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ZURICH

Annual Report 2004

Zurich Insurance Group

Zurich Insurance Group

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Zurich Insurance Group Financial Review

Overview Zurich Insurance Group

The Zurich Insurance Group recorded net income of USD 1,321 million for the year ended December 31, 2004, an increase of 34% compared with USD 983 million in the same period of 2003. This result was built on the strong underlying performance of our core businesses and the stabilized development of our Other Businesses.

General Insurance showed significant improvements in all key regions except for North America Corporate, which strengthened loss reserves for development in business written during the soft market years of 1997 through 2001. In addition, General Insurance, which had enjoyed a two year period of benign catastrophe experience, was impacted by the four hurricanes in the US and the Caribbean and the tragic tsunami in Asia. Life Insurance continued its turnaround with an improved underlying performance, primarily in Europe, after consideration of divested businesses. Other Businesses also contributed strong results based on the management actions taken in 2003. The results across all segments were supported by the improved investment return and lower effective tax rate.

Performance highlights

Performance highlights
in USD millions, for the years ended December 31

	2004	2003	Change
Gross written premiums and policy fees	**45,499**	45,670	0%
Net investment income	**5,844**	5,793	1%
Net capital gains on investments and impairments	**613**	496	24%
Net income	**1,321**	983	34%

Results for 2003 in this Zurich Insurance Group Financial Review are restated for the implementation of a new accounting standard and the acquisition of Eagle Star Insurance Company Limited, details of which are set out in note 3 of the Consolidated Financial Statements and in the Investment Performance section of this report. Other tables have been restated as necessary.

Gross written premiums of USD 45.5 billion in 2004 remained level after adjusting for the effects of exchange rate movements and the effects of the sale of certain general insurance businesses.

Net income improved by USD 338 million, or 34%, to USD 1,321 million in 2004 compared to net income of USD 983 million in 2003. Net income was affected by the following:
- **General insurance** net income decreased by USD 465 million to USD 1.2 billion, as a result of the USD 2.2 billion net strengthening of reserves related to prior accident years. In addition, General Insurance incurred losses of USD 680 million related to the hurricanes and USD 82 million related to the December tsunami. These factors have been partially compensated by improved underwriting results in the current year.
- **Life Insurance** net income decreased by USD 340 million to USD 384 million in 2004. The focus on more profitable businesses resulted in a decline of volume because of divestments of businesses which were no longer part of our business strategy.
- **Other Businesses** recorded net income of USD 49 million, an improvement of USD 1 billion from the net loss in 2003. Centre significantly improved its results following the restructuring actions taken in the prior year and the successful commutations in the current year. The wind-down of Zurich Capital Markets continued in 2004 and also contributed to the improved result in this segment.
- **Corporate Center,** which supports the Zurich Insurance Group through funding and governance oversight, reduced its net costs impacting net loss by USD 27 million to USD 354 million loss, based on stable gross headquarter expenses, as well as an improved recovery for services rendered to other segments.
- **Net capital** gains on investments and impairments have increased by USD 117 million to USD 613 million. This movement was primarily due to lower impairments as compared with the prior year.

Investment performance

Total investments as shown in the Consolidated Balance Sheet include Zurich Insurance Group investments, where the Zurich Insurance Group bears all or part of the investment risk, and investments for unit-linked products, where policyholders bear the entire investment risk. The investments for unit-linked products and the related investment result have been reclassified following the implementation of SOP 03-01.

We manage our diversified Zurich Insurance Group investment portfolio to optimize benefits for both shareholders and policyholders while ensuring compliance with local regulatory and business requirements under the guidance of our Asset/Liability Management and Investment Committee. Investments for unit-linked products are managed in accordance with the investment objectives of each unit-linked fund.

Investment performance of Zurich Insurance Group investments
in USD millions, for the years ended December 31

	2004	2003	Change
Net investment income	**6,037**	6,016	0%
Net capital gains on investments and impairments	**572**	441	30%
Net investment result	**6,609**	6,457	2%
Movements in unrealized gains on investments included in shareholders' equity	**1,680**	415	305%
Average investments	**149,831**	139,353	8%
Total return[1]	**5.5%**	4.9%	0.6 pts

[1] Before investment expenses.

Net investment income for Zurich Insurance Group investments remained at USD 6.0 billion. The lengthening of bond portfolio durations was partially offset by lower income due to the reduction in the asset base caused by the redesign of the Zurich Insurance Group's pension business model in Switzerland.

Net capital gains on investments and impairments for Zurich Insurance Group investments increased from USD 441 million in 2003 to USD 572 million in 2004 mainly because of lower impairments and higher short term interest rates in the US as compared to the prior year.

The total investment return for Zurich Insurance Group investments was 5.5% compared with 4.9% in 2003. This return includes investment income, net capital gains on investments in the consolidated operating statement and movements in unrealized gains recorded in shareholders' equity. The total investment result was USD 5.8 billion, after investment expenses of USD 244 million.

Equity securities include common stock and equity unit trusts in which the Zurich Insurance Group bears the investment risk. At year end 2004, we had reduced our holding in this category of equity securities to 5.5% of our investment portfolio, down from 7.0% as of December 31, 2003.

Balance sheet highlights

Balance sheet highlights
in USD millions, as of December 31

	2004	2003	Change
Zurich Insurance Group investments	**154,259**	145,403	6%
Investments for unit-linked products	**2,058**	1,586	30%
Total investments	**156,317**	146,989	6%
Gross insurance reserves	**159,369**	148,950	7%
Gross reserves for unit-linked products	**2,071**	1,583	31%
Total gross insurance reserves	**161,440**	150,533	7%
Total shareholders' equity	**8,917**	7,418	20%

- **Zurich Insurance Group investments** increased by USD 8.9 billion due to positive operating cash flow, higher market valuations and the effects of foreign currency translation, partially offset by the divestment of certain operations in 2004, the redesign of the group pension business model in Switzerland and the restructuring of Zurich Capital Markets.
- **Gross insurance reserves** increased by USD 10.4 billion, or 7%, in 2004. General Insurance reserves, including gross reserves for unit linked products, increased by USD 9.2 billion to USD 68 billion following growth in gross written premiums, net reserve strengthening and exchange rate movements partially offset by the sale of general insurance businesses during 2004. Gross Life Insurance reserves, including reserves for unit-linked products, increased by USD 3.9 billion to USD 79.7 billion after the effects of the redesign of the Zurich Insurance Group's pension business model in Switzerland as well as divestments of life businesses during 2004. Other Businesses reserves were reduced by USD 3.6 billion.
- **Shareholders' equity** increased by USD 1.5 billion to USD 8.9 billion mainly as a result of our profit in the year and favorable currency translation effects.
- The increase in both **investments and reserves for unit-linked products** reflects exchange rate and markets movements and continued sales of these products.

Segmental financial analysis

Net income

Net income/(loss) by segment
in USD millions, for the years ended December 31

	2004	2003	Change
General Insurance	**1,242**	1,707	(27%)
Life Insurance	**384**	724	(47%)
Other Businesses	**49**	(1,067)	nm
Corporate Center	**(354)**	(381)	7%
Total	**1,321**	983	34%

General Insurance

Net income decreased by USD 465 million, or 27%, from USD 1.7 billion for 2003 to USD 1.2 billion for 2004. Our strong underwriting performance in the North America Consumer, Continental Europe and the Rest of the World as well as higher investment income were more than offset by losses due to the hurricanes that struck the US and the Caribbean in August and September, the December tsunami and further reserve strengthening in North America Corporate relating to prior years. Net income benefited from lower tax expenses and lower losses on divestments, partially offset by lower capital gains on investments.

Gross written premiums and policy fees increased by USD 1.4 billion, or 4%, from USD 35.2 billion in 2003 to USD 36.6 billion for 2004. Taking into account the effects of divestments and exchange rate movements, premiums remained level in 2004. Despite the slowing down of rate increases in certain markets, we still experienced higher average rates overall in 2004 compared to the prior year. Volumes have decreased in certain competitive lines of business, as we have chosen not to write business that does not meet our technical price targets.

Net earned premiums and policy fees increased by USD 2.9 billion, or 11%, from USD 26.1 billion in 2003 to USD 29.0 billion in 2004. This increase is the consequence of strong pricing in prior periods now flowing into earnings and higher premium retentions reflecting the reduction in our reinsurance program as our balance sheet has strengthened.

Life Insurance

Net income decreased by USD 340 million, or by 47%, from USD 724 million in 2003 to USD 384 million in 2004 mainly due to the higher net gains on divestments of businesses in 2003.

Gross written premiums and policy fees decreased by USD 1.3 billion, or (14%), from USD 9.5 billion for 2003 to USD 8.2 billion in 2004. This decrease was due to the sale of certain life operations in the second half of 2003, particularly Zurich Life US and Zurich Life UK, as well as the redesign of Switzerland's group pension business model which has been partially transferred to an external foundation.

Other Businesses

Our Other Businesses segment includes capital markets and banking activities and our Centre operations. This segment also includes centrally managed general and life insurance operations. Certain of the business operations in this segment were discontinued, divested or put into run-off in 2004 and 2003.

Net income improved substantially by USD 1.1 billion million, from a net loss of USD 1.1 billion in 2003 to a net income of USD 49 million in 2004. The 2003 result was impacted by provisions for reserve strengthening, write-down of certain assets and other provisions totaling USD 1.1 billion.

Corporate Center

The Corporate Center segment includes Group holding and financing companies, Corporate Center operations and alternative investments. This segment also includes some Group internal reinsurance operations that are not attributable to a specific segment but are managed on a global basis.

Net loss has improved, decreasing by USD 27 million to a net loss of USD 354 million for 2004 as a result of controlling costs, combined with the favorable effect of foreign exchange gains.

Consolidated operating statements

in USD millions, for the years ended December 31

	Notes	2004	2003
Revenues			
Gross written premiums and policy fees		**45,499**	45,670
Less premiums ceded to reinsurers		**(7,215)**	(8,381)
Net written premiums and policy fees		**38,284**	37,289
Net change in reserves for unearned premiums		**60**	(558)
Net earned premiums and policy fees		**38,344**	36,731
Management fees		**24**	224
Net investment income	5	**5,844**	5,793
Net capital gains on investments and impairments	5	**613**	496
Net gain on divestments of businesses	4	**83**	238
Other income		**1,468**	1,405
Total revenues		**46,376**	44,887
Benefits, losses and expenses			
Insurance benefits and losses, net of reinsurance	9	**32,243**	30,928
Policyholder dividends and participation in profits, net of reinsurance	9	**1,060**	372
Underwriting and policy acquisition costs, net of reinsurance	9	**6,182**	5,593
Administrative expense		**2,542**	2,872
Other operating expense		**1,210**	1,455
Amortization of intangible assets	16	**249**	305
Interest expense on debt	17	**561**	523
Interest credited to policyholders and other interest		**666**	931
Total benefits, losses and expenses		**44,713**	42,979
Net income before income taxes and minority interests		**1,663**	1,908
Income tax expense	11	**(253)**	(838)
Net income applicable to minority interests		**(89)**	(87)
Net income		**1,321**	983

The notes to the consolidated financial statements are an integral part of these consolidated financial statements.

Consolidated balance sheets

in USD millions, as of December 31

	Notes	2004	2003
Assets			
Investments		**96,401**	89,465
Debt securities		**11,879**	13,175
Equity securities		**2,773**	4,303
Trading equity portfolios in capital markets and banking activities		**941**	941
Holdings in related comapnies		**645**	991
Investments in associates		**32,972**	26,979
Other investments		**10,706**	11,135
Cash and cash equivalents	5	**156,317**	146,989
Total investments	6	**23,902**	21,786
Investments held on account and at risk of life insurance policyholders		**2,085**	1,972
Accrued investment income	12	**11,566**	11,011
Receivables	13	**22,048**	22,071
Reinsurance assets		**3,282**	3,586
Deposits made under assumed reinsurance contracts	14	**5,748**	4,996
Deferred policy acquisition costs	15	**1,832**	1,943
Fixed assets	16	**591**	621
Goodwill	16	**740**	811
Other intangible assets	11	**3,385**	2,886
Deferred tax assets		**2,948**	4,497
Derivative trading assets and other assets		**4,135**	4,701
Mortgage loans given as collateral		**238,579**	227,870
Total assets			

The notes to the consolidated financial statements are an integral part of these consolidated financial statements.

Liabilities, minority interests and shareholders' equity	Notes	2004	2003
Liabilities			
Insurance reserves, gross	10	**161,440**	150,533
Reserve for premium refunds		**847**	943
Insurance reserves for life insurance where the investment risk is carried by policyholders	6	**23,974**	21,871
Deposits received under ceded reinsurance contracts		**4,314**	4,835
Obligation to repurchase securities		**1,792**	1,520
Deferred tax liabilities	11	**3,196**	2,895
Accrued liabilities		**3,396**	2,834
Deferred front-end fees		**379**	201
Debt related to capital markets and banking activities	17	**3,861**	5,825
Senior and subordinated debt	17	**10,337**	9,476
Other liabilities	18	**11,438**	14,107
Collateralized loans		**4,135**	4,701
Total liabilities		**229,109**	219,741
Minority interests	19	**553**	711
Shareholders' equity	20		
Common stock		**660**	660
Additional paid-in capital		**4,547**	4,547
Net unrealized gains on investments	5	**819**	724
Cumulative translation adjustment		**(2,374)**	(2,457)
Retained earnings		**5,265**	3,944
Total shareholders' equity		**8,917**	7,418
Total liabilities, minority interests and shareholders' equity		**238,579**	227,870

The notes to the consolidated financial statements are an integral part of these consolidated financial statements.

Consolidated statements of cash flows

in USD millions, for the years ended December 31

	2004	2003
Cash flows from operating activities		
Net income	**1,321**	983
Adjustments for:		
Net capital (gains) on investments and impairments	**(613)**	(496)
Net (gain) on divestments of businesses	**(83)**	(238)
Equity in income of investments in associates	**(86)**	(90)
Depreciation and amortization	**418**	572
Other non-cash items	**–**	655
Changes in operational assets and liabilities:		
Deferred policy acquisition costs	**(461)**	(123)
Reinsurance assets, net	**(400)**	1,302
Deposits made under assumed reinsurance contracts	**315**	(936)
Receivables and payables	**(215)**	(1,404)
Insurance reserves, gross	**5,396**	7,608
Deferred income tax, net	**(349)**	523
Net changes in other operational assets and liabilities	**1,120**	348
Net cash provided by operating activities	**6,363**	8,704
Cash flows from investing activities		
Sales and maturities:		
Debt securities	**47,375**	66,214
Equity securities	**15,432**	27,596
Other (primarily other investments and fixed assets)	**8,738**	7,749
Purchases:		
Debt securities	**(54,718)**	(76,468)
Equity securities	**(11,325)**	(20,084)
Other (primarily other investments and fixed assets)	**(12,378)**	(10,592)
Investments in associates, net	**106**	50
Cash settlement for acquisition of companies	**(1,424)**	(452)
Divestments of companies, net of cash balances	**2,049**	2,186
Dividends from associates	**19**	12
Net cash used in investing activities	**(6,126)**	(3,789)

The notes to the consolidated financial statements are an integral part of these consolidated financial statements.

	2004	2003
Cash flows from financing activities		
Proceeds from sale and repurchase agreements	**161**	161
Redemption of preferred stock by subsidiaries	**(12)**	(655)
Issuance of debt	**2,860**	4,763
Payments on debt outstanding	**(3,963)**	(5,480)
Net cash used in financing activities	**(954)**	(1,211)
Effect of exchange rate changes on cash and cash equivalents	**288**	278
Change in cash and cash equivalents	**(429)**	3,982
Cash and cash equivalents as of January 1 (opening balance)	**11,135**	7,153
Cash and cash equivalents as of December 31	**10,706**	11,135

Other supplementary cash flow information in USD millions	2004	2003
Interest income received	**5,132**	4,988
Dividend income received	**394**	469
Interest expense paid	**(1,191)**	(1,145)
Income tax paid	**(322)**	(303)

As of December 31, 2004 and 2003, cash and cash equivalents restricted as to use were USD 447 million and USD 639 million, respectively. Cash and cash equivalents held for the benefit of policyholders in connection with unit-linked products amounted to USD 7 million and USD 3 million, respectively.

Cash and cash equivalents comprise the following: in USD millions	2004	2003
Cash at bank and in hand	**7,557**	6,499
Cash equivalents	**3,149**	4,636
Balance as of December 31	**10,706**	11,135

The notes to the consolidated financial statements are an integral part of these consolidated financial statements.

Consolidated statements of shareholders' equity

in USD millions, except number of shares, for the years ended December 31

	Number of common shares issued	Common stock
Balance as of December 31, 2002, as previously reported	82,500,000	660
Implementation of a new accounting standard and pooling of interest Eagle Star[1]	–	–
Balance as of December 31, 2002, restated	82,500,000	660
Change in net unrealized gains/(losses) on investments (excluding translation adjustments)	–	–
Translation adjustments	–	–
Change in net unrealized gains/(losses) on investments not recognized in the operating statement	–	–
Net income	–	–
Balance as of December 31, 2003	*82,500,000*	*660*
Balance as of December 31, 2003, as previously reported	82,500,000	660
Implementation of a new accounting standard and pooling of interest Eagle Star[1]	–	–
Balance as of December 31, 2003, restated	82,500,000	660
Change in net unrealized gains/(losses) on investments (excluding translation adjustments)	–	–
Transfer arising from initial application of "legal quote" legislation in Switzerland[2]	–	–
Translation adjustments	–	–
Change in net unrealized gains/(losses) on investments not recognized in the operating statement	–	–
Net income	–	–
Balance as of December 31, 2004	***82,500,000***	***660***

[1] As discussed in note 3.
[2] Transfer of net unrealized gains on investments to insurance reserves as "policyholders' contract deposits and other funds" in connection with the initial application as of June 30, 2004 of the new "legal quote" legislation in Switzerland as described in note 10.

The notes to the consolidated financial statements are an integral part of these consolidated financial statements.

Additional paid-in capital	Net unrealized gains/(losses) on investments	Cumulative translation adjustment	Retained earnings	Total shareholders' equity
4,547	861	(2,465)	2,724	6,327
–	(9)	43	237	271
4,547	852	(2,422)	2,961	6,598
–	(200)	–	–	(200)
–	72	(35)	–	37
–	(128)	(35)	–	(163)
–	–	–	983	983
4,547	724	(2,457)	3,944	7,418
4,547	711	(2,548)	3,803	7,173
–	13	91	141	245
4,547	724	(2,457)	3,944	7,418
–	273	–	–	273
–	(226)	–	–	(226)
–	48	83	–	131
–	95	83	–	178
–	–	–	1,321	1,321
4,547	**819**	**(2,374)**	**5,265**	**8,917**

Notes to the consolidated financial statements

The Board of Directors of Zurich Insurance Company has authorized these consolidated financial statements for issue on April 18, 2005. These Financial Statements will be submitted to the Annual General Meeting of Shareholders held on April 18, 2005 for approval immediately after authorization by the Board.

1. Basis of presentation

Zurich Insurance Company and its subsidiaries (collectively the "Zurich Insurance Group") are an insurance-based financial services provider with an international network that focuses on chosen markets. Key markets are the United States, the United Kingdom and Continental Europe comprising primarily Germany, Switzerland, Italy and Spain. Core businesses are General and Life Insurance. The Zurich Insurance Group also distributes non-insurance products, such as mutual funds, mortgages and other financial services products, from selected third-party providers.

The Zurich Insurance Group is controlled by Zurich Group Holding which in turn is controlled by Zurich Financial Services, the ultimate parent holding company of the Zurich Insurance Group, all of which are incorporated in Switzerland.

The holding company, Zurich Insurance Company, is incorporated in Zurich, Switzerland. The Zurich Insurance Group operates through subsidiaries and branch offices. The consolidated financial statements of the Zurich Insurance Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law. IFRS does not contain guidelines governing the accounting treatment of certain transactions including those that are specific to insurance products. When a specific topic is not addressed by the standards, the IFRS Framework permits reference to another comprehensive body of accounting principles. In these cases, the Zurich Insurance Group typically refers to accounting principles generally accepted in the United States (US GAAP) for guidance.

Certain amounts recorded in the consolidated financial statements reflect estimates and assumptions made by management about insurance liability reserves, investment valuations, interest rates and other factors. Significant estimates are discussed in the notes. Actual results may differ from the estimates made.

A new accounting standard and another change, discussed in note 3, resulted in restatement of 2003 consolidated financial statements. In addition, certain reclassifications have been made to prior year amounts and segment disclosures to conform to the current year presentation. These reclassifications have no effect on the previously reported net income.

