

Zurich Financial Services Group



# Letter to Shareholders 2011

Results for the nine months to September 30, 2011

## Shaping Zurich for Tomorrow

Zurich **HelpPoint**



*Dear Shareholder,*



Dr. Manfred Gentz

Martin Senn

We are pleased to present a strong result for the first nine months of 2011 showing USD 3.2 billion in net income attributable to shareholders, a 34 percent increase compared with the same period in 2010. Net income for the discrete third quarter was USD 1.2 billion, or 64 percent higher than in 2010. Our business operating profit for the nine months was USD 3.3 billion, 8 percent lower than for the same period in 2010, of which USD 1.1 billion was earned in the discrete third quarter.

Results were impacted by significant weather events in the third quarter, particularly Hurricane Irene in the United States and hailstorms in Switzerland and Germany. The nine month results were also impacted by a number of significant events in the first half of the year, including the earthquakes in Japan and New Zealand as well as weather events in Australia and the United States, which altogether are making 2011 the worst catastrophe year since 2005 when Hurricane Katrina devastated the city of New Orleans.

We achieved this strong result by successfully executing on key areas of strategic focus across our Group. Our disciplined approach to managing Group investments by matching assets to liabilities has guided us through challenging market conditions, delivering a net return on Group investments of 3.9 percent for the year to date, compared with 3.2 percent in the first nine months of 2010. We were able to secure important distribution capabilities in fast-growing emerging markets by finalizing our previously reported acquisition in Malaysia and closing our long-term alliance with

Banco Santander in the Latin American markets of Brazil, Mexico, Chile, Argentina and Uruguay.

All core business segments performed well and continue to execute their individual strategies. In General Insurance, business operating profit for the nine months was USD 1.7 billion, or 12 percent lower than in the same period in 2010. Our sustained focus on margin enhancements has continued to improve the underlying loss ratio. These improvements were more than offset by the frequency and overall severity of catastrophes and significant weather-related loss events during the first nine months of 2011. In continuing our focus on expenses, we maintained a balance between investments in emerging markets and expense management actions. Gross written premiums and policy fees increased by 6 percent in U.S. dollar terms but remained flat on a local currency basis. In line with our strategy to improve margins, average rates increased by more than 3 percent and despite these increases customer retention levels have improved slightly compared with the same period of 2010.

Global Life recorded a business operating profit of USD 1.0 billion for the nine months, 8 percent lower than in the same period of 2010. New business value after tax reached USD 729 million, an increase of 24 percent in U.S. dollar terms or 14 percent on a local currency basis, following a methodology refinement for the calculation of new business value for the corporate protection business which is more reflective of the underlying economics. Excluding this refinement, new business value after tax increased by 5 percent in U.S. dollar terms and was broadly flat on a local currency basis. We continue to see top-line growth



## A strong result through successful execution of our strategy.

in targeted markets across Latin America, Asia-Pacific and the Middle East and total new business value being generated in these regions is approaching our stated 2013 target of 30 percent.

Farmers business operating profit was USD 1.1 billion over the nine months. Management fees and other related revenues from Farmers Management Services decreased by 1 percent reflecting the run-off of the 21st Century agency auto book of business in the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of Zurich. This was partially offset by continued increases in gross earned premiums in the Farmers Exchanges from 21st Century Direct, small business solutions and specialty businesses. As a result, the managed gross earned premium margin at Farmers Management Services decreased by 0.1 percentage points to 7.3 percent. Gross written premiums in the Farmers Exchanges increased by USD 43 million to USD 13.9 billion. This was driven by premium growth in nearly all active lines of business and partially offset by the run-off of the 21st Century agency auto book of business. Excluding the effect of this run-off, gross written premiums increased by 1 percent compared

with the same period of 2010. In Farmers Re, business operating profit decreased to USD 76 million due to a change in participation level of the quota share reinsurance treaty and a significant increase in weather-related losses.

Our capital and solvency position remains strong and our core businesses continue to generate solid cash flows. The capitalization ratio under the Swiss Solvency Test (SST), as filed with the regulator for the half year ended June 30, 2011, was 225 percent. While our full SST calculations are not run on a quarterly basis, the Group remains confident that the SST ratio was above 200 percent at the end of the third quarter. Shareholders' equity increased by USD 801 million since the end of June to USD 32 billion and, after payment of the dividend, is at the same level as at the end of 2010.

We would like to thank all of our employees for making these results possible. Their skills and dedication give us every confidence that we can continue to create value for you, our shareholders, by helping our customers understand and protect themselves from risk.

Yours sincerely,

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

**Martin Senn**  
Chief Executive Officer

# Shareholder information

## Financial highlights (unaudited)

in USD millions, for the nine months ended September 30, unless otherwise stated	2011	2010	Change <sup>1</sup>
Business operating profit	<b>3,258</b>	3,537	(8%)
Net income attributable to shareholders	<b>3,210</b>	2,399	34%
General Insurance gross written premiums and policy fees	<b>27,047</b>	25,528	6%
Global Life gross written premiums, policy fees and insurance deposits	<b>19,350</b>	18,894	2%
Farmers Management Services management fees and other related revenues	<b>2,071</b>	2,096	(1%)
Farmers Re gross written premiums and policy fees	<b>2,261</b>	3,722	(39%)
General Insurance business operating profit	<b>1,732</b>	1,972	(12%)
General Insurance combined ratio	<b>98.8%</b>	97.7%	(1.0 pts)
Global Life business operating profit	<b>1,005</b>	1,098	(8%)
Global Life new business annual premium equivalent (APE)	<b>2,770</b>	2,495	11%
Global Life new business margin, after tax (as % of APE) <sup>2</sup>	<b>26.3%</b>	23.6%	2.7 pts
Global Life new business value, after tax <sup>2</sup>	<b>729</b>	589	24%
Farmers business operating profit	<b>1,096</b>	1,295	(15%)
Farmers Management Services gross management result	<b>995</b>	1,024	(3%)
Farmers Management Services managed gross earned premium margin	<b>7.3%</b>	7.4%	(0.1 pts)
Average Group investments	<b>197,063</b>	197,138 <sup>3</sup>	–
Net investment result on Group investments	<b>7,616</b>	6,288	21%
Net investment return on Group investments <sup>4</sup>	<b>3.9%</b>	3.2%	0.7 pts
Total return on Group investments <sup>4</sup>	<b>4.4%</b>	6.1%	(1.7 pts)
Shareholders' equity <sup>5</sup>	<b>31,874</b>	31,905	–
Swiss Solvency Test capitalization ratio <sup>6</sup>	<b>225%</b>	223%	2 pts
Diluted earnings per share (in CHF)	<b>19.07</b>	17.43	9%
Book value per share (in CHF) <sup>5</sup>	<b>197.53</b>	202.18	(2%)
Return on common shareholders' equity (ROE)	<b>13.5%</b>	10.8%	2.7 pts
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)	<b>10.6%</b>	12.3%	(1.7 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 New business overview 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 342 million in the nine months ended September 30, 2010.

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

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

<sup>6</sup> As filed with the regulator for the periods ended June 30, 2011 and December 31, 2010, respectively, based on the results for the Group on a consolidated basis, subject to the Group regulator's review, as well as its approval of the Group's internal model.

The table above presents the summarized consolidated results of the Group for the nine months ended September 30, 2011 and 2010 and the financial position as of September 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 September 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:  
[www.zurich.com/shareholderinformation](http://www.zurich.com/shareholderinformation)

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### Financial Calendar

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.

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