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## **Annual Results Reporting 2006**

*Remarks by James J. Schiro*

*Chief Executive Officer*

*February 15, 2007*

I am proud today to announce a record set of results for 2006, as well as our 16<sup>th</sup> straight quarter of profitability.

Over that four-year timeframe, Zurich has faced many challenges: the recapitalization of its balance sheet; the implementation of new organizational designs; and a renewed dedication to operational improvement. The changes we made during this period – while often difficult – have had a dramatic impact on Zurich's ability to enhance its operating margins and achieve top-tier financial performance. But perhaps even more importantly, those changes have permanently altered mindsets and the way we approach our business.

Today, Zurich has evolved into a truly global company, with an emerging global brand and effective global platforms, as demonstrated by our 2006 results. These platforms facilitate knowledge sharing and cross-border implementation strategies, no matter where we are doing business around the world. And, as previously announced, we are targeting USD 2 billion more in after-tax improvements over the next three years directly attributable to The Zurich Way of doing business.

In addition, Zurich can also proudly point to a truly focused and globally integrated talent management program, a fact I am constantly reminded of when speaking with recent recruits, whether they are graduates joining us as part of our global associates programs or young apprentices working in our Zurich Switzerland offices.

Applying those fundamental strengths to refined customer segmentation strategies, enhanced product offerings and expanded distribution capabilities, Zurich generated record results in 2006. Patrick will – for his last time as Group Finance Director – walk you through the details of this outstanding performance, but I would also like to point out some of the highlights.

- Business operating profit increased 48% to 5.9 billion dollars.
- Net income increased 41% to 4.5 billion dollars.
- General Insurance achieved selective profitable growth and improved its combined ratio by 6.6 percentage points, though as Patrick will detail the underlying improvement in this statistic is even more impressive.
- Global Life maintained its double-digit APE growth rate in local currency while achieving a nearly 22% new business margin.
- Farmers increased its fee income by 4%.
- And we posted a return on equity of 19%.

These are impressive results, and we are rightfully proud of the 55,000 employees who made them possible.

Reflecting their confidence in the sustainability of the Group's operating performance, the Board will propose at April's AGM a regular dividend of CHF 11 per share, which is 57% higher than last year's payout.

In keeping with our commitment not to hold excess capital, the Board has also authorized the buyback of up to CHF 1.25 billion worth of Zurich shares on the Swiss Stock Exchange. We will commence this buyback program next week, and expect the program to be concluded this year.

These two actions, while representing a total distribution to shareholders of 51% of 2006's profits, still leave us with sufficient capital to invest in further growth initiatives, be they organic or through acquisition. Over the past three years, we have invested millions of dollars in such initiatives, and this year's results are signaling their value in terms of meaningful growth and record profitability.

Take micro-segmentation for example. By investing in the right IT platforms and developing the right skills, we deployed a Zurich Way personal lines workstream that increased targeted motor

business in Ireland 25% and in California 23%. These same tools were used in Germany to increase profitability by 3 combined ratio points despite an increasingly competitive market.

On a portfolio level, the market segmentation approach we instituted in North America Commercial continues to show similar results. Through intense review, assessment and tactical execution we are growing our most profitable product lines an average of 8% while reducing our least profitable product lines by 2%. It is that level of discipline that not only generated 2% growth in an otherwise declining North American market, but simultaneously improved the quality of that portfolio and reduced its volatility.

On the distribution front, Farmers presents real proof of the impact of expanding the reach and productivity of agents, as an all-time high of over 14,000 agents produced a net gain of 657,000 policies in force last year. Extrapolate that success globally, as Zurich increased its US and European tied agent force by over 10% in 2006, and you can begin to appreciate the scale of our efforts.

Similarly, investing in the infrastructure to continuously improve our product propositions and expand our distribution breadth spawned a network of cross-border life products that propelled Global Life's successful and profitable multi-niche strategy. 2006 saw us selling award-winning Irish products in Germany, and leveraging the German technology platform to sell products in Switzerland. A telling example of the power of this dual product-distribution focus is our life business in South East Asia, where our operations collectively achieved over 80% APE growth while producing a new business margin of 36.5%.