Segment information
The Zurich Insurance Group is managed on a matrix basis, reflecting both line of business and geography. Accordingly, segment information is presented in two formats. The primary format is based on the operating businesses of the Zurich Insurance Group and how they are strategically managed to offer different products and services to specific customer groups. The Zurich Insurance Group's primary segments are defined as follows:

General Insurance: General Insurance operations write substantially all lines of property and casualty business.

Life Insurance: Life Insurance operations offer a broad line of life insurance, annuity and investment-type policies to individuals and groups.

Other Businesses: Other Businesses is the combination of the activities described below. In general, such activities are not considered to be core businesses, and certain of these business operations were discontinued, divested or put in run-off in 2004 and 2003.

Capital markets and banking activities consist primarily of Zurich Capital Markets which has a portfolio of hedge-fund-based investment vehicles, asset-based financing and credit structures, instruments to manage investment risk, customized strategies to structure or manage financial assets, and administrative services for hedge funds and hedge fund investors.

Centre operations: Centre's portfolio of business consists of property and casualty reinsurance, credit enhancement and life & health business.

Centrally managed insurance operations: In 2004, the Zurich Insurance Group made some changes to the way it manages its business. As a result, the Zurich Insurance Group manages certain general and life insurance operations on a central basis from its Corporate Center. Therefore, these operations have been included within the Other Businesses segment, and total assets and liabilities of USD 20 billion have been moved from the Life segment to the Other Businesses segment. Further, the risks and rewards of the transferred businesses differ from those contained within the Life segment. In addition, Reinsurance-run-off, which is also centrally managed, reflects the results of the run-off of liabilities that were retained and that were not transferred to Converium, the Zurich Insurance Group's former reinsurance subsidiary, which was divested in 2001.

Corporate Center: Corporate Center includes our Zurich Insurance Group holding and financing companies, Corporate Center operations and alternative investments. This segment also includes some Zurich Insurance Group internal reinsurance operations that are not attributable to a specific segment but are managed on a global basis.

The Zurich Insurance Group's secondary format for segment information is geographic:

North America Corporate

North America Consumer

Continental Europe

United Kingdom

Rest of the World

Centrally Managed Businesses

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Zurich Insurance Group accounts for inter-segment revenues and transfers as if the transactions were with third parties at current market prices, with the exception of realized capital gains, which are eliminated.

2. Summary of significant accounting policies

(a) Consolidation principles

The Zurich Insurance Group's consolidated financial statements include the assets, liabilities, equity, revenues, expenses and cash flows of Zurich Insurance Company and its subsidiaries. A subsidiary is an entity in which Zurich Insurance Company owns, directly or indirectly, more than 50% of the outstanding voting rights, or which it otherwise has the power to control. The results of subsidiaries acquired are included in the consolidated financial statements from the date of acquisition. The results of subsidiaries that have been sold during the year are included up to the date control has ceased. All significant intercompany balances, profits and transactions are eliminated. Transactions involving entities under common control are accounted for using the pooling of interest methods.

Associates and partnerships where the Zurich Insurance Group has the ability to exercise significant influence, as well as joint ventures where there is joint control, are accounted for using the equity method. Significant influence is presumed to exist when the Zurich Insurance Group owns, directly or indirectly, between 20% and 50% of the outstanding voting rights.

(b) Revenue recognition

Premiums: Premiums from the sale of general insurance products are recorded when written and are accreted to earnings on a pro-rata basis over the term of the related policy coverage. However, for those contracts for which the period of risk differs significantly from the contract period, premiums are recognized over the period of risk in proportion to the amount of insurance protection provided. The unearned premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage.

Premiums from traditional life insurance contracts, including participating contracts and annuity policies with life contingencies, are recognized as revenue when due from the policyholder. Benefits and expenses are provided against such revenue to recognize profits over the estimated life of the policies. Moreover, for single premium and limited pay contracts, premiums are recorded as income when due with any excess profit deferred and recognized in income in a constant relationship to the insurance in-force or, for annuities, the amount of expected benefit payments.

Amounts collected as premiums from investment type contracts such as universal life, unit-linked and unitized with-profits contracts, are reported as deposits. Revenue from these contracts consists of policy fees for the cost of insurance, administration and surrenders during the period. Front-end fees are recognized over the estimated life of the contracts. Policy benefits and claims that are charged to expenses include benefit claims incurred in the period in excess of related policyholder contract deposits and interest credited to policyholder deposits.

Other revenue: Revenues from investment management and distribution fees are based on contractual fee arrangements applied to assets under management and recognized as earned when the service has been provided.

Transfer agent fees are based on a cost per account and transaction-based fees. For mutual funds, a component of the transfer agent fee can be contractual fee arrangements applied to assets under management. Transfer agent fees are recognized when services have been provided per the contract. Commission revenue is recognized on the trade date when the performance obligation is complete and the fees are payable.

Additionally, revenue can be earned from performance fees, which are based upon the achievement of performance levels in excess of pre-determined contractual benchmarks. Performance fees are recognized when it is probable that they will be received and the amount can be estimated reliably.

(c) Deferred policy acquisition costs

The costs of acquiring new business, including commissions, underwriting and policy issue expenses, which vary with and are directly related to the production of new business, are deferred. Deferred policy acquisition costs are subject to recoverability testing at the time of policy issue and at the end of each accounting period. Future investment income is taken into account in assessing recoverability.

Deferred policy acquisition costs for participating traditional life insurance contracts are amortized over the expected life of the contracts as a constant percentage of estimated gross margins. Estimated gross margins include anticipated premiums and investment results less benefits and administration expenses, changes in the net level premium reserve and expected policyholder dividends, as appropriate. Estimated gross margins are re-estimated regularly with the impact of deviations of actual result from estimated experience on the amortization of deferred acquisition costs reflected in earnings.

Deferred policy acquisition costs for other traditional life insurance and annuity policies are amortized over the expected life of the contracts as a constant percentage of expected premiums. Expected premiums are estimated at the date of policy issue and are consistently applied throughout the life of the contract unless premium deficiency occurs.

Deferred policy acquisition costs for investment type contracts such as universal life, unit-linked and unitized with-profits contracts are amortized over the expected life of the contracts based on a constant percentage of the present value of estimated gross profits expected to be realized over the life of the contract. Estimated gross profits include expected amounts to be assessed for mortality, administration, investment and surrender, less benefit claims in excess of policyholder balances, administrative expenses and interest credited. Estimated gross profits are revised regularly and the interest rate used to compute the present value of revised estimates of expected gross profits is the latest revised rate applied to the remaining benefit period. Deviations of actual results from estimated experience are reflected in earnings.

The impact on the deferred policy acquisition cost asset of the change in unrealized gains or losses on investments is recognized through an offset to unrealized gains or losses at the balance sheet date.

Unamortized deferred policy acquisition costs associated with internally replaced contracts that are, in substance, contract modifications, continue to be deferred and amortized. Costs associated with internally replaced contracts that are, in substance, new contracts, are written off.

(d) Insurance losses and reserves

Losses: Losses and loss adjustment expenses are charged to income as incurred. Unpaid losses and loss adjustment expense reserves represent the accumulation of estimates for ultimate losses and include provisions for losses incurred but not yet reported (IBNR). The reserves represent 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. The Zurich Insurance Group does not discount its loss reserves, other than for settled claims with fixed payment terms. Any changes in estimates are reflected in results of operations in the period in which estimates are changed.

Future life policyholders' benefits and policyholders' contract deposits: These represent the estimated future policyholder benefit liability for traditional life insurance policies and certain unit-linked investment contracts, respectively.

For participating traditional life insurance policies, future policy benefit liabilities are calculated using a net level premium method on the basis of actuarial assumptions equal to guaranteed mortality and interest rates.

Future life policyholders' benefits for other traditional life insurance policies are calculated using a net level premium valuation method based on actuarial assumptions as to mortality, persistency, expenses and investment return including a margin for adverse deviation. The assumptions are established at policy issue and remain unchanged except where premium deficiency occurs.

Future life policyholders' benefits include the value of accumulated declared bonuses or dividends that have been vested to policyholders.

Policyholders' contract deposits represent the accumulation of premium received less charges plus declared dividends.

The policyholders' share of unrealized gains or losses, which may be paid in the future in respect of assets, is included in future life policyholders' benefits.

Reserves for unit-linked products are recorded as equal to the consideration received plus accumulated investment yield less any fees charged or dividends paid to the policyholder.

"Investments held on account and at risk of life insurance policyholders" and "Insurance reserves for life insurance where the investment risk is carried by policyholders": These represent trading portfolios maintained to meet specific investment objectives of policyholders who bear the investment risk and which are bankruptcy protected from other creditors. Investment income and investment gains and losses accrue directly to policyholders. The assets and liabilities are carried at fair value. Deposits, withdrawals, net investment income, and realized and unrealized capital gains and losses are included in this position and are not reflected in the consolidated operating statement. The costs of insurance, policy administration, investment management, surrender charges and certain policyholder taxes assessed against the policyholders' account balances are included within policy fee revenue.

For products containing guarantees in respect of minimum death benefits ("GMDB"), retirement income benefits ("GRIB") and annuitization options ("GAO"), additional liabilities are recorded in proportion with the receipt of the contracted revenues.

(e) Reinsurance

The Zurich Insurance Group's insurance subsidiaries cede insurance premiums and risk in the normal course of business in order to limit the potential for losses arising from longer exposures. Reinsurance does not relieve the originating insurer of its liability. Certain Zurich Insurance Group insurance companies assume reinsurance business incidental to their normal business, as well as from the Farmers Exchanges. Centre ceased to write new contracts in 2003, but has honored its obligations and commitments with respect to existing contracts. Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses, ceded unearned premiums and ceded future life policy benefits. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross in the consolidated balance sheet unless a right of offset exists.

Reinsurance contracts are assessed to ensure that underwriting risk, defined as the reasonable possibility of significant loss, and timing risk, defined as the reasonable possibility of a significant variation in the timing of cash flows, are transferred by the ceding company to the reinsurer. Those contracts that do not transfer both risks, referred to in total as insurance risk, are accounted for using the deposit method. A deposit asset or liability is recognized based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the ceding company. Deposits for contracts that transfer only significant underwriting risk are subsequently measured based on the unexpired portion of coverage until a loss is incurred, after which the present value of expected future cash flows under the contract is added to the remaining unexpired portion of coverage. Changes in the deposit amount are recorded in the operating statement as an incurred loss. Interest on deposits that transfer only timing risk, or no risk at all, are accounted for using the interest method. Future cash flows are estimated to calculate the effective yield, and revenue and expense are recorded as interest income or expense.

(f) Investments
Financial assets are classified either as "held-to-maturity", "trading", "available-for-sale", or "loans originated by the Zurich Insurance Group". Held-to-maturity financial assets are debt securities which the Zurich Insurance Group has the ability and positive intent to hold to maturity. Trading financial assets are debt and equity securities which the Zurich Insurance Group buys with the intention to resell in the near term. The remaining debt and equity securities are classified as available-for-sale. Loans originated by the Zurich Insurance Group, such as mortgage loans, policyholders' collateral and other loans, include loans where money is provided directly to the borrower, other than those that are originated with the intent to be sold in the short term, which are recorded in the trading category.

Financial assets are initially recorded at cost, net of transaction costs directly attributable to the acquisition. Held-to-maturity financial assets are subsequently carried at amortized cost using the effective interest rate method. Trading financial assets are subsequently carried at fair value, with changes in fair value recognized in the current period income. Available-for-sale financial assets are subsequently carried at fair value, with unrealized changes in fair value recorded in shareholders' equity net of deferred income taxes, certain life policyholder liabilities, certain life deferred acquisition costs and minority interests. Loans originated by the Zurich Insurance Group are subsequently carried at amortized cost using the effective interest rate method, less allowances for doubtful accounts.

The realized gain or loss on divestment is based on the difference between the proceeds received and the carrying value of the investment plus any unrealized gains or losses of the investment recorded in shareholders' equity using the specific identification method. When available-for-sale financial assets are sold, impaired or otherwise disposed of, the cumulative gains and losses previously recognized in shareholders' equity are included in the current period income. The amortization of premium and accretion of discount on available-for-sale and held-to-maturity investments in debt securities is computed using the effective interest method and is recognized in current period income. Dividends on equity securities are recorded as revenue on the ex-dividend date, the date that the dividends become payable to the holders of record. Interest income on financial assets is recognized when earned.

Financial assets are assessed for impairment on a regular basis. A financial asset is impaired if its carrying value exceeds the estimated recoverable amount and there is objective evidence of impairment to the financial asset. For an impaired financial asset impairment is recorded by reducing its carrying value through a charge to current period income. If an available-for-sale financial asset is determined to be impaired, the cumulative unrealized loss previously recognized in shareholders' equity is removed from shareholders' equity and recognized in the current period income.

For quoted available-for-sale financial assets the decision to make an impairment provision is based on review of the issuer's current financial position and future prospects and an assessment of the probability that the current market price will recover to former levels within the foreseeable future. The recoverable amount is determined by reference to the market price. For non-quoted available-for-sale financial assets the Zurich Insurance Group takes into consideration the issuer's current financial position and future prospects in determining whether an impairment provision is required. The recoverable amount is determined by applying recognized valuation techniques. When a decline in the fair value of an available-for-sale asset has been recognized directly in shareholders' equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in shareholders' equity is removed from equity and recognized in current period income even though the asset has not been de-recognized. The amount of the cumulative loss that is removed from shareholders' equity and recognized in current period income is the difference between acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that asset instrument previously recognized in income.

For held-to-maturity financial assets and loans originated by the Zurich Insurance Group the impairment is considered to have taken place if it is probable that the Zurich Insurance Group will not be able to collect principal and interest due according to the contractual terms of the instrument. When impairment is determined to have occurred, the carrying amount of the held-to-maturity financial assets is decreased through a charge to current period income. The amount of the impairment loss is the difference between the asset's carrying value and the present value of expected future cash flows discounted at the security's original effective interest rate.

Real estate held for investment purposes is initially recorded at cost, with transaction costs included in the initial measurement. It is subsequently measured at fair value with changes in fair value recognized in current period income. No depreciation is recorded for real estate held for investment. The gain or loss on disposal of real estate held for investment is based on the difference between the proceeds received and the carrying value of the investment.

Short-term investments: Carrying amounts approximate fair values.

Cash amounts represent cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments with original maturities of 90 days or less.

(g) Derivative financial instruments
Derivative financial instruments are carried at fair value on the balance sheet as assets or liabilities. Fair values are obtained from quoted market prices, dealer price quotations, discounted cash flow models and option pricing models, which incorporate current market and contractual prices for the underlying instrument, time to expiry, yield curves and volatility of the underlying. Inputs used in pricing models are generally market observable or can be derived from market observable data. Derivative financial instruments with positive fair values are recorded as derivative trading assets. Derivative financial instruments with negative fair values are recorded as derivative trading liabilities. Apart from derivative financial instruments designated as qualifying cash flow hedging instruments (see below), changes in fair value are recognized in current period income.

Derivative financial instruments include swaps, futures, forwards and option contracts, all of which derive their value mainly from underlying interest rates, foreign exchange rates, commodity values or equity instruments. A derivative contract may be traded on an exchange or over-the-counter ("OTC"). Exchange-traded derivatives are standardized and include futures and certain option contracts. OTC derivative contracts are individually negotiated between contracting parties and include forwards, caps, floors and swaps. Derivative financial instruments are subject to various risks similar to those related to the underlying financial instruments, including market, credit and liquidity risk.

In addition to the derivative financial instruments described above, the Zurich Insurance Group enters into contracts that are not considered derivative financial instruments in their entirety but that include embedded derivative features. Such embedded derivatives are assessed at inception of the contract and, depending on their characteristics, are accounted for as separate derivative financial instruments pursuant to IAS 39.

Derivative financial instruments used for hedging: For the purpose of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognized asset or liability, or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecasted transaction.

To qualify for hedge accounting, the hedging relationship must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. If these conditions are not met, then the relationship does not qualify for hedge accounting. In this case the hedging instrument and the hedged item are reported independently as if there was no hedging relationship. In particular, derivative financial instruments are reported at fair value, with changes in fair value charged to current period income.

In relation to fair value hedges which meet the conditions for special hedge accounting, gains or losses from re-measuring the hedging instrument at fair value are recognized immediately in the operating statement. Gains or losses on the hedged item attributable to the hedged risk are adjusted against the carrying amount of the hedged item and recognized in the operating statement. Where the adjustment is to the carrying amount of a hedged interest-bearing financial instrument carried at amortized cost, the adjustment is amortized to current period income such that it is fully amortized by maturity.

In relation to cash flow hedges which meet the conditions for special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in shareholders' equity and the ineffective portion is recognized in current period income. When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognized, the associated gains or losses that had previously been recognized in shareholders' equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For other cash flow hedges, the gains or losses that are recognized in shareholders' equity are transferred to the operating statement in the same period in which the item hedged affects the net profit and loss, for example when the future sale actually occurs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, cumulative gains or losses on the hedging instrument recognized in shareholders' equity are kept in shareholders' equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in shareholders' equity is transferred to current period income.

(h) Securities lending

Certain entities within the Zurich Insurance Group participate in securities lending arrangements whereby specific securities are loaned to other institutions, primarily major brokerage firms, for short periods of time. Under the terms of the securities lending agreements, the loaned securities remain under the Zurich Insurance Group's control and thus do not get de-recognized.

(i) Obligation to repurchase securities

Sales of securities under agreements to repurchase are accounted for as collateralized borrowing transactions and are recorded at their contracted repurchase amount plus accrued interest at the balance sheet date. The Zurich Insurance Group minimizes the credit risk that counterparties to transactions might be unable to fulfill their contractual obligations by monitoring customer credit exposure and collateral value and generally requiring additional collateral to be deposited with the Zurich Insurance Group when deemed necessary.

(j) Debt issued

Debt issued by the Zurich Insurance Group is initially measured at cost, which is the fair value of the consideration received, net of transaction costs incurred. Subsequent measurement is at amortised cost, using the effective interest rate method to amortise cost at inception to the redemption value over the life of the debt.

(k) Interest expense

Interest expense is recognized when incurred on an amortized cost basis.

(l) Intangible assets

Goodwill: Acquisitions of subsidiaries and associates are accounted for under the purchase method, whereby the purchase price is allocated to the fair value of assets and liabilities acquired at the date of acquisition with any residual amount allocated to goodwill. Goodwill is amortized using the straight-line method over its estimated economic life. Goodwill arising on strategic acquisitions of the Zurich Insurance Group to obtain long duration insurance contracts, customer relationships and distribution networks is amortized over a maximum period of 20 years. For all other acquisitions, goodwill is generally amortized over five years. The recoverability of the carrying value of the goodwill is reviewed periodically. If the carrying value of goodwill exceeds the recoverable amount, the carrying value is reduced through a charge to current period earnings.

Present value of profits of acquired insurance contracts is amortized over the expected life of the policies acquired, based on a constant percentage of the present value of estimated gross profits (margins) expected to be realized, or over the premium recognition period, as appropriate.

Other intangibles are carried at cost less accumulated amortization and consist primarily of acquired brand names and software costs that meet the recognition criteria for capitalization. The costs of these assets are amortized using the straight-line method over the following estimated economic lives: brand names 20 years; software three to five years.

(m) Income taxes

The Zurich Insurance Group provides current tax expense according to the tax laws of each jurisdiction in which it operates. Income taxes are recognized using the asset and liability method. Deferred income taxes are recorded for temporary differences, which are based on the difference between financial statement carrying amounts and income tax bases of assets and liabilities using enacted income tax rates and laws. Losses for tax purposes are treated as deferred tax assets to the extent it is probable that the losses can offset future taxable income and is allowed by the applicable local tax laws and regulations.

Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same taxation authority and when there is a legally enforceable right to offset them.

Taxes payable by either the holding company or its subsidiaries on distribution to the holding company of the undistributed profits of subsidiaries are recognized as deferred income taxes unless a distribution of those profits is not intended or would not give rise to a tax liability.

(n) Employee benefits

The operating companies in the Zurich Insurance Group provide employee retirement benefits through both defined benefit plans providing specified benefits and defined contribution plans. The assets of these plans are generally held separately from the Zurich Insurance Group's general assets in trustee-administered funds. Defined benefit plan obligations and contributions are determined annually by qualified actuaries using the projected unit credit method. The Zurich Insurance Group's expense related to these plans is accrued over the employees' service periods based upon the actuarially determined cost for the period. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans. Contributions to the defined contribution pension plans are charged to the operating statement as they become due.

