



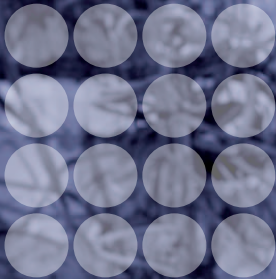
ZURICH®

Zurich Financial Services Group

## LETTER TO SHAREHOLDERS 2011

# Tomorrow is insured

Helping our customers  
understand and protect  
themselves from risk



*Dear Shareholder,*



Dr. Manfred Gentz

Martin Senn

We are pleased to present to you a good result for 2011, which we achieved despite the devastating earthquakes and the exceptional frequency of weather-related events that made this one of the most expensive years for catastrophe-related insured losses. In challenging economic and financial market conditions, our Group maintained its focus on the execution of its underwriting strategies and further improved its customer orientation while protecting its strong capital position. We closed significant acquisitions in Latin America and Malaysia, enhancing our footprint in target high-growth markets.

Our net income attributable to shareholders over the year was USD 3.8 billion, or 10 percent higher than in 2010, and our return on equity was 11.9 percent, 0.6 percentage points higher than in 2010. Our business operating profit was USD 4.3 billion, leading to a business operating profit after tax return on equity of 10.2 percent. This is a strong performance given natural catastrophes and the challenging environment, supported by the excellent total return from Group investments of 5.4 percent. Reflecting our strong cash flows and capital base, as well as our confidence in our business strategy, we are pleased to propose a dividend of CHF 17.00 per share.

#### **Selective growth in mature markets with expanding presence in high-growth markets**

Robust underwriting discipline combined with a sustained focus on profitability produced strong improvements in the underlying loss ratio of General Insurance. In Global Life, increased fee income supported investments to enhance global capabilities

and mitigated the impact of the low interest rate environment. Through the acquisition of 51 percent of Banco Santander's Latin American insurance operations as well as the acquisition of composite insurer Malaysian Assurance Alliance Berhad, both General Insurance and Global Life enhanced their footprint in emerging markets where the outlook for economic growth remains positive. Gross written premiums increased in nearly all active lines of business in the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of Zurich, reflecting the accelerating underlying growth momentum during the latter part of the year.

#### **Resilient performance in 2011**

In General Insurance, our business operating profit was USD 2.3 billion, 15 percent lower in U.S. dollar terms and 19 percent lower on a local currency basis. The sustained focus on profitability has continued to produce strong improvement in the underlying loss ratio, helping to offset the effect of the exceptional frequency and overall severity of catastrophe and weather-related loss events. Gross written premiums and policy fees increased by USD 1.5 billion to USD 34.6 billion or by 5 percent in U.S. dollar terms, but remained flat on a local currency basis. In order to maintain margins, average rates increased by over 3 percent, an improvement of 1 percentage point compared with 2010. Despite these rate increases, customer retention levels improved slightly compared with 2010.

In Global Life, business operating profit was USD 1.4 billion, 8 percent lower in U.S. dollar terms and 14 percent lower on a local currency basis. Volume increases in strategic growth markets in Latin America and Asia-Pacific and Middle East were offset by lower volumes in Ireland, Spain and Germany as difficult market conditions persisted in those countries, together with the impact of the divestment of the jointly owned insurance operations with Caixa Sabadell in Spain. New business value after tax reached USD 980 million, an increase of 14 percent in U.S. dollar terms and 7 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 was flat in U.S. dollar terms and reduced by 5 percent in local currency.



## This is a good result in a challenging environment.

Volume growth was more than offset by a reduction in new business margin of 1.2 percentage points in local currency. Overall new business margin for the year remains at a strong level of 21.6 percent excluding the methodology change, and 24.5 percent including the change.

Management fees and other related revenues from Farmers Management Services remained flat despite the effect of the planned run-off of the 21st Century agency auto book of business in the Farmers Exchanges. This effect was largely offset by continued increases in gross earned premiums in the Farmers Exchanges, particularly in 21st Century direct as well as business and specialty insurance. The managed gross earned premium margin at Farmers Management Services remained flat at 7.3 percent compared with the prior year. Gross written premiums in the Farmers Exchanges increased by USD 166 million to USD 18.3 billion. In Farmers Re, gross written premiums and policy fees decreased by 16 percent to USD 3.5 billion due to the change in the participation level of the All Lines Quota Share reinsurance agreement, which in combination with a significant increase in weather-related losses resulted in a decreased business operating profit of USD 116 million. Overall, Farmers reported a business operating profit of USD 1.5 billion.

