

Zurich Finance (USA), Inc.
Financial Statements
December 31, 2009

Management Information

Board of directors and officers at 29 March 2010

<u>Name</u>	<u>Function</u>	<u>Business Address</u>
Michael T. Foley	Director	1400 American Lane, Schaumburg Illinois 60196, U.S.A.
Richard J. Hauser	Director & Assistant Secretary	1400 American Lane, Schaumburg, Illinois 60196, U.S.A.
Barry S. Paul	Director & President	1400 American Lane, Schaumburg, Illinois 60196, U.S.A.
Vibhu R. Sharma	Director	1400 American Lane, Schaumburg, Illinois 60196, U.S.A.
Pierre Wauthier	Director	Mythenquai 2, 8002 Zurich, Switzerland
Thomas Rogers	Senior Vice President	105 East 17 th Street, New York, NY 10003-2105, U.S.A.
Jon Nagel	Secretary	105 East 17 th Street, New York, NY 10003-2105, U.S.A.

Auditors


PricewaterhouseCoopers
One Spencer Dock,
North Wall Quay,
Dublin 1,
Ireland

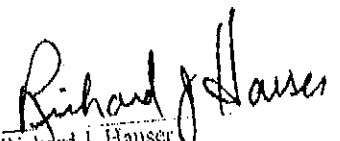
Bankers

Bank of America, N.A.
540 W Madison St - 16th Floor
Chicago, Illinois 60661
U.S.A.

Registered Office

o Corporation Service Company,
3711 Centerville Road, Suite 400
Wilmington, Delaware 19808
U.S.A.

Signed: 
Name: Barry S. Paul
Title: President and Director

Signed: 
Name: Richard J. Hauser
Title: Assistant Secretary and Director

Zurich Finance (USA), Inc.

Management Report and Responsibility Statement as at 31 December 2009

Management Review

The nature and purpose of Zurich Finance (USA), Inc. (the "Company") is to act as a vehicle for raising external debt for the Zurich Financial Services Group through a Euro Medium Term Note Programme (the "EMTN Programme").

Zurich Insurance Company Ltd ("ZIC") provides a guarantee to the Company related to the principal and interest of its outstanding bonds payable up to a specified maximum amount. As of 31 December 2009, assets exceed liabilities. The guarantees in place are sufficient to satisfy the current obligations of the Company.

The financing operations of the Company by their nature are exposed to interest rate risk and foreign currency risk arising from foreign currency denominated bonds payable. As discussed below, the Company manages these risks through the use of various derivative financial instruments. The Company's total exposures to such risks are economically hedged.

Business Review

In the course of the year, the Company issued EUR 1.4 billion in two tranches of Debt (EUR 600m maturing 2015 and EUR 800m maturing 2012). The 600m EUR tranche is hedge accounted to minimize financial reporting loss.

In 2009, the Company made after tax profit of \$103,693,946. The other debt issuances, and their related loans and hedges, reasonably covered their costs in the financials due to the effects of hedge accounting. Due to falling USD interest rates, the tranche issued in 2005 for 500m EUR reported a net interest gain of \$16m after tax.

The profit for the year is primarily driven by fair value accounting required for the cross currency interest rate swap relating to the €500 million debt issued in 2003. This debt tranche is economically hedged but no hedge accounting is applied, which gave rise to an \$84 million gain (after tax).

As at December 31, 2009 Stockholders Equity is \$114 million. This contains a net \$7 million loss relating to the cash flow hedges losses/gains which are deferred to equity, which is expected to reverse as the swaps near maturity.

Post Balance Sheet Events

There were no new issuances of debt or any other subsequent events in the period up to the signing of the financials (29 March 2010).

It is expected that the Company will continue to issue debt under the EMTN Programme.

Responsibility Statement

Management is responsible for preparing the financial statements in accordance with International Financial Reporting Standards (IFRSs).

IFRSs require that the financial statements be prepared which give a true and fair view of the state of affairs, financial performance and cash flows of the Company. This true and fair view requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework for the Preparation and Presentation of Financial Statements.

