



ZURICH
FINANCIAL SERVICES

Zurich Financial Services Group

Quarterly Report 2004/Q1

Q1

Financial Highlights

The following table presents the summarized consolidated results of the Group for the three months ended March 31, 2004 and 2003 and the financial positions as of March 31, 2004 and December 31, 2003. The 2003 amounts have been restated following the adoption of new accounting standards in 2003 and 2004. Certain prior year balances have also been reclassified to conform to the 2004 presentation.

Consolidated operating statements

in USD millions, for the three months ended March 31	2004	2003	Change
Gross written premiums and policy fees	14,307	13,493	6%
Net investment result	1,951	482	305%
Business operating profit	942	779	21%
Net income	702	134	424%

Consolidated balance sheets

in USD millions, as of	March 31, 2004	December 31, 2003	Change
Total Group investments	175,125	175,967	0%
Insurance reserves, gross	171,589	172,499	(1%)
Senior and subordinated debt	4,720	4,775	(1%)
Total shareholders' equity	20,114	18,784	7%

General Insurance key performance indicators

for the three months ended March 31	2004	2003	Change
Business operating profit (in USD millions)	621	556	12%
Combined ratio	96.9%	98.1%	1.2 pts

Life Insurance key performance indicators

for the three months ended March 31	2004	2003	Change
Business operating profit (in USD millions)	229	165	39%
New business profit margin (as % of APE)	9.8%	6.3%	3.5 pts

Return on common stockholders' equity

for the periods ended	March 31, 2004	December 31, 2003	Change
Return on equity, annualized	16.2%	12.9%	3.3 pts
Business operating profit (after tax) return on equity, annualized	14.8%	10.1%	4.7 pts

Per share data

for the three months ended March 31	2004	2003	Change
Diluted earnings per share (in USD)	4.86	0.94	417%
Diluted earnings per share (in CHF)	6.09	1.28	376%

Dear Shareholders

We are pleased to report that our focus on financial discipline and the profitability of our core businesses continues to produce excellent results. In the first quarter 2004, Zurich's net income rose by 424% to USD 702 million, generating an annualized return on equity of 16.2%, while business operating profit, our measure to assess the underlying business performance, increased by 21% to USD 942 million. This corresponds to an annualized business operating return on equity after tax of 14.8%, which exceeds our internal target of 12%. These results provide a strong platform to realize our strategic aspiration to become the leading global insurer in our chosen General Insurance and Life Insurance markets, consistently delivering value to our shareholders.

The first quarter benefited from a positive environment with no major catastrophe losses and favorable conditions in the equity and bond markets. It would be imprudent to expect such positive circumstances to last. In fact, bond yields have increased sharply in recent weeks. While higher interest rates will contribute to higher investment income as cash flow generated in insurance operations can be invested at higher yields, the current bond market reversal is likely to create financial market volatility in the short term. That said, we will continue to place a high priority on managing our investment portfolio to match liabilities with corresponding assets, and with our primary aim to reduce economic risk.

The fact that financial market developments are part and parcel of any insurer's business equation confirms that our strategy of focusing on the profitability of our core businesses and reducing the impact of financial market fluctuations on net income is the right one for Zurich. In April we reaffirmed this direction. Our approach is straightforward. We want to generate sustained, profitable growth by focusing on our customers and enhancing the core of our businesses. We will concentrate on four target market segments in General Insurance and on the Life Insurance business. We will continue to manage our operations with the same rigor and discipline as we have over the past 18 months. And we will continue to streamline and consolidate our organization.

Looking at the performance in the first quarter, we are pleased to report that all businesses contributed to the improved bottom line.

In **General Insurance**, the net underwriting result more than doubled to USD 222 million against the backdrop of strong net earned premium growth and disciplined underwriting supported by sound pricing and fair claims management. We continue to benefit from

rate increases realized in previous periods now being earned as revenue. Going forward, we will adhere to strict underwriting discipline as a prerequisite for sustainable profitability.

In **Life Insurance**, the performance was characterized by the sharp swing from a net loss of USD 23 million to a net income of USD 223 million, which is partly due to the divestment or closing of underperforming businesses. These actions and the redesign of the group pension business model in Switzerland contributed to a decline in gross written premiums. The result was also positively impacted by the introduction of re-priced products, strong distribution partnerships, and measures to further contain costs and expenses. Consequently, the new business profit margin increased from 6.3% to 9.8%. We will continue to develop products and services that are attractive for our policyholders and allow us to earn an adequate return on capital employed in the Life Insurance segment.

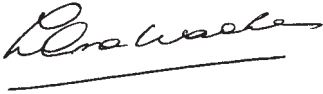
Farmers Management Services earned a net income of USD 177 million, an increase of 12% on 2003. This increase was achieved on higher premiums at the Farmers P&C Group Companies, which Zurich manages, but does not own. In the first quarter, the surplus of the Farmers P&C Group Companies grew by USD 143 million to USD 3.8 billion. The stronger capital base provides the foundation for future premium growth at Farmers and consequently growing management fees accruing to Zurich.

The **investment performance** benefited from favorable conditions in the equity and bond markets, generating a quarterly return on Group investments of 1.9% compared with 0.2% in 2003. We increased the proportion of debt securities in our investment portfolio to 66.2%, while further reducing the proportion of common stock for which the Group bears investment risk to 5.4%. These changes are the result of measures we have taken to reduce balance sheet risks as well as adjustments we made in the German and UK Life Insurance investment portfolios.

