

Zurich Financial Services Group



ZURICH®

# Letter to Shareholders 2010

Results for the nine months ended September 30, 2010

## Zurich HelpPoint



*Dear Shareholder,*

---



Dr. Manfred Gentz

Martin Senn

**We are pleased to present the results of our Group's solid operating performance over the first nine months of 2010. Our business operating profit was USD 3.5 billion. This represents a decrease of 13 percent compared with the same period in 2009, mainly due to high catastrophe and weather-related losses and increased loan provisions in non-core businesses. More fundamentally, our Group's capital and solvency positions remain strong, underpinning a well-diversified portfolio of businesses, and demonstrating our continued focus on sustained profitability, operating efficiency and effective risk management.**

In this period last year, we stated that our objective was to position Zurich for success under any economic recovery scenario, reflecting the substantial uncertainty about the path a recovery might take. Today, much of the uncertainty has been replaced by the likelihood that recovery will be protracted, with low investment yields and low economic growth foreseen in many countries for some time to come. Such conditions present significant challenges to our industry, and the results presented here reflect their impact in different ways. However, moving beyond the short term, we would like to draw your attention to the more fundamental progress we have made toward the goal we set one year ago: to position our Group for success under any economic recovery scenario. We have made clear progress on that score, with results that can be seen across all three core business segments.

Our General Insurance segment delivered USD 2.0 billion of our Group's business operating profit in this period, a 22 percent decline compared with the same period in 2009. This is a solid result given significant catastrophe and weather-related losses, a continued decline in investment returns, and a broad decline in customers' insured exposures. Such challenging economic and operating conditions demand a clear commitment to choosing carefully the risks we underwrite, and pricing them accurately, in order to continue delivering sustainable returns over the long term. Demonstrating that long-term focus, we undertook a series of targeted underwriting actions and achieved average rate increases of 2 percent over the first nine months of the year. Operational excellence and underwriting discipline will continue to be hallmarks of the General Insurance strategy and Zurich's overall strategy.

In Global Life, our new business value, after tax, reached USD 571 million, up 12 percent in local currency terms. New business volumes, in terms of annual premium equivalent, increased by 7 percent in local currency, reflecting growth in the Private Banking Client Solutions, Corporate Life & Pension and Independent Financial Adviser/Broker businesses. This strong performance is a result of our focus on leveraging the segment's global footprint, with new products developed and higher sales into Italy, Ireland and the UK; higher corporate pension sales volumes in the UK and Latin America; as well as higher sales volumes and margin improvements in Germany. At Global Life, the gains from top-line growth were enhanced by an improved new business margin after tax of 22.9 percent, with a business operating profit in the period of USD 1.1 billion.



We are positioning our Group for success under any economic recovery scenario.

The strong performance at Farmers highlights how another avenue for growth, targeted acquisitions, can deliver even in challenging circumstances. The 21st Century direct auto business, now part of the Farmers Exchanges, drove a 5 percent increase in gross earned premium despite continued economic pressure on the auto line of business. Farmers Re's business operating profit also rose, to USD 248 million, contributing to an increased business operating profit for the overall Farmers segment of USD 1.3 billion.

In the first nine months of 2010 we have reviewed our businesses and we are now enhancing our segment strategies to help us achieve our ambition to be the best global insurance company as measured by our customers, our shareholders and our people. Even as we conducted this review, we continued to make tactical and strategic decisions to take advantage of opportunities.

In October we agreed to acquire 99.98 percent of Compagnie Libanaise D'Assurances SAL, a privately owned Lebanese insurer with branch operations in the United Arab Emirates (UAE), Kuwait and Oman. At the end of October we signed an agreement to participate in the private share subscription and capital increase program of New China Life Insurance Co., Ltd (NCI). The transaction seeks to maintain Zurich's current 20 percent ownership stake in NCI and reflects our belief that China's fast-growing insurance sector represents an attractive investment opportunity. In November we completed the previously announced acquisition of 80 percent of PT Mayapada Life, an Indonesian life insurer.