Other defined post-employment benefits, such as medical care and life insurance, are also provided for certain employees and are primarily funded internally. The cost of such benefits is accrued over the service period of the employee based upon the actuarially determined cost for the period.

(o) Share-based payment transactions

Expenses for share-based payment transactions are recognized during the vesting period in the operating statement. These expenses recognize the fair value of the shares or options granted.

(p) Fixed assets

Real estate (buildings) held for own use and other fixed assets are carried at cost less accumulated depreciation and any necessary write-downs due to impairment. The costs of these assets are depreciated principally on a straight-line basis over the following estimated useful economic lives: buildings 25 to 50 years; furniture and fixtures five to ten years; and computer equipment three to five years. Real estate (land) is carried at cost less any necessary write-downs. Maintenance and repair costs are charged to income as incurred. Costs of systems purchased from outside vendors and developed internally are deferred and amortized over expected useful lives up to five years. Gains and losses on disposal of fixed assets and real estate held for own use are determined based on their respective carrying amounts.

(q) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the operating statement on a straight-line basis over the lease term.

(r) Provisions

Provisions are recognized when the Zurich Insurance Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(s) Foreign currency translation and transactions

Foreign currency translation: In view of the international nature of the Zurich Insurance Group there are many individual entities with different functional currencies. Therefore, a common presentation currency is required. Due to the Zurich Insurance Group's economic exposure to the US dollar (USD), the presentation currency of the Zurich Insurance Group has been determined to be the US dollar. Assets and liabilities of Zurich Insurance Group companies with functional currencies other than US dollars are translated at the end-of-period exchange rates, while operating statements are translated at average exchange rates for the period. The resulting translation differences are recorded directly in shareholders' equity as cumulative translation adjustments.

Foreign currency transactions: Foreign currency monetary items are translated at end-of-period exchange rates, non-monetary items which are carried at historical cost denominated in a foreign currency are translated at historical rates. Revenues and expenses are translated using the exchange rate at the date of the transaction or a weighted average rate. The resulting exchange differences are recorded in the consolidated operating statement.

The table below summarizes the principal exchange rates that have been used for translation purposes. The net gains and (losses) on foreign currency transactions included in the consolidated operating statements were USD 172 million and USD (40) million for the years ended December 31, 2004 and 2003, respectively.

Table 2
Principal exchange rates
USD per foreign currency unit

	Balance sheets as of		**Operating statements and cash flows for the years ended**	
	12/31/04	12/31/03	**12/31/04**	12/31/03
Euro	**1.3555**	1.2594	**1.2440**	1.1333
Swiss franc	**0.8769**	0.8072	**0.8063**	0.7446
British pound sterling	**1.9183**	1.7858	**1.8329**	1.6363

3. Implementation of new accounting standards and adjustments

The Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants (AICPA) issued Statement of Position 03-01 ("SOP 03-01"), *Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts* and for Separate Accounts. OP 03-01 has resulted in three significant changes in the treatment of certain life contracts, which have been adopted retrospectively, in accordance with IAS 8:

i) Recognition of additional liabilities for guaranteed minimum death benefits, guaranteed retirement income benefits and benefits in respect of annuitization options on an accrual basis, primarily for life policies in the United States. The recognition of guarantee liabilities resulted in a write-down of deferred policy acquisition costs, due to a reduction in future estimated gross profits supporting these reserves.
ii) Clarification of the distinction between universal life insurance and investment products, resulting in certain products in the life business now being treated as insurance. The classification as insurance consequently resulted in the retrospective accrual of additional insurance reserves.
iii) "Investments held on account and at risk of life insurance policyholders", which are not bankruptcy protected from other creditors, and "Insurance reserves for life insurance where the investment risk is carried by policyholders" were reclassified to total investments and insurance reserves in the amount of approximately USD 1.6 billion. This change also resulted in the inclusion in the consolidated operating statements of additional investment result arising from the reclassified investments and a substantially corresponding charge in "policyholder dividends and participation in profits". As a result, there is no material net impact on the Zurich Insurance Group's operating results.

In January 2004 Zurich Insurance Company acquired 100% of Eagle Star Insurance Company Limited ("Eagle Star") for USD 1,424 million in cash. Both entities are ultimately controlled by the same party, being Zurich Financial Services. Hence, this was a transaction between parties under common control and therefore the pooling of interest method has been applied. Consequently, the financial statements were restated as if Eagle Star had always been a wholly owned subsidiary of Zurich Insurance Company. The book value of the net assets acquired exceeding the amount paid is presented as an increase in equity in the amount of USD 409 million.

The impact of the new accounting standard and the pooling of interest are summarized in the tables below

Table 3.1
Summary of restatement of key consolidated operating statement
in USD millions, for the year ended December 31, 2003

	As previously reported	*New accounting standard SOP 03-01*	*Pooling of interest Eagle Star*	Restated 2003
Revenues				
Gross written premiums and policy fees	45,270	–	400	45,670
Less premiums ceded to reinsurers	(8,269)	–	(112)	(8,381)
Net investment income	5,646	27	120	5,793
Benefits, losses and expenses				
Insurance benefits and losses, net of reinsurance	(30,709)	(69)	(150)	(30,928)
Administrative expense	(2,662)	16	(226)	(2,872)
Net income before income taxes and minority interests	2,031	(53)	(70)	1,908
Income tax expense	(867)	11	18	(838)
Net income applicable to minority interests	(85)	–	(2)	(87)
Net income	1,079	(42)	(54)	983

Table 3.2

Summary of restatement of key consolidated balance sheet items

in USD millions, as of December 31, 2003

	As previously reported	New accounting standard SOP 03-01	Pooling of interest Eagle Star	Restated 2003
Assets				
Debt securities	87,719	945	801	89,465
Equity securities	12,285	613	277	13,175
Other investments	25,203	26	1,750	26,979
Cash and cash equivalents	10,557	2	576	11,135
Total investments	141,999	1,586	3,404	146,989
Investments held on account and at risk of life insurance policyholders	23,372	(1,586)	–	21,786
Receivables	10,306	377	328	11,011
Reinsurance assets	21,570	–	501	22,071
Deferred policy acquisition costs	5,215	(237)	18	4,996
Deferred tax assets	2,644	2	240	2,886
Total assets	223,171	142	4,557	227,870
Liabilities				
Insurance reserves, gross	146,354	1,959	2,220	150,533
Insurance reserves for life insurance where the investment risk is carried by policyholders	23,436	(1,565)	–	21,871
Other liabilities	12,460	–	1,647[1]	14,107
Senior and subordinated debt	9,293	–	183	9,476
Total liabilities	215,304	307	4,130	219,741
Minority interests	694	–	17	711
Shareholders' equity				
Net unrealized gains on investments	711	2	11	724
Cumulative translation adjustment	(2,548)	–	91	(2,457)
Retained earnings	3,803	(166)	307	3,944
Total shareholders' equity	7,173	(164)	409	7,418

[1] Included in other liabilities is the amount payable to the seller of Eagle Star of USD 1,424 milllion.

Table 3.3

Summary of restatement of key consolidated statement of cash flows items

in USD millions, for the year ended December 31, 2003

	As previously reported	New accounting standard SOP 03-01	Pooling of interest Eagle Star	Restated 2003
Cash flows from operating activities				
Net income	1,079	(42)	(54)	983
Insurance reserves, gross	7,277	585	(254)	7,608
Receivables and payables	(1,174)	(386)	156	(1,404)
Net cash provided by operating activities	7,875	213	616	8,704
Cash flows from investing activities				
Sales and maturities:				
Debt securities	65,869	108	237	66,214
Equity securities	27,324	67	205	27,596
Purchases:				
Debt securities	(75,594)	(244)	(630)	(76,468)
Equity securities	(19,940)	(75)	(69)	(20,084)
Net cash used in investing activities	(3,452)	(144)	(193)	(3,789)
Change in cash and cash equivalents	3,628	(6)	360	3,982
Cash and cash equivalents as of January 1 (opening balance)	6,929	8	216	7,153
Cash and cash equivalents as of December 31	10,557	2	576	11,135

The SOP 03-01 restatement adjustments have been recorded primarily in the Life Insurance segment, with the exception of the write-down of deferred policy acquisition costs which relate to business recorded in the Other Businesses segment. The restatement adjustments regarding the pooling of interest (Eagle Star) relate to the General Insurance segment.

In 2004, amounts for the Zurich Insurance Group's internal reinsurance transactions have been allocated to the specific regions that wrote the underlying business, whereas in 2003 those results were recorded in the Centrally Managed Businesses region. The 2003 amounts have been reclassified to conform to this presentation.

Forthcoming changes in accounting policy
For 2005 reporting, the Zurich Insurance Group will adopt new and amended accounting standards.

The International Accounting Standards Board (IASB) issued IFRS 4 "Insurance Contracts' on March 31, 2004. The publication of this standard provides, for the first time, guidance on accounting for insurance contracts. This standard applies to all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds, except for specified contracts covered by other IFRS standards. In accordance with the transitional provisions of the standard the Zurich Insurance Group will adopt IFRS 4 as of January 1, 2005. The most significant change as a result of the adoption of the standard is the re-classification of certain contracts as financial instruments and hence application of IAS 39 to these contracts. The adoption of IFRS 4 does not provide comprehensive guidance on the accounting treatment for insurance contracts and as such the Zurich Insurance Group will continue to apply US GAAP in certain circumstances where IFRS is silent.

The IASB issued IFRS 3 "Business Combinations" on March 31, 2004. In accordance with the transitional provisions of the standard, the Zurich Insurance Group has applied this standard to business combinations for which the agreement date is on or after March 31, 2004. The remaining requirements of IFRS 3 will be adopted as of January 1, 2005. The most significant changes required by this standard are:
- All business combinations within its scope are to be accounted for using the purchase method, previously IAS 22 permitted business combinations to be accounted for using the pooling of interests method in certain circumstances.
- The acquiree's identifiable assets, liabilities and contingent liabilities are to be recognized as part of allocating the cost of the combination to be measured initially by the acquirer at their fair values at the acquisition date. Therefore, any minority interest in the acquiree is stated at the minority's proportion of the net fair values of those items.
- Goodwill acquired in a business combination is to be measured after initial recognition at cost less any accumulated impairment losses. Therefore, the goodwill is not amortised and instead must be tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

IAS 36 "Impairment of Assets" and IAS 38 "Intangible Assets" were revised in March 2004 by the IASB as part of the Business Combinations Project. Consistent with the Zurich Insurance Group's adoption of IFRS 3, the revised standards will be adopted as of January 1, 2005.

The IASB issued IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" on March 31, 2004. The standard adopts the classification "held for sale", introduces the concept of a disposal group, and specifies that assets or disposal groups that are classified as held for sale are carried at the lower of carrying amount and fair value less costs to sell. It also replaces IAS 35 regarding the accounting treatment for discontinued operations. In accordance with the transitional provisions of IFRS 5 the standard will be adopted by the Zurich Insurance Group as of January 1, 2005. The most significant impact for the Zurich Insurance Group may be the re-classification of some of its assets as "held for sale."

IAS 39 "Financial Instruments: Recognition and Measurement" was revised in December 2003 as part of the IASB's project to improve IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39. A further amendment was made in March 2004. This change related to Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk. IAS 39 "Financial Instruments: Recognition and Measurement" should be applied for annual periods beginning on or after January 1, 2005. The most significant changes are as follows:
- The standard clarifies that the evaluation of the transfer of risks and rewards of ownership precedes the evaluation of the transfer of control for all derecognition transactions.
- The standard permits an entity to designate any financial asset or financial liability on initial recognition as one to be measured at fair value, with changes in fair value recognized in profit or loss. To impose discipline on this categorization, an entity is precluded from reclassifying financial instruments into or out of this category.
- The standard provides additional guidance about how to determine fair values using valuation techniques.
- The standard clarifies that an impairment loss is recognized only when it has been incurred. It also provides additional guidance on what events provide objective evidence of impairment for investments in equity instruments.
- Hedges of firm commitments are to be treated as fair value hedges rather than cash flow hedges. However, the standard clarifies that a hedge of the foreign currency risk of a firm commitment can be treated as either a cash flow hedge or a fair value hedge.

The Zurich Insurance Group has not yet quantified the impact these changes will have on the Zurich Insurance Group's financial position or results.

4. Changes in the scope of consolidation

During the years ended December 31, 2004 and 2003, the Zurich Insurance Group completed divestments of several businesses and recognized post-completion adjustments. The total net gain on all divestments made during the year before tax was USD 83 million and USD 238 million, and the after-tax net gain on divestments was USD 68 million and USD 218 million for 2004 and 2003, respectively. Total cash consideration received was USD 2,484 million in 2004 and USD 2,576 million in 2003.

Table 4
Net gain on significant divestments only
in USD millions, for the years ended December 31

	2004	2003
Consideration received	**2,484**	2,504
Less: net assets divested	**(2,357)**	(2,232)
Costs related to divestments	**(44)**	(41)
Net gain on divestments before tax	**83**	231
Net assets divested		
Cash and cash equivalents	**435**	318
Other assets	**6,091**	19,566
Insurance liabilities	**(4,014)**	(8,080)
Other liabilities	**(155)**	(9,572)
Net assets divested	**2,357**	2,232

The Zurich Insurance Group's most significant transactions affecting the scope of consolidation during the years ended December 31, 2004 and 2003 were as described below.

Changes in 2004

In Belgium and Luxembourg, the Zurich Insurance Group completed the sale to P&V Assurances of its life insurance operations (both consumer and commercial), its workers' compensation portfolio and its general insurance operations in the consumer and small commercial segments, recognizing a loss of USD 30 million before tax.

The Zurich Insurance Group completed several other divestments with a net gain of USD 23 million before tax. These included the sale of its interests in Thai Zurich Insurance Company, life insurance policies written by the Zurich Insurance Group's Taiwanese branch, Turegum Insurance Company, the real-estate investment company Zürich Atrium B.V., Zurich Insurance (Singapore) Pte. Ltd, Zürich Krankenversicherung AG (Deutschland) as well as its stake in Globale Krankenversicherungs-AG, Zurich Life Philippines and McMillan Shakespeare Australia Pty Limited.

The companies and businesses divested in 2004 contributed, before their sale, a net loss of USD 19 million to the Zurich Insurance Group's 2004 results compared to a net income of USD 19 million in 2003.

During 2004, the Zurich Insurance Group has also recognized several post-completion adjustments for divestments closed in 2003. The total aggregate post completion gain was USD 90 million. The most significant impacts were from the finalization of the sale of Threadneedle Asset Management Holdings Ltd., Rüd, Blass & Cie AG and the transfer of certain derivative transactions, credit facilities and related assets of Zurich Capital Markets to BNP Paribas.

Changes in 2003

The Zurich Insurance Group completed the sale of certain operations of Zurich France to Assicurazioni Generali SpA, recognizing a loss of USD 81 million before tax. The transaction included the life insurance operations (including Eagle Star business) and parts of consumer and commercial lines of the general insurance operations.

On October 31, 2003, the Zurich Insurance Group completed the sale of Zurich Life Assurance Company (Zurich Life), one of the UK Life businesses, to Swiss Re, recognizing a gain of USD 128 million before tax.

On September 30, 2003, the Zurich Insurance Group completed the sale of Threadneedle Asset Management Holdings Ltd. to American Express Financial Corporation, recognizing a gain on divestments of USD 266 million before tax.

The Zurich Insurance Group completed the sale of Zurich Life, part of its US life and annuity operations, to Bank One Corporation on September 3, 2003, recognizing a loss on divestment of USD 165 million before tax. Kemper Investors Life Insurance Company was not part of the sale and is retained by the Zurich Insurance Group.

On September 1, 2003, the Zurich Insurance Group completed the sale of parts of its Dutch operations to SNS Reaal Groep N.V., recognizing a gain on divestment of USD 114 million before tax. SNS Reaal acquired all of the Zurich Insurance Group's life operations as well as general insurance operations in the consumer and small business segments in the Netherlands.

On March 31, 2003, the Zurich Insurance Group completed the sale of Rüd, Blass & Cie AG, Bankgeschäft to Deutsche Bank (Suisse) SA. For this transaction, a significant portion of the sales proceeds could not be recognized at the time of sale, as it was contingent on the development of assets under management over a period of 15 months subsequent to the closing. Finalization was completed in 2004.

In 2003, the companies and businesses divested contributed USD 128 million to the Zurich Insurance Group's net income.

As of December 31, 2003, Zurich Capital Markets ("ZCM") consolidated Zurich Premier Series Ltd. ("Premier"), an investment company. ZCM's equity interest in the investment company increased from 32% to 59% during the year with the majority interest acquired on December 31, 2003. As a result of the consolidation of Premier, "Trading equity portfolios in capital markets and banking activities" and "other liabilities" increased by USD 638 million.

5. Investments

A summary of net investment income and net capital gains and losses and impairments is given below.

Table 5.1
Investment result
in USD millions, for the years ended December 31

	Net investment income		Net capital gains/(losses) and impairments[1]		Investment result	
	2004	2003	**2004**	2003	**2004**	2003
Debt securities	**3,809**	4,034	**671**	1,323	**4,480**	5,357
Equity securities	**400**	457	**(353)**	(528)	**47**	(71)
Investments in associates	**86**	90	**(33)**	(19)	**53**	71
Other investments:						
Investments held by investment companies	**7**	11	**147**	113	**154**	124
Real estate held for investment	**424**	427	**(52)**	(43)	**372**	384
Mortgage loans, policyholders' collateral and other loans	**984**	686	**185**	68	**1,169**	754
Short-term investments	**90**	62	**–**	1	**90**	63
Other[2]	**131**	97	**47**	(419)	**178**	(322)
Cash and cash equivalents	**160**	179	**1**	–	**161**	179
Investment result, gross	**6,091**	6,043	**613**	496	**6,704**	6,539
Investment expenses[3]	**(247)**	(250)	**–**	–	**(247)**	(250)
Investment result, net	**5,844**	5,793	**613**	496	**6,457**	6,289

[1] Impairments on total investments amounted to USD 166 million in 2004 and USD 1,059 million in 2003.
[2] Including net capital gains/(losses) on derivative financial instruments of USD 45 million in 2004 and USD (416) million in 2003.
[3] Including rental operating expense for real estate held for investment of USD 131 million in 2004 and USD 105 million in 2003.

The details of the investment balances as of December 31, 2004 and 2003 are given in the tables below.

Table 5.2
Breakdown of investments
as of December 31

	2004		2003	
	USD millions	**% of total**	USD millions	% of total
Debt securities:				
Available-for-sale	**84,437**	**54.0%**	79,967	54.5%
Held-to-maturity	**5,855**	**3.7%**	3,886	2.6%
Trading	**6,109**	**3.9%**	5,612	3.8%
Total debt securities	**96,401**	**61.6%**	89,465	60.9%
Equity securities (including trading equity portfolios in capital markets and banking activities):				
Available-for-sale	**11,051**	**7.1%**	12,498	8.5%
Trading	**3,601**	**2.3%**	4,980	3.4%
of which: – *Trading equity portfolios in capital markets and banking activities*	***2,773***	***1.8%***	*4,303*	*2.9%*
– *Investments for unit-linked products*	***758***	***0.5%***	*612*	*0.4%*
Total equity securities	**14,652**	**9.4%**	17,478	11.9%
Holdings in related companies	**941**	**0.6%**	941	0.6%
Investments in associates	**645**	**0.4%**	991	0.7%
Other investments:				
Investments held by investment companies	**1,670**	**1.1%**	1,519	1.0%
Real estate held for investment	**6,727**	**4.3%**	6,753	4.6%
Mortgage loans	**8,606**	**5.5%**	9,605	6.5%
Policyholders' collateral and other loans	**15,016**	**9.6%**	8,117	5.5%
Short-term investments	**859**	**0.6%**	900	0.6%
Other	**94**	**0.1%**	85	0.1%
Total other investments	**32,972**	**21.2%**	26,979	18.3%
Cash and cash equivalents	**10,706**	**6.8%**	11,135	7.6%
Total	**156,317**	**100.0%**	146,989	100.0%

Short-term investments include investments that have an original maturity of less than one year.

Cash and investments with a carrying value of USD 7,777 million and USD 7,065 million were deposited with regulatory authorities as of December 31, 2004 and 2003, respectively. As of December 31, 2004 and 2003, respectively, debt securities with a carrying value of USD 1,792 million and USD 1,520 million have been sold to financial institutions under short-term sale and repurchase agreements. These securities continue to be recognized as investments in the balance sheets and an obligation to repurchase them is included in liabilities in the balance sheets at that date. On December 31, 2004 and 2003, the volume of securities loaned out by the Zurich Insurance Group under securities lending programs was USD 13.3 billion and USD 5.3 billion respectively.

