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Annual General Meeting 2002

Speech by Günther Gose

Chief Financial Officer and Member of the Group Executive Committee

May 16, 2002

Ladies and Gentlemen,

Dear Shareholders,

The results for the year 2001 are very disappointing. For the first time in the company's history, Zurich is reporting a loss, in the amount of USD 387 million or the equivalent of CHF 653 million. In the previous year, we had posted a profit of USD 2.3 billion. Our IAS result has thus deteriorated by USD 2.7 billion after tax. And even normalized net income that smoothes annual fluctuations in capital gains decreased from USD 2.1 billion to just USD 348 million.

The Board of Directors is nevertheless proposing payment of a dividend; but in view of the adverse trend in business, this will be reduced to CHF 8 a share.

The decline in profits is attributable to three factors:

1. The terrorist attacks on September 11 led to losses in our income statement of USD 706 million after tax. Of this, USD 424 million were recorded in reinsurance, 222 million in the non-life segment and 60 million in Centre.
2. The second factor was the weak performance of the financial markets, which cost us USD 1 billion after tax in profits in 2001. This consisted of some USD 500 million in write-downs of financial assets, around USD 200 million less in realized capital gains and roughly USD 250 million less profit in our life and asset management businesses.

3. A third factor, which also cost us USD 1 billion after tax, was the poor underwriting result in non-life and reinsurance due to the unexpected worsening of claims experience on policies written before 2001.

All three factors together were responsible for the deterioration in net income under IAS by USD 2.7 billion after tax. The decline in normalized income by USD 1.7 billion was attributable to September 11 and the USD 1 billion drop in underwriting profits.

The breakdown of IAS income by business segment shows that the decline occurred mainly in the non-life and reinsurance segments and, to a smaller extent, in life business and the Corporate segment. The Corporate segment carries expenses that benefit several business segments and thus cannot be directly allocated to the individual businesses. These include the costs of the Group Head Office, as well as the costs of external borrowing and of unifying our share structure in the year 2000.

Net premiums earned in the non-life segment rose by 20% in local currencies and gross written premiums increased by 25%. All regions contributed to the growth, but particularly the North America and UK corporate non-life businesses with growth rates of 35% and 26% respectively. The increase in premiums resulted mainly from our success in raising premiums for each risk in an increasingly favorable environment with less competitive pressure, which enabled us to improve the profitability of the business.

This very satisfying premium growth will have a positive impact on future earnings. Unfortunately, it must be set against a disappointing and unexpected deterioration in the underwriting result by a total of USD 1.2 billion, which pushed the combined ratio up by 6.8 percentage points, from 104.2% in the year 2000 to 111%. The combined ratio measures our losses and expenses as a percentage of net premiums. A value of 111% means that we incurred 11% more losses and expenses than we earned in premiums.

Less than one-third of the increase in the combined ratio of 6.8 percentage points, that is 1.7%, was caused by September 11. The other 5.1 points are attributable to an unexpected increase in our losses for the years 1995 – 1998 in the US Global Energy business, to losses in Commercial and Industrial in Continental Europe, as well as to the covariance reserve reduction of USD 350 million in 2000, the positive impact of which was absent in 2001. The decline in underwriting profit of USD 1.2 billion, combined with substantially lower investment income, is responsible for the dramatic reduction in IAS income in non-life business of USD 1.4 billion to just USD 102 million.

In life insurance business, gross premiums and insurance deposits increased by a pleasing 13% to USD 17.9 billion. IAS income was significantly lower as a result of the weak financial markets, which affected both realized capital gains and the return on our investments. The profit margin on new business fell by 2.2% percentage points to 4.1%, primarily as a result of increased capital requirements for products that are now no longer sold in the US.

Farmers Management Services enjoyed another good year. Management fees rose by 6.1% and IAS profit before investment income increased by 8.7% to USD 474 million. Investment income in 2001 was, however, significantly lower. The causes of the decline were a reduction in investments following payment of the special dividend of USD 1.1 billion in the year 2000 as part of the share unification program and asset impairment charges. IAS income including investment income was down by 10% as a result.

Farmers P&L Group Companies, the so-called Exchanges, whose results are not consolidated in our accounts, experienced a difficult year in 2001. Although gross premiums increased by 8.2% to USD 12.8 billion, the Exchanges suffered a loss of USD 787 million due to a deterioration in the combined ratio to 109%. However, this combined ratio, though unsatisfactory, is still better than the general average for US personal lines business.

During 2001, steps to improve the performance of the Farmers Exchanges were made. In particular, prices were raised substantially across all lines of business and the Exchanges expect a small profit again in 2002.

Our reinsurance business reflects the impact of September 11 and the successful listing of Converium. In order to make profitability in this business line easier to understand, we have divided the total on the slide we are projecting into three columns:

- The first column shows the results of Converium up to December 11, 2001, the date company went public. These are more or less the same figures as those published by Converium. We agreed with Converium that losses due to September 11 up to USD 289 million would be charged to the Converium accounts. Losses exceeding this limit will be charged to Zurich.
- The second column shows other effects that Converium has had on our income statement, but which are not attributable to Converium itself. Most significantly, these consist of losses of USD 171 million, which exceed the ceiling of USD 289 million agreed with Converium, and

the gain on the disposal of Converium amounting to USD 298 million. Thus September 11 has affected our net income in reinsurance by USD 460 million before tax. USD 289 million of that sum were charged directly to Converium (column 1), while the remaining USD 171 million was charged to the accounts of Zurich (column 2).

- Finally, the third column shows a loss of USD 106 million after tax resulting from the increase in reserves for asbestosis claims arising from the reinsurance business that remains with us but is no longer actively pursued.

As I have already said, the Corporate segment incorporates many types of costs that benefit several business segments and thus cannot be allocated directly to the individual segments. These costs have been reduced by USD 314 million to USD 351 million, mainly thanks to a reduction of USD 140 million in the expenses of the Group Head Office and the costs of the share unification program, which relate only to the year 2000. This improvement was, however, more than offset by impaired assets realized capital losses and higher interest expense, bringing the result for the Corporate segment down by USD 225 million to a net loss of USD 1.3 billion.

At the end of 2001, Zurich reported shareholders' equity of almost USD 18 billion. The decline of around USD 3 billion, or 14%, was caused by lower unrealized gains on investments of USD 2.5 billion, as a result of weak financial markets as well as higher foreign currency translation losses of USD 800 million. The rise in the value of the dollar against European currencies had a negative effect on our European net asset values.

An article published in the NZZ on April 29, 2002, containing an analysis of the shareholders' equity of Swiss insurance companies, is of interest in this connection. All of the companies included in the analysis experienced a noticeable decline in shareholders' equity last year, with the size of such declines ranging from Zurich's 14% to as much as 41%. It is interesting to note that those companies that reported a loss in 2001 suffered the smallest declines in shareholders' equity, which led the journalists to conjecture that this might have been because the companies with a solid equity basis had had the courage to tell their shareholders the bald truth.

Although our shareholders' equity did decline in the period under review, we were able to reduce our debt ratio, that is, our senior and subordinated debt as a percentage of eligible equity capital, by one percentage point to 14% in the same period. This was achieved by applying USD 1 billion from the proceeds of the Converium listing and other disposals to the reduction of senior and subordinated debt. However, following our strong growth in the past year, we may be reaching the limits of our

present capital adequacy. As you have heard from our Chairman, we are currently examining a series of alternatives to align the future expected growth of our business in 2002 with our desired capital adequacy.

Thank you for your attention.