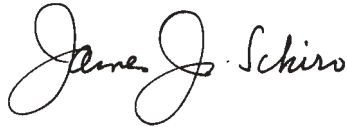
Shareholders' equity rose to USD 20.1 billion, an increase of 7% over the USD 18.8 billion reported at the end of 2003 (a number that was restated to reflect the Group's current estimate of the impact of a new accounting standard). In a world characterized by increased risk and heightened risk awareness, our financial strength rating – primarily based on the Group's capital and its capacity to generate sustainable earnings – is one of our most important competitive assets. We remain committed to increasing the Group's profitability and its ability to strengthen its capital base through retained earnings in order to achieve

our desired financial strength ratings in the medium term.

Looking ahead to the next phase of our recovery we are mindful that only the insurers that deliver top tier results, earn more than their cost of capital and create economic value will be capable of creating lasting valuable relationships for their customers, agents, brokers, and shareholders, while providing rewarding opportunities for their employees. We aspire to be among the top performers in our industry.

A handwritten signature in black ink, appearing to read 'Lodewijk C. van Wachem', with a horizontal line underneath.

Lodewijk C. van Wachem
Chairman of the Board

A handwritten signature in black ink, appearing to read 'James J. Schiro', with a horizontal line underneath.

James J. Schiro
Chief Executive Officer

I Group Financial Review

Group highlights

Zurich Financial Services Group (the Group) earned net income of USD 702 million for the first quarter of 2004 compared with net income of USD 134 million in the same period in 2003 and USD 681 million in the last three months of 2003. Diluted earnings per share rose 417% to USD 4.86, compared with USD 0.94 in the first quarter of 2003.

The analysis of the results for the first quarter of 2004 has been made against the results of the first quarter of 2003, unless otherwise explicitly stated. It should be noted that quarterly results are not indicative of the full year performance.

Performance highlights¹

in USD millions, for the three months ended March 31	2004	2003 ²	Change
Gross written premiums and policy fees	14,307	13,493	6%
Net investment income	1,709	1,780	(4%)
Net capital gains/(losses) on investments and impairments	242	(1,298)	nm
Business operating profit	942	779	21%
Net income	702	134	424%
General Insurance combined ratio	96.9%	98.1%	1.2 pts
Life new business profit margin (as % of APE)	9.8%	6.3%	3.5 pts
Return on equity, annualized ³	16.2%	12.9%	3.3 pts
Business operating profit (after tax) return on equity, annualized ³	14.8%	10.1%	4.7 pts
Diluted earnings per share (in USD)	4.86	0.94	417%
Diluted earnings per share (in CHF)	6.09	1.28	376%

¹ Issues affecting the basis of current and future presentation and comparability are set out in the last section of this document.

² Restated, see last section in this review.

³ 2003 return is for the year ended December 31, 2003; 2004 return is for the three months ended March 31, 2004 (annualized).

The result reflects the disciplined implementation of our customer-focused strategy, measures to further strengthen performance in the Life Insurance segment, and the support from firm prices in key markets. Moreover, it is a result of adherence to financial discipline and a focus on our core insurance competencies: strong underwriting and fair claims management.

Gross written premiums and policy fees increased by 6% to USD 14.3 billion in the first quarter of 2004. Adjusted for the effects of divestments, the redesign of the group pension business model in Switzerland in our Life Insurance segment and foreign exchange

movements, the improvement was 5%. Adjusted for these same factors, premiums in the General Insurance segment improved by approximately 7% whereas premiums in our Life Insurance segment remained nearly flat.

Business operating profit increased by 21% over the first quarter of 2003 to USD 942 million for the same period in 2004 with contributions from each of our core businesses.

- The effect of rate increases in previous periods now being earned as revenue and a strong underwriting performance have contributed to improvements in our General Insurance results. The net underwriting result more than doubled to USD 222 million from USD 109 million in the first quarter of 2003. Correspondingly, the combined ratio improved by 1.2 percentage points to 96.9% in the first quarter of 2004.
- Our Life Insurance segment continued to focus on writing new profitable business as demonstrated by the 3.5 percentage point increase in the new business profit margin to 9.8% and by the 39% increase in business operating profit of USD 64 million in the first quarter of 2004. The Life Insurance segment benefited from divesting businesses with lower profitability and was impacted by the redesign of the group pension business model in Switzerland.
- Farmers Management Services has continued to provide consistent profit to the Group with a 12% increase in net income to USD 177 million in the first quarter of 2004.
- The after-tax business operating profit return on equity improved by 4.7 percentage points to 14.8% (annualized) in the first quarter of 2004, compared with the return for the full year of 2003.
- Net investment income decreased by USD 71 million to USD 1.7 billion for the first quarter of 2004 mainly due to the divestment of certain life operations in the second half of 2003, and lower yields on debt securities offset by our higher asset base.
- The total investment return on the investment portfolio for the first quarter of 2004, based on the sum of investment income, net capital gains on investment included in income and changes in gross unrealized gains and losses included in shareholders' equity, expressed as a percentage of average Group investments, was 1.9% compared with 0.2% in the first quarter of 2003 (excluding expenses).

Net income improved to USD 702 million in the first quarter of 2004 after a net income of USD 134 million in the same period in 2003, reflecting the operational improvements flowing through business operating profit and the turnaround in net capital gains on investments.

- Net capital gains on investments improved from net losses of USD 1.3 billion in the first quarter of 2003 to net gains of USD 242 million in the same period of 2004. There were no significant asset impairments in the first quarter of 2004 compared with USD 927 million in the same period last year reflecting the low level of the

financial markets in the first quarter of 2003. After adjusting for the element of net capital gains on investments attributable to reserves for future benefits for policyholders, net capital gains available to the Group shareholders were USD 163 million in the current quarter.