In preparing the financial statements, management is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

Management is also responsible for keeping proper books of account, which disclose with reasonable accuracy at any time the financial position of the Company and to enable it to ensure that the financial statements are prepared in accordance with accounting standards. It is 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.

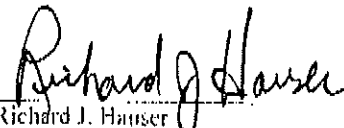
We, the undersigned officers and directors of the Company in the year 2009, confirm to the best of our knowledge, the financial statements for the year ended December 31, 2009, prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and that the management report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that the Company faces.

Signed:



Name: Barry S. Paul
Title: President and Director

Signed:



Name: Richard J. Hauser
Title: Assistant Secretary and Director

PricewaterhouseCoopers
One Spencer Dock
North Wall Quay
Dublin 1
Ireland
I.D.E. Box No. 137
Telephone +353 (0) 1 792 6000
Facsimile +353 (0) 1 792 6200
www.pwc.com/ie

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ZURICH FINANCE (USA), INC.

We have audited the financial statements (the "financial statements") of Zurich Finance (USA), Inc. for the year ended 31 December 2009 which comprise the Statement of Operations, the Balance Sheet, Statement of Change in Equity and Statement of Cash Flows, Summary of Significant Accounting Policies and the related notes to the financial statements. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of management and auditors

Management's responsibilities for preparing the financial statements, in accordance with International Financial Reporting Standards (IFRSs) are set out in the Statement of Management's Responsibilities on page 3.

Our responsibility is to audit the financial statements in accordance with International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's shareholders as a body and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with IFRSs. We state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit, and whether the financial statements are in agreement with the books of account.

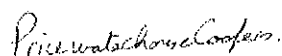
Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view, in accordance with IFRSs, of the state of the company's affairs as at 31 December 2009 and of its profit and cash flows for the year then ended.




PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Dublin, Ireland

29 March 2010

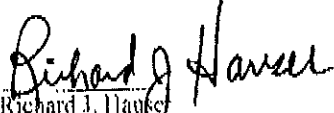
Zurich Finance (USA), INC.
Balance Sheet
December 31, 2009

	<u>2009</u>	<u>2008</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 12,883,011	\$ 1,078,745
Interest receivable from affiliates (note 5)	<u>71,747,370</u>	<u>33,753,352</u>
Total current assets	<u>84,630,381</u>	<u>34,832,097</u>
Non Current assets:		
Derivative financial instruments (note 6)	730,221,785	209,322,398
Interest receivable from affiliates (note 5)	33,046,413	35,046,413
Notes receivable from affiliates (note 5)	4,567,194,689	2,717,876,161
Deferred income tax Asset (note 3)	<u>-</u>	<u>76,379,541</u>
Total non current assets	<u>5,332,462,887</u>	<u>3,038,624,513</u>
Total assets	<u>5,417,093,268</u>	<u>3,073,456,610</u>
Liabilities and Stockholder's Equity		
Current Liabilities:		
Interest payable	\$ 99,845,200	\$ 47,899,363
Due to affiliates (note 8)	<u>3,241,319</u>	<u>3,037,585</u>
Total current liabilities	<u>103,586,528</u>	<u>50,936,948</u>
Non Current Liabilities:		
Deferred income tax liability (note 3)	15,344,742	
Bonds payable (note 4)	<u>5,184,204,791</u>	<u>3,071,353,831</u>
Total non current liabilities	<u>5,199,549,533</u>	<u>3,071,353,831</u>
Total liabilities	<u>5,303,136,061</u>	<u>3,122,288,779</u>
Stockholder's Equity:		
Common stock at \$ 01 par value: authorized		
1000 shares: issued and outstanding 100 shares	1	1
Additional paid-in capital (note 5)	94,413,135	97,058,686
Retained earnings and reserves	26,957,290	(76,736,656)
Loss on Cash flow hedge (after tax)	<u>(7,413,219)</u>	<u>(69,151,200)</u>
Total Stockholder's Equity	<u>113,957,207</u>	<u>(48,829,169)</u>
Total Liabilities and Stockholder's Equity	<u>\$ 5,417,093,268</u>	<u>\$ 3,073,456,610</u>

Signed:


Name: Barry S. Paul
Title: President and Director

Signed:


Name: Richard J. Hauer
Title: Assistant Secretary and Director

The accompanying notes are an integral part of the financial statements.