We close by expressing our appreciation to the 60,000 employees of Zurich who have made these results possible. Every day their contributions keep Zurich an agile and focused company, creating sustainable, long-term value for you, our shareholders.

Thank you very much for your continued support.

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

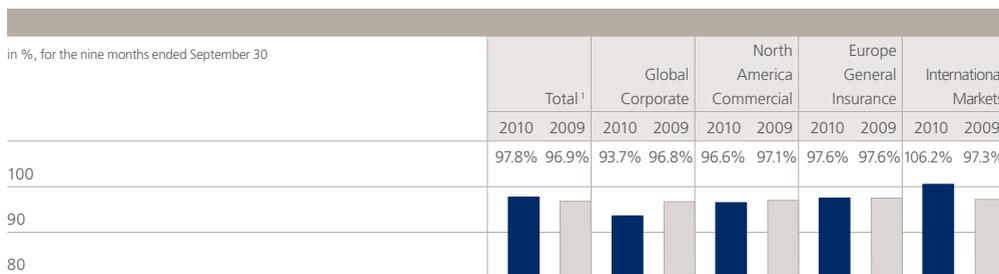
**Martin Senn**  
Chief Executive Officer

# Key performance indicators

## Business operating profit



## General Insurance – combined ratio



<sup>1</sup> Including 'GI Global Functions including Group Reinsurance.'

## Global Life – new business margin, after tax (as % of APE)<sup>1</sup>



<sup>1</sup> In %, for the nine months ended September 30.

# Financial highlights

in USD millions, for the nine months ended September 30, unless otherwise stated	2010	2009	Change <sup>1</sup>
Business operating profit	<b>3,526</b>	4,066	(13%)
Net income attributable to shareholders	<b>2,393</b>	2,935	(18%)
General Insurance gross written premiums and policy fees	<b>25,528</b>	26,321	(3%)
Global Life gross written premiums, policy fees and insurance deposits	<b>18,894</b>	17,406	9%
Farmers Management Services management fees and other related revenues	<b>2,096</b>	1,973	6%
Farmers Re gross written premiums and policy fees	<b>3,722</b>	4,964	(25%)
General Insurance business operating profit	<b>1,961</b>	2,508	(22%)
General Insurance combined ratio	<b>97.8%</b>	96.9%	(0.9 pts)
Global Life business operating profit	<b>1,098</b>	1,157	(5%)
Global Life new business annual premium equivalent (APE)	<b>2,495</b>	2,392	4%
Global Life new business margin, after tax (as % of APE)	<b>22.9%</b>	21.8%	1.1 pts
Global Life new business value, after tax	<b>571</b>	520	10%
Farmers business operating profit	<b>1,295</b>	1,132	14%
Farmers Management Services gross management result	<b>1,024</b>	950	8%
Farmers Management Services managed gross earned premium margin	<b>7.4%</b>	7.2%	0.2 pts
Group investments average invested assets <sup>2</sup>	<b>197,138</b>	189,396	4%
Group investments result, net	<b>6,288</b>	4,245	48%
Group investments return (as % of average invested assets)	<b>3.2%</b>	2.2%	0.9 pts
Total return on Group investments	<b>6.1%</b>	5.4%	0.7 pts
Shareholders' equity <sup>3</sup>	<b>31,011</b>	29,304	6%
Solvency I ratio <sup>3</sup>	<b>245%<sup>4</sup></b>	195% <sup>5</sup>	50 pts
Diluted earnings per share (in CHF)	<b>17.39</b>	22.62	(23%)
Book value per share (in CHF) <sup>3</sup>	<b>206.72</b>	206.58	0.14
Return on common shareholders' equity (ROE)	<b>10.7%</b>	16.3%	(5.5 pts)
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)	<b>12.2%</b>	17.4%	(5.1 pts)

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

<sup>2</sup> Excluding average cash received as collateral for securities lending of USD 342 million and USD 493 million in the nine months ended September 30, 2010 and 2009, respectively.

<sup>3</sup> As of September 30, 2010 and December 31, 2009, respectively.

<sup>4</sup> After taking into account a dividend accrual of CHF 12.00 per share. The 2010 dividend proposed to the Annual General Meeting will be the decision of the Board in February 2011.

