



**Zurich Financial Services reports strong 2004 results with an increase in net income of 29% to USD 2.6 billion and significant strengthening of the balance sheet**

Zurich Financial Services  
Media and Public Relations  
Mythenquai 2  
P.O. Box  
8022 Zurich  
Switzerland

Phone +41 (0)1 625 21 00  
Fax +41 (0)1 625 26 41  
media@zurich.com  
http://www.zurich.com

- **Net income of USD 2,587 million, generating a return on equity (ROE) of 13.3%**
- **Business operating profit (BOP) of USD 3,143 million, up 36% from 2003. BOP ROE after tax increased from 9.8% to 11.5%**
- **Gross written premiums in General Insurance of USD 37.6 billion; combined ratio at 101.6% including hurricane and tsunami impact of 2.5 percentage points**
- **Gross written premiums and policy fees in Life Insurance of USD 11.0 billion; new business profit margin improved by 2.4 percentage points to 11.4%**
- **Net income at Farmers Management Services of USD 686 million, up 14% from 2003**
- **Net insurance loss reserves of USD 43.5 billion, an increase of USD 6.5 billion of which USD 2.0 billion was prior year strengthening**
- **Total shareholders' equity of USD 22.2 billion compared with USD 18.9 billion at December 31, 2003**
- **Proposed payout of CHF 4.00 per share in form of a reduction of the nominal value. Earnings per share (diluted) of CHF 22.18**

James J. Schiro, Chief Executive Officer of Zurich Financial Services, on the 2004 results:

*"We are pleased to report a 29% increase in net income to USD 2.6 billion reflecting our well diversified portfolio and the strong underlying profitability of our businesses. Current operations in General Insurance were strong in all regions, with excellent underwriting results in particular in Continental Europe, the United Kingdom and our International Businesses."*

*“I am particularly pleased with the ongoing improvements of our Life insurance operations. Our businesses in the United Kingdom and Switzerland continued their recovery and, based on our strong distribution platform, Germany recorded one of the best years ever.”*

*“At the same time we continued to strengthen our balance sheet by adding to our reserves and growing our equity base.”*

### **Operations and Results Review**

Zurich, February 17, 2005 – Zurich Financial Services Group (Zurich) reported a strong increase of 29% in 2004 net income and a significant strengthening of the balance sheet on the basis of the Group’s well diversified General and Life insurance portfolio in North America, Europe and in our International Businesses.

The Group’s strong overall result reflects further progress in the profitability of the Life business, record earnings contribution from Farmers Management Services, and the excellent investment result with a return of 5.9% achieved on the Group’s investment portfolio. In General Insurance, the Group benefited from its diversified portfolio with a strong presence on both sides of the Atlantic. Excellent underwriting results in Continental Europe, the United Kingdom and our International Businesses mitigated the impact that extraordinary catastrophes and our decisive action to address the legacy that poor underwriting in the years 1997 to 2001 had left on our commercial business in North America.

The Group continued to strengthen its capital base and reserve position. Shareholders’ equity grew by 17% to USD 22.2 billion. We further reduced our exposure to common stock for which the Group bears equity investment risk from 6.4% to 4.9%. Total financial capital in support of our operations increased by 18% to USD 28.1 billion. Total net insurance loss reserves are now USD 43.5 billion, an increase of USD 6.5 billion, of

which USD 2.0 billion was for prior year strengthening based on more conservative assumptions. Reserve strengthening of USD 2.6 billion in North America Corporate was mitigated by reserve releases in other regions without departing from our overall conservative stance. These actions contributed to a significant strengthening of the Group's balance sheet.

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

Last year, the insurance industry, including Zurich, came under heightened scrutiny by public authorities and regulators concentrating primarily on certain business practices involving insurance carriers and brokers, the use of non-traditional products and reinsurance. We proactively performed our internal reviews and have taken remedial actions where necessary. In particular, we completed our response to the information requests relating to certain business practices involving insurance brokers and insurance carriers. In addition, we finalized our internal review of reinsurance arrangements that the Group placed externally, where such risks were partially or fully retroceded to the Group, and have taken the appropriate accounting actions. The Group has also reported these transactions to appropriate regulatory bodies and is cooperating with all regulatory inquiries. We continue to strengthen our processes and are committed to comply with laws, regulations and ethical standards as embodied in Zurich *Basics*, our internal guideline defining the principles and values of our Group.

