ZURICH
FINANCIAL SERVICES

Annual General Meeting 2001

Speech by Dr. Günther Gose
Chief Financial Officer and Member of the Group Management Board
May 17, 2001

Ladies and Gentlemen
Dear Shareholders

The year under review was an eventful one for our company. We set a lot of things in motion, and we achieved a great deal; but, as far as our financial results are concerned, the year 2000 was disappointing. Group net income calculated in accordance with International Accounting Standards (IAS) declined by almost a third to USD 2.3 billion, some USD 1 billion of which, as Rolf Hüppi mentioned, was due to lower realized gains on investments. As you may remember from last year's annual meeting, in 2000 we started to publish what is known as normalized income. This is calculated by replacing the actual capital gains on investments, which can fluctuate sharply from year to year, with a long-term average of 7.5% for the total equity portfolio and 0.5% for the fixed-income portfolio. On the basis of normalized gains on investments, our profit for the year 2000 was down 5.5% from the year-earlier level. Normalized earnings for 2000 are, however, substantially below the USD 2.5 to 2.7 billion expected by the market up to February of this year. We explained the main reasons for this shortfall in our earnings guidance on February 8. They included:

- greater than normal natural catastrophe losses of USD 72 million
- the costs of unifying the share structure amounting to USD 92 million
- an unanticipated reserve strengthening in our reinsurance business of USD 270 million.

In total, the additional negative effects on earnings that we had to absorb came to USD 434 million.

The decline in earnings last year and the subsequent announcement that we expect a net income of between USD 1.8 billion and 2.0 billion for the current year has caused Zurich shares to fall by almost 50% at times since February. In the meantime, however, they have climbed back to a level above CHF 600, thereby partly regaining lost ground.

Analyzing our normalized income for 2000 broken down by individual business segments, we see a marked decline in the results of non-life business of USD 551 million that I will comment on in detail later.

Life business again reported very satisfactory results**.** Gross and new premiums in local currencies were up by 6% in 2000. Expressed in U.S. dollars, premiums declined by 3% to USD 16.3 billion. Similarly, the volume of new premiums increased by 2% in local currencies. In U.S. dollars, new business remained virtually unchanged at USD 9.8 billion. The profitability of new business, the so-called new business margin, showed a further improvement. Normalized income grew by 15% to more than USD 1 billion in 2000. The economically more meaningful yardstick for the success of life insurance business, embedded-value income, was even higher at USD 1.2 billion.

The year 2000 presents a mixed picture for **asset management**. Investment performance improved satisfactorily, especially in Europe. As a result, net new investments increased to more than USD 7 billion. Overall, however, total assets under management contracted slightly from USD 442 billion to USD 440 billion and the operating margin fell by 3 percentage points to 16%, caused primarily by investments to strengthen banking operations. The results of the asset management business remain unsatisfactory; and we are working to find a solid, long-term solution.

In **non-life business**, gross premiums in local currencies grew by 17% while volume in US dollar terms increased by 10% to USD 18.9 billion, due to price increases in a number of key markets such as the U.S. and U.K. Our loss and expense ratios together, the so-called combined ratio, improvement at Group-level by 0.6 percentage points on the back of a further improved underwriting result in the U.S., U.K. and those countries defined as the "rest of the world". Despite this improved underwriting result, both normalized and IAS income in the non-life area fell considerably as a consequence of a worsening in the non-technical result. The deterioration from 1999 to 2000 was caused mainly by:

- one-off factors with a positive effect in 1999 that did not recur in 2000, including a new method of accounting for pension provisions in accordance with IAS and a high level of currency exchange gains,

- the costs of the share unification and investments in e-business
- higher interest charges caused by an increase in debt.

IAS profit was further reduced, versus normalized profit, by lower realized gains on investments last year.

Farmers' results developed very satisfactorily in 2000, especially in the second half of the year**.** Gross premiums increased by 6% to almost USD 12 billion, and there are signs at last that in U.S. personal lines, prices may be firming. The normalized income of Farmers Management Services increased on a comparable basis (i.e. adjusted for the effects of IAS in 1999 and Foremost in 2000) by 5% versus the previous reporting period.

In **reinsurance**, the combined ratio for traditional business deteriorated by 3 percentage points to 114%. Nevertheless, results improved considerably due to the non-traditional reinsurance business.

In light of this analysis, we currently face two major challenges:

- first, we must overcome the markets' disappointment at our lower-than-expected earnings and
- second, we must consolidate the Group's earnings power structurally and for the long term while increasing it steadily at a sustainable rate.

To achieve these goals, we have announced and introduced remedial actions at the end of March. These consist primarily in reviewing and optimizing our businesses, as a result of which we will probably dispose of parts for a total value of USD 4 billion. The resources freed up by this will be deployed to improve our balance sheet and earnings structures. We will also achieve significant cost savings through increased centralization of Group internal reinsurance, global procurement of goods and services and a review of all Group Head Office functions with the objective of rationalizing work processes between Group Head Office and the regions.

Ladies and gentlemen, let me close with some thoughts on the competitive position of our company. Zurich Financial Services remains one of the leading companies in the market. By saying this, I am by no means trying to gloss over our unsatisfactory results for the year 2000. This, however, needs to be seen in its proper perspective: our company's balance sheet and earnings power are strong. An investment in Zurich shares on January 1, 1991, has produced a total return, with capital gains and dividends, of more than 17% per annum. From January 1996 the total return has been more than 13% per annum. This reflects Zurich's higher earnings power relative to its competitors. Even in the financially disappointing year 2000, we earned CHF 3.9 billion, representing a return on equity of 11% — an above-average achievement in the industry.