements.

Embedded Value – highlights

in USD millions, for the years ended December 31	2004	2003	Change
Gross new business annual premiums equivalent (APE)	**2,403**	2,134	13%
New business profit, after tax	**273**	192	42%
New business profit margin (as % of APE)	**11.4%**	9.0%	2.4 pts
Embedded value total operating profit, after tax	**1,117**	1,059	5%
Embedded value operating return, after tax	**10.8%**	10.5%	0.3 pts
Embedded value profit, after tax	**1,448**	928	56%
Embedded value return, after tax	**14.0%**	9.2%	4.8 pts
Expected return	**8.1%**	8.1%	–

Gross new business premiums, measured on an annual equivalent (APE) basis (new annual premiums plus 10% of single premiums) increased by USD 269 million to USD 2.4 billion. In local currency APE decreased by 2% compared with 2003, which was largely a result of certain life company divestments. Adjusted for businesses divested and discontinued in 2003 and 2004, and the redesign of the group pension model in Switzerland, APE increased by 15% in local currency. This improvement can be attributed to the effect of higher volumes in Continental Europe and UKISA.

New business profit, after tax, contributed USD 273 million to embedded value operating profit, after tax, an increase of USD 81 million compared with 2003. In local currency the increase in new business profit was 27%, predominantly due to higher sales and expense optimizations in our businesses in Germany. This improvement corresponds to an increase of 2.4 percentage points in **new business profit margin** to 11.4% for the year 2004 from 9.0% for the year 2003.

Embedded value operating profit, after tax, was USD 1.1 billion corresponding to a 10.8% operating return on embedded value in 2004. This was 2.7 percentage points above the expected return of 8.1% for the period driven by the positive contribution from the value of the new business written.

A positive economic variance of USD 331 million was experienced in 2004. This result was primarily due to a better than expected investment performance, particularly in Switzerland. In addition clarification from the Swiss regulator on certain aspects of the implementation of the legal quote legislation resulted in a less severe shareholder impact than assumed in previous embedded value calculations. Overall, this resulted in a total **embedded value profit, after tax,** of USD 1.4 billion which corresponded to a total **embedded value return, after tax,** of 14.0% (5.9 percentage points above the expected return for 2004 of 8.1%).

Life Insurance – North America Consumer

North America Consumer – highlights

in USD millions, for the years ended December 31	2004	2003	Change
Gross written premiums, policy fees and insurance deposits	**1,115**	2,434	(54%)
Gross written premiums and policy fees	**568**	1,029	(45%)
Net investment income	**359**	584	(39%)
Net capital gains on investments and impairments	**2**	71	nm
Total benefits, losses and expenses	**559**	1,040	(46%)
Business operating profit	**235**	245	(4%)
Net income	**159**	56	184%

The divestment of Zurich Life US in the third quarter of 2003 affected the underlying performance of this region which substantially explains all of the above variances. In addition, Kemper Investors is now included in Other Businesses.

Business operating profit decreased by USD 10 million, or 4%, from USD 245 million in 2003 to USD 235 million for 2004. **Net income** increased by USD 103 million, or 184%, from a profit of USD 56 million in 2003 to USD 159 million in 2004 due to the divestment of Zurich Life US which negatively influenced 2003 net income of North America Consumer. Adjusting for the effect of the after-tax loss on divestment, net income remained stable. Operating performance has been driven by stronger investment performance compared to 2003 as well as growth in universal life and traditional business largely offset by higher amortization of deferred policy acquisition costs.

Excluding the impact of divestment and reclassification, the region showed an increase in **gross written premiums and policy fees** of USD 38 million. This favorable development was driven by increases in traditional renewal products and in policy fees from universal life insurance. **Insurance deposits** experienced a decrease of 4% in 2004 on a comparable basis. This was primarily a result of lower fixed annuity sales due to the lower interest rate environment.

Total benefits, losses and expenses decreased by USD 481 million, or 46%, from USD 1.0 billion in 2003 to USD 559 million in 2004 which is in line with the decrease in premiums following the divestment and reclassification in 2003. **Insurance benefits and losses,** excluding the divestment and reclassification, remained stable at USD 221 million. **Underwriting and acquisition expenses** were USD 30 million higher than in 2003 on a comparable basis due to higher gross margins in 2004 leading to correspondingly higher amortizations in deferred policy acquisition costs.