Table 5.3
Debt securities maturity schedule
in USD millions, as of December 31

	Amortized cost Held-to-maturity		Estimated fair value Available-for-sale	
	2004	2003	**2004**	2003
Less than one year	**181**	106	**8,707**	4,044
One year through five years	**1,195**	287	**29,133**	28,300
Five years through ten years	**948**	249	**25,310**	27,268
Over ten years	**3,531**	3,244	**10,280**	11,873
Subtotal	**5,855**	3,886	**73,430**	71,485
Mortgage and asset-backed securities	**–**	–	**11,007**	8,482
Total	**5,855**	3,886	**84,437**	79,967

The amortized cost and estimated fair values of debt securities held-to-maturity and available-for-sale are shown by contractual maturity. Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Table 5.4
Equity securities (including trading equity portfolios in capital markets and banking activities)
as of December 31

	2004		2003	
	USD millions	**% of total investments**	USD millions	% of total investments
Common stocks, including equity unit-trusts	**9,189**	**5.9%**	10,919	7.5%
Unit-trusts (debt securities, real estate, short-term investments)	**2,690**	**1.7%**	2,256	1.5%
Trading equity portfolios in capital markets and banking activities	**2,773**	**1.8%**	4,303	2.9%
Total	**14,652**	**9.4%**	17,478	11.9%

Table 5.5
Available-for-sale securities
in USD millions, as of December 31

	Cost or amortized cost		Gross unrealized gains		Gross unrealized losses		Estimated fair value	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
Debt securities – available-for-sale								
Swiss federal and cantonal governments	**8,898**	8,170	**455**	404	**(12)**	(12)	**9,341**	8,562
United Kingdom government	**4,555**	4,390	**16**	10	**6**	(61)	**4,577**	4,339
United States government	**7,413**	9,141	**70**	130	**(81)**	(25)	**7,402**	9,246
Other governments	**24,587**	24,292	**815**	565	**(11)**	(261)	**25,391**	24,596
Corporate securities	**25,879**	23,780	**930**	904	**(95)**	(226)	**26,714**	24,458
Mortgage and asset-backed securities	**10,801**	8,198	**248**	347	**(42)**	(63)	**11,007**	8,482
Redeemable preferred stocks	**5**	284	**–**	–	**–**	–	**5**	284
Total debt securities – available-for-sale	**82,138**	78,255	**2,534**	2,360	**(235)**	(648)	**84,437**	79,967
Equity securities – available-for-sale								
Common stock	**6,518**	9,233	**955**	936	**(687)**	(1,514)	**6,786**	8,655
Unit-trust	**4,288**	3,945	**109**	66	**(268)**	(301)	**4,129**	3,710
Non-redeemable preferred stock	**131**	145	**21**	3	**(16)**	(15)	**136**	133
Total equity securities – available-for-sale	**10,937**	13,323	**1,085**	1,005	**(971)**	(1,830)	**11,051**	12,498

Table 5.6
Realized capital gains/(losses) and impairments on available-for-sale debt and equity securities
in USD millions, for the years ended December 31

	Debt securities		Equity securities		Total	
	2004	2003	**2004**	2003	**2004**	2003
Gross realized capital gains – available-for-sale	**655**	1,664	**527**	1,352	**1,182**	3,016
Gross realized capital losses – available-for-sale	**(139)**	(250)	**(702)**	(1,385)	**(841)**	(1,635)
Impairments – available-for-sale	**(15)**	(41)	**(123)**	(989)	**(138)**	(1,030)
Total	**501**	1,373	**(298)**	(1,022)	**203**	351

Table 5.7
Net capital gains/(losses) on trading debt and equity securities
in USD millions, for the years ended December 31

	Debt securities		Equity securities		Total	
	2004	2003	**2004**	2003	**2004**	2003
Net capital gains/(losses) on trading debt and equity securities	**170**	(50)	**(55)**	494	**115**	444

Table 5.8
Investments in associates
in USD millions

	Carrying value		Share in profit/(loss)		Ownership interest	
	2004	2003	**2004**	2003	**2004**	2003
Capital Z Financial Services Fund II LP, United States	**379**	371	**66**	59	**29.43%**	29.41%
The Guarantee Company of North America, Canada	**88**	82	**2**	2	**32.08%**	32.08%
PSP Swiss Property AG, Switzerland[1]	**–**	269	**11**	19	**12.40%**	22.34%
Other	**178**	269	**7**	10	**n/m**	n/m
Total	**645**	991	**86**	90	**n/m**	n/m

[1] Since May 13, 2004, PSP Swiss Property AG, Switzerland has no longer been classified as an investment in associates, as the Zurich Insurance Group's ownership interest declined below 20%.

Table 5.9
Real estate held for investment
in USD millions

	2004	2003
Carrying value as of January 1 (opening balance)	**6,753**	6,088
Additions and capital improvements	**98**	291
Disposals	**(340)**	(466)
Market value revaluation	**(22)**	(29)
Transfer to assets held for own use	**(278)**	(47)
Foreign currency translation effects	**516**	916
Carrying value as of December 31 (closing balance)	**6,727**	6,753

Real estate held for investment consists of investments in commercial, residential and mixed-use properties primarily located in Switzerland, Germany and the United Kingdom.

Table 5.10
Unrealized gains/(losses) on investments included in shareholders' equity
in USD millions, as of December 31

	2004	2003
Debt securities – available-for-sale	**2,299**	1,713
Equity securities – available-for-sale	**114**	(825)
Other	**18**	(137)
Less amount of net unrealized (gains)/losses on investments attributable to:		
Life policyholder dividends and other policyholder liabilities	**(1,075)**	304
Life deferred acquisition costs	**(104)**	(56)
Deferred income taxes	**(394)**	(261)
Minority interests	**(39)**	(14)
Total	**819**	724

6. Investments held on account and at risk of life insurance policyholders and insurance reserves for life insurance where the investment risk is carried by policyholders

Table 6
Investments held on account and at risk of life insurance policyholders and insurance reserves for life insurance where the investment risk is carried by policyholders
in USD millions, as of December 31

	2004	2003
Debt securities	**150**	235
Equity securities	**22,867**	20,986
Collateral and other loans	**4**	6
Other investments	**797**	453
Cash and cash equivalents	**84**	106
Total investments held on account and at risk of life insurance policyholders	**23,902**	21,786
Total insurance reserves for life insurance where the investment risk is carried by policyholders	**23,974**	21,871

In certain countries, "Insurance reserves for life insurance where the investment risk is carried by policyholders" include amounts due to policyholders as well as deferred front-end fees and, thus, the reserves are carried at a higher amount than the total "Investments held on account and at risk of life insurance policyholders".

The implementation of SOP 03-01, as discussed in note 3, resulted in a reclassification of the assets and reserves for products sold in certain countries to their respective investment categories and insurance reserves as they do not meet the criteria for classification as "separate accounts". The effects are disclosed in note 3. The remaining balances represent products that consist primarily of variable life insurance and annuity products for which the policyholder directly bears the investment risk of the related assets.

7. Fair value of financial instruments and other investments

The methods and assumptions used by the Zurich Insurance Group in estimating the fair value of the financial instruments and other investments are discussed below.

- Debt and equity securities: Fair values are based on quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models, discounted cash flow or other recognized valuation techniques.
- Investments in associates are accounted for using the equity method. Accordingly, these participations are carried at the Zurich Insurance Group's proportional interest of the investee's shareholders' equity. The fair value of these entities, particularly for publicly traded entities, may differ from the carrying value.
- Investments held by investment companies: Estimated fair values are determined by the investment managers.
- Real estate held for investment: Fair value is determined on a regular basis with reference to current market conditions.
- Mortgage loans: Fair values of loans on real estate are estimated using discounted cash flow calculations based upon the Zurich Insurance Group's current incremental lending rates for similar types of loans.
- Policyholders' collateral and other loans: Fair values are estimated on the basis of discounted cash flow, pricing models, or other recognized valuation techniques.
- Short-term investments: Carrying amounts approximate fair values.
- Cash and cash equivalents: Carrying amounts approximate fair values.
- Derivative trading assets and liabilities: Fair values are based on quoted market prices, dealer price quotations, discounted cash flow models and option pricing models.
- Debt: Fair values are estimated using discounted cash flow calculations based upon the Zurich Insurance Group's current incremental borrowing rates for similar types of borrowings with maturities consistent with those remaining for the debt being valued.
- Obligations to repurchase securities: Carrying amounts approximate fair value.

Table 7
Fair value of financial instruments
in USD millions, as of December 31

	Total fair value		Total carrying value	
	2004	2003	**2004**	2003
Debt securities	**96,608**	89,524	**96,401**	89,465
Equity securities (incl. trading equity portfolios in capital markets and banking activities)	**14,652**	17,478	**14,652**	17,478
Investments in associates	**647**	991	**645**	991
Other Investments:				
Investments held by investment companies	**1,670**	1,519	**1,670**	1,519
Real Estate held for investment	**6,727**	6,753	**6,727**	6,753
Mortgage loans	**8,517**	9,661	**8,606**	9,605
Policyholders' collateral and other loans	**15,556**	8,119	**15,016**	8,117
Short-term investments	**859**	900	**859**	900
Other	**94**	85	**94**	85
Total other investments	**33,423**	27,037	**32,972**	26,979
Cash and cash equivalents	**10,706**	11,135	**10,706**	11,135
Derivative trading assets	**1,437**	2,569	**1,437**	2,569
Total of financial instruments (assets)	**157,473**	148,734	**156,813**	148,617
Debt	**(14,491)**	(15,601)	**(14,198)**	(15,301)
Obligations to repurchase securities	**(1,792)**	(1,520)	**(1,792)**	(1,520)
Derivative trading liabilities	**(1,264)**	(2,413)	**(1,264)**	(2,413)
Total of financial instruments (liabilities)	**(17,547)**	(19,534)	**(17,254)**	(19,234)

8. Derivative financial instruments

(a) Principles

The Zurich Insurance Group uses derivative financial instruments to manage risks related to its capital, assets and liabilities and its commitments to third parties. The Zurich Insurance Group, due to its multinational operations, has foreign currency exposure and, due to the long-term nature of some of its insurance reserves, has exposure to interest rate and reinvestment risks. The Zurich Insurance Group uses derivative financial instruments to mitigate the risks posed by changes in foreign exchange rates and interest rates. Therefore, derivative financial instruments are part of insurance, investment, asset-liability management, capital raising or cash management activities and must conform to the general guidelines of the Zurich Insurance Group for these activities, which are documented and reviewed for compliance by the Zurich Insurance Group. If the Zurich Insurance Group were required to settle outstanding derivative positions, the sum of gains and losses would not be material to the Zurich Insurance Group as of December 31, 2004.

Zurich Capital Markets ("ZCM") has a portfolio of derivative products for the benefit of its customers. ZCM does not engage in proprietary trading. ZCM's positions on derivative financial instruments are separately reported in subsection (d) of this note.

For interest rate caps, floors and swap transactions, forward and futures contracts and options written, only the potential market value of the instruments represents a credit risk to the Zurich Insurance Group. The Zurich Insurance Group controls the credit risk of its interest rate swap agreements and forward and futures contracts through credit approvals, limits and monitoring procedures.

To limit credit risk exposure derivative financial instruments are typically executed with counterparties rated A or better by Standard & Poor's. Wherever possible, efforts are undertaken to net the credit exposure with individual counterparties in compliance with applicable laws.

The term "contractual amount" is used for derivative financial instruments for which an exchange of the principal sum at maturity could take place, e.g. options, futures, currency swaps. The term "notional amount" describes instruments for which the principal sum is only notionally lent or borrowed, e.g. interest swaps, forward rate agreements (FRAs). The notional principal amounts are used to express the extent of the *Zurich Insurance Group's involvement in derivative transactions. This standard measurement of the volume of derivative transactions is not a* quantification of market risk or credit risk and it may not necessarily be recorded on the balance sheet.

(b) Derivative financial instruments used

Interest rate and currency swaps: Interest rate swaps are contractual agreements between two parties to exchange periodic payments in the same currency, each of which is computed on a different interest rate basis, on a specified notional amount. Most interest rate swaps involve the net exchange of payments calculated as the difference between the fixed and floating interest payments. Currency swaps, in their simplest form, are contractual agreements that involve the exchange of both periodic and final amounts in two different currencies. Exposure to loss on both types of swap contracts will increase or decrease over their respective lives as a function of maturity dates, interest and foreign exchange rates, and the timing of payments. The Zurich Insurance Group uses currency swaps to manage the currency and interest rate risk of its debt issuances.

Interest rate futures, forwards and options contracts: Interest rate futures are exchange-traded instruments and represent commitments to purchase or sell a designated security or money market instrument at a specified future date and price. Interest rate forward agreements are traded over-the-counter ("OTC") where two parties agree on an interest rate and other terms that will become a reference point in determining, *in concert with an agreed notional principal amount, a net payment to be made by one party to the other, depending on what* rate in fact prevails at a future point in time. Interest rate options, which consist primarily of caps and floors, are interest rate protection *instruments that involve the obligation of the seller to pay the buyer an interest rate differential in exchange for a premium paid by the* buyer. This differential represents the difference between the current rate and an agreed rate applied to a notional amount. Exposure to loss on interest rate contracts will increase or decrease over their respective lives as interest rates fluctuate. For interest rate futures and exchange-traded options, the Zurich Insurance Group's exposure to off-balance sheet credit risk is limited, as these transactions are executed on organized exchanges that assume the obligation of the counterparty and generally require security deposits and daily settlement of margins.

Foreign exchange contracts: Foreign exchange contracts, which include spot, forward and futures contracts, represent agreements to exchange one currency for another currency at an agreed price and settlement date. Foreign exchange option contracts are similar to interest rate option contracts, except that they are based on currencies, rather than interest rates. Exposure to loss on these contracts will increase or decrease over their respective lives as currency exchange and interest rates fluctuate. For exchange-traded foreign exchange contracts, the Zurich Insurance Group's exposure to off-balance sheet credit risk is limited, as these transactions are executed on organized exchanges that assume the obligation of counterparties and generally require security deposits and daily settlement of margins.

(c) Outstanding positions of the Zurich Insurance Group (excluding ZCM)

Table 8.1

Maturity profile of notional principal amounts and market values of derivative financial instruments (excluding ZCM)

in USD millions, as of December 31

	Remaining life			Notional principal amounts		Market values	
	Up to 1 year	*1 to 5 years*	*over 5 years*	**2004**	2003	**2004**	2003
Swaps							
Interest rate swaps	–	158	135	**293**	784	**(3)**	(50)
Currency swaps	–	523	3,160	**3,683**	765	**306**	132
Total return equity swaps	1	2,663	2,524	**5,188**	5,324	**(249)**	(173)
Other swaps	–	178	–	**178**	–	**(1)**	–
Options							
Purchased call options	1,970	312	4	**2,286**	583	**23**	7
Purchased put options	–	1,173	–	**1,173**	1,893	**20**	43
Written call options	–	792	303	**1,095**	2,251	**(131)**	(146)
Written put options	–	–	–	–	245	**(4)**	(3)
Futures/forwards							
Purchased futures/forward contracts	8,459	–	–	**8,459**	8,453	**87**	44
Written futures/forward contracts	–	–	37	**37**	–	**(9)**	–
Total	10,430	5,799	6,163	**22,392**	20,298	**39**	(146)
of which:							
derivative trading asset						**573**	417
derivative trading liability						**(534)**	(563)

(d) Outstanding positions of Zurich Capital Markets ("ZCM")

ZCM's risk management model focused on controlling incremental risk and actively monitoring existing portfolio risk. Existing portfolio risk is monitored through a variety of quantitative measures including Value-at-Risk (VaR) and stress testing.

Table 8.2
***Maturity profile of notional principal amounts and* market values of derivative financial instruments (ZCM)**
in USD millions, as of December 31

	Remaining life			Notional principal amounts		Market values	
	Up to 1 year	1 to 5 years	over 5 years	**2004**	2003	**2004**	2003
Swaps							
Interest rate swaps	2,107	3,286	5,295	**10,688**	12,507	**94**	11
Currency swaps	453	68	26	**547**	1,473	**(6)**	7
Total return equity swaps	21	–	67	**88**	313	**(26)**	(41)
Other swaps	–	–	–	**–**	105	**–**	(1)
Options							
Purchased call options	272	–	–	**272**	209	**272**	1,490
Purchased put options	198	446	797	**1,441**	1,497	**(28)**	59
Written call options	40	186	33	**259**	3,253	**(205)**	(1,248)
Written put options	181	521	1,520	**2,222**	2,342	**21**	(12)
Futures/forwards							
Purchased futures/forward contracts	420	–	–	**420**	1,360	**36**	70
Sold futures/forward contracts	443	–	–	**443**	1,333	**(24)**	(33)
Total	4,135	4,507	7,738	**16,380**	24,392	**134**	302
of which:							
derivative trading asset						**864**	2,152
derivative trading liability						**(730)**	(1,850)

9. Insurance benefits, losses and expenses

Table 9.1
Breakdown of insurance benefits, losses and expenses
in USD millions, for the years ended December 31

	Gross		Ceded		Net	
	2004	2003	**2004**	2003	**2004**	2003
Losses and loss adjustment expenses	**27,895**	24,609	**(4,957)**	(4,090)	**22,938**	20,519
Life insurance death and other benefits	**11,555**	9,203	**(153)**	(346)	**11,402**	8,857
(Decrease)/increase in future life policyholders' benefits	**(2,083)**	1,575	**(14)**	(23)	**(2,097)**	1,552
Total insurance benefits and losses	**37,367**	35,387	**(5,124)**	(4,459)	**32,243**	30,928
of which:						
Losses and loss adjustment expenses paid	**21,546**	20,852	**(4,516)**	(4,739)	**17,030**	16,113

Table 9.2
Breakdown of policyholder dividends and participation in profits
in USD millions, for the years ended December 31

	Gross		Ceded		Net	
	2004	2003	**2004**	2003	**2004**	2003
Total policyholder dividends and participation in profits	**1,059**	331	**1**	41	**1,060**	372

Table 9.3
Breakdown of underwriting and policy acquisition costs
in USD millions, for the years ended December 31

	Gross		Ceded		Net	
	2004	2003	**2004**	2003	**2004**	2003
Underwriting and policy acquisition costs	**7,379**	7,024	**(1,197)**	(1,431)	**6,182**	5,593

The impact of the adoption of SOP 03-01 is discussed in note 3.

10. Insurance reserves

Table 10.1
Insurance reserves
in USD millions, as of December 31

	2004	2003
Gross		
Reserves for losses and loss adjustment expenses	**56,860**	50,437
Reserves for unearned premiums	**13,917**	13,577
Future life policyholders' benefits	**70,737**	68,514
Policyholders' contract deposits and other funds	**17,855**	16,422
Reserves for unit-linked products	**2,071**	1,583
Total insurance reserves, gross	**161,440**	150,533
Ceded		
Reserves for losses and loss adjustment expenses	**(14,313)**	(14,046)
Reserves for unearned premiums	**(2,097)**	(2,157)
Future life policyholders' benefits	**(501)**	(458)
Policyholders' contract deposits and other funds	**(3,679)**	(3,799)
Total ceded reserves (reinsurers' share of insurance reserves)	**(20,590)**	(20,460)
Net		
Reserves for losses and loss adjustment expenses	**42,547**	36,391
Reserves for unearned premiums	**11,820**	11,420
Future life policyholders' benefits	**70,236**	68,056
Policyholders' contract deposits and other funds	**14,176**	12,623
Reserves for unit-linked products	**2,071**	1,583
Total insurance reserves, net	**140,850**	130,073

Reserves for unit-linked products relate to the implementation of SOP 03-01 as discussed in note 3.

Table 10.2
Development of reserves for losses and loss adjustment expenses
in USD millions

	2004	2003
As of January 1 (opening balance)		
Gross reserves for losses and loss adjustment expenses	**50,437**	45,290
Reinsurance recoverable	**(14,046)**	(14,901)
Net reserves for losses and loss adjustment expenses	**36,391**	30,389
Net losses and loss adjustment expenses incurred		
Current period	**20,884**	18,652
Prior years	**2,054**	1,867
Total	**22,938**	20,519
Net losses and loss adjustment expenses paid		
Current year	**(7,370)**	(7,333)
Prior years	**(9,660)**	(8,780)
Total	**(17,030)**	(16,113)
Divestments of companies and businesses	**(743)**	(193)
Foreign currency translation effects	**991**	1,789
As of December 31 (closing balance)		
Net reserves for losses and loss adjustment expenses	**42,547**	36,391
Reinsurance recoverable	**14,313**	14,046
Gross reserves for losses and loss adjustment expenses	**56,860**	50,437

The Zurich Insurance Group establishes 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 the operating statements in the period in which estimates are changed.

