



**Zurich Financial Services reports 93% increase in net income to USD 1,448 million in the first half of 2004**

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- **Net income of USD 1,448 million in the first half of 2004 compared with USD 752 million in the same period of 2003, up 93% and generating an annualized return on equity (ROE) of 16.8%. Earnings per share (diluted) of CHF 12.67, an increase of 78%**
- **Business operating profit (BOP) of USD 1,948 million, up 47% from 2003; annualized BOP ROE after tax of 15.1%**
- **Gross written premiums in General Insurance of USD 20,557 million, up 6% from 2003; the combined ratio improved by 2.1 percentage points from 98.8% to 96.7%**
- **Gross written premiums and policy fees in Life Insurance decreased by 10% to USD 5,676 million in line with measures to reduce the Group's exposure to underperforming businesses, while new business profit margin improved by 1.5 percentage points to 9.7%**
- **Net income at Farmers Management Services of USD 344 million, up 10% from 2003; BOP of USD 539 million, up 5%**

Zurich, August 19, 2004 – Zurich Financial Services Group (Zurich) reported a near doubling of net income to USD 1,448 million in the first half of 2004. The annualized return on equity (ROE) was 16.8% compared with 12.1% for the full year 2003. Zurich's strong performance was supported by a significant improvement in the General Insurance underwriting result. The Group's high-quality portfolio benefited from low claim frequencies, absence of large catastrophes, and the strong rate increases achieved in prior years. The Life Insurance segment showed further progress on its path to recovery as a result of focusing on more profitable businesses, expense reductions, and the better alignment of

products and services with current investment yields. The Group net investment result rose by 20% to USD 3,859 million.

James J. Schiro, Chief Executive Officer of Zurich Financial Services, said: “Zurich’s recovery continues. Success is coming from the sharp focus on core businesses, financial discipline and sound underwriting. While the Group exceeded its targeted return on equity, it also further strengthened its balance sheet. Zurich is positioned to leverage its global capacity in order to continue to benefit from attractive markets.”

He continued: “The markets we are operating in continue to be fragile. We knew that the benign environment we have seen in the last 18 months, which was characterized by the absence of large catastrophes and low claim frequencies, would not continue forever. Now hurricane Charley has reminded us of this point rather painfully. We reckon with losses of about USD 150 million net of reinsurance.”

He concluded: “The constant monitoring of external developments ensures that we can continue to take actions to further strengthen our balance sheet when necessary. Our commitment to operational and financial discipline is unwavering. We are not prepared to chase prices down below a technically sound level. On the contrary, we will consistently aim for underwriting profitability over growth.”

## **Performance highlights**

*Comparisons refer to the first half of 2003 (restated) unless noted otherwise.*

*Interim results are not necessarily indicative of full year results.*

**General Insurance.** The performance in General Insurance is underscored by the more than threefold increase in the net underwriting result from USD 158 million to USD 487 million and the improvement in net income to USD 981 million, an increase of 25%. The segment's business operating profit rose by 37% to USD 1,302 million. Gross written premiums and policy fees grew to USD 20.6 billion, an increase of 6% (1% in local currency). Growth was driven by a mixture of rate and volume increases as well as favorable exchange rate movements. Excluding divestments and foreign exchange impacts, premium growth was approximately 2%, while net earned premiums, benefiting from the strong rate increases in prior years, rose by 12% (6% in local currency) to USD 14.6 billion. Disciplined underwriting and the geographically well-balanced portfolio contributed to the sizeable 2.1 percentage point improvement in the combined ratio from 98.8% to 96.7%. Net reserves for losses and loss adjustment expenses increased 4.1% to USD 38.5 billion, with prior year reserve strengthening amounting to USD 656 million. As a result of the Group's focus on operational efficiency the expense ratio remained constant at 24.6%.

**Life Insurance.** The Life Insurance segment continued to deal with challenges on its path to recovery. The new business profit margin rose from 8.2% to 9.7%, an improvement of 1.5 percentage points, while embedded value operating profit, after tax, was USD 553 million, corresponding to a 5.2% operating return on embedded value. The Group's commitment to cost-efficient delivery resulted in a reduction of administrative expenses. Net income was USD 393 million, an increase of 3%, while gross written

premiums and policy fees declined by 10% (18% in local currencies) to USD 5,676 million. This decrease is primarily due to the sale or exclusion of underperforming operations. Business operating profit was USD 453 million, a decrease of 2%.

***Farmers Management Services.*** The segment's net income was USD 344 million, an increase of 10%, while business operating profit rose by 5% to USD 539 million. These improvements were the result of higher premiums at the Farmers P&C Group Companies, which Zurich manages, but does not own. In the first six months, the surplus of the Farmers P&C Group Companies grew by USD 231 million to USD 3.9 billion.

***Group investments.*** The Group net investment result (net investment income and net capital gains and losses on investments) rose by 20% to USD 3.9 billion. Net capital gains were USD 252 million, following losses of USD 398 million in the first half of 2003. The positive swing in net capital gains and losses reflects the improvement in global equity markets as well as favorable foreign exchange movements.

***Shareholders' equity.*** The Group's equity rose USD 113 million from USD 18.9 billion at the end of 2003 to USD 19.0 billion reflecting the benefit of strong net income, which was offset primarily by a USD 758 million reduction in net unrealized gains on investments and the USD 288 million in nominal value reduction of common stock in lieu of a dividend payment. Shareholders' equity at December 31, 2003 was restated by USD 450 million in accordance with a new accounting standard.

**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 “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 approximately 62,000 people.

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## Financial highlights

The following table presents the summarized consolidated results of the Group for the six months ended June 30, 2004 and 2003 and the financial positions as of June 30, 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 six months ended June 30	2004	2003	Change
Gross written premiums and policy fees	26,412	25,971	2%
Net investment result	5,533	5,455	1%
Business operating profit	1,948	1,326	47%
Net income	1,448	752	93%

### Consolidated balance sheets

in USD millions, as of	June 30, 2004	Dec. 31, 2003	Change
Total investments	226,229	225,747	-
Insurance reserves, gross	224,795	223,418	1%
Senior and subordinated debt	4,726	4,775	(1%)
Total shareholders' equity	19,047	18,934	1%

### General Insurance key performance indicators

for the six months ended June 30	2004	2003	Change
Business operating profit (in USD millions)	1,302	953	37%
Combined ratio	96.7%	98.8%	2.1 pts

### Life Insurance key performance indicators

for the six months ended June 30	2004	2003	Change
Business operating profit (in USD millions)	453	463	(2%)
New business profit margin (in % of APE)	9.7%	8.2%	1.5 pts
Embedded value operating return, after tax	5.2%	5.8%	(0.6 pts)

### Return on common stockholders' equity

for the periods ended	June 30, 2004	Dec. 31, 2003	Change
Return on equity, annualized	16.8%	12.1%	4.7 pts
Business operating profit (after tax) return on equity, annualized	15.1%	9.8%	5.3 pts

### Per share data

for the six months ended June 30	2004	2003	Change
Diluted earnings per share (in CHF)	12.67	7.12	78%

**Disclaimer and cautionary statement**

Certain statements in this document 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; 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. Please also note that interim results are not necessarily indicative of the full year results. Persons requiring advice should consult an independent adviser.