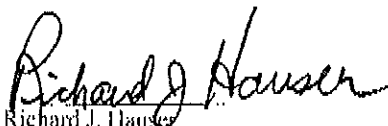
Zurich Finance (USA), INC.
Statement of Operations
Year Ended December 31, 2009

	<u>2009</u>	<u>2008</u>
Interest Income		
Interest income - notes receivable from affiliate	\$ 231,010,044	\$ 144,178,016
Interest income - short-term investments	2,696	31,743
Interest Expense	<u>(201,777,318)</u>	<u>(145,125,636)</u>
Net Interest Income / (Expense)	29,235,422	(915,877)
Fair value gains / (losses) from derivative financial instruments (note 6)	397,385,847	(126,113,865)
(Losses) / Gains on Bonds Payable (Note 4)	<u>(252,296,315)</u>	<u>24,018,123</u>
Total Operating Income / (Expense)	174,324,954	(103,011,619)
Expenses		
Guarantee Fees (note 8)	(14,765,585)	(11,959,035)
Other Expenses	(5,877)	(44,818)
Audit Fees (note 8)	(24,345)	(50,009)
	<u>(14,795,807)</u>	<u>(12,053,862)</u>
Operating Income / (Loss) - Income before income tax	159,529,149	(115,065,481)
Income Tax (Charge) / Benefit (note 3)	<u>(55,835,203)</u>	<u>40,272,919</u>
Net Income / (Loss) for the Year	\$ 103,693,946	\$ (74,792,562)

Signed:


Name: Barry S. Paul
Title: President and Director

Signed:


Name: Richard J. Hauser
Title: Assistant Secretary and Director

The accompanying notes are an integral part of the financial statements.

Zurich Finance (USA), INC.
Statement of Changes in Equity
Year Ended December 31, 2009

	Common Stock		Additional Paid-in Capital	Fair Value	Retained Earnings (Deficit)	Total Stockholder's Equity (Deficit)
	Shares	Amount		Losses on Cash Flow Hedge, Net of Tax		
Balances as of Dec 31, 2008	<u>100</u>	<u>\$ 1</u>	<u>\$ 97,058,686</u>	<u>\$(69,151,200)</u>	<u>\$(76,736,656)</u>	<u>\$(48,829,169)</u>
Capital Contribution						
Net Gain / (Loss) on revaluation of cash flow hedges				94,981,510		94,984,510
Deferred Tax on Reserve Movement				(33,243,529)		(33,243,529)
Capital Contribution Tax Dividend adjustment (note 3)			(2,645,551)			(2,645,551)
Net income/(loss)					103,693,946	103,693,946
Balances as of Dec 31, 2009	<u>100</u>	<u>\$ 1</u>	<u>94,413,135</u>	<u>(7,413,219)</u>	<u>26,957,290</u>	<u>113,957,207</u>

The accompanying notes are an integral part of the financial statements.

Zurich Finance (USA), INC.

