

ZURICH FINANCE (UK) plc

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2009

COMPANY REGISTRATION NUMBER: 4463547

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for Zurich Finance (UK) plc ("the Company") for the year ended 31 December 2009.

Principal Activities and Business Review

The principal activity of the Company is to act as a vehicle for raising external debt for the Zurich Financial Services Ltd group.

On 2 October 2003 the Company issued £450,000,000 6.625% undated subordinated guaranteed bonds at an issue price of 98.897% of the aggregate nominal amount. The proceeds, after the deduction of costs associated with the issue, were loaned to Zurich Financial Services (UKISA) Limited ("the Parent Company") at an interest rate of 7.375%.

On 16 December 2008 the Company issued £140,000,000 6.450% dated unsubordinated guaranteed bonds at an issue price of 99.920% of the aggregate nominal amount. The gross proceeds were loaned to the Parent Company at an interest rate of 6.702%.

The profit for the financial year before taxation amounted to £349,000 (2008: £366,000). After taking the taxation charge of £98,000 (2008: £39,682,000 taxation credit) into account, the profit transferred to retained reserves was £251,000 (2008: £40,048,000).

During 2008 agreement was reached with the UK tax authorities that the loan interest paid from 2004 onwards with respect to the undated subordinated bonds will be considered an allowable deduction. The tax previously accrued was therefore released to the profit and loss account in 2008.

The directors expect the current level of activity to continue in the future. They do not currently intend for the Company to raise any further debt on behalf of the Zurich Financial Services Ltd group.

The execution of the Company's strategy is subject mainly to financial risks. The Company's financial instruments and its exposure to financial risks are summarised in notes 7 and 13.

Given the nature of the business, the Company's directors are of the opinion that analysis using key performance indicators is not necessary for an understanding of the development, performance or position of the business.

The directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future and, accordingly, it is appropriate to continue to use the going concern basis in preparing the financial statements.

Dividends

The directors do not recommend the payment of a final dividend for the year (2008: £nil).

Directors

The directors who served during the year were:

N J Evans
N T Garzetti (Resigned 29 July 2009)
V J Rennie
P C R Wauthier (Appointed 29 July 2009)

There have been no appointments or resignations between the end of the financial year and the date of signing these financial statements.

Qualifying third party indemnity provisions (as defined in Section 234(2) of the Companies Act 2006) have been in force for the benefit of directors during the year and remain in force as at the date of this Directors' Report.

DIRECTORS' REPORT (continued)

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have signified their willingness to continue in office and a resolution that they be re-appointed will be proposed at the Annual General Meeting.

Statement of Directors' Responsibilities

The following statement sets out the responsibilities of the directors in relation to the financial statements of the Company. The report of the auditors, shown on page 3, sets out their responsibilities in relation to the financial statements.

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware.

Each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The directors consider that they have pursued the actions necessary to meet their responsibilities as set out in this statement.

By order of the Board

Secretary *H. Lopez*

Name *H. Lopez*

Date *02.02.2010*

INDEPENDENT AUDITORS' REPORT

Independent Auditors' Report to the Members of Zurich Finance (UK) plc

We have audited the financial statements of Zurich Finance (UK) plc for the year ended 31 December 2009 which comprise the Profit and Loss account, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Sections 495 and 496 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

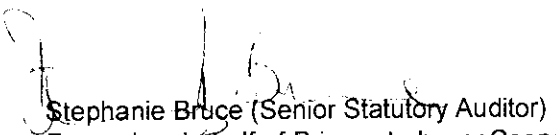
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.


Stephanie Bruce (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

Date 21/3/10

ZURICH FINANCE (UK) plc

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2009

Amount in £'000	Note	2009	2008
Other Interest Receivable and Similar Income	5	42,900	33,948
Interest Payable on Subordinated Bonds and Other Finance Costs		(42,551)	(33,582)
Profit on Ordinary Activities Before Taxation		349	366
Tax on Profit on Ordinary Activities	6	(98)	39,682
Profit for the Financial Year		251	40,048

All amounts above are in respect of continuing operations.