North America Consumer – embedded value highlights

in USD millions, for the years ended December 31	**2004**	2003	Change
Gross new business annual premiums equivalent (APE)	**120**	229	(48%)
New business profit, after tax	**74**	71	4%
Embedded value total operating profit, after tax	**330**	318	4%
Embedded value operating return, after tax	**15.0%**	10.0%	5.0 pts

In North America Consumer sales dropped by 48% due primarily to the divestment of Zurich Life US which contributed USD 111 million to **APE** in 2003. Excluding the effect of the divestment, APE production for 2004 increased by 2% to USD 120 million compared with 2003 following higher sales volume of level term products.

The **new business profit, after tax,** was USD 74 million in 2004, an increase of USD 3 million over 2003.

Embedded value operating profit, after tax, for the year 2004 was USD 330 million resulting from the strong contribution from new business profit, changes in assets to better match liabilities and favorable mortality experience. The operating profit corresponds to an **operating return on embedded value** for the period of 15.0%.

Life Insurance – Continental Europe

Continental Europe is our largest region in Life Insurance. Key financial information is provided for our most significant markets, namely Germany, Switzerland, Italy and Spain.

Continental Europe – highlights

in USD millions, for the years ended December 31	**2004**	2003	Change
Gross written premiums, policy fees and insurance deposits	**9,098**	9,790	(7%)
Gross written premiums and policy fees	**7,566**	8,215	(8%)
Net investment income	**2,830**	2,834	0%
Net capital gains/(losses) on investments and impairments	**171**	(289)	nm
Total benefits, losses and expenses	**10,388**	10,581	(2%)
Business operating profit	**355**	294	21%
Net income	**323**	482	(33%)

Business operating profit increased by USD 61 million, or 21%, from USD 294 million in 2003 to USD 355 million for 2004. **Net income** decreased by USD 159 million, or 33%, from USD 482 million in 2003 to USD 323 million in 2004. The improved result for our operations in Germany, Italy and Spain partially offset the decline of net income in Switzerland. Additionally, in 2003 after-tax gains on divestments of USD 113 million were realized relating to the sale of certain life businesses.

Breakdown of premiums by market in USD millions, for the years ended December 31	**Gross written premiums and policy fees (GWP)** **2004**	 2003	**Insurance deposits** **2004**	 2003	**Total GWP and insurance deposits** **2004**	 2003
Germany	**3,762**	3,746	**703**	640	**4,465**	4,386
Switzerland	**2,796**	3,360	**20**	29	**2,816**	3,389
Italy	**516**	428	**474**	417	**990**	845
Spain	**210**	196	**303**	296	**513**	492
Rest of Europe	**282**	485	**32**	193	**314**	678
Total	**7,566**	8,215	**1,532**	1,575	**9,098**	9,790

Continental Europe experienced a decrease in **gross written premiums and policy fees** of USD 649 million, or 8% (16% in local currency), from USD 8.2 billion in 2003 to USD 7.6 billion in 2004. This change was mainly caused by the redesign of the group pension business model in Switzerland as well as the sale of certain businesses in 2003 and during 2004, partially offset by favorable exchange rate movements. **Insurance deposits** decreased by USD 43 million, or 3%, from USD 1.6 billion in 2003 to USD 1.5 billion for 2004 (–11% in local currency).

In **Germany,** gross written premiums and policy fees decreased by 9% in local currency, mainly due to decreases in single premiums products following the close of underperforming distribution channels, whereas insurance deposits were at the same level as last year in local currency. A change in product mix in favor of unit-linked business gained momentum in the fourth quarter of 2004. **Switzerland's** gross written premiums and policy fees decreased by USD 564 million, or 17% (–23% in local currency), largely due to the partial transfer of the group pension business to an external foundation. In individual life business, Switzerland experienced only a small decrease impacted by a sales rally in 2003, in anticipation of the technical interest rate being lowered. In **Italy,** gross written premiums and policy fees demonstrated a significant increase of 10% in local currency arising from the growth in sales of single premium products through the agent channel. The increase in insurance deposits (4% in local currency) was driven by stronger sales in index products. **Spain** recorded a slight decrease in gross written premiums and policy fees in local currency of 2% mainly due to lower sales of unit-linked and group savings products.