Significant delays occur in the notification of claims and a substantial measure of experience and judgment is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as of the balance sheet date. The reserves for losses and loss adjustment expenses are determined on the basis of information currently available; however, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

Deferred charges relating to retrospective reinsurance assumed totaling USD 182 million and USD 265 million as of December 31, 2004 and 2003, respectively, have been deducted from reserves for losses and loss adjustment expenses.

Management has considered environmental and latent injury claims and claims expenses in establishing the reserves for losses and loss adjustment expenses. The Zurich Insurance Group continues to be advised of claims asserting injuries from toxic waste, hazardous materials and other environmental pollutants and alleged damages to cover the clean-up costs of hazardous waste dumpsites relating to policies written in prior years and indemnity claims asserting injuries from asbestos. Coverage and claim settlement issues, such as determination that coverage exists and the definition of an occurrence, may cause the actual loss development to exhibit more variation than the remainder of the Zurich Insurance Group's book of business. Such claims cannot be estimated with traditional reserving techniques and, accordingly, the uncertainty with respect to the ultimate cost of these types of claims has been greater than the uncertainty relating to standard lines of business.

The uncertainties arise out of changes or potential changes in various laws or the interpretation of laws. While the Zurich Insurance Group believes that it has made adequate provision for these claims, it is possible that future adverse development could have a material effect on the Zurich Insurance Group's results of operations, cash flows and financial position. As of December 31, 2004 and 2003, the net reserve amounts related to these claims included above were USD 2,919 million and USD 2,979 million, respectively.

Reinsurance

The Zurich Insurance Group completed a review of various reinsurance arrangements whereby certain risks were ceded by local business units of the Zurich Insurance Group to third-party reinsurers who in turn partly or fully retroceded such risks to other business units of the Zurich Insurance Group. The scope of the review was to determine the impact, if any, for financial or regulatory reporting. The review included in-force arrangements as well as arrangements that had existed previously but had been commuted or otherwise terminated. As a result of this review, the Zurich Insurance Group determined, with the concurrence of its external auditors, that it was not necessary to restate the comparative financial statements.

The Zurich Insurance Group nevertheless determined that certain changes should be made to the manner in which such transactions were accounted for as a result of the way these arrangements developed over time. Accordingly, the Zurich Insurance Group recorded a charge before tax of approximately USD 140 million (approximately USD 100 million after tax) in 2004 in order to align the accounting treatment of the transactions with Zurich Insurance Group accounting policy.

If these transactions were accounted for on the basis now viewed as appropriate in the years the transactions were initially recorded, the Zurich Insurance Group estimates that its consolidated net income before income taxes and minority interests would have been approximately USD 165 million greater in 2003. Further, it is estimated that net income for 2003 would have been USD 140 million higher. Due to reductions in net operating results that would have been incurred in prior years, the Zurich Insurance Group estimates that the related impact on its consolidated shareholders' equity at December 31, 2003 would have been a reduction of approximately USD 190 million, and a reduction of approximately USD 330 million at December 31, 2002. These estimates are based on assumptions and judgments that the Zurich Insurance Group believes are reasonable.

The Zurich Insurance Group has reported these transactions to appropriate regulatory bodies and is cooperating with all regulatory inquiries. In addition, the Zurich Insurance Group has strengthened processes in order to address the accounting for and reporting of reinsurance arrangements appropriately on an ongoing basis.

Table 10.3

Future life policyholders' benefits and policyholders' contract deposits and other funds (gross of reinsurance)

in USD millions, as of December 31	2004	2003
Future life policyholders' benefits		
Long-duration contracts	**70,636**	68,422
Short-duration contracts	**101**	92
Total	**70,737**	68,514
Policyholders' contract deposits and other funds		
Annuities	**1,925**	1,861
Universal life and other investment contracts	**7,541**	7,572
Policyholder dividends	**8,389**	6,989
Total	**17,855**	16,422

Long-duration contract liabilities included in future life policyholders' benefits result primarily from traditional participating and non-participating life insurance products. Short-duration contract liabilities are primarily accident and health insurance products. The liability for future life policyholder benefits has been established based upon the following:

- Interest rates which vary by territory, year of issuance and product
- Mortality rates based on published mortality tables adjusted for actual experience by geographic area and modified to allow for variations in policy form
- Surrender rates based upon actual experience by geographic area and modified to allow for variations in policy form.

The amount of policyholder dividends to be paid is determined annually by each Zurich Insurance Group life insurance company. Policyholder dividends include life policyholders' share of net income and unrealized appreciation of investments that are required to be allocated by the insurance contract or by local insurance regulations. Experience adjustments relating to future policyholders' benefits and policyholders' contract deposits vary according to the type of contract and the territory. Investment, mortality and morbidity results may be passed through by experience credits or as an adjustment to the premium mechanism, subject to local regulatory provisions.

In Switzerland, the "legal quote" legislation was adopted on April 1, 2004. It relates to the regulated pension business in Switzerland and provides for mandatory participation in profits by policyholders. A minimum dividend rate of 90% of the calculated gross surplus must be allocated to policyholders as the surplus arises, where previously such allocations occurred when bonuses were declared.

The Zurich Insurance Group accounted for the initial application of this legislation in the consolidated financial statements as of June 30, 2004, by transferring net unrealized gains on investments included in shareholders' equity of USD 226 million to insurance reserves as "Policyholders' contract deposits and other funds". In addition, the Zurich Insurance Group recorded a pre-tax charge of USD 54 million related to this change.

Guarantees arising from minimum death benefits ("GMDB"), retirement income benefits ("GRIB") and annuitization options ("GAO")

The Zurich Insurance Group sells products for which policyholders bear the full investment risk associated with the underlying invested funds selected by them. Certain of these products contain guarantees for which liabilities have been recorded for additional benefits and minimum guarantees, primarily in the subsidiary Kemper Investors Life Insurance Company which has written variable annuity contracts that provide annuitants with certain guarantees related to minimum death and income benefits. The determination of these liabilities is based on models that involve a range of scenarios and assumptions, including those regarding expected market rates of return and volatility, contract surrender rates, annuitization elections and mortality experience. The assumptions used are consistent with those used in determining estimated gross profits for purposes of amortizing deferred policy acquisition costs.

The Zurich Insurance Group recorded provisions for certain guarantee features embedded in certain life insurance products for the first time as explained in note 3 on the implementation of SOP 03-01.

Table 10.4

Information on guarantee liabilities arising from minimum death benefits ("GMDB"), retirement income benefits ("GRIB") as well as annuitization options ("GAO")

in USD millions (except average age)	2004	2003
Account balance for products with guarantee features as of December 31		
Gross	**4,074**	3,757
Ceded	**(554)**	(537)
Net	**3,520**	3,220
Amount at risk as of December 31	**2004**	2003
Gross	**735**	740
Ceded	**(284)**	(277)
Net	**451**	463
Average attained age of policyholders (in years)	**61**	61

The Zurich Insurance Group's exposure after reinsurance recoveries under these policies at the balance sheet date as of December 31, 2004 would be USD 451 million (USD 463 million as of December 31, 2003). The Zurich Insurance Group believes the crystallization of such liability is not likely.

Development of net liability recorded for additional benefits	2004	2003
Balance as of January 1 (opening balance)	**53**	32
Benefits incurred	**30**	27
Benefits paid	**(5)**	(6)
Balance as of December 31 (closing balance)	**78**	53

11. Income taxes

Table 11.1
Income tax expense

in USD millions, for the years ended December 31	2004	2003
Current	**598**	312
Deferred	**(345)**	526
Total income tax expense	**253**	838

Table 11.2
Expected and actual income tax expense

in USD millions, for the years ended December 31	2004	2003
Expected income tax expense	**445**	582
Increase/(reduction) in taxes resulting from:		
Non-taxable income	**(304)**	(292)
Non-deductible expenses	**75**	81
Withholding, state and local taxes	**18**	(36)
Non-utilizable tax losses	**7**	509
Other	**12**	(6)
Actual income tax expense	**253**	838

The table above illustrates the factors that cause the actual income tax expense to differ from the expected amount computed by applying the expected rate.

The expected weighted average tax rate for the Zurich Insurance Group was 26.8% and 30.5% for the years 2004 and 2003, respectively. These rates were derived by obtaining a weighted average of the applicable statutory income tax rate in relation to the operating income/loss generated in the taxable territories in which the Zurich Insurance Group operates.

Table 11.3
Deferred income taxes

in USD millions, as of December 31	2004	2003
Deferred tax assets		
Reserves for losses and loss adjustment expenses	**576**	755
Reserves for unearned premiums	**366**	380
Accruals not currently deductible	**106**	106
Unrealized losses on investments	**–**	91
Depreciable and amortizable assets	**170**	83
Life policy reserves	**129**	132
Loss carryforwards	**1,550**	892
Other	**833**	798
Deferred tax assets, gross	**3,730**	3,237
Valuation allowance on deferred tax assets	**(345)**	(351)
Deferred tax assets, net of valuation allowance	***3,385***	*2,886*
Deferred tax liabilities		
Reserves for losses and loss adjustment expenses	**(648)**	(493)
Deferred policy acquisition costs	**(529)**	(391)
Unrealized gains on investments	**(394)**	(352)
Depreciable and amortizable assets	**(689)**	(704)
Life policy reserves	**(135)**	(70)
Other	**(801)**	(885)
Deferred tax liabilities	**(3,196)**	(2,895)
Net deferred tax assets/(liabilities)	**189**	(9)

The current income tax payable (net of income tax receivable) as of December 31, 2004 and December 31, 2003 was USD 688 million and USD 387 million, respectively.

As of December 31, 2004 and 2003, respectively, the Zurich Insurance Group had income tax loss carryforwards of USD 4,485 million and USD 2,908 million available (subject to various statutory restrictions) for use against future taxable income. Deferred tax assets for loss carryforwards of USD 2,950 million and USD 1,876 million were recognized as of December 31, 2004 and 2003, respectively. No deferred tax assets were recognized in respect of the remaining USD 1,535 million and USD 1,032 million as of December 31, 2004 and 2003, respectively. The majority of the income tax loss carryforwards expire after five years.

The Zurich Insurance Group's deferred tax assets and liabilities are recorded in the tax paying entities throughout the world, which may include several legal entities within each tax jurisdiction. Legal entities are grouped into a single taxpayer only when permitted by local legislation and when deemed appropriate.

The recoverability of the deferred tax asset of each taxpayer is based on its ability to utilize the deferred tax asset over a reasonable period of time. This analysis considers the projected taxable income to be generated by the taxpayer, as well as the ability to offset deferred tax assets with deferred tax liabilities. As of December 31, 2004, the following taxpayer groups carry a net deferred tax asset position on their balance sheets.

Table 11.4
Deferred tax assets by taxpayer group
in USD millions, as of December 31, 2004

	Gross deferred tax assets	**Deferred tax assets, net of valuation allowance and other tax liabilities**
Taxpayer groups		
North America Corporate group of companies	**1,444**	1,250
Centre group of companies	**555**	132
Zurich Capital Markets companies	**337**	–
UK General Insurance companies	**233**	155
Other	**204**	87

The North America Corporate group of companies has reported tax losses in three of the last four years, thus creating a significant net operating loss carryforward of approximately USD 2,280 million, which is utilizable over a 15 year period. In addition, revenue streams originated by the North America Corporate group of companies also support the recoverability of the Centre group of companies' deferred tax asset. Based on the current taxable income projections for the North America Corporate group of companies and the other taxpayer groups noted above, management believes that the carrying values of the deferred tax assets as of December 31, 2004 are fully recoverable.

12. Receivables

Table 12
Receivables
in USD millions, as of December 31

	2004	2003
Receivables from policyholders	**2,943**	2,546
Receivables from insurance companies, agents, brokers and intermediaries	**4,891**	5,775
Other receivables	**3,985**	3,023
Allowance for uncollectible amounts	**(253)**	(333)
Total	**11,566**	11,011

13. Reinsurance assets

Table 13
Reinsurance assets
in USD millions, as of December 31

	2004	2003
Reinsurers' share of insurance reserves	**20,590**	20,460
Receivable arising from ceded reinsurance	**1,831**	1,982
Allowance for uncollectible amounts	**(373)**	(371)
Total reinsurance assets	**22,048**	22,071

Ceded reinsurance arrangements do not relieve the Zurich Insurance Group from its direct obligations to its policyholders. Thus, a credit exposure exists with respect to reinsurance ceded to the extent that any reinsurer is unable to meet the obligations assumed under the reinsurance agreements. The Zurich Insurance Group holds substantial collateral as security under related reinsurance agreements in the form of deposits, securities and/or letters of credit.

The life insurance operations limit exposure to loss on any single life policy. Retention limits vary by territory and product line. Approximately 3.5% and 5.4% of gross written premiums and policy fees were ceded as of December 31, 2004 and 2003, respectively, for life operations, and 20.3% and 24.0% for general insurance operations as of December 31, 2004 and 2003, respectively.

Net insurance reserves were USD 140,850 million and USD 130,073 million as of December 31, 2004 and 2003, respectively, after deducting the amount of reinsurance ceded to reinsurers.

14. Deferred policy acquisition costs

Table 14
Deferred policy acquisition costs
in USD millions

	General Insurance		Life Insurance		Other segments[1]		Total	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
As of January 1 (opening balance)	**2,022**	1,838	**2,839**	3,064	**135**	180	**4,996**	5,082
Acquisition costs deferred and transfers	**2,115**	2,040	**877**	660	**1**	6	**2,993**	2,706
Amortization charged to income	**(2,017)**	(1,829)	**(274)**	(393)	**(42)**	(87)	**(2,333)**	(2,309)
Amortization charged to shareholders' equity	**–**	–	**(85)**	(29)	**4**	9	**(81)**	(20)
Divestments	**(14)**	(1)	**(73)**	(690)	**(1)**	–	**(88)**	(691)
Increase/(decrease) due to currency translation	**105**	(26)	**169**	227	**(13)**	27	**261**	228
As of December 31 (closing balance)	**2,211**	2,022	**3,453**	2,839	**84**	135	**5,748**	4,996

[1] Including eliminations of intersegment transactions.

15. Fixed assets

Table 15
Fixed assets
in USD millions, as of December 31

	2004	2003
Land held for own use	**424**	438
Buildings held for own use	**1,496**	1,581
Furniture and fixtures	**330**	360
Computer equipment	**462**	542
Other fixed assets	**482**	474
Total cost before depreciation	**3,194**	3,395
Less: accumulated depreciation	**(1,362)**	(1,452)
Total	**1,832**	1,943
Activity during the years ended December 31		
Carrying value as of January 1 (opening balance)	**1,943**	1,902
Additions, capital improvements and transfers	**162**	206
Disposals and transfers	**(231)**	(151)
Depreciation	**(169)**	(267)
Foreign currency translation effects	**127**	253
Carrying value as of December 31 (closing balance)	**1,832**	1,943

The fire insurance value of the Zurich Insurance Group's own-use real estate, investment real estate and further fixed assets totaled USD 8,956 million and USD 10,505 million as of December 31, 2004 and 2003, respectively.

16. Goodwill and other intangible assets

Table 16
Intangible assets
in USD millions

	Goodwill		Present value of profits of acquired insurance contracts		Other intangible assets		Total	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
Carrying value as of January 1 (opening balance)	**621**	618	**390**	613	**421**	487	**1,432**	1,718
Additions and transfers	**47**	44	**–**	–	**114**	82	**161**	126
Disposals and transfers	**(30)**	(58)	**–**	(216)	**(20)**	(11)	**(50)**	(285)
Amortization	**(77)**	(81)	**(27)**	(70)	**(145)**	(154)	**(249)**	(305)
Foreign currency translation effects	**30**	98	**12**	63	**(5)**	17	**37**	178
Carrying value as of December 31 (closing balance)	**591**	621	**375**	390	**365**	421	**1,331**	1,432
Accumulated amortization as of December 31	**(512)**	(398)	**(56)**	(202)	**(699)**	(1,028)	**(1,267)**	(1,628)

17. Debt

Table 17.1
Debt
in USD millions, as of December 31

		2004	2003
a) Debt related to capital markets and banking activities			
Zurich Capital Markets	*Commercial paper, due in the following year*	**–**	2,113
	Notes and loans payable, due in the following year	**2,873**	2,855
	Notes and loans payable, due 2006–2014	**726**	546
	Notes and loans payable, due after 2014	**150**	150
Centre Solutions (Bermuda) Ltd.	Various debt instruments	**112**	161
Debt related to capital markets and banking activities		**3,861**	5,825
b) Senior debt			
Zurich Finance (USA), Inc.	2.75% CHF bond, due July 2006	**438**	403
	3.5% CHF bond, due July 2008	**263**	242
	4.5% EUR bond, due September 2014	**1,342**	–
Zurich International (Bermuda) Ltd.	Zero coupon CHF exchangeable bond, due July 2004	**–**	427
BG Investments Limited	5.106% EUR loan, due June 2010 with Zurich Financial Services (Jersey) Ltd.	**73**	68
	USD short-term loans with Farmers Group, Inc.'s subsidiaries	**300**	–
Kemper Corporation	Various debt instruments, due in 2009	**27**	27
Zurich Holding Company of America, Inc.[1]	USD long-term loan with Zurich Group Holding, due December 2013	**524**	–
Zurich Insurance Company	3.875% CHF bond, due July 2011	**880**	807
	Various borrowings and notes	**99**	94
Zurich Insurance Company[1]	CHF short-term loan with Zurich Financial Services	**89**	1,108
	CHF short-term loan with Zurich Group Holding	**50**	182
	GBP short-term loan with Allied Zurich p.l.c.	**–**	50
	Various short-term loans	**5**	7
SMM No. 2 Co. Ltd.[1]	GBP notes, due June 2007	**422**	393
ZSLM Trust 2000-A[1]	USD notes, due December 2007	**160**	160
Mount Evans Funding 1 LLC, Delaware[1]	USD notes, due December 2031	**100**	100
Mount Evans Funding 2 LLC, Delaware[1]	USD notes, due December 2031	**100**	100
Other	Various debt instruments	**289**	289
Senior debt		**5,161**	4,457
c) Subordinated debt			
Eagle Star Insurance Company Limited[1]	GBP short-term loan with Zurich Assurance Limited	**–**	170
Zurich Capital Trust I	8.376% USD Capital Securities, due June 2037	**1,000**	1,000
Zurich Finance (USA), Inc.	5.75% EUR bond, due October 2023	**668**	620
Zurich Insurance Company[1]	CHF long-term loan with Zurich Financial Services, due June 2033	**3,508**	3,229
Subordinated debt		**5,176**	5,019
Total senior and subordinated debt		**10,337**	9,476
Total debt		**14,198**	15,301

[1] With other subsidiaries of Zurich Financial Services ("intra-group Zurich Financial Services").

(a) Debt related to capital markets and banking activities
In 2003 a framework agreement was signed with BNP Paribas for the transfer of certain derivative transactions, credit facilities and related assets by Zurich Capital Markets ("ZCM") to BNP Paribas. As of December 31, 2004, these transfers were completed and this contributed to a reduction of ZCM's debt compared to December 31, 2003. In March 2004, all Commercial Paper outstanding under ZCM Matched Funding Corp.'s USD 2.5 billion US Commercial Paper Program matured and were fully repaid. As the program was not renewed, there were no amounts as of December 31, 2004.

As of December 31, 2004, the major part of ZCM's debt comprised a number of structured notes, most of which carried floating rate coupons. The remainder consisted of fixed rate deposits with Zurich Bank.

(b) Senior debt

The Zurich Insurance Group has a Euro Medium Term Note Programme (EMTN Programme) which allows for the issuance of up to USD 4 billion of senior and subordinated notes. Issuing entities under the EMTN Programme include Zurich Finance (USA), Inc.

On September 17, 2004, Zurich Finance (USA), Inc. issued EUR 1 billion of 4.5% notes, due September 2014. The notes were issued under the EMTN Programme and are guaranteed by Zurich Insurance Company.