Our business operating return after tax was 11.5%, up 1.7 percentage points from 2003. Our goal is to deliver an operating return of 12% in the medium term and our action plan is clear. We must remain focused on the fundamentals of our business, ensuring that operational improvements are engrained in our culture and replicated across different units around the world. We are committed to perform in the industry's top tier based on our competitive advantage as a major provider of general and life insurance services with a well-diversified mix of businesses with respect to lines of business and geographies.

To support the achievement of our sustainable profitability and growth targets, Zurich has designed and is now implementing processes that will help to achieve world-class best practices. Regardless of market conditions we must perform to operational excellence in all our core activities. That is why we are strengthening controls and governance to include all areas in our worldwide operations. The range of actions and initiatives that we have designed and are now implementing in order to achieve best practice execution is called The Zurich Way of doing business.

These initiatives are designed to generate improvements in 2005 and subsequent years with the anticipated benefit in the first year amounting to USD 500 million after tax. They cover all core processes in both Life and General Insurance, in particular underwriting, claims management, sales, distribution, and finance. A major aspect of these initiatives is the development of standard, best practice Group methodologies for these core processes which will lead to greater efficiency and consistency by defining The Zurich Way of doing business. Pilots are running in all functions across the business divisions and we will begin rolling out concrete projects in early 2005. They will be implemented and monitored with the same operational discipline used to drive our profit improvement programs over the past two years, which generated more than USD 1 billion in 2003 and another USD

540 million in 2004. Our goal is to maintain a strong balance sheet with the objective to deliver sustainable operating income and maximize long-run shareholder returns.

*General Insurance.* The segment recorded gross written premiums and policy fees of USD 37.6 billion, an increase of 4%, while net earned premiums grew by 11%. Taking into account the effects of divestments and exchange rate movements, gross written premiums remained at the level of 2003. This reflects small rate increases in key regions moderated by some volume reduction in certain lines as we completed our underwriting renewal programs. The combined ratio rose from 97.9% to 101.6%. It was impacted by catastrophes and reserve strengthening, which added 2.5 and 6.9 percentage points respectively. Our current operating performance was strong in all regions. The United Kingdom, Ireland and Southern Africa (UKISA) region as well as Continental Europe reported sizeable improvements in their combined ratios of 9.7 points and 4.3 points respectively, with strong improvements in business operating profits and net income. In light of large losses due to the hurricanes in the US and prior year reserve strengthening by North America Corporate, the segment's net income declined from USD 1,779 million to USD 1,427 million, while business operating profit decreased by 36% to USD 1,380 million.

*Life Insurance.* In 2004, we made rapid progress in the continued efforts to strengthen our life business. Business operating profit rose by 24% to USD 1,063 million. Net income was USD 873 million, which, adjusted for net gains on divestments, corresponds to an increase of 17%. The continuing efforts to improve performance are also mirrored in the 2.4 percentage point increase in the new business profit margin to 11.4%. Zurich is also making progress with the new model for the distribution of life insurance products in the UK, separating distribution from manufacturing. Gross written

premiums and policy fees decreased by 6% to USD 11.0 billion, but they grew by 3% after adjusting for the sale of certain life operations, the redesign of the group pension business model in Switzerland and the effects of exchange rate movements.

*Farmers Management Services.* Farmers generated record profits for the Group. Net income grew by 14% to USD 686 million. Management fees and other related revenue increased by 5% to USD 2.0 billion. The premium volume of the Farmers Exchanges, which Zurich manages but does not own, grew by 3% to USD 14.2 billion and the Farmers Exchanges increased their surplus by USD 462 million.