- As a result of the increase in net income, diluted earnings per share increased to USD 4.86 in the first quarter of 2004 compared with USD 0.94 for the same period in 2003.

Balance sheet highlights

in USD millions	March 31, 2004	December 31, 2003 ¹	Change
Total assets	319,800	317,626	1%
Total Group investments	175,125	175,967	0%
Insurance reserves, gross	171,589	172,499	(1%)
Total shareholders' equity	20,114	18,784	7%
Return on equity (annualized)	16.2%	12.9%	3.3 pts

¹ Restated, see last section in this review.

- The outflow of assets as a result of the sale of certain operations in 2004 and the redesign of the group pension business in Switzerland was more than offset by favorable foreign exchange rate movements and the positive operating cash flow.
- The decrease in gross insurance reserves reflects the divestments of businesses in 2004, the redesign of the group pension business and foreign exchange rate movements since December 2003. The gross insurance reserves of the General Insurance segment increased by USD 2.6 billion following the growth in net written premiums whereas gross insurance reserves of the Life Insurance segment decreased by USD 3.2 billion.
- The change in shareholders' equity reflects our net income and the result of a net increase in unrealized gains on investments.
- Our return on equity improved by 3.3 percentage points to 16.2% (annualized) for the first quarter of 2004 compared with the 2003 full year return.

Segmental highlights

Net income and business operating profit by segment¹

in USD millions, for the three months ended March 31	Business operating profit		Net income/(loss)	
	2004	2003	2004	2003
General Insurance	621	556	458	323
Life Insurance	229	165	223	(23)
Farmers Management Services	276	260	177	158
Other Businesses	1	(33)	16	(32)
Corporate Center	(185)	(169)	(172)	(292)
Total	942	779	702	134

¹ Certain reclassifications and restatements have been made to 2003 amounts to conform to the 2004 presentation.

General Insurance

In the first quarter of 2004 the segment recorded **gross written premiums and policy fees** of USD 11.1 billion, an increase of 14% over the same period in the previous year (6% in local currency terms). This overall growth was driven by a combination of rate and volume increases. Based on renewals, favorable market conditions are expected for the remainder of 2004. However, there are some indications that the growth rate of price increases has slowed. For example in North America Corporate, our second largest general insurance market, average rate increases in the first quarter of 2004 were 5.6% compared with 11.6% in the fourth quarter and 19.5% in the first quarter of 2003.

The **net underwriting result** more than doubled in the first quarter of 2004 to USD 222 million. The effects of our disciplined approach to underwriting and pricing were seen in higher net earned premiums of 24% in 2004 as the rate increases on business written in previous periods were earned as revenue. On the claims side, the development of losses and loss adjustment expenses of 20% was lower than the growth in net earned premium. All regions contributed to this positive insurance technical result.

The General Insurance segment increased its **business operating profit** by 12% to USD 621 million compared with USD 556 million for the first quarter of 2003, driven by strong underwriting performance and benefiting from favorable market conditions.

Net income improved by 42% to USD 458 million for the first quarter of 2004, driven by business operating performance as well as by higher net capital gains on investments of USD 88 million compared with losses of USD 79 million in the prior period.

The underwriting improvements were reflected in the **combined ratio** which improved by 1.2 percentage points to 96.9%, compared with 98.1% in the first quarter of 2003. The overall loss ratio improved by 1.5 percentage points to 72.0% for the first quarter of 2004 compared with the first quarter of 2003.

Net underwriting result and combined ratio¹

for the three months ended March 31

	Net underwriting result in USD millions		Total combined ratio in %	
	2004	2003	2004	2003
North America Corporate	101	80	95.9%	96.1%
North America Consumer	17	5	98.0%	98.6%
Continental Europe	61	(3)	97.2%	100.1%
UKISA	63	5	95.4%	99.5%
Rest of the World	21	16	94.3%	94.3%
Subtotal	263	103	nm	nm
Centrally Managed Businesses ²	(41)	6	168.9%	97.3%
Total	222	109	96.9%	98.1%

¹ Certain reclassifications and restatements have been made to 2003 amounts to conform to the 2004 presentation.

² After including intersegment eliminations.

Life Insurance

Gross written premiums and policy fees decreased by 14% to USD 3.1 billion (23% in local currency terms). This decrease is due to the sale of certain life operations in 2003, particularly Zurich Life US, Zurich Life UK and certain other European operations, as well as to the redesign of the group pension business model in Switzerland that has been partially transferred to an external foundation. Excluding these factors as well as foreign exchange movements, premiums remained nearly flat.

Insurance deposits increased by 16% (2% in local currency terms) to USD 2.3 billion driven by the UKISA and Rest of the World regions.

The Life Insurance segment improved its operating result as demonstrated by the 39% increase in **business operating profit** to USD 229 million compared with USD 165 million for the first quarter of 2003. This improvement was mainly in the UKISA region as a result of reduced expenses, foreign exchange movements and the recovery of stock markets compared with the first quarter of 2003. In addition, Life Insurance continued to focus on writing new profitable business.

Net income for the segment increased to USD 223 million from a net loss of USD 23 million for the first three months of 2003. The main driver of this result was the improvement in capital gains on investments following the net asset impairment charges booked in last year's first quarter. After adjusting for the element of net capital gains on investments attributable to reserves for future benefits for policyholders, the improvement in net capital gains was USD 224 million. Moreover, other operating and administrative expenses decreased in the first three months of 2004 compared with the same period in 2003.