Yours sincerely,

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

## Well positioned to outperform in a challenging environment

The continued demanding conditions of 2011 have challenged – and confirmed – the strength of our strategy. Our strategy is based on key principles of execution, financial and underwriting discipline, and above all, focusing on our core business of insurance. In light of this, the Board of Directors is proposing to the Annual General Meeting on March 29, 2012, to change our name from Zurich Financial Services Ltd to Zurich Insurance Group Ltd.

The best way we show our success is by continuing to help our customers understand and protect themselves from risk. In 2011, one of the most expensive in terms of catastrophe-related losses for the insurance industry, we dedicated ourselves to helping customers mitigate catastrophe risks and to rebuilding in their aftermath. In 2012 we proudly celebrate 100 years of providing that help in the United States. Going forward we will seek to find more ways to leverage our insurance and risk management expertise to equip people to better manage change and risk in their lives and in the world around them.

We express our thanks to the employees of Zurich, whose hard work, diligence and expertise make these results possible. We also thank our customers, whose trust in us is especially valued in these uncertain times. Finally we express our thanks to you, our shareholders. Your confidence in us is an integral element of our aspiration to become the best global insurer as measured by our employees, our customers and you, our shareholders.

**Martin Senn**  
Chief Executive Officer

# Shareholder information

## Financial highlights (unaudited)

in USD millions, for the years ended December 31, unless otherwise stated	2011	2010	Change <sup>1</sup>
Business operating profit	<b>4,261</b>	4,870	(12%)
Net income attributable to shareholders	<b>3,766</b>	3,428	10%
General Insurance gross written premiums and policy fees	<b>34,572</b>	33,066	5%
Global Life gross written premiums, policy fees and insurance deposits	<b>27,711</b>	27,675	–
Farmers Management Services management fees and other related revenues	<b>2,767</b>	2,778	–
Farmers Re gross written premiums and policy fees	<b>3,529</b>	4,194	(16%)
General Insurance business operating profit	<b>2,265</b>	2,667	(15%)
General Insurance combined ratio	<b>98.8%</b>	97.9%	(0.9 pts)
Global Life business operating profit	<b>1,353</b>	1,474	(8%)
Global Life new business annual premium equivalent (APE)	<b>3,992</b>	3,699	8%
Global Life new business margin, after tax (as % of APE) <sup>2</sup>	<b>24.5%</b>	23.3%	1.2 pts
Global Life new business value, after tax <sup>2</sup>	<b>980</b>	862	14%
Farmers business operating profit	<b>1,486</b>	1,686	(12%)
Farmers Management Services gross management result	<b>1,333</b>	1,338	–
Farmers Management Services managed gross earned premium margin	<b>7.3%</b>	7.3%	–
Average Group investments	<b>195,141</b>	195,532 <sup>3</sup>	–
Net investment result on Group investments	<b>9,367</b>	7,990	17%
Net investment return on Group investments	<b>4.8%</b>	4.1%	0.7 pts
Total return on Group investments	<b>5.4%</b>	5.4%	–
Shareholders' equity	<b>31,636</b>	31,905	(1%)
Diluted earnings per share (in CHF)	<b>22.62</b>	24.33	(7%)
Book value per share (in CHF)	<b>203.15</b>	202.18	–
Return on common shareholders' equity (ROE)	<b>11.9%</b>	11.4%	0.6 pts
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)	<b>10.2%</b>	12.9%	(2.6 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 246 million in the year ended December 31, 2010

The table above presents the summarized consolidated results of the Group for the years ended December 31, 2011 and 2010, respectively. 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 document should be read in conjunction with the Annual Report 2011 for the Zurich Financial Services Group available on [www.zurich.com](http://www.zurich.com) and with its audited Consolidated financial statements as of December 31, 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/investors/shareholderinformation](http://www.zurich.com/investors/shareholderinformation)

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### Financial Calendar

Annual General Meeting 2012  
March 29, 2012

Ex-dividend date  
April 2, 2012

Dividend – record date  
April 4, 2012

Dividend payable as from  
April 5, 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

Investors' Day  
November 29, 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, return on equity targets, expenses, pricing conditions, dividend policy and underwriting and claims results, 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 a global economic 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.

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