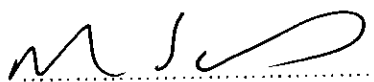
The Company had no recognised gains or losses in either year other than the profit stated above, therefore no statement of total recognised gains or losses has been prepared.

There are no material differences between the Profit on Ordinary Activities Before Taxation and the Profit for the Financial Year stated above and their historical cost equivalents.

BALANCE SHEET
at 31 December 2009

Amount in £'000	Note	2009	2008
Fixed Assets			
Investments	7 & 13	583,463	583,163
Current Assets			
Debtors	8	8,686	8,336
Cash at Bank and in Hand		<u>1,490</u>	<u>1,476</u>
		10,176	9,812
Creditors: Amounts Falling Due Within One Year	9	<u>(8,686)</u>	<u>(8,594)</u>
Net Current Assets		<u>1,490</u>	<u>1,218</u>
Total Assets Less Current Liabilities		584,953	584,381
Creditors: Amounts Falling Due After More Than One Year	10 & 13	(583,447)	(583,126)
Net Assets		<u>1,506</u>	<u>1,255</u>
Capital and Reserves			
Called Up Share Capital	11	50	50
Profit and Loss Account		1,456	1,205
Total Shareholders' Funds	12	<u>1,506</u>	<u>1,255</u>

The financial statements on pages 4 to 13 were approved by the Board on 2 March 2010 and were signed on its behalf by:

Director 

Name NEIL EVANS

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

1.1 Basis of Presentation

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 and applicable United Kingdom accounting standards.

The accounting policies have been consistently applied to all years presented.

1.2 Cash Flow Statement

The Company qualifies as exempt from the requirement to produce a cash flow statement under Financial Reporting Standard ("FRS") 1 'Cash Flow Statements (Revised 1996)' since it is a subsidiary undertaking of a parent company that prepares publicly available consolidated financial statements.

1.3 Profit and Loss Account

Interest income and expense for financial assets and liabilities are recognised using the effective interest method.

1.4 Fixed Asset Investments

Fixed asset investments are included in the balance sheet at amortised cost where the amounts lent are net of issue expenses, or where there are none, at cost. The interest income is credited to the profit and loss account using the effective interest method. The effective interest method is used to allocate all cash flows over the expected life of the investments. An effective interest rate of 7.56% (2008: 7.56%) was used for the calculation of the amortisation on the £450m loan. The loan of £450m was lent net of issue expenses, the loan of £140m was lent gross of issue expenses.

1.5 Creditors: Amounts Falling Due After More Than One Year

Subordinated and unsubordinated liabilities are initially included in the balance sheet at fair value, i.e. the value of consideration received, net of unamortised capitalised issue costs. These liabilities are thereafter stated at amortised cost using the effective interest method which is used to allocate all cash flows over the expected life of the debt. An effective interest rate of 7.49% (2008: 7.49%) was used for the calculation of amortisation on the £450m subordinated perpetual loan and an effective interest rate of 6.47% (2008: 6.47%) was used for the calculation of amortisation on the £140m dated unsubordinated loan.

2. Auditors' Remuneration

The fees payable to the Company's auditors for the audit of the Company's financial statements were £4,861 (2008: £4,630). In 2009 and 2008 the audit fee was borne by Zurich Financial Services (UKISA) Limited ("the Parent Company").

3. Directors' Remuneration

The remuneration of the directors for services to the Company as directors during the year was £nil (2008: £nil).

No advances or credits granted to any director subsisted during the year. Also, no guarantees on behalf of any director subsisted during the year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Employee Information

Staff are not employed directly by the Company and accordingly the Company does not incur direct staff or pension costs. The costs of staff working for the Company in 2009 and 2008 have been borne by another group undertaking.

The principal disclosures in respect of these staff appear in the financial statements of Zurich Employment Services Limited, copies of which can be obtained from The Secretary, Zurich Employment Services Limited, UK Life Centre, Station Road, Swindon, SN1 1EL.