Embedded value for the three months ended March 31	Gross new business annual premiums equivalent (APE) in USD millions		New business profit, after tax in USD millions		New business profit margin, after tax as % of APE	
	2004	2003	2004	2003	2004	2003
North America Consumer	25	67	17	16	67.8%	23.8%
Continental Europe	200	179	17	7	8.4%	4.2%
UKISA	247	184	18	13	7.5%	7.0%
Rest of the World	42	73	(2)	(4)	(4.4%)	(6.0%)
Total	514	503	50	32	9.8%	6.3%

Gross new business premiums, measured on an APE basis (new annual premiums plus 10% of single premiums), reduced by 11% in local currency terms when compared to the first quarter of 2003, corresponding to an increase in USD of 2% to USD 514 million. This reduction in local currency terms was a result of the various life company divestments during the year 2003. Excluding these effects, our new business production in local currency terms for the first quarter of 2004 was in line with the prior year.

New business profit, after tax, was USD 50 million for the first quarter of this year, a growth of USD 18 million (46% in local currency terms) over the prior year period, corresponding to an increase in **new business profit margin** to 9.8% from 6.3%. This increase reflects the continuation of management initiatives to improve earnings in our Life Insurance segment, the positive effect of the divestment of Zurich Life US, higher volumes in our UKISA region and the improvements seen in the last year for Continental Europe.

Farmers Management Services

Management fees and related revenue increased by 4% from USD 468 million in the first quarter of 2003 to USD 485 million in the Farmers Management Services segment. This increase resulted primarily from higher premium volumes in the Farmers P&C Group Companies, which Zurich manages, but does not own. In the first three months of 2004, these premiums were USD 3.5 billion as compared with USD 3.4 billion in the same period of 2003. This premium growth is largely attributable to higher premiums in the Farmers Specialty and Fire lines of business.

Business operating profit grew by 6%, or USD 16 million to USD 276 million and **net income** increased in the first quarter of 2004 by 12% to USD 177 million from USD 158 million.

Other Businesses

Business operating profit of the Other Businesses segment, comprising Zurich's capital markets and banking activities, Centre operations, asset management activities and insurance run-off operations, improved from a loss of USD 33 million to a profit of USD 1 million for the first three months of 2004.

The Other Businesses segment recorded **net income** of USD 16 million for the first three months of 2004 compared with a net loss of USD 32 million for the same period of the previous year. Centre generated net income of USD 6 million compared with a loss of USD 35 million in the first quarter of 2003.

Corporate Center

The Corporate Center segment includes Group holding companies, central expenses at the headquarters in Zurich, and central financing entities.

The Corporate Center segment reported **net costs** of USD 172 million for the first three months of 2004, an improvement of USD 120 million over the same period of 2003. The main driver of the improved result is the positive development in net capital gains on investments and impairments. In the first quarter of 2003, this segment incurred losses related to its Baloise investment of USD 158 million; we completed the sale of nearly all of our holding in Baloise in November 2003.

Business operating profit for the Corporate Center segment decreased by USD 16 million over the comparable period in 2003 to a net loss of USD 185 million from a net loss of USD 169 million.

Update on divestments

We have continued to divest and reposition our non-core activities during the first quarter of 2004. Several divestments were closed and agreements have been signed for additional divestments subject to regulatory approval or other conditions being met prior to closing. On February 13, we announced the completion of the sale of our life operations in Belgium and the workers compensation portfolio, as well as our general insurance operations in the consumer and small commercial segment in Belgium to P&V Assurances (P&V). On March 10, a consortium of management and investors bought the salary packaging administration and novated fleet management subsidiary, McMillan Shakespeare Australia Pty Limited (MSA) in Australia.

On March 31, we announced the sale of Zürich Krankenversicherung AG (Deutschland) and of our stake in GLOBALE Krankenversicherungs-AG to DKV Deutsche Krankenversicherung AG. Pending regulatory approvals, the transaction is expected to close in the second quarter of this year.

Transactions completed in the first quarter of 2004 generated approximately USD 137 million of net cash proceeds.

Reserves for losses and loss adjustment expenses

Development of reserves for losses and loss adjustment expenses

in USD millions

2004

As of January 1 (opening balance)

Gross reserves for losses and loss adjustment expenses	51,068
Reinsurance recoverable	(14,055)
Net reserves for losses and loss adjustment expenses	37,013
Losses and loss adjustment expenses incurred	
Current year	5,342
Prior periods	70
Total	5,412
Total losses and loss adjustment expenses paid	(4,330)
Divestments of companies and businesses	(493)
Foreign currency translation effects	(147)
As of March 31 (closing balance)	
Net reserves for losses and loss adjustment expenses	37,455
Reinsurance recoverable	14,071
Gross reserves for losses and loss adjustment expenses	51,526

We establish loss reserves, which are estimates of future payments of reported and unreported claims for losses and related expenses, with respect to insured events that have occurred.

Reserving is a complex process dealing with uncertainty, requiring the use of informed estimates and judgments. Any changes in estimates are reflected in results of operations in the period in which estimates are changed.

Of the total USD 37.5 billion net reserves for losses and loss adjustment expenses, USD 32.6 billion related to the General Insurance segment as of March 31, 2004.

In the first quarter of 2004, North America Corporate recorded approximately USD 150 million of reserve strengthening for prior periods. Approximately half of this strengthening arose from developments in the current quarter and the remainder from an increase in IBNR. This was partially offset by net reserve releases of USD 80 million in other regions.

