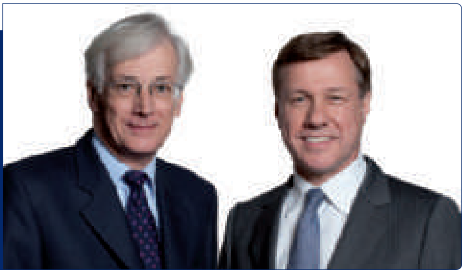
Zurich Financial Services Group Annual Report 2010

Letter to Shareholders 2010

Shaping Zurich for Tomorrow

Zurich HelpPoint

Dear Shareholder,



Dr. Manfred Gentz Martin Senn

We are pleased to present our full-year results for 2010. The Group performed well and our financial strength, underlying operating performance, and the ongoing success of our business strategy gives us the confidence to propose a dividend of CHF 17.00 per share, an increase of 6 percent. As the dividend payment will be paid from the capital contribution reserve, it will be exempt from Swiss withholding tax.

Our business operating profit was USD 4.9 billion, a decrease of 13 percent, and net income was USD 3.4 billion, a decrease of 13 percent, for the year ended December 31, 2010.

These headline figures mask our Group's strong underlying profitability and reflect an above-average frequency of significant loss events, loan provisions in a non-core banking business and the settlement of a U.S. class action lawsuit.

Despite these significant headwinds, our business operating profit after tax return on equity was 12.9 percent, a strong result in the current environment. As you know, we reaffirmed in December our long-term business operating profit after-tax return on equity target of 16 percent over the medium term.

Total Group business volumes, comprising gross written premiums, policy fees, insurance deposits and management fees, were USD 67.7 billion, a decrease of 3 percent.

Our Solvency I ratio improved by 48 percentage points to 243 percent; shareholders' equity increased 9 percent to USD 32.0 billion after payment of USD 2.2 billion in dividends in 2010.

We enter 2011 convinced we are well positioned to outperform in an environment which remains challenging. While there are signs the global economy is improving, there are also reasons to remain cautious. Consequently, we believe it is prudent to maintain our focus on financial strength and organizational agility so that we are able to weather adverse events and take advantage of opportunities as they arise.

Turning to the Group's results by segment, Global Life and Farmers contributed to the Group's profitability through steady top-line growth coupled with strong profit margins. General Insurance's targeted pricing strategy contributed to underlying performance and it achieved selected top-line growth in those areas where we can do so profitably.

In Global Life, gross written premiums, policy fees and insurance deposits rose 6 percent to USD 27.7 billion. The increase was driven by higher levels of new business, particularly in single premium products, as well as continued improvements in underwriting. As a result, Global Life produced a business operating profit of USD 1.5 billion, in line with 2009 despite a decrease in contributions from non-recurring items. Corporate Life & Pensions entered new national markets in 2010 and notched up significant new business wins, in the UK and Latin America in particular. Bank Distribution shifted its product strategy to meet customer needs in the post-crisis environment, with strong growth in Spain and Germany. IFA/Brokers grew volumes and margins.

At Farmers, business operating profit rose 8 percent to USD 1.7 billion, driven by strong results at Farmers Management Services and Farmers Re. The acquisition of 21st Century made a strong contribution to the Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly-owned subsidiary of Zurich. The Exchanges' multi-channel and new product strategies continued to gain traction in 2010.

> We enter 2011 well positioned to outperform in an environment which remains challenging.

The 'Farmers Auto 2.0' product was available in 27 states by year-end, helping agents deliver new business growth and improve competitiveness in the auto market. A new homeowners product, 'Next Generation 2.0', available in 17 states at year-end, helped them increase penetration in desirable customer segments.

In the General Insurance segment, business operating profit was USD 2.7 billion, down 23 percent from the previous year. The decrease is mainly attributable to an above-average frequency of loss events, such as earthquakes, weather-related losses and higher levels of large losses. Rate increases and targeted underwriting actions contributed to improvements in the underlying loss ratio. General Insurance completed mapping all of its portfolios as part of its comprehensive re-underwriting strategy. It's too soon to report on the full results of that strategy but the early signs are encouraging, with positive adjustments through year-end in both Global Corporate and North America Commercial in line with our expectations.

During the year, we made small but strategic acquisitions in Indonesia and the Middle East, increased our presence in Turkey, and participated along with other shareholders in a capital issue by New China Life. The Global Life business segment also reintroduced Zurich-branded life insurance products in the U.S. for the first time since 2003.