5. Other Interest Receivable and Similar Income

Amount in £'000	2009	2008
Interest receivable on fixed asset investments	42,871	33,878
Interest receivable on cash at bank	29	70
	42,900	33,948

6. Taxation

Amount in £'000	2009	2008
Current Tax:		
UK Corporation Tax at a standard rate of 28% (2008: effective rate of 28.5%)	98	104
Adjustment in respect of prior years	-	(39,786)
Tax on Profit on Ordinary Activities	98	(39,682)

Factors Affecting the Tax Charge / (Credit) for the Year

The tax assessed for the year can be reconciled to the standard rate of corporation tax in the UK of 28.0% (2008: effective rate of 28.5%). The differences are explained below:

Amount in £'000	2009	2008
Profit on Ordinary Activities Before Taxation	349	366
Profit on ordinary activities multiplied by the standard rate of corporate tax in the UK of 28% (2008: effective rate of 28.5%)	98	104
Adjustment to tax charge in respect of prior years	-	(39,786)
Current tax charge / (credit) for the year	98	(39,682)

During 2008, agreement was reached with the UK tax authorities that the loan interest paid from 2004 onwards with respect to the undated subordinated bonds will be considered an allowable deduction. The tax previously accrued was therefore released to the profit and loss account in 2008.

The standard rate of corporation tax in the UK decreased from 30% to 28% from 1 April 2008 resulting in an effective rate of corporation tax of 28.5% for the year ended 31 December 2008.

NOTES TO THE FINANCIAL STATEMENTS (continued)**7. Fixed Assets - Investments****Loans and Receivables**

Amount in £'000	2009	2008
At 1 January	583,163	442,884
Additions	-	140,000
Amortisation in the year	300	279
At 31 December	583,463	583,163

On 2 October 2003, the Company issued £450m 6.625% undated subordinated guaranteed bonds. The proceeds of £441.9m, after the deduction of costs of £8.1m associated with the issue of the bonds, were loaned to the Parent Company at an interest rate of 7.375%. This loan to the Parent Company is not listed.

On 16 December 2008, the Company issued £140m 6.450% dated unsubordinated guaranteed bonds. Issue costs of £0.1m were borne by the Company. The gross proceeds of £140m were loaned to the Parent Company at an interest rate of 6.702%. This loan to the Parent Company is not listed.

The total maximum credit exposure on the investments as at 31 December 2009 was £583.5m (2008: £583.2m).

As the loans have been made to the Parent Company, which has sufficient net assets and facilities in place to meet its obligations to the Company as they fall due, the directors consider the credit risk to be low.

In the event of a winding-up of the Parent Company, the rights of the Company in respect of the undated subordinated bonds or any accrued but unpaid interest thereon shall be subordinated in right of payment to the claims of all unsubordinated creditors or subordinated creditors of the Parent Company whose claims rank, or are expressed to rank senior to the claims of the Company but shall rank ahead of the claims of any holders of issued shares of the Parent Company in respect of capital, dividends or any other distribution.

The fixed asset investments are carried at amortised cost.

8. Debtors

Amount in £'000	2009	2008
Amounts owed by the Parent Company	8,686	8,044
Amounts owed by group undertakings	-	269
Other debtors	-	23
	8,686	8,336

Amounts owed by the Parent Company are unsecured, interest free and have a fixed date of repayment.

NOTES TO THE FINANCIAL STATEMENTS (continued)**9. Creditors: Amounts Falling Due Within One Year**

Amount in £'000	2009	2008
Amounts owed to group undertakings	785	785
Corporation tax payable	92	-
Accruals and deferred income	7,809	7,809
	8,686	8,594

Amounts owed to group undertakings are unsecured, interest free and have a fixed date of repayment.