Capitalization and indebtedness

Summary of capitalization and indebtedness

in USD millions	March 31, 2004	December 31, 2003 ¹	Change
Debt related to capital markets and banking activities	4,656	5,961	(22%)
Obligation to repurchase securities	4,611	3,742	23%
Total operational debt	9,267	9,703	(4%)
Senior debt	2,298	2,360	(3%)
Subordinated debt	2,422	2,415	0%
Total financial debt	4,720	4,775	(1%)
Preferred securities	381	390	(2%)
Other	567	579	(2%)
Total minority interests	948	969	(2%)
Total shareholders' equity	20,114	18,784	7%
Total capitalization and indebtedness	35,049	34,231	2%

¹ Restated, see last section in this review.

On April 16, 2004, the Annual General Meeting of Zurich Financial Services (Zurich) approved a nominal value reduction of the share capital enabling a payout to shareholders of CHF 2.50 per registered share. The share capital will be reduced by CHF 360,017,387.50 from CHF 1,296,062,595 to a new total of CHF 936,045,207.50. The payment of CHF 2.50 per registered share free of charge is expected by July 1, 2004, subject to necessary legal filings and the entry of the share capital reduction in the Commercial Register of the Canton of Zurich.

Indebtedness

As of March 31, 2004 total operational debt was USD 9.3 billion, a decrease from USD 9.7 billion as of December 31, 2003. Between December 31, 2003 and March 31, 2004 debt related to capital markets and banking activities decreased by USD 1.3 billion due to the transfer of certain assets and liabilities to BNP Paribas in accordance with the agreement signed in 2003. This agreement is part of the winding-down of Zurich Capital Markets activities. This decrease was offset by an increase of USD 869 million in our obligation to repurchase securities to USD 4.6 billion resulting from increased short-term activities in the “Repo” market in the normal course of business.

The decrease of total financial debt by USD 55 million, or 1%, as well as the reduction of the total minority interests by USD 21 million, or 2%, were driven by foreign exchange movements since December 31, 2003.

Collateralized loans which are secured by mortgage loans amounted to USD 4.3 billion as of March 31, 2004 compared with USD 4.7 billion as of December 31, 2003.

In April, we announced the completion of a USD 3 billion syndicated revolving credit facility. This facility is for general corporate and backup liquidity purposes and replaces our USD 1.5 billion credit facility of May 1999, which expires in May 2004.

Shareholders' equity

in USD millions, for the three months ended March 31, 2004

Balance as of December 31, 2003, as previously reported	19,384
Implementation of new accounting standard “SOP 03-01” (see last section in this review)	(600)
Balance as of December 31, 2003, restated	18,784
Change in net unrealized gains on investments (excluding translation adjustments)	625
Translation adjustments	(3)
Share-based payment transactions	12
Treasury stock transactions	3
Net income	702
Dividends on preferred securities	(9)
Balance as of March 31, 2004	20,114

On a consistent basis, shareholders' equity increased by USD 1.3 billion to USD 20.1 billion as of March 31, 2004 compared with USD 18.8 billion as of December 31, 2003. The balance as of December 31, 2003 is shown after restatement of the previously reported amount of USD 19.4 billion by an after-tax amount of USD 600 million to reflect our current estimate of the impact of “SOP 03-01” on the balance sheet.

Cash flows

Summary of cash flows¹

in USD millions, for the three months ended March 31

	2004	2003
Cash flows from operating activities		
Net income	702	134
<i>Adjustments for:</i>		
Net capital (gains)/losses on investments and impairments	(242)	1,298
Net loss/(gain) on divestments of businesses	3	(6)
Equity in income of investments in associates	(20)	(7)
Depreciation and amortization	177	163
Other non-cash items	12	347
Changes in operational assets and liabilities	866	198
Net cash provided by operating activities	1,498	2,127
Net cash used in investing activities	(3,513)	(3,669)
Net cash (used in)/provided by financing activities	(406)	1,410
Effect of exchange rate changes on cash and cash equivalents	(56)	71
Change in cash and cash equivalents	(2,477)	(61)
Cash and cash equivalents as of January 1 (opening balance)	13,536	8,444
Cash and cash equivalents as of March 31	11,059	8,383

¹ Certain reclassifications and restatements have been made to 2003 amounts to conform to the 2004 presentation.

Issues affecting the basis of current and future presentation and comparability

As set out in the Annual Report 2003, two new accounting standards were implemented relating to share-based payment transactions – International Financial Reporting Standard 2 (“IFRS2” previously referred to as “ED2”) – and the separation of certain embedded derivative-linked components of reinsurance contracts (“DIG B36”). Shareholders’ equity and net income for 2003, as published in the Annual Report of 2003, were restated and we have now restated the figures for the first quarter of 2003 to conform to 2004 policies.

Adjustments to net income as published for the three months ended March 31, 2003

in USD millions

Net income, as published for the three months ended March 31, 2003	114
Implementation of new accounting standards (IFRS2, DIG B36)	20
Net income, restated	134

Business operating profit, as disclosed in 2003, has been restated for the first quarter of 2003 by USD 19 million recognizing the impact on net income of “IFRS2” and “DIG B36” that were implemented in 2003. In addition, the policyholder allocation of net capital gains on investments was adjusted by USD 23 million. These changes together with other minor adjustments have resulted in a reduction of USD 6 million in business operating profit to USD 779 million compared with the previously published USD 785 million. From January 1, 2004 the method for calculating the return on business operating profit was changed so that an effective tax rate is used, whereas in prior periods an assumed tax rate of 30% has been applied.

