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Half Year Results Reporting 2003

Opening Remarks by James J. Schiro

Chief Executive Officer

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Three months ago, we presented our first quarterly report. The financial result was impacted by the declining equity markets in that quarter, but our core businesses showed a solid trend of improving profitability. I am pleased to report that our continuing efforts to focus on underwriting, expense and cost control, as well as financial discipline and operating excellence, are bearing fruit and that the joint impact of rising equity and bond markets in the second quarter have made a positive contribution to the half year result.

Today, we are reporting a net income of 701 million dollars for the first six months after a loss of 2 billion dollars for the same period last year. The Non-life combined ratio dropped by 20.9 percentage points to 98.8%. Operating cash flow rose to 4.5 billion dollars, one quarter more than we generated in the same period last year, and business operating profit increased by 56% to 1.3 billion dollars to yield an annualized return on equity after tax of 10.9%.

Of course, our top line benefited from firm prices in most of our non-life markets across all regions. But the strong recovery of our bottom line would not have been possible without the implementation of our action plan and the operating improvements in our core businesses. The record for the first six months of 2003 confirms that our action plan and our goal of restoring Zurich's profitability are on track.

Let us have a detailed look at the milestones achieved in the first six months.

- **The improvement in profitability** seen in net income and business operating profit was supported by all elements of our **Global Profit Improvement Program (GPIP)**: pricing, underwriting, claims handling, and expense control. We have exceeded our cost savings targets to date and planned staff reductions are on track. The program is on plan to contribute 1 billion dollars to our bottom line, and, based on the record of the first six months, we expect it to remain on target for the remainder of the year. The restructuring of our Life operations addresses industry-wide difficulties in this sector. Based on our segment review, we are at an accelerated level of applying the same profit improvement methods to this business that we successfully applied to the Non-life business. These methods are based on performance metrics and regular monitoring in order to harness Group-wide efficiency gains, ensuring that we will also benefit from the trend to recovery that we have seen in this sector. Together with the restructuring of Centre and Zurich Capital Markets where a number of lines of business have been discontinued, these measures will contribute to the sustainability of our earnings in the long run. In addition, Farmers has always been, and continues to be, a solid contributor to earnings. These earnings are linked to premium volume rather than underwriting performance and they have increased year-on-year. Farmers New World Life is building on this platform and continues to produce strong new business margins.
- **The focus on core businesses** has been sharpened in line with our goal to attain a portfolio generating a blended business operating return on equity after tax of 12%. In the process of focusing, we have **announced a number of divestments** that upon completion will release more than 1 billion dollars of risk-based capital. The geographic portfolio of our core businesses is better balanced than one year ago, and our strong presence in three key markets of the world will allow us to leverage our Non-life corporate business that is global in design and scope.
- **Our capital base has increased and our balance sheet has been de-risked.** The proceeds from divestments and the rights issue, as well as other measures to improve capital management, have improved our risk-based capital position by 5 billion dollars – six months ahead of schedule. We announced an innovative solution involving the transfer of certain ZCM transactions and assets to BNP Paribas, enabling us to further deleverage our balance sheet.

- We continue to emphasize **contingency planning** to counter adverse developments. There is no such thing as a straight-line recovery. Our job is to anticipate adverse developments and prepare alternatives to overcome them. We have developed a culture where we take charges if developments require us to do so and we will compensate for them in other segments. This is a key element of our strategy, and we have regained the strength to do so in order to deliver on our plan. This is how we see our decision to strengthen reserves against certain discontinued lines of business at Centre. It was made after a detailed review of certain asset-backed transactions, which were exposed primarily to the leisure, transportation, and health care sectors. These sectors were impacted severely by the economic downturn in the US, and they have not benefited from the mild recovery we are seeing. Recognizing the challenges, we will continue to put this business on a sound financial basis.

The record of the first six months is a record of progress in a very difficult and challenging environment. It is the result of a collective effort, including everyone from the Group Executive Committee to the teams providing support in our back offices to those at the front interacting with our brokers and customers. All of our employees should take pride in the recovery that they have helped to produce.

Going forward, we will continue to maintain a sharp focus on operating efficiency, disciplined pricing, sound underwriting, tight cost and expense management and continuing financial discipline. As we develop our plan for 2004, we are confident that we can continue to make more progress on the factors shaping our bottom line. The quarterly reporting introduced this year will go a long way in providing timely and transparent information on our performance. We will be creating enhanced shareholder value by continuing to allocate capital to our core businesses in Non-life, and we will be managing our core Life segment to improved profitability under current economic conditions. The Life business too must contribute to our overall earnings goal at the hurdle rate we have set.

In line with our strategy, we are either going to exit or fix all businesses that do not meet our earnings hurdle rate. Recent divestments of Life operations were necessary steps towards ensuring that our activities in this segment get on a solid footing. We intend to benefit from the favorable growth and earnings prospects that derive from changing demographics and the shortfall of government-sponsored pension schemes. But let us also keep in mind that all products that we are going to supply to this market must be based on sound economic assumptions and prudent actuarial calculations.