*Group Investments.* Group investments increased from USD 176.0 billion at December 31, 2003, to 191.1 billion, driven by the positive operating cash flow, higher market valuations and the impact of foreign currency translation. Net Group investment income was USD 7.4 billion. Including net capital gains, the net investment result was USD 8.4 billion. The Group's investment return for 2004 improved by 1 percentage point to 5.9% on average investments of USD 183.5 billion. The share of common stock, for which the Group bears equity investment risk, was further reduced to 4.9% from 6.4% at the end of 2003.

*Shareholders' equity.* Zurich continued to improve its capital position. Shareholders' equity increased from USD 18.9 billion to USD 22.2 billion. The improvement reflects strong net income and translation adjustments of USD 741 million. This was offset primarily by a transfer of USD 226 million arising from the initial application of the "legal quote" legislation in Switzerland and the USD 288 million payout to shareholders in the form of a nominal value reduction of common stock.

The Board of Directors will propose to the shareholders at the Annual General Meeting, to be held on April 19, 2005, a payment of CHF 4.00 per

registered share in form of a reduction of the nominal value from CHF 6.50 to CHF 2.50 per share.

In the last two years, Zurich has laid a solid foundation for continued profitable growth. Financial and operational discipline has been instilled throughout the organization, and we are operating from a position of improved financial strength. We are confident that Zurich is well prepared for the future.

**Note to editors:**

There will be a media conference at 10 a.m. CET at the Zurich Development Center, Keltenstrasse 48, Zurich.

The presentation to analysts and investors will be webcast on our website [www.zurich.com](http://www.zurich.com) live from 1 p.m. CET followed by a webcast playback available after 5 p.m. CET.

Presentations for analysts and media, as well as supplemental information including information on the Business Divisions, will be available on our website [www.zurich.com](http://www.zurich.com). Please click on the “Annual Results Reporting 2004 - Media View” button on the bottom right corner of our homepage.

**Zurich Financial Services** is an insurance-based financial services provider with a global network that focuses its activities on its key markets in North America and Europe. Founded in 1872, Zurich is headquartered in Zurich, Switzerland. Zurich has offices in more than 50 countries and employs about 57,000 people.

For further information please contact:

Zurich Financial Services, Media and Public Relations  
8022 Zurich, Switzerland

Phone +41 (0)1 625 21 00, Fax +41 (0)1 625 26 41, [www.zurich.com](http://www.zurich.com)

SWX Swiss Exchange/virt-x: ZURN

## Financial Highlights

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

### Consolidated operating statements

in USD millions, for the years ended December 31	2004	2003	Change
Gross written premiums and policy fees	49,304	48,805	1%
Business operating profit	3,143	2,316	36%
Net income	2,587	2,009	29%

### Consolidated balance sheets

in USD millions, as of December 31			
Total Group investments	191,100	175,967	9%
Insurance reserves, gross	246,162	223,418	10%
Total shareholders' equity	22,181	18,934	17%

### General Insurance key performance indicators

for the years ended December 31			
Business operating profit (in USD millions)	1,380	2,146	-36%
Combined ratio	101.6%	97.9%	-3.7 pts

### Life Insurance key performance indicators

for the years ended December 31			
Business operating profit (in USD millions)	1,063	856	24%
New business profit margin (as % of APE)	11.4%	9.0%	2.4 pts
Embedded value operating return, after tax	10.8%	10.5%	0.3 pts

### Return on common stockholders' equity

for the years ended December 31			
Return on equity	13.3%	12.1%	1.2 pts
Business operating profit (after tax) return on equity	11.5%	9.8%	1.7 pts

### Per share data

for the years ended December 31			
Diluted earnings per share (in CHF)	22.18	18.86	18%



**Disclaimer and cautionary statement**

Certain statements in this document are forward-looking statements, including, but not limited to, statements that are predications of 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; and (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.

This communication is directed only at persons who (i) have professional experience in matters relating to investments or (ii) are persons falling within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc) of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (as amended) or to whom it may otherwise lawfully be communicated (all such persons together being referred to as relevant persons). This communication must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this communication relates is available only to relevant persons and will be engaged in only with relevant persons.

It should be noted that past performance is not a guide to future performance. Persons requiring advice should consult an independent adviser.