<sup>5</sup> Including a 12 pts increase due to refined methodology.

<sup>6</sup> Finalized, restated for accounting change and as filed with the Swiss regulator; after 2009 dividend.

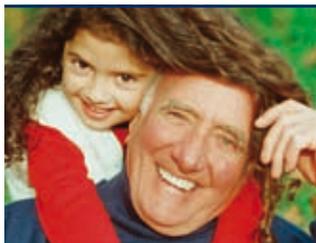
The information contained within this Letter to Shareholders is an extract taken from the Financial review of the Results Reporting for the Nine Months to September 30, 2010, and is unaudited. This document should be read in conjunction with the Financial Report 2009 and the unaudited Consolidated financial statements as of September 30, 2010 for the Zurich Financial Services Group. Comparatives are for the nine months ended September 30, 2009, or as of December 31, 2009, 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 amount rather than the rounded amount. Certain comparatives have been restated to reflect the change in accounting policy as set out in note 1 of the unaudited Consolidated financial statements available on [www.zurich.com](http://www.zurich.com)

# Performance overview

## General Insurance



## Global Life



## Farmers



Zurich Financial Services Ltd and its subsidiaries (collectively "the Group") delivered a set of results that reflect the strong focus on profitability with continued robust underlying performance in all its core businesses in spite of the continuing difficult economic environment in major markets. However, the Group results were impacted by a number of significant events in the first nine months of the year. These included the proposed settlement of a class action suit in the U.S. of USD 455 million and up to USD 90 million attorneys' fees to class action counsel, increases on the banking loan loss provisions of USD 330 million and the earthquake in Chile of USD 200 million. The Group's capital and solvency positions remain strong with an increase of 50 percentage points in the Solvency I position since December 31, 2009, to 245 percent, and with shareholders' equity at USD 31.0 billion after paying USD 2.2 billion in dividends. Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE) for the nine months ended September 30, 2010, was 12.2 percent.

**Business operating profit** decreased by USD 540 million or 13 percent to USD 3.5 billion in U.S. dollar terms and by 12 percent on a local currency basis.

- **General Insurance** business operating profit decreased by USD 547 million or 22 percent to USD 2.0 billion in U.S. dollar terms and by 21 percent on a local currency basis. The ongoing focus on profitability continued to positively impact the underlying underwriting result for the period with

an improved underlying loss ratio over the same period last year. This was more than offset by a higher level of event and weather-related losses, including USD 200 million from the Chilean earthquake, lower levels of investment income, and lower volume of earned premiums.

- **Global Life** business operating profit decreased by USD 59 million or 5 percent to USD 1.1 billion in U.S. dollar terms, and by 4 percent on a local currency basis. Allowing for non-recurring items, which were higher in 2009, the underlying performance improved driven by increases in the expense and risk margins.
- **Farmers** business operating profit increased by USD 163 million or 14 percent to USD 1.3 billion. **Farmers Management Services** business operating profit increased by USD 56 million or 6 percent to USD 1.0 billion, supported by the successful acquisition and 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 107 million or 76 percent to USD 248 million, reflecting favorable underlying underwriting trends, the 21st Century acquisition and its increased participation in the All Lines quota share reinsurance treaty compared with nine months participation in 2009.



**Other Operating Businesses** business operating loss increased by USD 275 million to USD 573 million. The result reflects a more normalized run-rate for Group financing costs. The prior year included one-off gains associated with buying back subordinated debt.

**Non-Core Businesses**, comprising the Group's run-off businesses and the Group's banking activities, reported a business operating loss of USD 256 million compared with USD 433 million in the same period of the prior year. The loss in the first nine months of the year arose from the increase in banking loan loss provisions earlier in the year of USD 330 million as a result of a review of the loans for commercial property development in the UK and Ireland. The loss in the same period of the prior year arose from reserve increases in other run-off businesses driven by volatile markets which were mitigated in the current year 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 424 million or 1 percent in U.S. dollar terms and remained flat on a local currency basis. Selective growth in chosen markets continues to be aligned to the Group's clear strategy. Business volumes in the main operating segments developed as follows:

- **General Insurance** gross written premiums and policy fees decreased by USD 793 million or 3 percent to USD 25.5 billion in U.S. dollar terms and by 3 percent on a local currency basis. Average rate increases of 2 percentage points were achieved through continuing disciplined underwriting focused on profit margin. However, these positive actions did not fully compensate for the impact of the economic environment and competitive markets which led to lower levels of new business activity as well as reduced insured customer exposures. Customer retention levels remain strong across the business.
- **Global Life** gross written premiums, policy fees and insurance deposits increased by USD 1.5 billion or 9 percent to USD 18.9 billion in U.S. dollar terms and by 10 percent on a local currency basis. This increase was primarily driven by higher levels of new business particularly in single premium products but also by a continued focus on in-force management.
- **Farmers Management Services** management fees and other related revenues increased by USD 123 million or 6 percent to USD 2.1 billion reflecting the underlying increase of 5 percent in the gross earned premiums of the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Group. 21st Century generated an increase of USD 155 million in fees and revenues. The 25 percent decrease to USD 3.7 billion in gross written premiums of **Farmers Re** reflects the changes in the All Lines quota share reinsurance treaty and associated portfolio transfers.

**Net income attributable to shareholders** decreased by USD 541 million or 18 percent to USD 2.4 billion largely due to the proposed class action settlement in the U.S., additional banking loan loss provisions, and the impact of the Chile earthquake. The **shareholders' effective tax rate** was 22.6 percent for the nine months ended September 30, 2010, compared with 23.1 percent for the same period in the prior year and 22.7 percent for the year ended December 31, 2009.

**ROE** of 10.7 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 12.2 percent. **Diluted earnings per share** decreased by 23 percent to CHF 17.39 for the nine months ended September 30, 2010, compared with CHF 22.62 for the same period in the prior year.

# Contact information

For more information please contact the appropriate office, or visit our Web site at [www.zurich.com](http://www.zurich.com)



## Financial Calendar

### Investors' Day

December 2, 2010

### Annual Results Reporting 2010

February 10, 2011

### Annual General Meeting 2011

March 31, 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

## 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 the full year results.

Persons requiring advice should consult an independent adviser.

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.

Design by Addison, [www.addison.co.uk](http://www.addison.co.uk)

Production by Multimedia Solutions AG, Zurich, Switzerland

The paper used in this document is manufactured at a mill that is certified to ISO14001 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.

Printed November 2010 by Swissprinters Zürich AG, Schlieren, Switzerland



**Mixed Sources**

Product group from well-managed forests and other controlled sources  
[www.fsc.org](http://www.fsc.org) Cert no. SGS-COC-003355  
© 1996 Forest Stewardship Council

## Registered Office

Zurich Financial Services Ltd  
Mythenquai 2  
8002 Zurich, Switzerland

## Group Media Relations

Zurich Financial Services Ltd, Switzerland  
Telephone: +41 (0)44 625 21 00  
E-mail: [media@zurich.com](mailto:media@zurich.com)

## Investor Relations

Zurich Financial Services Ltd, Switzerland  
Telephone: +41 (0)44 625 22 99  
E-mail: [investor.relations@zurich.com](mailto:investor.relations@zurich.com)

## Share Register Services

Zurich Financial Services Ltd, Switzerland  
Telephone: +41 (0)44 625 22 55  
E-mail: [shareholder.services@zurich.com](mailto:shareholder.services@zurich.com)

## Corporate Responsibility

Group Government and Industry Affairs  
Zurich Financial Services Ltd, Switzerland  
Telephone: +41 (0)44 625 24 25  
E-mail: [corporate.responsibility@zurich.com](mailto:corporate.responsibility@zurich.com)

## Securities Custody Service

Zurich Financial Services Ltd  
Custody Accounts  
c/o SIX SAG Ltd  
P.O. Box, 4601 Olten, Switzerland  
Telephone: +41 (0)62 311 61 45  
Fax: +41 (0)62 205 39 71  
Web site: [www.six-sag.com](http://www.six-sag.com)

## 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](http://www.adrbnymellon.com).