Total benefits, losses and expenses decreased by USD 193 million, or 2% (–10% in local currency), from USD 10.6 billion in 2003 to USD 10.4 billion in 2004. **Insurance benefits and losses** decreased by 10% to USD 8.0 billion, mainly due to the decrease in Switzerland of 25% in local currency resulting from the redesign of the group pension business model. **Policyholder dividends and participation in profits** increased by USD 616 million from USD 187 million in 2003 to USD 803 million in 2004, primarily attributable to Germany where the improvement in net capital gains on investments and impairments in 2004 was shared with policyholders after the loss participation in 2003. **Underwriting and policy acquisition costs** increased by USD 76 million, or 16% (6% in local currency) to USD 539 million for 2004 compared to USD 463 million in 2003. In Germany, higher amounts of deferred policy acquisition costs were amortized in 2004. **Administration and other operating expenses** were cut by USD 63 million, or 13% (20% in local currency), from USD 499 million in 2003 to USD 436 million in 2004.

Continental Europe – embedded value highlights in USD millions, for the years ended December 31	**2004**	2003	Change
Gross new business annual premiums equivalent (APE)	**1,059**	799	33%
New business profit, after tax	**134**	63	113%
Embedded value total operating profit, after tax	**419**	380	10%
Embedded value operating return, after tax	**23.8%**	19.6%	4.2 pts

APE and new business profit by market in USD millions, for the years ended December 31	**APE** **2004**	 2003	 Change	**New business profit, after tax** **2004**	 2003	 Change
Germany	**794**	517	54%	**95**	38	150%
Switzerland	**115**	134	(14%)	**11**	11	0%
Italy	**81**	62	31%	**15**	10	50%
Spain	**47**	39	21%	**11**	6	83%
Rest of Europe	**22**	47	(53%)	**2**	(2)	nm

Gross new business premiums (APE) for 2004 were USD 1.1 billion, an increase of 11% in local currency, due to the high sales volumes in Germany, which more than offset the impact of divestments of various businesses during 2003, and the reduction in Switzerland as a consequence of the redesign of the Swiss group pension business model.

Continental Europe's **new business profit, after tax,** increased by USD 71 million to USD 134 million for 2004. This result reflects the increased sales volumes combined with expense optimizations in Germany, as well as increased profitability in other countries, particularly in Italy and Spain.

Embedded value operating profit, after tax, increased by USD 39 million to USD 419 million in 2004, corresponding to an operating return of 23.8%. The operating return arises from the contribution of new business during 2004 combined with a number of effects in Germany, including the impact of expense optimizations and an increase in the shareholders' share of future profits. These effects were partially offset by the negative impact of changes in asset mix to better match liabilities.

Life Insurance – UKISA

UKISA – highlights
in USD millions, for the years ended December 31

	2004	2003	Change
Gross written premiums, policy fees and insurance deposits	**7,864**	6,571	20%
Gross written premiums and policy fees	**2,224**	1,684	32%
Net investment income	**2,903**	2,319	25%
Net capital gains on investments and impairments	**4,305**	4,580	(6%)
Net gain on divestments of businesses	**22**	454	(95%)
Total benefits, losses and expenses	**8,839**	8,488	4%
Business operating profit	**402**	271	48%
Net income	**337**	564	(40%)

Business operating profit significantly increased by USD 131 million, or 48%, from USD 271 million for 2003 to USD 402 million in 2004 mainly due to improved investment returns, reduced expenses and the favorable effect of exchange rate movements. Net income decreased by USD 227 million, or 40%, from USD 564 million in 2003 to USD 337 million in 2004. In 2003, net income included USD 416 million of after-tax gains arising from divestments of businesses compared to USD 20 million in 2004. After excluding this impact net income improved by USD 169 million in 2004.

Gross written premiums and policy fees increased by USD 540 million, or 32%, to USD 2.2 billion in 2004 compared with USD 1.7 billion in 2003. This corresponds to an increase of 18% in local currency, which was largely driven by stock market movements and their corresponding impact on the change in deferred front-end fees and related items.

Insurance deposits increased by USD 753 million or 15% (3% in local currency) from USD 4.9 billion in 2003 to USD 5.6 billion in 2004 reflecting higher volume of sales of our investment bond products.