The zero coupon CHF 539 million exchangeable bond issued by Zurich International (Bermuda) Ltd. which was exchangeable into 4,800,000 registered shares of UBS AG and guaranteed by Zurich Insurance Company was due and repaid in July 2004. No exchange options were exercised over the whole term of the bond issue.

(c) Subordinated debt

On the transfer of the ownership of Eagle Star Insurance Company Limited ("ESI") to the Zurich Insurance Group in 2004, an intra-Zurich Financial Services-group loan of GBP 95 million between ESI and Zurich Assurance Limited was repaid.

The USD 1,000 million Capital Securities, issued by Zurich Capital Trust I, a wholly-owned subsidiary of Zurich Holding Company of America, will mature in 2037. The Zurich Insurance Group has the option at any time on or after June 1, 2007 to redeem the securities in whole or in part at a price of 104.188%, decreasing each year to a price of 100% on June 1, 2017.

The 5.75% EUR 500 million bond, maturing in 2023, is callable in 2013.

In 2003 Zurich Financial Services has granted a CHF 4 billion long-term and deeply subordinated loan to Zurich Insurance Company, the redemption of which is directly linked to the borrower's accumulation of retained earnings.

Table 17.2

Maturity schedule of outstanding debt

in USD millions	2004
2005	**3,445**
2006	**763**
2007	**1,082**
2008	**268**
after 2008	**8,640**
Total	**14,198**

Table 17.3

Interest expense on debt

in USD millions, for the years ended December 31	2004	2003
Debt related to capital markets and banking activities	**87**	147
Senior debt	**217**	163
Subordinated debt	**257**	213
Total	**561**	523

Loan facilities

On April 21, 2004, a USD 3 billion syndicated revolving credit facility was signed to replace the USD 1.5 billion facility, which was due to mature on May 28, 2004. The credit facility consists of two equal tranches maturing in 2007 and 2009. Zurich Group Holding, together with Zurich Insurance Company and Farmers Group, Inc. are guarantors of the facility and can draw up to USD 1.25 billion, USD 1.5 billion and USD 250 million, respectively. No borrowings were outstanding as of December 31, 2004.

Zurich Capital Markets' USD 1.27 billion syndicated revolving credit facility which was in place as of December 31, 2003 as a backstop for the USD 2.5 billion Commercial Paper Program mentioned above, was terminated as per March 12, 2004.

18. Other liabilities

Table 18
Other liabilities
in USD millions, as of December 31

	2004	2003
Amounts due to reinsurers, agents and other insurance companies	**3,089**	3,150
Amounts due to life policyholders	**256**	191
Other payables	**3,733**	6,080
Tax payables	**1,476**	840
Derivative trading liabilities	**1,264**	2,413
Deferred income and other liabilities	**1,620**	1,433
Total	**11,438**	14,107

19. Minority interests

Table 19
Minority interests
in USD millions, as of December 31

	2004	2003
Preferred securities	**–**	12
Other	**553**	699
Total	**553**	711

Minority interests include third-party equity interests, preferred securities and similar instruments issued by consolidated subsidiaries of the Zurich Insurance Group in connection with providing structured financial solutions to its customers.

As of December 31, 2004 and 2003, minority interests in Zurich Capital Markets ("ZCM") totaled USD nil million and USD 212 million, respectively. These minority interests primarily represented third-party equity interests in consolidated alternative investment vehicles arising from ZCM's managed asset business.

20. Shareholders' equity

Table 20
Common and treasury stock
number of shares, as of December 31

	2004	2003
Contingent and issued common stock, CHF 10 nominal value	**86,000,000**	86,000,000
Issued common stock, CHF 10 nominal value	**82,500,000**	82,500,000
Issued income shares (Genussscheine)[1]	**2**	2

[1] These income shares confer on their holder the right to receive a dividend if and to the extent the General Meeting decides. However, they do not confer on their holder any voting rights or rights associated thereto, any rights to subscribe for new shares, or any rights to liquidation proceeds.

(a) Issued stock
As of December 31, 2004 and 2003, Zurich Insurance Company had 82.5 million shares of CHF 10 nominal value common stock issued and fully paid and two income shares (Genussscheine) in the name of Zurich Financial Services.

(b) Contingent stock
At the General Meeting of Shareholders on June 11, 1997, a contingent capital of CHF 35 million, or 3.5 million shares, was created, of which 2.5 million shares can be issued in connection with the granting of conversion and/or option rights and 1 million shares can be issued for the purpose of employees' share ownership plans. None of the contingent shares have been issued as of December 31, 2004.

(c) Dividend restrictions and capital and solvency requirements
Zurich Insurance Company is subject to legal restrictions on the amount of dividends it may pay to its shareholders under the Swiss Code of Obligations. The Swiss Code of Obligations provides that 5% of the annual profit must be allocated to the general legal reserve until such reserve in the aggregate has reached 20% of the paid-in share capital.

Other than by operation of the restrictions mentioned above, the ability of Zurich Insurance Company and its subsidiaries to pay dividends may be restricted or, while dividend payments per se may be legally permitted, may be indirectly influenced by minimum capital and solvency requirements that are imposed by insurance, bank and other regulators in the countries in which the subsidiaries operate as well as by other limitations existing in certain of these countries (e.g. foreign exchange control restrictions).

Zurich Insurance Company and certain of its subsidiaries are subject to the net capital requirements of their respective regulatory agencies.

As of December 31, 2004 and 2003, Zurich Insurance Company and its subsidiaries were substantially in compliance with all applicable regulatory capital adequacy requirements.

21. Employee benefits

The Zurich Insurance Group had 42,531 and 44,782 employees (full time equivalents) as of December 31, 2004 and 2003, respectively. Personnel and other related costs incurred for 2004 and 2003 were USD 3,524 million and USD 3,578 million, respectively.

The Zurich Insurance Group operates a number of active retirement benefit arrangements for pensions. The majority of employees belong to defined benefit plans. Other employees participate in defined contribution plans providing benefits equal solely to contributions paid plus investment returns.

The Zurich Insurance Group also operates post-employment plans, which provide employees with certain defined post-employment benefits other than pensions; the major plans are in the United States.

The summary of the status of the defined benefit plans and other defined post-employment benefits is given below.

(a) Defined benefit plans

Defined benefit pension plans: Employees of the Zurich Insurance Group's operating companies are covered under various pension plans. Certain companies run defined benefit plans, some of which provide benefits related to final pensionable earnings and others provide cash balance plans, where the participants receive the benefit of annual contributions and a credit for the investment return achieved on the assets. Eligibility for participation in the various plans is either based on completion of a specified period of continuous service or date of hire. Benefits are generally based on the employees' years of credited service and average compensation in the years preceding retirement. Annual funding requirements are determined based on actuarial cost methods.

Most of the Zurich Insurance Group's defined benefit plans are funded through the Zurich Insurance Group making contributions to trusts or foundations independent of the Zurich Insurance Group's finances. In these cases, the annual funding requirements are determined in accordance with local funding and actuarial cost methods. Where plans are not specifically funded, for example, as is usual in the case of pension plans in Germany, a liability for the accrued pension obligations is recognized in the Zurich Insurance Group's balance sheet.

Other defined post-employment benefits: Certain of the Zurich Insurance Group's operating companies provide a post-employment benefit program for medical care and life insurance. Eligibility in the various plans is generally based on completing a specified period of eligible service and reaching a specified age. The programs pay a stated percentage of medical expenses reduced by deductibles and other coverage. The cost of post-employment benefits is accrued during the employees' service period. The method of accounting and the frequency of valuations are similar to those for defined benefit pension plans.

Table 21.1
Weighted average assumptions used in determining the actuarial liabilities
as of December 31

	Defined benefit pension plans		**Other defined post-employment benefits**	
	2004	2003	**2004**	2003
Discount rate	**5.0%**	5.0%	**5.4%**	5.6%
Expected long-term rate of return on assets	**5.7%**	5.7%	**5.0%**	5.8%
Future salary increases	**3.6%**	3.5%	**3.5%**	4.1%
Future pension increases	**2.1%**	1.7%	**–**	–
Increase in long-term health cost	**–**	–	**9.2%**	9.1%

Table 21.2
Status of funded defined benefit plans
in USD millions, as of December 31

	Defined benefit pension plans		**Other defined post-employment benefits**	
	2004	2003	**2004**	2003
Present value of obligations	**(8,091)**	(6,787)	**(104)**	(108)
Fair value of plan assets	**6,506**	5,711	**17**	22
Funded status	**(1,585)**	(1,076)	**(87)**	(86)
Unrecognized net actuarial losses	**1,525**	1,096	**20**	27
Asset/(liability) as of December 31	**(60)**	20	**(67)**	(59)

The funded status discloses the balance of pension plan assets at current fair values less the pension liability at current conditions. Pensions, however, are long-term by nature. Short-term variations between long-term actuarial assumptions and actual experience may be positive or negative, i.e. resulting in actuarial gains or losses. In principle, such actuarial gains or losses are not recognized under IAS19 as it is expected that such actuarial gains and losses will equalize over time. Only unrecognized actuarial gains or losses exceeding certain "corridors" as defined in IAS19 are amortized through the operating statement (see table 21.4 below, "Net actuarial losses recognized in year").

Table 21.3
Status of unfunded defined benefit plans
in USD millions, as of December 31

	Defined benefit pension plans		Other defined post-employment benefits	
	2004	2003	**2004**	2003
Present value of obligations	**(853)**	(717)	**(93)**	(78)
Unrecognized net actuarial losses	**45**	(27)	**14**	13
Unrecognized prior service cost	**–**	–	**(1)**	(2)
Liability as of December 31	**(808)**	(744)	**(80)**	(67)

The summary of the amounts recognized in the consolidated operating statements is given below.

Table 21.4
Components of net periodic expenses
in USD millions, for the years ended December 31

	Defined benefit pension plans		Other defined post-employment benefits	
	2004	2003	**2004**	2003
Current service cost	**(262)**	(252)	**(5)**	(5)
Interest cost	**(343)**	(303)	**(10)**	(12)
Expected return on plan assets	**290**	255	**1**	1
Net actuarial losses recognized in year	**(55)**	(77)	**(2)**	(2)
Past service cost	**(3)**	(1)	**–**	(2)
Gains on curtailment or settlement	**17**	15	**–**	–
Net periodic pension expense	**(356)**	(363)	**(16)**	(20)

The actual returns on defined benefit pension plan assets for the years ended December 31, 2004 and 2003 were USD 377 million and USD 473 million, respectively. The actual returns on other defined post-employment plan assets were USD nil million and USD 1 million for the years ended December 31, 2004 and 2003, respectively.

The summary of the balance sheet movements in relation to defined benefit plans and other defined post-employment benefits is given below.

Table 21.5
Summary of balance sheet movements
in USD millions

	Defined benefit pension plans		Other defined post-employment benefits	
	2004	2003	**2004**	2003
Liability as of January 1 (opening balance)	**(724)**	(533)	**(126)**	(123)
Current year expense	**(356)**	(363)	**(16)**	(20)
Contributions paid	**261**	289	**1**	4
Divestments	**8**	1	**–**	13
Foreign currency translation effects	**(57)**	(118)	**(6)**	–
Liability in the consolidated balance sheets as of December 31 (closing balance)	**(868)**	(724)	**(147)**	(126)

(b) Defined contribution pension plans
Certain of the Zurich Insurance Group's operating companies sponsor various defined contribution plans. Eligibility for participation in the various plans is either based on completion of a specified period of continuous service or date of hire. The plans provide for voluntary contributions by employees and contributions by employer which typically range from 6% to 13% of annual salaries, depending on the employees' years of service. The Zurich Insurance Group's contributions under these plans amounted to USD 13 million and USD 12 million in 2004 and 2003, respectively.

22. Share-based compensation and cash incentive plans

Employees of the Zurich Insurance Group participate in various share compensation and incentive plans sponsored by Zurich Financial Services. Zurich Financial Services allocates the costs arising from these plans to its subsidiaries, including those in the Zurich Insurance Group. For the years ended December 31, 2004 and 2003 total costs charged to the operating statements were USD 209 million and USD 189 million, respectively (of which share and option based compensation USD 45 million and USD 46 million, respectively).

(a) Share-based compensation plans for employees
The Zurich Insurance Group encourages employees to own shares of Zurich Financial Services and has set up a framework based on the implementation of either share options and/or performance share programs. Actual plans are tailored to meet local market requirements.

The explanations below give a more detailed overview of the plans of the Zurich Insurance Group.

Share option plans for UK employees

UK Sharesave Plan: The plan is open to employees in the United Kingdom. Participants enter into a savings contract with a bank for the accumulation of contributions of between GBP 5 and GBP 250 per month for a period of three or five years. An interest bonus is credited at the end of the savings period. Participants are granted options to acquire Zurich Financial Services shares at a pre-determined price, which is not less than 80% of the market price prior to grant. Options under the plan can normally be exercised for a period of six months after the end of the savings period. Early exercise, limited to the value of shares that can be acquired with accrued savings, is permitted in certain circumstances.

Employee share plans

Share Incentive Plan for employees in the UK: In June 2003, the Zurich Insurance Group established an Inland Revenue approved Share Incentive Plan and launched the partnership shares element of this plan. This plan enabled participating employees to make monthly purchases of Zurich Financial Services shares at the ruling market price out of their gross earnings. The Zurich Insurance Group also launched reward shares, the profit-sharing element of the Share Incentive Plan in March 2004 with share allocations being made in May 2004. The awards were based on the performance of the participating employee's business units for the year, subject to a maximum award of 5% of participant's base salary (before any flexible benefit adjustments) or GBP 3,000.

Share Incentive Plans for employees in Switzerland: In 2004, a new Employee Incentive Plan was introduced for employees in Switzerland that combined the features of the annual cash-based incentive plan and the previous employee performance share plan. Under this new plan employees who receive an incentive payment under the Employee Incentive Plan have the option to acquire sales-restricted shares at a 30% discount on the market value, with the maximum value of the discount being CHF 1,500.

(b) Share based compensation plans for executives

The Zurich Insurance Group operates long-term incentive plans for selected executives. These plans comprise the allocation of a target number of share options grants and/or shares grants with the vesting of these option/share grants being subject to the achievement of specific financial performance goals. The Zurich Insurance Group can also make Restricted Share grants to selected employees, which provide share awards if the individual remains employed with the Zurich Insurance Group on selected dates in the future.

Senior executive Zurich Financial Services Group long-term incentive plans

Senior Executives are granted annually performance options and performance shares which vest on an annual basis over the subsequent three year period. The actual level of vesting, which can be between 0% and 150% of the original number granted, depends on the performance of the Zurich Financial Services Group during the previous calendar year. The current performance metrics are the Zurich Financial Services Group's return on equity (ROE) and the positioning of the Zurich Financial Services Group's total shareholder return against an international peer group of insurance companies. One-half of the shares that actually vest are sales-restricted/deferred for a further period of three years. The options have a seven-year term from the date of grant. Grants under the plan are made annually on April 3. The actual number of performance options and performance shares granted is determined such that the economic value is a defined percentage of the annual salary in the year of allocation.

Executive long-term performance share plans

Selected executives are granted annually performance shares which vest over a period of three years, either on an annual basis or at the end of the three-year period. Specific performance parameters are established for each of the business divisions and include, for example, return on equity or business operating profit objectives. The actual number of performance shares granted at the beginning of the performance period is determined such that the economic value is defined percentage of the annual salary in the year of allocation. Actual awards under these plans are made fully in shares of Zurich Financial Services, of which 50% are sales-restricted/deferred for a further period of three years.

(c) Additional information

The shares and options granted during the period are the target allocations made under the performance option and the performance share plans together with any restricted share awards granted during the year. Whether these grants become vested or not will depend upon whether the performance achievements are met and the expense is then adjusted accordingly.

The fair value of the options granted to senior executives is estimated using the Black-Scholes option pricing model, with the following assumptions.

Table 22

Black-Scholes assumptions	**2004**	2003
Share price	**CHF 213.25**	CHF 120.50
Exercise price	**CHF 213.25**	CHF 120.50
Implied volatility	**31.75%**	41.00%
Risk-free interest rate	**2.47%**	2.34%
Expected dividend rate	**1.50%**	1.50%
Contracted option life	**7 years**	7 years

The risk-free interest rate was determined by using the seven year CHF swap rate for 2004 and 2003, respectively. The fair value of any other share options granted during the year has been determined using the same methodology.

More details regarding these plans are disclosed in the notes to the consolidated financial statements 2004 of Zurich Financial Services Group.

23. Related party transactions

The Zurich Insurance Group is controlled by Zurich Group Holding which in turn is controlled by Zurich Financial Services, the ultimate parent holding company of the Zurich Insurance Group, all of which are incorporated in Switzerland. In the normal course of business, the Zurich Insurance Group enters into various transactions with related companies, including various reinsurance and cost-sharing arrangements. These transactions are not considered material to the Zurich Insurance Group, either individually or in the aggregate. In addition, income generated by associate entities which function as investment vehicles of the Zurich Insurance Group is shown in the table below as net investment income. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions. The table below sets forth related party transactions reflected in the consolidated balance sheets and consolidated operating statements.

Table 23
Related party transactions
in USD millions

	2004	2003
Consolidated operating statements for the years ended December 31		
Net earned premiums and policy fees	**7**	1
Net investment income	**105**	100
Other income/(expense)	**(9)**	12
Losses and loss adjustment expenses	**(11)**	(7)
Consolidated balance sheets as of December 31		
Policyholders' collateral and other loans	**23**	32
Reinsurance assets	**1**	4
Other receivables	**2**	11
Reserves for losses and loss adjustment expenses	**(4)**	(4)

For debt from other subsidiaries of Zurich Financial Services ("intra-group Zurich Financial Services") please refer to note 17.

No outstanding loans or guarantees were granted to directors of Zurich Insurance Company for either of the years ended December 31, 2004 and 2003, respectively. The term "directors" in this context includes the individual as well as members of their respective households. Remuneration paid to the members of the Board of Directors of Zurich Insurance Company in 2004 and 2003 was USD 0.7 million and USD 0.5 million, respectively.

24. Commitments and contingencies

The Zurich Insurance Group has provided guarantees or commitments to external parties, associates, partnerships and joint ventures. These arrangements include commitments under certain conditions to make liquidity advances to cover delinquent principal and interest payments, make capital contributions or provide equity financing.

Table 24.1
Quantifiable commitments and contingencies
in USD millions, as of December 31

	2004	2003
Commitments under investment agreements	**3,494**	3,500
Less funded	**(2,743)**	(2,347)
Remaining commitments under investment agreements	**751**	1,153
Guarantees[1], surety bonds, letters of credit	***3,896***	*3,424*
Future rent commitments	**1,275**	1,295
Undrawn loan commitments (capital markets and banking activities)	**236**	1,296
Other commitments and contingent liabilities	**271**	1,081

[1] Guarantee features embedded in life insurance products are not included. For such guarantee features refer to note 10, insurance reserves.

Commitments under investment agreements

The Zurich Insurance Group has committed to contribute capital to subsidiaries, associates and third parties that engage in making investments in direct private equity, private equity funds, emerging market funds and hedge funds. Included in the remaining commitments is USD 473 million to Capital Z Investments II, L.P. and USD 167 million to Capital Z Investments, L.P. Part of these commitments may be called at any time and in any amount, based on various criteria. The remaining commitments also include a minimum allocation for hedge fund investments.

Guarantees, surety bonds, letters of credit

The Zurich Insurance Group knows of no event of default that would require it to satisfy guarantees. Irrevocable letters of credit and surety bonds were issued to secure certain reinsurance contracts.

Future rent commitments

The Zurich Insurance Group has entered into various operating leases as lessee for office space and certain computer and other equipment. Rent expenses for these items totaled USD 136 million and USD 143 million for the years ended December 31, 2004 and 2003, respectively.

Table 24.2

Future payments under non-cancellable operating leases with terms in excess of one year

in USD millions	**Rental payments**
2005	157
2006	138
2007	127
2008	119
2009	108
2010 and thereafter	626
Total	**1,275**

The Zurich Insurance Group also leases its real estate held for investment to outside parties under operating leases.

Indemnity agreements

The Zurich Insurance Group, through certain of its subsidiaries, has agreed to arrangements that cap Converium's net exposure for losses arising out of the September 11, 2001 event at USD 289 million. Additionally, the Zurich Insurance Group has provided Converium with coverage for net losses in excess of USD 59 million, including non-performance of the retrocessionaire, related to Amerisafe business ceded to the Unicover pool. As of December 31, 2004, the Zurich Insurance Group has recorded provisions in respect of both arrangements of USD 162 million and USD 13 million, respectively.