Statement of Cash Flows Year Ended December 31, 2009

Cash flows used in operating activities

	2009	2008
Gain / (Loss) before income tax	\$ 159,529,149	\$ (115,065,481)
Adjustment for :		
Notes Receivable from Affiliates (note 5)	(1,849,318,528)	(122,326,981)
Derivative financial instruments	(520,899,387)	236,902,506
(includes changes in Cash flow hedge before tax)	94,981,510	(31,938,813)
Interest Receivable from Affiliates (note 5)	(37,994,018)	38,655,789
Interest Payable (note 4)	51,945,846	(3,624,994)
Due to Affiliates (note 8)	708,734	(5,980)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents used in operations	(2,101,046,694)	2,596,046

Cashflow provided by financing activities

Bonds Payable (note 4)	2,112,850,960	(23,680,230)
Capital Contribution (note 5)	-	20,000,000
	<hr/>	<hr/>
Net Increases in cash and cash equivalents provided by financing	2,112,850,960	(3,690,230)

Net Increases / (decrease) in cash and cash equivalents

	11,804,266	(1,084,184)
Cash & Cash equivalents		
At Beginning of Year	1,078,745	2,162,929
At End of the Year	<hr/> \$ 12,883,011	<hr/> \$ 1,078,745

The accompanying notes are an integral part of the financial statements.

Zurich Finance (USA), Inc.
Notes to Financial Statements
December 31, 2009

1. Corporate Description and Related Parties and Basis for Presentation

ZFS Finance (USA), Inc. ("ZF USA" or the "Company") a Delaware corporation, was incorporated on April 9, 1998 as a wholly owned subsidiary of Zurich Holding Company of America ("ZHCA") and began operations on July 2, 1998. ZHCA is a wholly owned subsidiary of Zurich Insurance Company ("ZIC"), Switzerland. ZIC is 100% owned by Zurich Group Holdings, Switzerland, which in turn is 100% owned directly and indirectly by Zurich Financial Services ("ZFS") Switzerland.

The nature and purpose of the Company is to raise proceeds through external debt offerings to loan to ZIC affiliates in the United States of America ("U.S."). Proceeds are further utilized for general corporate purposes and to refinance external credit agreements. To date, the sole source of raising funds is through a Euro Medium Term Note Program whereby public bond offerings are made.

ZF USA was not established to have sufficient operations or capital to meet its long term obligations and is dependent on related parties for operational and financial support. ZFUSA does not employ any staff nor does it maintain separate operations. As such, ZIC has provided a guarantee to ZFUSA related to the principal and interest of its outstanding bonds payable, up to a specified maximum amount, as further described in Note 8. As of December 31, 2009 assets exceed liabilities. The guarantees in place are sufficient to satisfy the current obligations of ZFUSA.

The financing operations of ZF USA by their nature are exposed to interest rate risk and foreign currency risk arising from foreign currency denominated bonds payable. As discussed below, ZF USA manages these risks through the use of various derivative financial instruments. The Company's total exposures to such risks are economically hedged by ZF USA.

2. Summary of Significant Accounting Policies

Reporting Currency

The financial statements of the ZF USA are reported in United States ("U.S.") dollars, which is also the Company's functional currency.

Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, and loans and receivables. Management determines the classification of its investments at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

Financial assets and financial liabilities are designated at fair value through profit or loss when:

- Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortized cost for loans and advances to customers or banks and debt securities in issue.
- Certain investments, such as equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss; and

Zurich Finance (USA), Inc.
Notes to Financial Statements
December 31, 2009

- Financial instruments, such as debt securities held, containing one or more embedded derivatives which significantly modifies the cash flows, may be designated at fair value through profit and loss.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in 'Fair Value gains / (losses) from Derivative Financial Instruments'.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; or (b) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Regular-way purchases and sales of financial assets at fair value through profit or loss are recognized on trade date -- the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when they are extinguished -- that is, when the obligation is discharged, cancelled or expires.

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, and other valuation techniques commonly used by market participants.

Derivative Financial Instruments

ZF USA is exposed to interest rate and currency risk as a result of holding liabilities which are denominated in currencies other than U.S. dollars, the functional currency of ZFUSA. The market value and cash flows of such liabilities and the value of the liabilities denominated in the other currencies will fluctuate due to changes in interest rate and exchange rates, respectively.

Derivative financial instruments include swaps which derive their value mainly from underlying interest rates and foreign exchange rates. Derivative financial instruments are subject to various risks similar to those related to the underlying financial instruments, including market, credit and liquidity risk. Derivative fair values, for both hedging and non-hedging instruments, are based on the discounted cash flow method. Input parameters are currency and interest rates which are taken from professional financial data providers such as Bloomberg and Reuters.