We would like to take this opportunity to thank John Amore for his many years of dedicated service to Zurich. John retired from the Group Executive Committee effective December 31 after a long and distinguished career in the insurance industry. John joined Zurich in 1992 and became a member of the Group Executive Committee in 2001. He was appointed CEO of the global General Insurance business segment in 2004. John played a central role in building our U.S. and global businesses and leaves a strong legacy.

In closing, we would like to express our appreciation to the over 60,000 employees of Zurich who made these results possible. In 2010 they continued to deliver for our customers and build long-term value for our shareholders.

Finally, we would like to thank you, Zurich's shareholders, for your continued support. Your trust in us is greatly appreciated and remains a vital part of our success.

Dr. Manfred Gentz
Chairman of the Board of Directors

Martin Senn
Chief Executive Officer

Financial highlights

in USD millions, for the years ended December 31, unless otherwise stated	2010	2009[2]	Change[1]
Business operating profit	**4,875**	5,593	(13%)
Net income attributable to shareholders	**3,434**	3,963	(13%)
General Insurance gross written premiums and policy fees	**33,066**	34,157	(3%)
Global Life gross written premiums, policy fees and insurance deposits	**27,675**	26,029	6%
Farmers Management Services management fees and other related revenues	**2,778**	2,690	3%
Farmers Re gross written premiums and policy fees	**4,194**	6,615	(37%)
General Insurance business operating profit	**2,673**	3,463	(23%)
General Insurance combined ratio	**97.9%**	96.8%	(1.1 pts)
Global Life business operating profit	**1,474**	1,477	–
Global Life new business annual premium equivalent (APE)	**3,699**	3,667	1%
Global Life new business margin, after tax (as % of APE)	**22.1%**	21.3%	0.8 pts
Global Life new business value, after tax	**817**	782	4%
Farmers business operating profit	**1,686**	1,554	8%
Farmers Management Services gross management result	**1,338**	1,291	4%
Farmers Management Services managed gross earned premium margin	**7.3%**	7.2%	0.1 pts
Group investments average invested assets[3]	**195,532**	187,063	5%
Group investments result, net	**7,990**	5,929	35%
Group investments return (as % of average invested assets)	**4.1%**	3.2%	0.9 pts
Total return on Group investments	**5.4%**	6.4%	(1.1 pts)
Shareholders' equity	**31,984**	29,304	9%
Solvency I ratio	**243%**[5]	195%[4]	48 pts
Diluted earnings per share (in CHF)	**24.38**	29.88	(18%)
Book value per share (in CHF)	**202.69**	206.58	(2%)
Return on common shareholders' equity (ROE)	**11.4%**	16.1%	(4.7 pts)
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)	**12.9%**	17.6%	(4.7 pts)

1 Parentheses around numbers represent an adverse variance.
2 Restated to reflect a change in accounting policy (see note 1 of the Consolidated financial statements).
3 Excluding average cash received as collateral for securities lending of USD 246 million and USD 335 million in the years ended December 31, 2010 and 2009, respectively.
4 Finalized, restated for accounting change and as filed with the Swiss regulator; after 2009 dividend.
5 Taking into account the proposed 2010 dividend.

The information contained within this Letter to Shareholders is an extract taken from the Operating and financial review of the Annual Report 2010, and is unaudited. This document should be read in conjunction with the Annual Report 2010 for the Zurich Financial Services Group. Comparatives are for the year ended December 31, 2010, unless otherwise stated. All amounts, unless otherwise specified, are shown in U.S. dollars and rounded to the nearest million with the consequence that the rounded amounts may not add to the rounded total in all cases. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts. Certain comparatives including segment disclosures have been restated for changes in presentation and for reclassifications as set out in notes 1 and 30 of the audited Consolidated financial statements available on **www.zurich.com** to conform to the 2010 presentation.

Performance overview

Zurich Financial Services Ltd and its subsidiaries (collectively "the Group") delivered full-year results for the year ended December 31, 2010, that reflect its strong focus on profitability with robust underlying performances from all core businesses despite difficult underlying economic conditions in many of the markets in which the Group operates. Group results were also impacted by a number of significant events during the year.

Insured event-related losses were more frequent compared with the relatively benign experience in 2009. The total incurred losses from such events, including earthquakes, weather-related events as well as large losses from our commercial insurance business, exceeded the 2009 amount by over USD 600 million. In the non-core banking business, the Group included the banking loan loss provision increase of USD 330 million booked in the second quarter of 2010. The continuing low interest rate environment has also impacted the Group's business performance as lower investment yields from reinvested and new funds reduced investment income for the Group's businesses. Consequently, the Group has put even more focus on its pricing and margin strategy to compensate for these lower investment returns.