10. Creditors: Amounts Falling Due After More Than One Year

Amount in £'000	2009	2008
Other creditors	583,447	583,126

On 2 October 2003, the Company issued £450m 6.625% undated subordinated guaranteed bonds and on 16 December 2008 it issued £140m 6.450% dated unsubordinated guaranteed bonds (the Bonds), both of which are guaranteed by Zurich Insurance Company ("ZIC"). All of the Bonds are repayable. The earliest date that the Company may elect to redeem the £450m Bonds is 2 October 2022 and the £140m Bonds will mature on 16 December 2013. The proceeds of both Bonds, after the deduction of costs associated with the issue of the £450m Bonds, were loaned to the Parent Company at an interest rate of 7.375% and 6.702% respectively. Interest is deferrable at the option of the Company. However, if a dividend is disclosed or paid on any class of share capital of Zurich Financial Services Ltd all interest arrears become immediately due and payable.

At 31 December 2009, the open market values of the Bonds were:

Amount in £'000	2009	2008
£450m 6.625% Undated Subordinated Guaranteed Bonds	434,313	307,679
£140m 6.45% Dated Unsubordinated Guaranteed Bonds	142,134	142,010
	576,447	449,689

As stated above, the payment of principal and interest in respect of the Bonds has been irrevocably and unconditionally guaranteed by ZIC. A fee is paid by the Company on an annual basis for this guarantee.

In the event of a winding-up, liquidation, dissolution or other similar proceedings of the Company, there shall be payable in such winding-up, liquidation or dissolution on the undated subordinated guaranteed bonds, subject to and after the claims of all creditors other than any payments to the holders of debt that is expressly designated as ranking junior to the undated subordinated guaranteed bonds, or holders of issued shares at such time in the Company, an amount equal to the principal amount of such bonds together with interest which has accrued up to, but excluding, the date of repayment.

The dated unsubordinated bonds rank pari passu, with all other outstanding unsecured and unsubordinated creditors of the Company, and as such rank senior to the undated subordinated bonds.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Called Up Share Capital

Amount in £'000	2009	2008
Allotted, Issued and Fully Paid Ordinary Shares of £1 each	50	50

The capital of the Company is managed by the Zurich Financial Services Ltd group to the extent that it is sufficient to enable the Company to undertake its current principal activity.

12. Reconciliation of Movements in Shareholders' Funds

Amount in £'000	Share Capital	Profit and Loss Account	Total 2009	Total 2008
Opening shareholders' funds	50	1,205	1,255	(38,793)
Profit for the financial year	-	251	251	40,048
Closing shareholders' funds	50	1,456	1,506	1,255

13. Financial Instruments

The Company's financial instruments comprise borrowings arising from the issue of subordinated and unsubordinated bonds and receivables from the loan of the proceeds of those bonds to the Parent Company. The main purpose of the bonds was to raise finance for the Zurich Financial Services Ltd group. The Company has in issue two classes of fixed rate interest bonds. The main risk to the Company arising from its financial instruments is credit risk, which is addressed in Note 7. The financial assets and liabilities have fixed interest rates, which result in interest receivable exceeding interest payable. As such, the Company has managed its interest rate risk. In addition, as the underlying instruments are denominated in sterling, the instruments are matched in maturity and interest payments and receipts are made concurrently, they carry no exchange or material liquidity risk. The Company's finances are actively managed in conjunction with the Zurich Financial Services Ltd group activities to ensure that sufficient funds are available to meet liabilities as they fall due which, together with the guarantee for payments of principal and interest that the Company holds with ZIC, mitigates any remaining liquidity risk that the Company may face.

Interest rate risk profile of financial liabilities and assets

The interest rate risk profile of the financial liabilities as at 31 December was as follows:

Amount in £'000	2009	2008
Fixed Rate Financial Liabilities (£450m Undated Subordinated Bonds)	443,536	443,238
Fixed Rate Financial Liabilities (£140m Dated Unsubordinated Bonds)	139,911	139,888
	583,447	583,126

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. Financial Instruments (continued)