Altogether, we invested nearly USD 400 million in 'transformational' technology projects in 2006, leading to major improvements throughout the organization.

Consider the impact of our pan-European single platform, where we invested USD 40 million in 2006. This system provides a full suite of the latest web technologies to administer policies and claims, and is built on the fully operational system in Spain. Going forward, it will serve as the core to our expansion of this business across Europe.

Not all of our transformational spend has been on large scale projects, though. Take a novel approach to term life insurance in the US, for example. A USD 1.2 million investment in technical

enhancement to the Farmers system generated over USD 1 billion in new coverage sold in the six months following launch.

What these returns on our investments demonstrate is that through the reorganization of IT we undertook during the turnaround, and now positioning the function as an engine for profitable growth, we have and will continue to systematically leverage our capabilities and maintain cost controls.

While the bulk of these investments were geared towards organic growth and profitability, we also pursued and will continue to pursue tactical acquisitions that complement our focus on customers, products and distribution.

The buyout of the remaining shares of the UK broker Endsleigh, for example, gives us a strategic foothold with a powerful customer base focused on student customers. Likewise, the acquisition of ACC Seguros extends our European center of excellence in the credit and surety business, a segment predicted to experience significant growth in future years. And yesterday's announcement regarding our growth plans in Russia adds significantly to our distribution and product capabilities in potentially the largest insurance market in Europe, and positions Zurich as the largest foreign general insurer in Russia.

This focus on identifying and leveraging ways to increase customer insight, expanding our product offerings and enhancing our distribution base is paying dividends. We are increasing the number of customer touch points. We are sharpening our focus on all stages of the marketing funnel. And we are leveraging existing and new resources to fill gaps in our current product offerings.

These are the investments we are making in profitable growth. And because they are underpinned by a culture of operational discipline and a proven record of execution, we are confident that this strategy will continue to generate profits and cash throughout the insurance cycle.

Going forward, we will continue to invest in customer, product and distribution initiatives, both organic and inorganic. Our approach to acquisitions will be to continue focusing on exploiting bolt-on tactical acquisition opportunities where they make strategic sense and meet our internal hurdle rates. On the general insurance side, these opportunities will most likely be in Europe or emerging markets, though supporting the Farmers Exchanges to expand in US personal lines could also prove

attractive. On the life side, we will continue our multi-niche strategy, focusing particularly on expanding our expat business, and will assess opportunities as they arise. Our appetite will be driven by a sophisticated and shareholder-centric capital management strategy – which we will discuss in more detail at an Investor Day next month – and will be tempered with the same degree of discipline and focus that has marked our turnaround.

Additionally, we will sharpen our focus on emerging and other international markets. As you know, we have restructured these operations to position them for growth. In Greater China, we have developed a unique three-part strategy to enable us to leverage existing platforms in the region while facilitating knowledge transfers to and from that important developing market. In Latin America, we are reorganizing and refocusing our operations to benefit more from region-wide discipline and consistency of core processes. While in South Africa and Australia we are constantly assessing new market opportunities, and continuing to leverage The Zurich Way improvements.

Finally, the microinsurance initiative we announced with the Swiss Agency for Development and Cooperation is another example of seeking ways to expand our customer base while generating valuable learnings about risk management in these important emerging markets.

So, our focus is simple. We will continue to build on our proven record of operational discipline and continue to leverage our brand through enhanced customer, products and distribution capabilities. In the process, we will create sustainable shareholder value and selective profitable growth. That approach generated record results in 2006, and with the commitment of a motivated global workforce, I am confident it will continue to achieve top tier results in the future.

### **Concluding Remarks**

In closing, I would like to highlight one thing.

Early last year, we declared the turnaround to be over, and began charting a new course for Zurich. Clearly, 2006's record financial results and record distribution to shareholders illustrate the effectiveness of that new course.

What those results only begin to reflect, though, are the deep cultural shifts and infrastructure investments we have made that position Zurich for continued shareholder value and top tier financial performance. 2006 demonstrates what this company is capable of, and I am confident that we have the people, processes and platforms to accomplish even more.