Disciplined asset liability management and the Group's risk management approach have resulted in a continued strong Group capital and solvency position with further improvements to both during the year. The Solvency I position has increased by 48 percentage points since December 31, 2009, to 243 percent, and shareholders' equity has increased by USD 2.7 billion to USD 32.0 billion after deducting USD 2.2 billion for dividends paid in 2010. Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE) for the year ended December 31, 2010, was 12.9 percent. The Group's continued sustained profitability and strong balance sheet have enabled the Board of Directors to propose a dividend of CHF 17.00 per share demonstrating the Group's commitment to shareholder value. As the dividend payment is being planned from the newly created capital contribution reserve, it will be exempt from Swiss withholding tax.

Business operating profit decreased by USD 717 million to USD 4.9 billion or by 13 percent in U.S. dollar terms and 10 percent on a local currency basis.

- **General Insurance** business operating profit decreased by USD 791 million to USD 2.7 billion, or by 23 percent in U.S. dollar terms and 22 percent on a local currency basis. The ongoing focus on profitability continued to benefit the underlying underwriting result with an improved underlying loss ratio compared with 2009. This improvement was more than offset by lower levels of investment income, lower earned premiums, and the higher level of event-related losses such as large losses and weather related losses, including the Chilean earthquake and Australian floods.

- **Global Life** business operating profit remained flat at USD 1.5 billion in U.S. dollar terms, and increased by 1 percent on a local currency basis. Allowing for special operating items, which were lower than in 2009, underlying performance improved by 7 percent driven by increases in the expense and risk margins.

- **Farmers** business operating profit increased by USD 132 million to USD 1.7 billion, or by 8 percent. **Farmers Management Services** business operating profit increased by USD 39 million to USD 1.4 billion, or 3 percent, supported by the successful integration of 21st Century which was acquired in July 2009 by the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Group. **Farmers Re** business operating profit increased by USD 93 million to USD 321 million, or 41 percent, reflecting favorable underwriting trends.

Other Operating Businesses business operating loss increased by USD 190 million to USD 801 million reflecting a normalized run-rate for Group financing costs, with 2009 having benefited from one-off gains associated with the buyback of subordinated debt.

Non-Core Businesses reported a business operating loss of USD 157 million compared with USD 290 million in 2009. The loss for the year included the increase of USD 330 million in banking loan loss provisions relating to commercial loans on property development in the UK and Ireland booked in the second quarter of 2010. The reduced losses compared with 2009 arose principally from the effect of losses in 2009 driven by volatile financial markets, the impact of which has been mitigated in 2010 through the dynamic hedge strategy implemented in March 2010.

Total Group business volumes, comprising gross written premiums, policy fees, insurance deposits and management fees, decreased by USD 1.8 billion to USD 67.7 billion, or by 3 percent in U.S. dollar terms.

Net income attributable to shareholders decreased by USD 529 million to USD 3.4 billion, or by 13 percent as a result of the lower business operating profit. Net investment gains were largely offset by the costs of the class action lawsuit settlement in the U.S. and by the effect of the restatement on the 2009 result as a consequence of the change of measurement to a fair value basis for a closed life insurance book in the U.S.

The **shareholders' effective tax rate** was 20.3 percent for the year ended December 31, 2010, compared with 22.7 percent for the year ended December 31, 2009, primarily due to a combination of favorable tax settlements and shifts in the geographic profit mix.

ROE of 11.4 percent was affected by the decrease in net income attributable to shareholders and the continued strengthening of the Group's capital position. **BOPAT ROE** was 12.9 percent. **Diluted earnings per share** decreased by 18 percent to CHF 24.38 for the year ended December 31, 2010, compared with CHF 29.88 in 2009.

Shareholder information

Key indicators

as of December 31	**2010**	2009
Number of shares issued	146,586,896	147,473,068
Number of dividend-bearing shares[1]	146,586,896	147,473,068
Market capitalization (in CHF millions at end of period)	35,503	33,403
Authorized capital, number of shares	10,000,000	5,200,000
Contingent capital, number of shares	14,708,363	12,643,831

[1] Treasury shares are not entitled to dividends.