Adjustments to business operating profit as published for the three months ended March 31, 2003

in USD millions

Business operating profit, as published for the three months ended March 31, 2003	785
Implementation of new accounting standards (IFRS2, DIG B36)	19
Policyholder allocations	(23)
Effects of segment shifts	(2)
Business operating profit, restated	779

The AICPA Statement of Position 03-01 (“SOP 03-01”) “Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts” is effective for 2004. We continue to evaluate the impact of the requirements. As a prior year adjustment, we have restated shareholders’ equity by an after-tax amount of USD 600 million to reflect our current estimate of the impact of this change on the balance sheet. There will also be certain reclassifications to our financial statements which will be put into effect at the half year.

The “legal quote” legislation relating to Swiss life business was approved by the Swiss Federal Government on April 1, 2004, such that 90% of investment gains must be allocated to policyholders as they arise, where previously such allocations occurred when bonuses were declared. We anticipate a one-off charge against net income and shareholders’ equity for the current year, although we are still evaluating the full impact of this change.

During the next few years, there will be a number of further changes to our financial statements. The principal change will occur for 2005 reporting, when new and amended standards already issued and likely to be issued by the International Accounting Standards Board will be implemented. The most significant impact will be from the International Financial Reporting Standard on “Insurance Contracts” (“IFRS 4”). The impact is still being evaluated, but our net income, shareholders’ equity and presentation of the financial statements will all be affected. To the extent that IFRS 4 does not determine accounting for insurance contracts, we will continue, as disclosed in our Annual Report 2003, to refer to accounting principles generally accepted in the United States (US GAAP) for guidance on accounting for insurance products.

In 2004, figures for our Group internal reinsurance transactions have been allocated to the specific regions that wrote the underlying premiums, whereas in 2003 those results were recorded in the Centrally Managed Businesses region. The 2003 figures have been reclassified accordingly to conform to this presentation.

The Group will continue to report using the segments identified in our Annual Report 2003 throughout the 2004 fiscal year reporting cycle. Changes to the Group’s management structure announced on April 2, 2004, will be reflected in the first quarter 2005 financial reporting.

I Financial Supplement (unaudited)¹

Financial highlights – Operating statements by business segment (unaudited)

in USD millions

for the three months ended March 31

	General Insurance		Life Insurance	
	2004	2003	2004	2003
Revenues				
Direct written premiums and policy fees	9,762	8,780	3,086	3,577
Assumed written premiums	1,330	976	8	22
Gross written premiums and policy fees	11,092	9,756	3,094	3,599
Less premiums ceded to reinsurers	(1,856)	(2,134)	(227)	(200)
Net written premiums and policy fees	9,236	7,622	2,867	3,399
Net change in reserves for unearned premiums	(1,913)	(1,695)	(7)	2
Net earned premiums and policy fees	7,323	5,927	2,860	3,401
Management fees	–	–	3	39
Net investment income	549	462	1,086	1,174
Net capital gains/(losses) on investments and impairments	88	(79)	46	(1,171)
Net (loss)/gain on divestments of businesses	(34)	6	32	–
Other income	85	109	222	191
Total revenues	8,011	6,425	4,249	3,634
Benefits, losses and expenses				
Losses and loss adjustment expenses	5,246	4,357	21	22
Life insurance death and other benefits	26	–	4,472	2,227
(Decrease)/increase in future life policyholders' benefits	2	2	(1,688)	1,064
Insurance benefits and losses	5,274	4,359	2,805	3,313
Policyholder dividends and participation in profits	1	–	179	(736)
Underwriting and policy acquisition costs	1,266	957	449	526
Administrative and other operating expenses	673	531	299	313
Amortization of intangible assets	31	19	51	44
Interest expense on debt	47	45	9	12
Interest credited to policyholders and other interest	38	27	172	215
Total benefits, losses and expenses	7,330	5,938	3,964	3,687
Net income/(loss) before income taxes and minority interests				
	681	487	285	(53)
Net income/(loss)	458	323	223	(23)
Business operating profit	621	556	229	165

¹ 2003 amounts have been restated for "DIG B36" and "IFRS 2" (previously referred to as "ED 2") as published in the Annual Report 2003, and certain reclassifications have been made to 2003 amounts to conform to the 2004 presentation.

Farmers Management Services		Other Businesses		Corporate Center		Eliminations		Total	
2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
-	-	62	61	(1)	8	1	(2)	12,910	12,424
-	-	372	367	260	184	(573)	(480)	1,397	1,069
-	-	434	428	259	192	(572)	(482)	14,307	13,493
-	-	(68)	(55)	(255)	(186)	572	482	(1,834)	(2,093)
-	-	366	373	4	6	-	-	12,473	11,400
-	-	8	(22)	3	-	-	-	(1,909)	(1,715)
-	-	374	351	7	6	-	-	10,564	9,685
485	468	6	11	2	2	(1)	(3)	495	517
20	18	186	245	115	68	(247)	(187)	1,709	1,780
1	(2)	146	140	(39)	(186)	-	-	242	(1,298)
-	-	(1)	-	-	-	-	-	(3)	6
12	-	67	38	68	75	(113)	(51)	341	362
518	484	778	785	153	(35)	(361)	(241)	13,348	11,052
-	-	101	112	-	11	44	2	5,412	4,504
-	-	142	122	3	3	(53)	(8)	4,590	2,344
-	-	51	19	5	3	2	2	(1,628)	1,090
-	-	294	253	8	17	(7)	(4)	8,374	7,938
-	-	121	172	-	(4)	-	-	301	(568)
-	-	103	81	-	1	-	-	1,818	1,565
205	195	158	155	145	125	(111)	(41)	1,369	1,278
23	21	1	3	2	-	-	-	108	87
-	11	39	45	191	166	(195)	(168)	91	111
3	-	51	89	22	10	(48)	(28)	238	313
231	227	767	798	368	315	(361)	(241)	12,299	10,724
287	257	11	(13)	(215)	(350)	-	-	1,049	328
177	158	16	(32)	(172)	(292)	-	-	702	134
276	260	1	(33)	(185)	(169)	-	-	942	779