Total benefits, losses and expenses increased by USD 351 million, or 4%, from USD 8.5 billion in 2003 to USD 8.8 billion for 2004. **Insurance benefits and losses** slightly decreased by USD 9 million, or 1%, but more significantly by 13% in local currency. This decrease was primarily due to the sale of Zurich Life UK and reserve releases in the closed books, offset by higher reserves due to increased business volumes and significant increases in complaints provisions following guidance from the Financial Services Authority. **Policyholder dividends and participation in profits** rose by USD 283 million, or 5%, to USD 5.9 billion for 2004. The implementation of the accounting standard (SOP 03-01) created greater volatility in policyholder dividends reflecting the movements in investment income and net realized capital gains attributable to policyholders now included in our total investment result. **Underwriting and policy acquisition costs** rose by USD 123 million, or 25% (11% in local currency), to USD 619 million for 2004, driven by an increase in the amount of deferred policy acquisition cost amortization. This increase was partially offset by the higher amount of front-end fees included in gross written premiums. **Administrative and other operating expenses** decreased by 21% (–29% in local currency) to USD 551 million in 2004 due to divestments of businesses in 2003. After excluding the Threadneedle and Zurich Life UK divestment, administrative and other operating expenses increased due to internal restructuring projects.

UKISA – embedded value highlights
in USD millions, for the years ended December 31

	2004	2003	Change
Gross new business annual premiums equivalent (APE)	**1,017**	863	18%
New business profit, after tax	**59**	59	0%
Embedded value total operating profit, after tax	**264**	321	(18%)
Embedded value operating return, after tax	**4.7%**	7.4%	(2.7 pts)

UKISA saw strong **new business** growth with APE reaching USD 1.0 billion, an increase of USD 154 million over 2003, corresponding to an increase in local currency of 5%. This was primarily the result of a large increase in single premium sales due to strong sales of investment bond products in Zurich Assurance through the IFA network.

New business profit, after tax, remained stable at USD 59 million. The 2003 new business profit included value generated by the life business distribution channel but arising in a non-insurance subsidiary. Profits from this source are not included in the 2004 new business profit. Excluding this effect, new business profit in 2003 was USD 39 million.

An **operating return on embedded value** of 4.7%, corresponding to an **operating profit, after tax,** of USD 264 million, has been achieved for 2004. An increase in provisions for settling customer complaints relating to past sales of mortgage endowment and other contracts has negatively impacted the operating profit by USD 208 million. Without this effect, the **after-tax operating return** was 8.4%.

Life Insurance – Rest of the World

Rest of the World – highlights

in USD millions, for the years ended December 31	**2004**	2003	Change
Gross written premiums, policy fees and insurance deposits	**1,207**	1,381	(13%)
Gross written premiums and policy fees	**633**	711	(11%)
Net investment income	**132**	146	(10%)
Net capital gains on investments and impairments	**47**	18	161%
Net (loss)/gain on divestments of businesses	**(15)**	2	nm
Total benefits, losses and expenses	**770**	862	(11%)
Business operating profit	**71**	46	54%
Net income	**54**	46	17%

Business operating profit improved by USD 25 million, or 54%, from USD 46 million in 2003 to USD 71 million in 2004. This positive development is attributable to the withdrawal in 2004 of unprofitable annuity products in Japan and investment products in Taiwan. **Net income** increased by USD 8 million, or 17%, to USD 54 million in 2004. The region recorded USD 29 million higher net capital gains on investments mainly in Australia, which were more than offset by a decrease of USD 17 million of gain on divestments of businesses as well as USD 31 million higher income tax expenses in 2004.

Gross written premiums and policy fees decreased by USD 78 million, or 11% (–16% in local currency), from USD 711 million in 2003 to USD 633 million in 2004, due to the divestments of certain life businesses in this region in 2003. The divestment of our life portfolio in Taiwan in the fourth quarter 2004 also contributed to the lower volume.

The region recorded a decrease of USD 96 million, or 14% (–22% in local currency), in **insurance deposits** from USD 670 million in 2003 to USD 574 million in 2004 which arose from cessation of annuity business in Japan, partially offset by a strong increase of 52% in the insurance deposit business in Australia, our largest remaining life business in this region.

Total benefits, losses and expenses reduced by USD 92 million, or 11%, from USD 862 million in 2003 to USD 770 million for 2004, mainly as a result of our portfolio divestment in Taiwan in 2004.

