

Zurich Financial Services Group



# Letter to Shareholders 2011

Results for the six months to June 30, 2011

## Shaping Zurich for Tomorrow

Zurich **Help**Point



*Dear Shareholder,*



Dr. Manfred Gentz

Martin Senn

**We are pleased to present the Group's financial results for the first half of 2011. Our business operating profit over the first half of the year was USD 2.1 billion, of which USD 1.3 billion was generated in the second quarter alone. This strong second quarter result represents a 25 percent increase in business operating profit compared with the same period in 2010. Net income attributable to shareholders in the first six months was USD 2.0 billion, 20 percent higher than in the first half of 2010. It was also enhanced by realized gains recorded in the second quarter of USD 441 million before tax on the sale of shares in New China Life Insurance Co., Ltd.**

These solid results were achieved in a very challenging period. More than USD 500 million in losses were recognized from the five natural disasters in Australia, New Zealand and Japan. An increase in large and weather-related losses, including the multiple tornadoes and hail storms which hit the U.S. in April and May, accounted for additional losses of USD 200 million. Economic recovery remained slow in the U.S. and Europe.

These demanding conditions highlight the benefit of our strict margin and underwriting strategies. This is particularly the case in General Insurance, where we have shown continued improvement in the underlying loss ratio. We have executed on our strategy to deepen our presence in markets where the outlook for economic growth is positive, as with the signing of an agreement to acquire composite insurer Malaysian Assurance Alliance Berhad and the signing of the definitive agreements to establish a long-term alliance

with Banco Santander in Latin America. The successful execution of our emerging market strategy is already visible, notably in our Global Life business, where we are approaching our target of generating 30 percent of new business value in Latin America, Asia-Pacific and the Middle East.

In General Insurance our business operating profit for the first half of 2011 was USD 1.1 billion, a decrease of USD 271 million compared with the same period in 2010. In line with our strategy to protect margins, we achieved average rate increases of 3 percent with no significant impact on customer retention levels when compared with the same period in 2010. The combined ratio in the second quarter was 95.3 percent, an improvement of 1.6 percentage points over the same period in 2010 and 8.3 percentage points over the catastrophe-affected first quarter.

Global Life business operating profit increased by USD 8 million to USD 728 million for the first half of the year. We continue to proactively counteract difficult market conditions, particularly in Spain and Ireland, and we are generating an increasing share of our business in high-growth markets. Corporate Life & Pensions and Private Banking Client Solutions generated additional growth in Europe.

Farmers business operating profit decreased by USD 116 million to USD 729 million. Farmers Management Services business operating profit decreased by USD 21 million to USD 674 million, largely as a result of the planned run-off of the 21st Century agency auto book of business in the Farmers Exchanges, which are managed but not owned by



Solid results achieved in a very challenging period.

Farmers Group, Inc., a wholly owned subsidiary of the Group. Excluding this effect, gross written premiums in the Exchanges grew by 1 percent for the first six months of 2011. Gross written premiums at Farmers Re decreased compared with the same period in 2010, reflecting the reduction of the participation level of the quota share reinsurance treaty from 35 percent to 12 percent. Farmers Re's business operating profit decreased to USD 55 million as a result of this change, and due to the significant increase in weather-related losses in the second quarter of 2011.

Our capital and solvency positions remain strong and all core businesses continue to generate substantial cash flows. The capitalization ratio under the new Swiss Solvency Test (SST), as filed with the regulator for

December 31, 2010, was 223 percent. Shareholders' equity decreased by USD 0.8 billion to USD 31.1 billion after recording the payout of USD 2.7 billion for the dividend of CHF 17.00 per share approved in March 2011. In that same month, Moody's Investors Service upgraded Zurich Insurance Company Ltd's insurance financial strength rating to Aa3 from A1 and also upgraded its debt ratings.

We would like to express our thanks to the more than 60,000 employees of Zurich. We are proud of the dedication our employees continue to show in helping our customers understand and manage the risks they face, as well as the one Zurich spirit in which they do so. We are confident that we will be ready to meet the challenges ahead.

A handwritten signature in blue ink, appearing to read 'Manfred Gentz'.

**Dr. Manfred Gentz**  
Chairman of the Board of Directors

A handwritten signature in blue ink, appearing to read 'Martin Senn'.