Pledged assets

Total assets pledged including securities pledged in respect of securities repurchase agreements amounted to USD 1,725 million and USD 1,793 million as of December 31, 2004 and December 31, 2003, respectively. Assets pledged were financial assets.

Other contingent liabilities

The Zurich Insurance Group has received notices from various tax authorities asserting deficiencies in taxes for various years. The Zurich Insurance Group believes that it has meritorious legal defenses to those claims and believes that the ultimate outcome of the cases will not result in a material impact on the Zurich Insurance Group's consolidated results of operation or financial position.

In 2003, the Zurich Insurance Group completed the divestments of various asset management operations. As part of these agreements, the Zurich Insurance Group has guaranteed certain minimum levels of "assets under management" to the acquirers. The guarantees provide that if the "assets under management" fall below those defined levels under certain conditions, the Zurich Insurance Group may be required to compensate for these shortfalls. The compensation is limited to the considerations received and the Zurich Insurance Group does not believe any such compensation to be probable.

Litigation

The Zurich Insurance Group and its subsidiaries are continuously involved in legal proceedings, claims and litigation arising, for the most part, in the ordinary course of its business operations. The Zurich Insurance Group and its subsidiaries are also involved in a number of regulatory investigations. These investigations involve certain business practices between insurance brokers and insurance companies, the purchase and sale of "non-traditional" products, certain reinsurance transactions engaged in by the Zurich Insurance Group and its subsidiaries and other matters. The Zurich Insurance Group has been conducting its own internal reviews with respect to these matters and is cooperating fully in these investigations.

The outcome of such current legal proceedings, claims, litigation and investigations could have a material effect on operating results and/or cash flows when resolved in a future period. However, in the opinion of management these matters would not materially affect the Zurich Insurance Group's consolidated financial position.

25. Segment information

Table 25.1

Operating statements by business segment
in USD millions, for the years ended December 31

	General Insurance 2004	General Insurance 2003	Life Insurance 2004	Life Insurance 2003
Revenues				
Direct written premiums and policy fees	**32,419**	30,508	**8,097**	9,433
Assumed written premiums	**4,196**	4,727	**91**	50
Gross written premiums and policy fees	**36,615**	35,235	**8,188**	9,483
Less premiums ceded to reinsurers	**(7,433)**	(8,440)	**(283)**	(510)
Net written premiums and policy fees	**29,182**	26,795	**7,905**	8,973
Net change in reserves for unearned premiums	**(103)**	(648)	**3**	35
Net earned premiums and policy fees	**29,079**	26,147	**7,908**	9,008
Management fees	**–**	–	**17**	215
Net investment income	**2,359**	1,892	**2,937**	3,189
Net capital gains on investments and impairments	**82**	281	**201**	(229)
Net gain/(loss) on divestments of businesses	**(34)**	(89)	**33**	314
Other income	**518**	450	**533**	589
Total revenues	**32,004**	28,681	**11,629**	13,086
Intersegment transactions	**(408)**	(303)	**(247)**	43
Benefits, losses and expenses				
Losses and loss adjustment expenses, net of reinsurance	**22,716**	18,988	**88**	96
Life insurance death and other benefits, net of reinsurance	**118**	206	**10,526**	7,923
(Decrease)/increase in future life policyholders' benefits, net of reinsurance	**9**	8	**(2,158)**	1,478
Insurance benefits and losses, net of reinsurance	**22,843**	19,202	**8,456**	9,497
Policyholder dividends and participation in profits, net of reinsurance	**9**	11	**800**	188
Underwriting and policy acquisition costs, net of reinsurance	**5,010**	4,425	**651**	709
Administrative and other operating expenses	**2,533**	2,370	**611**	965
Amortization of intangible assets	**103**	100	**126**	136
Interest expense on debt	**138**	187	**7**	8
Interest credited to policyholders and other interest	**150**	118	**457**	633
Total benefits, losses and expenses	**30,786**	26,413	**11,108**	12,136
Net income/(loss) before income taxes and minority interests	**1,218**	2,268	**521**	950
Net income/(loss)	**1,242**	1,707	**384**	724
Supplementary segment information				
Losses and loss adjustment expenses paid, net	**16,153**	14,782	**92**	93
Purchases of fixed and intangible assets	**(81)**	(159)	**(117)**	(77)
Significant non-cash expenses:				
Depreciation and impairments of fixed assets	**99**	169	**32**	59
Amortization and impairments of intangible assets	**103**	100	**126**	136

Other Businesses		Corporate Center		Eliminations		Total	
2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
452	224	**16**	32	**19**	22	**41,003**	40,219
906	1,475	**661**	570	**(1,358)**	(1,371)	**4,496**	5,451
1,358	1,699	**677**	602	**(1,339)**	(1,349)	**45,499**	45,670
(183)	(202)	**(655)**	(578)	**1,339**	1,349	**(7,215)**	(8,381)
1,175	1,497	**22**	24	**–**	–	**38,284**	37,289
159	62	**1**	(7)	**–**	–	**60**	(558)
1,334	1,559	**23**	17	**–**	–	**38,344**	36,731
3	10	**11**	8	**(7)**	(9)	**24**	224
688	822	**554**	495	**(694)**	(605)	**5,844**	5,793
206	342	**124**	102	**–**	–	**613**	496
32	13	**52**	–	**–**	–	**83**	238
235	253	**693**	351	**(511)**	(238)	**1,468**	1,405
2,498	2,999	**1,457**	973	**(1,212)**	(852)	**46,376**	44,887
(383)	(444)	**(174)**	(148)	**1,212**	852	**–**	–
138	1,341	**30**	213	**(34)**	(119)	**22,938**	20,519
722	597	**28**	41	**8**	90	**11,402**	8,857
70	133	**(23)**	(72)	**5**	5	**(2,097)**	1,552
930	2,071	**35**	182	**(21)**	(24)	**32,243**	30,928
251	348	**–**	(175)	**–**	–	**1,060**	372
514	458	**7**	1	**–**	–	**6,182**	5,593
366	631	**723**	568	**(481)**	(207)	**3,752**	4,327
12	15	**8**	54	**–**	–	**249**	305
135	157	**814**	673	**(533)**	(502)	**561**	523
203	272	**33**	27	**(177)**	(119)	**666**	931
2,411	3,952	**1,620**	1,330	**(1,212)**	(852)	**44,713**	42,979
87	(953)	**(163)**	(357)	**–**	–	**1,663**	1,908
49	(1,067)	**(354)**	(381)	**–**	–	**1,321**	983
818	1,276	**(2)**	80	**(31)**	(118)	**17,030**	16,113
(4)	(16)	**(121)**	(80)	**–**	–	**(323)**	(332)
11	28	**27**	11	**–**	–	**169**	267
12	15	**8**	54	**–**	–	**249**	305

Table 25.2

Assets and liabilities by business segment
in USD millions, as of December 31

	General Insurance		Life Insurance	
	2004	2003	**2004**	2003
Total investments	**65,702**	55,231	**78,140**	75,440
Total assets after consolidation of investments in subsidiaries	**99,196**	88,537	**100,336**	96,387
Insurance reserves, gross	**68,042**	58,798	**79,673**	75,813
Total liabilities	**89,830**	80,647	**96,408**	92,533
Supplementary segment information				
Insurance reserves, net	**52,828**	43,240	**79,337**	75,453

Other Businesses		Corporate Center		Eliminations		Total	
2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
17,253	19,917	**16,937**	15,248	**(21,715)**	(18,847)	**156,317**	146,989
44,263	49,257	**19,683**	17,850	**(24,899)**	(24,161)	**238,579**	227,870
14,236	17,855	**1,391**	1,504	**(1,902)**	(3,437)	**161,440**	150,533
42,126	47,893	**25,644**	22,829	**(24,899)**	(24,161)	**229,109**	219,741
7,985	10,652	**753**	805	**(53)**	(77)	**140,850**	130,073

Table 25.3
Premiums, revenues and assets by geographical segment
in USD millions

	Gross written premiums and policy fees for the years ended December 31		Revenues for the years ended December 31		Assets as of December 31	
	2004	2003	**2004**	2003	**2004**	2003
North America Corporate	**15,709**	15,476	**11,530**	10,001	**43,589**	36,549
North America Consumer	**2,512**	3,060	**2,460**	2,975	**2,640**	2,467
Continental Europe	**18,278**	18,214	**20,847**	20,393	**120,986**	113,355
United Kingdom	**6,171**	6,114	**5,976**	5,720	**20,245**	19,453
Rest of the World	**2,766**	2,774	**2,283**	2,053	**9,475**	9,193
Centrally Managed Businesses	**2,508**	3,078	**3,948**	4,130	**57,184**	60,862
Eliminations	**(2,445)**	(3,046)	**(668)**	(385)	**(15,540)**	(14,009)
Total	**45,499**	45,670	**46,376**	44,887	**238,579**	227,870

Table 25.4
Purchases of fixed and intangible assets by geographical segment
in USD millions, for the years ended December 31

	Fixed assets		Intangible assets	
	2004	2003	**2004**	2003
North America Corporate	**10**	47	**44**	22
North America Consumer	**–**	3	**–**	–
Continental Europe	**25**	66	**83**	50
United Kingdom	**17**	38	**–**	–
Rest of the World	**13**	5	**11**	3
Centrally Managed Businesses	**97**	47	**23**	51
Total	**162**	206	**161**	126

26. Subsequent events

On April 4, 2005, Zurich Financial Services Group announced the signing of a stock purchase agreement for the sale of the wholly owned *Universal Underwriters Group to an investor group led by Hellman & Friedman LLC. The transaction is valued at approximately USD 1.1 billion* and expected to close in the third quarter of 2005, subject to regulatory approval. Universal Underwriters Group was part of the Zurich Insurance Group.

Significant subsidiaries

as of December 31, 2004

	Domicile	Segment[1]	Voting rights %	Ownership interest %	Book value of common stock (in local currency millions)	
Australia						
Zurich Australia Ltd.	Sydney	Life Insurance	100.00	100.00	AUD	10.0
Zurich Australian Insurance Limited	Sydney	General Insurance	100.00	100.00	AUD	97.1
Austria						
Zürich Versicherungs-Aktiengesellschaft	Vienna	General Insurance	99.98	99.98	EUR	12.0
Bermuda						
BG Investments Limited	Hamilton	Corporate Center	100.00	100.00	USD	0.3
Cayley Aviation Ltd.	Hamilton	Corporate Center	100.00	100.00	USD	0.01
Centre Group Holdings Limited	Hamilton	Other Businesses	100.00	100.00	USD	0.3
Centre Reinsurance Services (Bermuda) IV Limited	Hamilton	Corporate Center	100.00	100.00	USD	0.01
CMSH Limited	Hamilton	Corporate Center	100.00	100.00	USD	0.3
Lanner Re Limited	Hamilton	Corporate Center	10.00	100.00	USD	144.4
ZCM Holdings (Bermuda) Limited	Hamilton	Other Businesses	100.00	100.00	USD	158.9
ZG Investments Ltd.	Hamilton	Corporate Center	100.00	100.00	USD	0.01
ZG Investments II Ltd.	Hamilton	Corporate Center	100.00	100.00	USD	0.01
ZG Investments III Ltd.	*Hamilton*	*Corporate Center*	*100.00*	*100.00*	*USD*	*0.01*
ZG Investments IV Ltd.	Hamilton	Corporate Center	100.00	100.00	USD	0.01
Zurich Asia Holdings Ltd.	*Hamilton*	*Life Insurance*	*90.00*	*90.00*	*USD*	*21.1*
Zurich Finance (Bermuda) Ltd.	Hamilton	Corporate Center	100.00	100.00	USD	0.01
Zurich International (Bermuda) Ltd.	*Hamilton*	*Corporate Center*	100.00	100.00	USD	9.9
Canada						
Nova Scotia Company	Halifax	General Insurance	100.00	100.00	CAD	95.0
Zurich Canadian Holdings Limited	Toronto	General Insurance	100.00	100.00	CAD	130.3
Chile						
Chilena Consolidada Seguros de Vida S.A.	Santiago	Life Insurance	98.95	98.95	CLP	24,484.0
Inversiones Suizo Chilena S.A.	Santiago	Life Insurance	100.00	100.00	CLP	20,193.5
France						
Zurich International (France) Cie d'Assurances S.A.	Levallois-Perret	General Insurance	99.99	99.99	EUR	20.2
Germany						
BONNDATA Gesellschaft für Datenverarbeitung mbH	Bonn	Life Insurance	76.83	76.83	EUR	3.2
Bonnfinanz Aktiengesellschaft für Vermögensberatung und Vermittlung	Bonn	Life Insurance	76.83	76.83	EUR	0.6
BONNSECUR GmbH & Co. Liegenschaften Deutscher Herold KG	Bonn	Life Insurance	76.83	76.83	EUR	170.0
DA Deutsche Allgemeine Versicherung AG	*Oberursel*	*General Insurance*	*100.00*	*100.00*	EUR	24.5
Deutscher Herold Aktiengesellschaft	Bonn	Life Insurance	76.83	76.83	EUR	18.4
Deutscher Herold Allgemeine Versicherungs AG	*Bonn*	*General Insurance*	*76.83*	*76.83*	EUR	20.5
Deutscher Herold Lebensversicherungs AG	Bonn	Life Insurance	76.83	76.83	EUR	46.2
Patria Versicherung Aktiengesellschaft	Cologne	General Insurance	100.00	100.00	EUR	6.6
Zürich Beteiligungs-Aktiengesellschaft (Deutschland)	Frankfurt/Main	General Insurance	100.00	100.00	EUR	152.9
Zürich Lebensversicherung AG (Deutschland)	Frankfurt/Main	Life Insurance	100.00	100.00	EUR	13.4
Zürich Versicherung AG (Deutschland)	Frankfurt/Main	General Insurance	100.00	100.00	EUR	106.5
Zürich Vertriebs GmbH	Bonn	Life Insurance	76.83	76.83	EUR	1.0
Ireland						
Orange Stone Holdings	Dublin	Other Businesses	100.00	100.00	USD	1,609.3
Orange Stone Reinsurance	Dublin	Corporate Centre	100.00	100.00	USD	1,663.0
Italy						
Erbasei S.p.A.	Milan	General Insurance	100.00	100.00	EUR	40.0
Zurich International (Italia) S.p.A.	Milan	General Insurance	100.00	100.00	EUR	38.6
Zurich Investments Life S.p.A.	Milan	Life Insurance	100.00	100.00	EUR	34.0
Zurich Life Insurance Italia S.p.A.	Milan	Life Insurance	100.00	100.00	EUR	25.9

[1] The segments are defined in the Notes to the consolidated financial statements, note 1, basis of presentation.

	Domicile	Segment[1]	Voting rights %	Ownership interest %	Book value of common stock (in local currency millions)	
Mexico						
Zurich, Compañía de Seguros, S.A.	Mexico	General Insurance	99.88	99.88	MXN	272.2
Morocco						
Zurich Compagnie Marocaine d'Assurances	Casablanca	General Insurance	98.74	98.74	MAD	90.0
Portugal						
Zurich, Companhia de Seguros, S.A.	Lisbon	General Insurance	100.00	100.00	EUR	10.0
Zurich, Companhia de Seguros Vida, S.A.	Lisbon	Life Insurance	100.00	100.00	EUR	20.7
South Africa						
SA Fire House Limited	Bryanston	General Insurance	100.00	100.00	ZAR	0.0006
South African Eagle Insurance Company Limited	Bryanston	General Insurance	83.61	83.61	ZAR	3.0
Spain						
Zurich España, Compañía de Seguros y Reaseguros, S.A.	Barcelona	General Insurance	99.78	99.78	EUR	33.6
Zurich Vida, Compañía de Seguros y Reaseguros, S.A.	Madrid	Life Insurance	64.67	64.67	EUR	50.4
Switzerland						
Assuricum Company Limited	Zug	Corporate Center	100.00	100.00	CHF	610.0
La Genevoise, Compagnie d'Assurances sur la Vie	Geneva	Life Insurance	100.00	100.00	CHF	17.0
«Zürich» Finanz-Gesellschaft AG	Zug	Corporate Center	100.00	100.00	CHF	0.2
Zurich Life Insurance Company Limited	Zurich	Corporate Center	100.00	100.00	CHF	60.0
Taiwan						
Zurich Insurance (Taiwan) Ltd.	Taipei	General Insurance	91.68	91.68	TWD	2,000.0
United Kingdom						
Claims Management Group Limited	London, England	Corporate Center	100.00	100.00	GBP	3.5
Eagle Star Insurance Company Limited	Fareham, England	General Insurance	100.00	100.00	GBP	591.7
ZPC (Construction) Company Limited	Fareham, England	General Insurance	100.00	100.00	GBP	54.0
Zurich Holdings (UK) Limited	Fareham, England	Corporate Center	100.00	100.00	GBP	87.1
Zurich International (UK) Limited	Fareham, England	General Insurance	100.00	100.00	GBP	40.0
Zurich Invest (Jersey) Ltd.	Jersey, Channel Islands	General Insurance	100.00	100.00	GBP	0.1
Zurich Specialties London Limited	London, England	General Insurance	100.00	100.00	GBP	150.0
Zurich Whiteley Investment Trust Limited	Fareham, England	Other Businesses	100.00	100.00	GBP	10.2
United States of America						
Centre Reinsurance Holdings (Delaware) Limited	Wilmington, DE	Other Businesses	100.00	100.00	USD	0.0196
Crown Management Services Limited	Wilmington, DE	Corporate Center	100.00	100.00	USD	0.00003
Kemper Corporation	Schaumburg, IL	Corporate Center	100.00	100.00	USD	220.0
Kemper Investors Life Insurance Company	Mercer Island, WA	Other Businesses	100.00	100.00	USD	2.5
Universal Underwriters Insurance Company	Overland Park, KA	General Insurance	100.00	100.00	USD	15.0
Universal Underwriters Life Insurance Company	Overland Park, KA	General Insurance	100.00	100.00	USD	2.5
ZSFH LLC	Dover, DE	Corporate Center	100.00	100.00	USD	0.0
Zurich American Insurance Company (and subsidiaries)	Schaumburg, IL	General Insurance	100.00	100.00	USD	5.0
Zurich Finance (USA), Inc.	Schaumburg, IL	Corporate Center	100.00	100.00	USD	0.000001
Zurich Holding Company of America, Inc.	Dover, DE	Corporate Center	100.00	100.00	USD	0.6
Venezuela						
Zurich Seguros, S.A.	Caracas	General Insurance	68.79	68.79	VEB	5367.2

[1] The segments are defined in the Notes to the consolidated financial statements, note 1, basis of presentation.

Report of the group auditors to the General Meeting of Zurich Insurance Company, Zurich

As group auditors of the Zurich Insurance Company, we have audited the consolidated financial statements (operating statement, balance sheet, statement of cash flows, statement of shareholders' equity and notes on pages 5 to 48) of Zurich Insurance Company for the year ended December 31, 2004.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession and with International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the result of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

R Marshall W Eriksen-Grundbacher

Zurich, April 18, 2005

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Zurich Insurance Company

Board of Directors and auditors

Honorary Chairman
Fritz Gerber

Zurich Insurance Company's Board of Directors

		Expiration of current term of office
Lodewijk C. van Wachem, Chairman	Wassenaar, Netherlands	2005
Philippe Pidoux, Vice-Chairman	Lausanne, VD	2008
Thomas Escher	Uitikon, ZH	2007
Rosalind Gilmore	London, UK	2006
Dana Mead	Greenwich, USA	2008
Armin Meyer	Erlenbach, ZH	2005
Vernon Sankey	Farnham Common, UK	2006
Gerhard Schulmeyer	Greenwich, USA	2007
Rolf Watter	Thalwil, ZH	2006

Monica Mächler-Erne, Secretary to the Board of Directors

Auditors
PricewaterhouseCoopers AG

Highlights of the year's business operations

Summary

In 2004, Zurich Insurance Company ("ZIC") continued to streamline its operations by divesting peripheral businesses and consolidating separate units. The goal of our activities is to improve profitability while increasing and maintaining service excellence.

Specifically, ZIC completed the sale of both its Life and General Insurance operations in the personal and commercial segments in the Belgium and Luxembourg branch to P&V Assurances (P&V), a Belgian life and non-life insurer. Zurich continues to be active in Belgium and Luxembourg in the General Insurance corporate segment, serving its large commercial and corporate customers. This business is operated through Global Corporate in Europe. In France, ZIC completed the sale of the consumer and commercial business to Assicurazioni Generali SpA and the General Insurance corporate business operates also through Global Corporate in Europe.