	Fixed Rate Financial Liabilities	
	Weighted average fixed interest rate %	Weighted average period for which rate is fixed (years)
At 31 December 2009		
£450m Undated Subordinated Bonds	6.625%	12.75
£140m Dated Unsubordinated Bonds	6.450%	3.96
At 31 December 2008		
£450m Undated Subordinated Bonds	6.625%	13.75
£140m Dated Unsubordinated Bonds	6.450%	4.96

The interest rate risk profile of the financial assets at 31 December was as follows:

Amount in £'000	2009	2008
Fixed Rate Financial Assets	443,463	443,163
Fixed Rate Financial Assets	140,000	140,000
	583,463	583,163

	Fixed Rate Financial Assets	
	Weighted average fixed interest rate %	Weighted average period for which rate is fixed (years)
At 31 December 2009		
£450m Subordinated Perpetual Loan	7.375%	12.75
£140m Subordinated Perpetual Loan	6.702%	3.96
At 31 December 2008		
£450m Subordinated Perpetual Loan	7.375%	13.75
£140m Subordinated Perpetual Loan	6.702%	4.96

13.1 Maturity Analysis of Financial Liabilities

The maturity of funding is managed in conjunction with the profile of that of the entire Zurich Financial Services (UKISA) Limited group. The group's objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings. As noted above, £140m of the Company's total borrowings will mature in 3.96 years and, at the Company's discretion, £450m of the Company's total borrowings will mature in 12.75 years.

The maturity profile of the financial liabilities, based on expected maturity date, at 31 December was as follows:

Amount in £'000	2009	2008
In one to five years	139,911	139,888
In greater than five years	443,536	443,238
	583,447	583,126

NOTES TO THE FINANCIAL STATEMENTS (continued)**13. Financial Instruments (continued)**

The following schedule shows the maturity analysis of the contractual cash flows of the financial liabilities, calculated on an undiscounted basis. The cash flows include the repayment of the principal amount together with the associated interest payments over the term of the financial liabilities.

Amount in £'000	2009	2008
Less than one year	38,842	38,842
One to five years	285,994	295,024
Over five years	681,394	711,207
	1,006,230	1,045,073

13.2 Borrowing Facilities

The Company has no undrawn borrowing facilities available to it.

13.3 Fair Values of Financial Assets and Financial Liabilities

Set out below is a comparison by category of book values and fair values of all financial assets and financial liabilities as at 31 December. The quoted market values for financial liabilities have been used to represent an estimate of fair value for the purposes of this disclosure. The fair value of the long-term loans to the Parent Company have been calculated as the present value of future cash flows using a discount rate of 6.10% (2008: 8.92%). The discount rate is based on a 12 month LIBOR rate of 1.25% (2008: 3.07%) plus a margin of 0.35% (2008: 0.35%) and a risk premium of 4.50% (2008: 5.50%). The book value of the cash at bank and in hand has been taken to represent fair value.

Amount in £'000	Book Value 2009	Book Value 2008	Fair Value 2009	Fair Value 2008
Financial Assets				
Long-term loans to parent undertaking	583,463	583,163	639,371	520,611
Cash at bank and in hand	1,490	1,476	1,490	1,476
Financial Liabilities				
Long-term borrowings	(583,447)	(583,126)	(576,447)	(449,689)

14. Related Party Transactions

The Company has taken advantage of an exemption from FRS 8 'Related Party Disclosures' not to disclose transactions with Zurich Financial Services Ltd's group undertakings. Balances with Zurich Financial Services Ltd's group undertakings are shown in notes 8 and 9.

No contract of significance existed at any time during the year in which a director or key manager was materially interested or which requires disclosure as a related party transaction as defined under FRS 8.

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. Ultimate Parent Company

The Company's ultimate parent company is Zurich Financial Services Ltd, which is incorporated in Switzerland. Zurich Financial Services Ltd is the parent company of the smallest and largest group of companies, of which the Company is a wholly owned subsidiary, for which group financial accounts are drawn up. Copies of the consolidated financial statements of Zurich Financial Services Ltd can be obtained from:

The Secretary
Zurich Financial Services Ltd
Mythenquai 2
8002 Zurich
Switzerland.