Rest of the World – embedded value highlights

in USD millions, for the years ended December 31	**2004**	2003	Change
Gross new business annual premiums equivalent (APE)	**207**	243	(15%)
New business profit, after tax	**6**	(1)	nm
Embedded value total operating profit, after tax	**104**	40	160%
Embedded value operating return, after tax	**13.7%**	5.9%	7.8 pts

Gross new business premiums (APE) for Rest of the World reduced by USD 36 million or 15% (–28% in local currency), to USD 207 million in 2004, mainly because significant sales of bancassurance products in one of our Asia Pacific businesses during 2003 were not repeated in 2004.

For 2004, **new business profit, after tax,** was USD 6 million, an improvement of USD 7 million from a loss of USD 1 million in 2003. This positive development is due to an increased volume of more profitable products in Asia Pacific, particularly in Hong Kong.

Embedded value operating profit, after tax, increased by USD 64 million, or 160%, to USD 104 million in 2004 yielding an after-tax operating return of 13.7% compared with 5.9% in 2003.

Farmers Management Services

Farmers Group, Inc. and its subsidiaries (FGI) provide non-claims related management services to the Farmers Exchanges, prominent writers of personal lines and small commercial lines business in the US. While premiums are written and claims are paid by the Farmers Exchanges, which we manage but do not own, FGI provides non-claims related management services to the Farmers Exchanges and receives management fees for these services.

Operational review

Farmers Management Services achieved strong results in 2004 with growing revenues and controlled expenses. Numerous actions were taken to accelerate marketing momentum and drive revenue growth as a result of which new business policies of the Farmers Exchanges grew by 13.1% in 2004. The introduction of more sophisticated marketing and retention programs, such as customized mailings to over four million customers, contributed to growth in every major line. A total of 1,770 agents were added (a net gain of nearly 600) and the average production of full time agents increased by 5% over 2003. More structured and intensive training for agents was also introduced through the launch of the University of Farmers and this contributed to a significant increase in the success rate of new agents. A multi-year business process re-engineering effort was launched achieving a 7% employee productivity increase. Implementation of self-service tools and new technologies further aided cost control, while our focus on customer experience increased customer satisfaction by 4.4 percentage points over 2003.

The Farmers Exchanges also had an outstanding year. Premium growth funded by the addition of USD 462 million in organic surplus, fueled the steady growth in Farmers Management Services earnings. The all-lines combined ratio of Farmers Exchanges improved by more than five percentage points year-over-year to 96.8%, despite the four hurricanes in the US and the Caribbean.

In the fourth quarter, advertising expenditure and profiles were raised to increase brand awareness. In the independent agent distribution channel, market management was consolidated and a new strategy and value proposition was introduced.

Financial review

Farmers Management Services – highlights
in USD millions, for the years ended December 31

	2004	2003	Change
Management fees and other related revenue	**1,985**	1,885	5%
Management expenses and other related expenses	**955**	900	6%
Business operating profit	**1,077**	970	11%
Net income	**686**	604	14%
Gross operating margin	**51.9%**	52.3%	(0.4 pts)
Gross written premiums of the Farmers Exchanges	**14,189**	13,833	3%
Gross earned premiums of the Farmers Exchanges	**14,020**	13,654	3%

Business operating profit increased by USD 107 million, or 11%, from USD 970 million for 2003 to USD 1.1 billion for 2004, as a result of the growth in revenues, reflecting the continuing increase in premiums earned by the Farmers Exchanges, as well as higher net investment income.

Net income of USD 686 million in 2004 was 14% higher than the USD 604 million in 2003 reflecting the consistent growth in business operating profit.

Management fees and other related revenue increased by USD 100 million, or 5%, from USD 1.9 billion in 2003 to USD 2.0 billion in 2004. This increase arises primarily from higher gross premiums earned by the Farmers Exchanges. In 2004, gross earned premiums were USD 14.0 billion as compared with USD 13.7 billion in 2003. Premiums from continuing lines of business grew by USD 495 million, or 4%, over 2003. This was largely attributable to higher premiums in the specialty, commercial and fire lines of business of the Farmers Exchanges. However, the decision by the Farmers Exchanges to exit the medical malpractice business reduced the overall premium growth rate to 3%. Furthermore, the motor line of business experienced higher fees than in 2003 as a result of revisions to the fee structure effective from January 2004. Additionally, other revenues such as Flexabill service fees, fire inspection fees, service charges and membership fees, which are sensitive to premium levels, also increased.

Expenses were USD 55 million, or 6%, higher in 2004 compared with 2003. This increase was driven by variable expenses related to growing revenues, as well as higher IT and employee benefit costs. As a result, the **gross operating margin** of Farmers Management Services decreased by 0.4 percentage point to 51.9% for 2004, which is closer to our long-term historical margin of approximately 50%.