In addition, ZIC merged the subsidiaries of Alpina Insurance Company Ltd. and Geneva General Insurance Company with its Swiss branch. Alpina was an all-lines insurer that offered overall advice and solutions for individuals and companies in all regions of Switzerland as well as in Belgium, Israel, Liechtenstein and The Netherlands. The subsidiary INZIC, whose focus consisted of buying and managing assets, especially holdings, was merged with Assuricum AG. The subsidiary Turegum Insurance Company has been sold to Harper Holding Sarl, a subsidiary of Castlewood Holdings Limited. Turegum's main business, which was placed in run-off in 1992, was reinsurance conducted out of the London branch. The transaction allows Zurich to reduce asbestos and environmental net reserves. Moreover, ZIC has divested its interest in Thai Zurich Insurance Company in the general insurance business in Thailand to Sri Brothers Co., Ltd and to Pailuck Co., Ltd. The Thai Zurich Insurance Company's name will change to reflect the change in ownership. In January 2004, ZIC acquired 100% of Eagle Star Insurance Company Limited ("Eagle Star") from Zurich Financial Services. The subsidiary Eagle Star is now held by the UK branch.

Our sharp focus on the core insurance business coupled with financial discipline contributed to a doubling of the annual net income to CHF 1,048 million in 2004 compared with CHF 524 million in 2003. The combined ratio improved from 101% to 97% in 2004.

Key figures
in CHF millions

	2004	2003
Gross written premiums and policy fees	**23,565**	22,835
Net written premiums and policy fees	**19,645**	18,770
Net earned premiums and policy fees	**19,631**	18,388
Insurance benefits and losses, net of reinsurance	**(13,704)**	(13,570)
Underwriting and policy acquisition costs, net of reinsurance	**(3,818)**	(4,064)
Underwriting result, net	**614**	(510)
Net investment income	**2,270**	2,125
Net income	**1,048**	524
Total investments	**55,473**	50,249
Total insurance reserves, net	**32,318**	30,690
Total shareholders' equity (after proposed appropriation of available earnings)	**7,322**	6,274

Gross written premiums

Although ZIC divested parts of its General Insurance business in the consumer and commercial segments, gross written premiums and policy fees in Swiss francs slightly increased by 3% from CHF 22.8 billion in 2003 to CHF 23.6 billion in 2004. In local currency terms, gross written premiums and policy fees grew by 5%.

In 2004, total direct business showed growth of 5% and assumed business decreased by 2%.

Net income

The net income improved by CHF 524 million, or 100%, to CHF 1,048 million in 2004 compared to 2003. Underwriting and policy acquisition costs decreased by 6%, the loss ratio improved by 3 percentage points to 72% in 2004 compared to 75% in the previous year. The expense ratio improved slighty by 1 percentage point to 25% from 26% in the prior year.

Total insurance reserves, net, grew by 5% from CHF 30.7 billion for 2003 to CHF 32.3 billion for the current year.

Investment income

Total investment income grew by CHF 145 million, or 7%, from CHF 2,125 in 2003 to CHF 2,270 million in 2004. Income from debt securities grew by 19% to CHF 1,400 million. Income generated from equity securities was CHF 333 million for 2004 and CHF 474 million in the previous year. Dividend income from common stocks of subsidiaries accounts for CHF 202 million of the increase within equity securities.

Realized capital gains decreased by 40% to CHF 979 million in 2004 compared to CHF 1,645 in 2003. On the other hand, realized capital losses declined by 51% to CHF 631 million in 2004 compared with CHF 1,289 million in 2003 and write-downs increased from CHF 155 million in 2003 to CHF 841 million in 2004 mainly due to adjustments of subsidiaries.

Foreign currency gains amounted to CHF 245 million in 2004 compared to CHF 324 million in 2003. The Swiss franc remained stable compared to the euro but strengthened against the US dollar.

Operating statements

in CHF millions, for the years ended 31 December

	Notes	2004	2003
Revenues			
Gross written premiums and policy fees		**23,565**	22,835
Less premiums ceded to reinsurers		**(3,920)**	(4,065)
Net written premiums and policy fees		**19,645**	18,770
Net change in reserves for unearned premiums		**(14)**	(382)
Net earned premiums and policy fees		**19,631**	18,388
Net investment income	4	**2,270**	2,125
Net realized capital gains/(losses) on investments and write-downs	5	**(493)**	201
Other income		**526**	191
Total revenues		**21,934**	20,905
Benefits, losses and expenses			
Insurance benefits and losses, net of reinsurance	6	**(13,704)**	(13,570)
Policyholder dividends and participation in profits, net of reinsurance		**(357)**	(366)
Underwriting and policy acquisition costs, net of reinsurance		**(3,818)**	(4,064)
Administrative expense		**(1,138)**	(898)
Other expense		**(455)**	(415)
Interest expense		**(977)**	(896)
Total benefits, losses and expenses		**(20,449)**	(20,209)
Net income before taxes		**1,485**	696
Taxes		**(437)**	(172)
Net income		**1,048**	524

The notes to the financial statements are an integral part of these financial statements.

Balance sheets

in CHF millions, as of 31 December

Assets	Notes	2004	2003
Investments			
Debt securities		**23,556**	20,857
Equity securities		**1,191**	1,267
Investments in subsidiaries and associates	7	**19,964**	18,007
Real estate		**1,285**	1,220
Short-term investments		**139**	138
Mortgage loans		**650**	443
Other investments		**965**	316
Cash and cash equivalents		**7,723**	8,001
Total investments		**55,473**	50,249
Other assets			
Receivables from agents and outstanding premiums		**2,126**	2,211
Receivables from insurance and reinsurance companies		**1,826**	2,094
Other receivables		**35**	529
Deposits made under assumed reinsurance contracts		**4,529**	4,974
Fixed assets	8	**169**	160
Intangible assets	9	**625**	700
Accrued assets		**986**	769
Total other assets		**10,296**	11,437
Total assets		**65,769**	61,686

The notes to the financial statements are an integral part of these financial statements.

Liabilities and shareholders' equity	*Notes*	***2004***	*2003*
Insurance reserves, net			
Reserve for losses and loss adjustement expenses, net		**23,636**	21,936
Reserves for unearned premiums, net		**5,555**	5,717
Reserve for premium refunds		**3,127**	3,037
Total insurance reserves, net		**32,318**	30,690
Short-term liabilities			
Bank overdrafts		**2,071**	1,956
Prepaid premiums and other creditors		**1,535**	1,051
Amounts due to reinsurance and other insurance companies		**1,408**	1,545
Deposits received under ceded reinsurance contracts		**4,057**	1,940
Other short-term liabilities		**9,914**	10,749
Accrued liabilities		**1,716**	1,499
Total short-term liabilities		**20,701**	18,740
Long-term liabilities			
Bonds	10	**1,000**	1,000
Subordinated debt	10	**4,000**	4,000
Provisions	11	**428**	982
Total long-term liabilities		**5,428**	5,982
Total liabilities		**58,447**	55,412
Shareholders' equity	12		
Common stock (fully paid)		**825**	825
Income shares		**0**	0
General legal reserve		**485**	485
General free reserve		**6,372**	6,372
Accumulated deficit:			
Beginning of year		**(1,408)**	(1,932)
Net income		**1,048**	524
Accumulated deficit, end of year		**(360)**	(1,408)
Total shareholders' equity		**7,322**	6,274
Total liabilities and shareholders' equity		**65,769**	61,686

The notes to the financial statements are an integral part of these financial statements.

Notes to the financial statements

1. Basis of preparation

Zurich Insurance Company ("ZIC") presents its financial statements in accordance with Swiss law. The reporting currency for ZIC is the Swiss franc.

2. Summary of significant accounting policies

(a) Investments

- **Equity securities** are carried at the lower of cost or market value, i.e. at acquisition cost or market price if the latter is lower at the end of the financial year. The lower valuation basis is maintained until the securities are sold or redeemed, so that there are no write-ups due to higher stock market prices.
- **Investments in subsidiaries and associates** are shown in the balance sheet at acquisition cost less write-downs.
- **Real estate held for investments and held for own use** are carried at local statutory values that are valid in the country of origin.
- **Short-term investments, loans and mortgage loans** are valued at a maximum of their nominal value. The item "short-term investments" includes time deposits as well as money-market securities, and investments with terms over three months up to one year.
- **Capital gains/(losses) on investments** occur when the sale price or redemption value is higher/(lower) than the balance sheet value. The size of these gains is determined by acquisition and sale prices, and by the extent of write-downs on these investments since purchase. Hence, some of the gains represent recovered write-downs from previous years.
- **Write-downs on investments** are necessary when the market prices at the end of the financial year are lower than the acquisition prices or the balance sheet values of the previous year.

(b) Deposits made under assumed reinsurance contracts
The reinsurance deposits consist of funds deposited with primary insurers to guarantee contractual liabilities in the area of assumed reinsurance.

(c) Accrued assets
This amount relates primarily to interest income, which is due but not yet received at year-end, and other prepaid expenses.

(d) Reserve for losses and loss adjustment expenses
This reserve relates to losses incurred, but not yet settled by the end of the financial year. Sums to be set aside are calculated according to business principles, taking into account information available at the end of the financial year. The estimation of loss reserves which have not yet been reported is made with particular reference to the experience of the previous years.

(e) Reserve for unearned premiums
In many insurance contracts, the insurance period for which the insurance company assumes a risk against a premium paid in advance does not correspond to the company's financial year. Premium paid will not be fully earned in the financial year if the insurance period extends beyond year-end. Thus, an amount equivalent to the unearned premium is set up as a reserve at the end of the financial year. Calculation of reserves for unearned premiums is based on formulas approved by the Swiss Federal Office of Private Insurance (FOPI).

3. Exchange rates

Assets and liabilities in foreign currencies arising from foreign currency transactions are converted at year-end exchange rates. Revenues and expenses are translated using the exchange rate at the date of the transaction or at a weighted average rate. Unrealized exchange rate losses are recorded in the operating statements and unrealized gains are deferred until realized.

The table below summarizes the principal exchange rates which have been used for translation purposes (CHF per 100 foreign currency unit).

		Balance sheet		Operating statement	
Principal exchange rates		**2004**	2003	**2004**	2003
CAD	Canadian dollar	**94.88**	95.51	**95.52**	96.31
EUR	Euro	**154.57**	156.01	**154.30**	152.21
GBP	UK pound sterling	**218.75**	221.23	**227.33**	219.77
USD	US dollar	**114.03**	123.89	**124.03**	134.31

4. Net investment income

The investment income shown in the operating statements is categorized in the table below.

in CHF millions	**2004**	2003
Debt securities	**1,400**	1,175
Equity securities	**333**	474
Real estate	**84**	95
Mortgage loans	**17**	15
Short-term investments	**65**	47
Other	**371**	319
Total as per operating statement	**2,270**	2'125

5. Net realized capital gains/(losses) on investments and write-downs

The table below shows the movements of realized capital gains and losses on investments as well as revaluations (write-downs on investments) by investment categories.

	Realized gains		**Realized losses**		**Write-downs**		**Totals**	
in CHF millions	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
Debt securities	**130**	157	**(81)**	(47)	**0**	0	**49**	110
Equity securities	**87**	324	**(116)**	(209)	**0**	(148)	**(29)**	(33)
Investments in subsidiaries and associates	**232**	866	**(426)**	(634)	**(756)**	0	**(950)**	232
Real estate	**83**	205	**0**	(2)	**(85)**	(1)	**(2)**	202
Mortgage loans	**0**	0	**0**	0	**0**	(6)	**0**	(6)
Other investments	**447**	93	**(8)**	(397)	**0**	0	**439**	(304)
Total	**979**	1,645	**(631)**	(1,289)	**(841)**	(155)	**(493)**	201

6. Insurance benefits and losses

in CHF millions	**2004**	2003
Loss payments, annuities and claims handling expenses, gross	**(13,217)**	(12,234)
Reinsurers' share	**2,106**	2,588
Loss payments, annuities and claims handling expenses, net	**(11,111)**	(9,646)
Change in reserves for losses and loss adjustment expenses, net	**(2,592)**	(3,924)
Total insurance benefits and losses, net of reinsurance	**(13,704)**	(13,570)

7. Investments in subsidiaries and associates

A list of significant subsidiaries can be found on page 47.

8. Fixed assets

Tangible fixed assets amount to CHF 169 million in 2004 compared to CHF 160 million in 2003. Write-downs increased by CHF 58 million to CHF 126 million in 2004, compared to CHF 67 million in 2003.

9. Intangible assets

Intangible assets equal CHF 625 million for the current business year and include brand names, patents, trademarks etc. They result mainly from the merger with Zurich IP AG. In 2003, intangible assets amounted to CHF 700 million.

10. Debt

(a) Bonds
In 2001, Zurich Insurance Company issued a 3.875% CHF 1 billion bond maturing in 2011.

(b) Subordinated debt
In 2003, Zurich Financial Services granted a CHF 4 billion long-term and deeply subordinated loan to ZIC and that is due in 2033. Its redemption is directly linked to the borrower's accumulation of retained earnings.

11. Provisions

These consist mainly of reserves to cover obligations relating to our administrative and sales staff, currency fluctuation reserves as well as a lump-sum reserve for bad and doubtful debts on various receivable balances. These reserves were created in accordance with conservative accounting principles in view of expected, estimated or perceived expenditures or exposures.

12. Shareholders' equity

Common stock and income shares

number of shares, as of December 31	**2004**	2003
Contingent and issued common stock, CHF 10 nominal value	86,000,000	86,000,000
Issued common stock, CHF 10 nominal value	82,500,000	82,500,000
Issued income shares (Genussscheine)[1]	2	2

[1] These income shares confer on their holder the right to receive a dividend if and to the extent the General Meeting decides. However, they do not confer on their holder any voting rights or rights associated thereto, any rights to subscribe for new shares, or any rights to liquidations proceeds.

(a) Issued stock
As of December 31, 2004 and 2003, Zurich Insurance Company had 82.5 million shares of CHF 10 nominal value common stock issued and fully paid and two income shares (Genussscheine) in the name of Zurich Financial Services.

(b) Contingent stock
At the General Meeting of Shareholders on June 11, 1997, a contingent capital of CHF 35 million, or 3.5 million shares, was created, of which 2.5 million shares can be issued in connection with the granting of conversion and/or option rights and 1 million shares can be issued for the purpose of employees' share ownership plans. None of the contingent shares have been issued as of December 31, 2004.

(c) Movements in shareholders' equity
Shareholders' equity in ZIC totals CHF 7,322 million. The increase in retained earnings over the previous year amounts to CHF 1,048 million and is attributable to the proposed allocation of the current year's result.

(d) Shareholders
At the end of 2004, 99.94% (2003: 99.94%) of the registered shares were owned by Zurich Group Holding and 0.06% (2003: 0.06%) by Zurich Financial Services.

13. Assets and liabilities relating to companies within the Zurich Group

in CHF millions	**2004**	2003
Assets		
Debt securities	3,333	3,228
Investments in subsidiaries and associates	23	290
Short-term investments	63	68
Mortgage loans	35	51
Cash and cash equivalents	4,755	3,683
Receivables from agents and outstanding premiums	0	2
Receivables from insurance and reinsurance companies	1,151	1,341
Deposits made under assumed reinsurance companies	2,401	3,164
Accrued assets	558	442
Liabilities		
Amounts due to insurance and reinsurance companies	(701)	(697)
Prepaid premiums and other creditors	(548)	(254)
Reinsurance deposit liabilities	(1,816)	–
Other short-term liabilities	(9,259)	(9,457)
Subordinated debt	(4,000)	(4,000)
Accrued liabilities	(898)	(846)

14. Supplementary information

in CHF millions	**2004**	2003
Guarantees, indemnity liabilities and pledges in favor of third parties	**12,351**	12,212
Assets pledged or assigned for the securing of own liabilities (not including assets restricted or deposited under the provisions of insurance supervisory laws)	**22**	22
Leasing obligations not recorded on the balance sheet	**189**	203
Fire insurance value of real estate and other fixed assets	**2,099**	1,989
Balances due from pension funds	**9**	142
Personnel expenses (included in underwriting and policy acquistion costs, administrative and expense lines of the operating statements)	**1,104**	1,040

Appropriation of available earnings as proposed by the Board of Directors

	2004
Dividend-paying registered shares	
Dividend-paying shares as of April 18, 2005	82,500,000

in CHF	2004
Appropriation of available earnings as proposed by the Board of Directors	
Loss carryforward	(1,408,117,848)
Net income for the year	1,048,021,077
Available earnings before proposed appropriation	(360,096,771)
Balance carried forward	(360,096,771)

The Board of Directors proposes to the General Meeting to carry forward the loss of CHF 360,096,771 in accordance with the above table.

Zurich, April 18, 2005

On behalf of the Board of Directors of Zurich Insurance Company

Lodewijk C. van Wachem

Report of the statutory auditors to the General Meeting of Zurich Insurance Company, Zurich

As statutory auditors, we have audited the accounting records and the financial statements (operating statements, balance sheets and notes on pages 53 to 59) of Zurich Insurance Company for the year ended December 31, 2004.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss Profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records, financial statements and the proposed appropriation of available earnings (page 60) comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

W. Eriksen-Grundbacher C. Stöckli

Zurich, April 18, 2005

Key data 1995–2004

in CHF millions	**2004[1]**	2003[1]	2002[1]
Gross written premiums and policy fees, general insurance direct business[5]	**23,260**	22,351	21,061
Gross written premiums and policy fees, assumed reinsurance[5]	**305**	484	1,740
Total gross written premiums and policy fees[5]	**23,565**	22,835	22,801
Net written premiums and policy fees[5]	**19,645**	18,770	17,439
Net earned premiums and policy fees[5]	**19,631**	18,388	15,519
Insurance benefits and losses, net of reinsurance	**13,704**	13,570	12,711
Underwriting and policy acquisition costs, administrative and restructuring expenses	**4,956**	4,962	4,757
Underwriting result, net	**614**	(510)	(2,518)
Investment income	**2,270**	2,125	3,750
Net income	**1,048**	524	(873)
Dividend	**–**	–	–
Dividend per share, nominal value CHF 10.– (in Swiss francs)	**0.00**	0.00	0.00
Investments[6]	**55,473**	50,249	46,111
Insurance reserves, net	**32,318**	30,690	26,764
Shareholders' equity (after proposed appropriation of available earnings)	**7,322**	6,274	5,750[4]

[1] With effect from 1 January 1998 the reporting processes have been simplified to bring them further in line with the accounting policies of its ultimate parent Zurich Financial Services. The results for 1997 have been adjusted accordingly.
[2] *Including anniversary dividend of CHF 140.7 million, CHF 3.– per share, respectively.*
[3] Extraordinary dividend paid to Zurich Financial Services of CHF 1,460 million.
[4] Capital increase of ZIC by CHF 1,700 million.
[5] Since 2001 including policy fees.
[6] Since 2001 including cash and cash equivalents.

	2001[1]	2000[1]	1999[1]	1998[1]	1997[1]	1996	1995
	12,364	8,212	6,813	8,869	9,312	8,790	8,261
	5,985	3,661	2,332	1,616	2,315	2,706	2,178
	18,349	11,873	9,145	10,485	11,627	11,496	10,439
	13,312	9,321	7,439	8,096	9,174	9,200	8,265
	11,650	8,850	6,965	8,304	9,247	9,018	8,172
	10,123	7,702	5,220	6,629	7,258	6,986	6,494
	2,689	2,610	2,570	2,180	2,766	2,878	2,366
	(1,437)	(1,555)	(642)	(585)	(736)	(848)	(751)
	2,045	2,027	1,409	1,654	1,581	1,422	1,315
	(1,067)	406	1,472	(29)	907	604	479
	–	1,460	800	564	563	338	273
	0.00	30.1[3]	16.49	11.62	12.0[2]	7.20	6.00
	40,737	31,970	26,569	24,467	28,287	25,676	22,648
	22,596	23,819	19,005	18,485	22,146	19,838	16,787
	4,923	5,990	6,960	6,268	6,065	5,721	5,007

Disclaimer & Cautionary Statement
Certain statements in this Annual Report 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 Insurance Company's 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 Insurance Company's results of operations and on whether Zurich Insurance Company will achieve its targets. Zurich Insurance Company 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.

It should be noted that past performance is not a guide to future performance.

Persons requiring advice should consult an independent adviser.

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ZURICH

Zurich Insurance Group
Mythenquai 2
8002 Zurich, Switzerland
Phone +41 (0)1 625 25 25
www.zurich.com

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