Financial highlights – Balance sheets by business segment (unaudited)

in USD millions, as of

	General Insurance		Life Insurance	
	03/31/04	12/31/03	03/31/04	12/31/03
Group investments	58,694	56,778	101,727	104,663
Investments held on account and at risk of life insurance policyholders	–	6	74,962	71,930
Reinsurance assets	16,935	17,128	4,814	4,947
Deposits made under assumed reinsurance contracts	1,455	1,683	6	9
Deferred policy acquisition costs	2,250	2,085	9,717	9,590
Goodwill	157	184	508	524
Other related intangible assets ¹	–	–	995	1,025
Other segment assets	13,201	12,570	12,717	12,097
Total segment assets after consolidation of investments in subsidiaries	92,692	90,434	205,446	204,785
Reserves for losses and loss adjustment expenses, gross	46,088	45,337	206	157
Reserves for unearned premiums, gross	15,435	13,470	131	131
Future life policyholders' benefits, gross	159	157	80,189	83,256
Policyholders' contract deposits and other funds, gross	923	1,058	18,116	18,271
Insurance reserves, gross	62,605	60,022	98,642	101,815
Insurance reserves for life insurance where the investment risk is carried by policyholders	–	–	76,242	73,233
Debt related to capital markets and banking activities	–	–	–	–
Senior debt	7,711	7,717	1,076	1,488
Subordinated debt	–	–	–	–
Other segment liabilities	13,222	13,048	17,509	18,095
Total segment liabilities	83,538	80,787	193,469	194,631
Minority interests	185	188	155	149
Segment equity	8,969	9,459	11,822	10,005

¹ Other related intangible assets consist of present value of acquired insurance contracts and attorney-in-fact relationship.

Farmers Management Services		Other Businesses		Corporate Center		Eliminations		Total	
03/31/04	12/31/03	03/31/04	12/31/03	03/31/04	12/31/03	03/31/04	12/31/03	03/31/04	12/31/03
1,860	2,219	21,390	20,761	15,942	14,644	(24,488)	(23,098)	175,125	175,967
-	-	-	-	-	-	-	-	74,962	71,936
430	429	3,339	3,423	538	385	(3,902)	(3,642)	22,154	22,670
-	-	1,884	1,931	55	51	(62)	(66)	3,338	3,608
-	-	93	100	1	1	(9)	(3)	12,052	11,773
-	-	63	64	6	7	-	-	734	779
1,057	1,067	-	-	-	-	-	-	2,052	2,092
744	767	3,754	4,432	1,652	2,196	(2,685)	(3,261)	29,383	28,801
4,091	4,482	30,523	30,711	18,194	17,284	(31,146)	(30,070)	319,800	317,626
-	-	7,397	7,741	653	715	(2,818)	(2,882)	51,526	51,068
-	-	470	481	211	115	(446)	(253)	15,801	13,944
-	-	2,129	2,065	243	284	(386)	(425)	82,334	85,337
-	-	3,264	3,194	-	-	(375)	(373)	21,928	22,150
-	-	13,260	13,481	1,107	1,114	(4,025)	(3,933)	171,589	172,499
-	-	-	-	-	-	-	-	76,242	73,233
-	-	6,550	6,321	-	-	(1,894)	(360)	4,656	5,961
-	-	239	191	14,752	14,288	(21,480)	(21,324)	2,298	2,360
-	429	-	-	3,542	3,398	(1,120)	(1,412)	2,422	2,415
1,349	1,379	9,311	9,836	2,767	2,088	(2,627)	(3,041)	41,531	41,405
1,349	1,808	29,360	29,829	22,168	20,888	(31,146)	(30,070)	298,738	297,873
-	-	219	219	389	413	-	-	948	969
2,742	2,674	944	663	(4,363)	(4,017)	-	-	20,114	18,784

**Statistical data per region –
General Insurance (unaudited)**

in USD millions

for the three months ended March 31

	North America Corporate		North America Consumer		Continental Europe	
	2004	2003	2004	2003	2004	2003
Gross written premiums and policy fees	4,013	3,809	826	451	4,452	3,958
Net earned premiums and policy fees	2,494	2,058	835	381	2,178	1,933
Insurance benefits and losses	1,873	1,508	491	258	1,600	1,447
Policyholder dividends and participation in profits	1	2	–	–	–	(3)
Total net technical expenses	519	468	327	118	517	492
Net underwriting result	101	80	17	5	61	(3)
Net investment income	160	144	21	11	164	159
Net capital gains/(losses) on investments and impairments	38	42	1	(2)	48	(85)
Net non-technical result	(18)	10	–	(1)	(111)	(54)
Net income/(loss) before income taxes and minority interests	281	276	39	13	162	17
Net income/(loss)	221	213	33	12	72	(37)
Business operating profit	244	234	37	16	165	118
Ratios, as % of net earned premiums and policy fees						
Loss ratio	75.1%	73.3%	58.8%	67.6%	73.5%	74.8%
Expense ratio ¹	20.8%	22.8%	39.2%	31.0%	23.7%	25.3%
Combined ratio	95.9%	96.1%	98.0%	98.6%	97.2%	100.1%

¹ Including policyholder dividends and participation in profits.