**Martin Senn**  
Chief Executive Officer

# Shareholder information

## Financial highlights (unaudited)

in USD millions, for the six months ended June 30, unless otherwise stated	2011	2010	Change <sup>1</sup>
Business operating profit	<b>2,132</b>	2,286	(7%)
Net income attributable to shareholders	<b>1,965</b>	1,642	20%
General Insurance gross written premiums and policy fees	<b>18,876</b>	17,940	5%
Global Life gross written premiums, policy fees and insurance deposits	<b>13,267</b>	13,111	1%
Farmers Management Services management fees and other related revenues	<b>1,375</b>	1,399	(2%)
Farmers Re gross written premiums and policy fees	<b>1,481</b>	2,491	(41%)
General Insurance business operating profit	<b>1,106</b>	1,377	(20%)
General Insurance combined ratio	<b>99.3%</b>	98.0%	(1.4 pts)
Global Life business operating profit	<b>728</b>	720	1%
Global Life new business annual premium equivalent (APE)	<b>1,899</b>	1,716	11%
Global Life new business margin, after tax (as % of APE) <sup>2</sup>	<b>26.9%</b>	23.6%	3.3 pts
Global Life new business value, after tax <sup>2</sup>	<b>511</b>	405	26%
Farmers business operating profit	<b>729</b>	845	(14%)
Farmers Management Services gross management result	<b>651</b>	681	(4%)
Farmers Management Services managed gross earned premium margin	<b>7.2%</b>	7.4%	(0.2 pts)
Average Group investments	<b>200,636</b>	190,092 <sup>3</sup>	6%
Net investment result on Group investments	<b>4,216</b>	3,979	6%
Net investment return on Group investments <sup>4</sup>	<b>2.1%</b>	2.1%	–
Total return on Group investments <sup>4</sup>	<b>1.7%</b>	3.6%	(1.8 pts)
Shareholders' equity <sup>5</sup>	<b>31,153</b>	31,984	(3%)
Swiss Solvency Test capitalization ratio	–	223% <sup>6</sup>	n/a
Diluted earnings per share (in CHF)	<b>12.07</b>	12.14	(1%)
Book value per share (in CHF) <sup>5</sup>	<b>179.50</b>	202.69	(11%)
Return on common shareholders' equity (ROE)	<b>12.5%</b>	11.5%	1.0 pts
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)	<b>10.5%</b>	12.4%	(1.8 pts)

<sup>1</sup> Parentheses around numbers represent an adverse variance.

<sup>2</sup> Changes to the basis of calculation of embedded value, including new business, are set out in the Embedded value report and in the Global Life section of the Operating and financial review.

<sup>3</sup> Excluding average cash received as collateral for securities lending of USD 396 million for the six months ended June 30, 2010.

<sup>4</sup> Not annualized and calculated on average Group investments.

<sup>5</sup> As of June 30, 2011 and December 31, 2010, respectively.

<sup>6</sup> As filed with the regulator for the year ended December 31, 2010, based on the results for the Group on a consolidated basis, subject to the Group regulator's review and the regulator's approval of the Group's internal model.

The above table presents the summarized consolidated results of the Group for the six months ended June 30, 2011 and 2010, and the financial position as of June 30, 2011, and December 31, 2010, respectively. Interim results are not necessarily indicative of full year results. All amounts are shown in USD millions and rounded to the nearest million unless otherwise stated 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 amount rather than the rounded amount. This table should be read in conjunction with the Annual Report 2010 for the Zurich Financial Services Group available on [www.zurich.com](http://www.zurich.com) and with its unaudited Consolidated financial statements as of June 30, 2011.

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.

### Contact

For more information please visit our website at [www.zurich.com](http://www.zurich.com)

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### Financial Calendar

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

### Investors' Day

December 1, 2011

### Annual Results Reporting 2011

February 16, 2012

### Annual General Meeting 2012

March 29, 2012

### Results Reporting for the Three Months to

March 31, 2012

May 10, 2012

### Half Year Results Reporting 2012

August 16, 2012

### Results Reporting for the Nine Months to

September 30, 2012

November 15, 2012

### Disclaimer & Cautionary Statement

Certain statements in this document are forward-looking statements, including, but not limited to, statements that are predictions 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. Please also note that interim results are not necessarily indicative of full year results.

Persons requiring advice should consult an independent advisor.

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