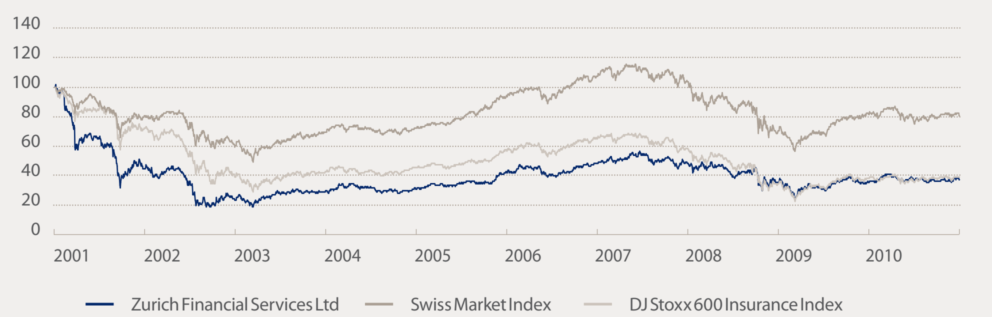
Per share data

in CHF	**2010**	2009
Gross dividend	17.00[1]	16.00
Basic earnings per share	24.57	30.09
Diluted earnings per share	24.38	29.88
Book value per share, as of December 31	202.69	206.58
Nominal value per share	0.10	0.10
Price at end of period	242.20	226.50
Price period high	271.20	260.00
Price period low	223.30	127.80

[1] Proposed dividend, subject to approval by shareholders at the Annual General Meeting 2011; expected payment date as from April 7, 2011. As the dividend payment will be paid from the capital contribution reserve, it will be exempt from Swiss withholding tax.

Zurich share performance (indexed) over the last ten years

in %



Source: Thomson Datastream

Contact information

For more information please contact the appropriate office, or visit our Web site at www.zurich.com

Financial Calendar

Annual General Meeting 2011
March 31, 2011

Ex-dividend date
April 4, 2011

Dividend – record date
April 6, 2011

Dividend payable as from
April 7, 2011

Results Reporting for the Three Months to March 31, 2011
May 5, 2011

Half Year Results Reporting 2011
August 11, 2011

Results Reporting for the Nine Months to September 30, 2011
November 10, 2011

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American Depositary Receipts
Zurich Financial Services Ltd has an American Depositary Receipt program with The Bank of New York Mellon (BNY). For information relating to an ADR account, please call BNY Mellon's Shareowner Services in the USA on +1-888-BNY-ADRs (1-888-269-2377) or outside the USA on +1-201-680-6825. General information on the company's ADR-program can be obtained from The Bank of New York Mellon at www.adrbnymellon.com.

Disclaimer & Cautionary Statement
Certain statements in this document are forward-looking statements, including, but not limited to, statements that are predications of or indicate future events, trends, plans or objectives of Zurich Financial Services Ltd or the Zurich Financial Services Group (the "Group"). Forward-looking statements include statements regarding the Group's targeted profit improvement, return on equity targets, expense reductions, pricing conditions, dividend policy and underwriting claims improvements, as well as statements regarding the Group's understanding of general economic, financial and insurance market conditions and expected developments. 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 plans and objectives of Zurich Financial Services Ltd or the Group 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 key markets; (ii) the risk of the global economic downturn and a downturn in the financial services industries in particular; (iii) performance of financial markets; (iv) levels of interest rates and currency exchange rates; (v) frequency, severity and development of insured claims events; (vi) mortality and morbidity experience; (vii) policy renewal and lapse rates; and (viii) changes in laws and regulations and in the policies of regulators may have a direct bearing on the results of operations of Zurich Financial Services Ltd and its Group and on whether the targets will be achieved. Zurich Financial Services Ltd 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 advisor.

This communication does not constitute an offer or an invitation for the sale or purchase of securities in any jurisdiction.

THIS COMMUNICATION DOES NOT CONTAIN AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES; SECURITIES MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES ABSENT REGISTRATION OR EXEMPTION FROM REGISTRATION, AND ANY PUBLIC OFFERING OF SECURITIES TO BE MADE IN THE UNITED STATES WILL BE MADE BY MEANS OF A PROSPECTUS THAT MAY BE OBTAINED FROM THE ISSUER AND THAT WILL CONTAIN DETAILED INFORMATION ABOUT THE COMPANY AND MANAGEMENT, AS WELL AS FINANCIAL STATEMENTS.

The Letter to Shareholders is published in English, German and French. In the event of inconsistencies in the German and French translations, the English original version shall prevail.

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The paper used in this document is manufactured at a mill that is certified to ISO 14001 and EMAS environmental standards. The mill uses pulps that are totally chlorine-free (TCF), and some pulp is bleached using an elemental chlorine-free (ECF) process.

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