UKISA		Rest of the World		Centrally Managed Businesses		Eliminations		Total	
2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
1,371	1,344	587	532	122	367	(279)	(705)	11,092	9,756
1,384	1,102	368	272	64	181	–	–	7,323	5,927
994	855	222	159	94	131	–	1	5,274	4,359
–	–	–	1	–	–	–	–	1	–
327	242	125	96	15	45	(4)	(2)	1,826	1,459
63	5	21	16	(45)	5	4	1	222	109
136	92	21	18	55	39	(8)	(1)	549	462
(2)	(4)	3	(3)	–	(27)	–	–	88	(79)
(24)	(4)	9	2	(38)	42	4	–	(178)	(5)
173	89	54	33	(28)	59	–	–	681	487
120	57	40	26	(28)	52	–	–	458	323
174	92	49	35	(48)	61	–	–	621	556
71.8%	77.6%	60.3%	58.5%	146.4%	72.4%	n/a	n/a	72.0%	73.5%
23.6%	21.9%	34.0%	35.8%	22.5%	24.9%	n/a	n/a	24.9%	24.6%
95.4%	99.5%	94.3%	94.3%	168.9%	97.3%	n/a	n/a	96.9%	98.1%

**Statistical data per region –
Life Insurance (unaudited)**

in USD millions

for the three months ended March 31

	North America Consumer		Continental Europe	
	2004	2003	2004	2003
Gross written premiums, policy fees and insurance deposits	273	734	2,516	2,844
Gross written premiums and policy fees	135	298	2,277	2,572
Net earned premiums and policy fees	106	175	2,228	2,544
Management fees	–	–	–	1
Net investment income	87	173	693	693
Net capital gains/(losses) on investments and impairments	(5)	15	25	(1,045)
Other income (incl. net gain on divestments of businesses)	–	20	120	109
Total revenues	188	383	3,066	2,302
Insurance benefits and losses	51	88	2,421	2,792
Policyholder dividends and participation in profits	–	1	174	(744)
Underwriting and policy acquisition costs	22	26	156	130
Administrative and other operating expenses	16	53	88	91
Amortization of intangible assets	5	19	21	19
Interest expense on debt and other interest	44	108	104	90
Total benefits, losses and expenses	138	295	2,964	2,378
Net income/(loss) before income taxes and minority interests	50	88	102	(76)
Net income/(loss)	32	62	87	(63)
Business operating profit	55	73	64	69
Embedded value information				
Gross new business annual premiums equivalent (APE)	25	67	200	179
New business profit, after tax	17	16	17	7
New business profit margin (in % of APE)	67.8%	23.8%	8.4%	4.2%

UKISA		Rest of the World		Centrally Managed Businesses		Eliminations		Total	
2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
1,899	1,579	419	400	263	–	(5)	(4)	5,365	5,553
424	439	177	294	86	–	(5)	(4)	3,094	3,599
351	404	159	278	16	–	–	–	2,860	3,401
–	35	3	3	–	–	–	–	3	39
267	282	30	26	9	–	–	–	1,086	1,174
13	(139)	9	(2)	4	–	–	–	46	(1,171)
106	45	32	18	(4)	–	–	(1)	254	191
737	627	233	323	25	–	–	(1)	4,249	3,634
204	204	126	229	3	–	–	–	2,805	3,313
1	–	4	7	–	–	–	–	179	(736)
228	330	34	40	9	–	–	–	449	526
139	122	51	48	5	–	–	(1)	299	313
24	5	1	1	–	–	–	–	51	44
29	30	1	(1)	3	–	–	–	181	227
625	691	217	324	20	–	–	(1)	3,964	3,687
112	(64)	16	(1)	5	–	–	–	285	(53)
92	(19)	10	(3)	2	–	–	–	223	(23)
102	24	3	(1)	5	–	–	–	229	165
247	184	42	73	n/a	n/a	n/a	n/a	514	503
18	13	(2)	(4)	n/a	n/a	n/a	n/a	50	32
7.5%	7.0%	(4.4%)	(6.0%)	n/a	n/a	n/a	n/a	9.8%	6.3%

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Certain statements in this Quarterly Report 2004/Q1 are forward-looking statements, including, but not limited to, statements that are predicated on or indicate future events, trends, plans or objectives. Forward-looking statements include statements regarding our targeted profit improvement, return on equity targets, expense reductions, pricing conditions, dividend policy and underwriting claims improvements. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results and Zurich Financial Services' plans and objectives to differ materially from those expressed or implied in the forward-looking statements (or from past results). Factors such as (i) general economic conditions and competitive factors, particularly in our key markets; (ii) performance of financial markets; (iii) levels of interest rates and currency exchange rates; (iv) frequency, severity and development of insured claims events; (v) mortality and morbidity experience; (vi) policy renewal and lapse rates; (vii) changes in laws and regulations and in the policies of regulators may have a direct bearing on Zurich Financial Services' results of operations and on whether Zurich Financial Services will achieve its targets. Zurich Financial Services undertakes no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information, future events or circumstances or otherwise.

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Persons requiring advice should consult an independent adviser.

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Zurich Financial Services has an
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Financial Calendar

Half Year Results Reporting 2004
August 19, 2004

Quarterly Results Reporting 2004/Q3
November 17, 2004