Other Businesses

Our Other Businesses segment includes capital markets and banking activities and our Centre operations. This segment also includes centrally managed general and life insurance operations. Certain of the business operations in this segment were discontinued, divested or put into run-off in 2004 and 2003.

Other Businesses – highlights

in USD millions, for the years ended December 31	2004	2003	Change
Net earned premiums and policy fees	**1,334**	1,559	(14%)
Net investment result	**1,004**	1,234	(19%)
Net gain on divestments of businesses	**32**	13	146%
Insurance benefits and losses, including policyholder dividends	**1,181**	2,419	(51%)
Other operating and administrative expenses	**387**	618	(37%)
Business operating profit/(loss)	**137**	(958)	nm
Net income/(loss)	**96**	(1,012)	nm

Due to the relative importance of Centre to the Other Businesses segment, key financial data for Centre is shown below.

Centre and other operations

	Centre		Other operations	
in USD millions, for the years ended December 31	**2004**	2003	**2004**	2003
Net earned premiums and policy fees	**1,112**	1,337	**222**	222
Net investment result	**457**	623	**547**	611
Insurance benefits and losses, including policyholder dividends	**858**	2,088	**323**	331
Business operating profit/(loss)	**58**	(882)	**79**	(76)
Net income/(loss)	**9**	(818)	**87**	(194)

Centre significantly improved its **business operating profit** by USD 940 million from a net loss of USD 882 million in 2003 to a net profit of USD 58 million in 2004. **Net income** also increased substantially by USD 827 million to a net income of USD 9 million in 2004 compared with a net loss of USD 818 million in 2003, impacted by the USD 1.1 billion provisions for reserve strengthening, write down of certain assets and other provisions. Centre continues actively to pursue commutation and asset disposal opportunities. The successful commutation of several deals in 2004 had a positive impact on the net results. Centre's profitability is also affected by movements in financial markets because of the nature of its business, specifically the classification as trading of investments supporting life, health and disability insurance liabilities, and because of the restructure of its investment portfolio. Consequently, the net investment result reduced by USD 166 million to USD 457 million in 2004.

The wind-down of the Zurich Capital Markets (ZCM) business continues. As announced in July 2003, the Group and BNP Paribas (BNPP) signed a framework agreement to transfer certain derivative transactions and credit facilities and related assets of ZCM to BNPP. BNPP took over responsibility for servicing those transactions, and certain ZCM employees were transferred to BNPP. Designated trades have been novated, unwound or terminated. ZCM will continue to unwind its other business lines. ZCM recorded a net income of USD 93 million for 2004 compared to a net loss of USD 206 million in 2003. This positive result is primarily driven by reduced administrative and other expenses.

The other operations in this segment, including ZCM, recorded a **business operating profit** of USD 79 million in 2004 compared to a loss of USD 76 million in 2003. **Net income** increased by USD 281 million to USD 87 million in 2004.

Corporate Center

The Corporate Center segment includes Group holding and financing companies, Corporate Center operations and alternative investments. This segment also includes some Group internal reinsurance operations that are not attributable to a specific segment but are managed on a global basis.

Corporate Center – highlights

in USD millions, for the years ended December 31	**2004**	2003	Change
Total revenues	**1,344**	965	39%
Insurance benefits and losses, including policyholder dividends	**35**	7	nm
Interest expense	**811**	750	8%
Total benefits, losses and expenses	**1,627**	1,445	13%
Business operating profit/(loss)	**(514)**	(698)	26%
Net costs	**(495)**	(510)	3%

The loss recorded in **Business operating profit** for Corporate Center improved by USD 184 million over 2003 to a loss of USD 514 million for 2004 from a loss of USD 698 million in 2003. **Net costs** have also improved, decreasing by USD 15 million to net costs of USD 495 million for 2004 as a result of controlling costs, combined with the favorable effect of foreign exchange gains.

The increase in **total revenues** of USD 379 million was primarily attributable to an improved recovery for services rendered to other segments. Additionally, net gain on divestments of businesses contributed USD 53 million to this increase in total revenues at the Corporate Center.

Total benefits, losses and expenses increased by USD 182 million in 2004. Administrative and other operating expenses increased as a result of the centralization of certain IT services previously incurred by the business units and of other services provided to local business operating units.