Derivative financial instruments are carried at fair value. To the extent that such instruments result in positive fair values, they are recorded as derivative assets, while derivatives with negative fair values are recorded as derivative liabilities.

Derivative financial instruments that qualify for hedge accounting

For the purpose of hedge accounting, hedging instruments are classified as fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability, cash flow hedges

Zurich Finance (USA), Inc.
Notes to Financial Statements
December 31, 2009

which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction, or hedges of the net investment in a foreign operation.

To qualify for hedge accounting, the relationship of the hedging instrument to the underlying transaction must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. If these conditions are not met, then the relationship does not qualify for hedge accounting, in which case the hedging instrument and the hedged item are reported independently in accordance with the respective accounting policy as if there was no hedging relationship. Where these conditions are met, the accounting treatments are as follows:

Fair value hedges

Gains or losses from re-measuring the derivatives that are designated and qualify as fair value hedges are recognized in the *Fair value gains from derivative financial instruments* line on the Statement of Operations. Offsetting gains or losses on the fair value hedged item attributable to the hedged risk are adjusted against the carrying amount of the hedged item and are recognized in *Losses on bonds payable* line on the Statement of Operations.

When ZF USA discontinues fair value hedge accounting because it determines that the derivative no longer qualifies as an effective fair value hedge, the derivative will be carried separately on the balance sheet at its fair value, and the value of the hedged asset or liability will no longer be adjusted for changes in fair value attributable to the hedged risk. Interest-related fair value adjustments previously made to the underlying hedged items will be amortized in income over the remaining life of the hedged item. Any unamortized interest-related fair value adjustment is recorded in income upon sale or extinction of the hedged asset or liability, respectively.

Cash flow hedges

In a cash flow hedge relationship the effective portion of gain or loss on the re-measurement of the cash flow hedging instrument is recognized directly in shareholders' equity in *Gains / (Losses) on Cash Flow hedges*. The ineffective portion is recognized in current period income in the *Fair value gains from derivative financial instruments* line on the Statement of Operations. The accumulated gains and losses on the hedging instrument in shareholders' equity are transferred to income in the same period in which gains or losses on the item hedged are recognized in income.

When hedge accounting is discontinued on a cash flow hedge, the net gain or loss will remain in *Gains / (Losses) on Cash Flow hedges* line within shareholders' equity and be reclassified to income in the same period or periods during which the formerly hedged transaction is reported in income.

Cash and Cash Equivalents

Cash relates to monies held in short term deposit accounts with an original maturity of less than 3 months. The cash equivalents are carried at cost, which closely approximates fair value.

Bond Payable

Bonds Payable are recognized initially at fair value, net of transaction costs incurred. Bonds Payable are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in income over the period of the borrowings using the effective interest rate method.

Zurich Finance (USA), Inc.
Notes to Financial Statements
December 31, 2009

Revenue Recognition

Revenue consists principally of interest income on affiliate loans. Revenue on derivative instruments is recognized in the period in which changes in fair value occur.

Interest income and expense are recognized in the income statement for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purposes of measuring the impairment loss.

Foreign Currency Translation

Foreign currency transactions are translated into US\$ at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Federal Income Tax

Under the terms of an inter-company tax sharing agreement, ZFUSA files a consolidated federal income tax return with its affiliates with ZHCA as the parent. The inter company tax sharing agreement provides no immediate benefit for a current taxable loss, which is utilized in the current year consolidated tax return. However, under the terms of the agreement, the amount of the cumulative tax liability of each member shall not exceed the total tax liability as computed on a separate return basis for all taxable years to which this agreement applies.

Deferred taxes are provided on the temporary differences between the tax and financial statement basis of assets and liabilities and are generally determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company only records deferred tax assets if future realization of the tax benefit is probable, with a valuation allowance recorded for the portion that is not likely to be realized. The valuation allowance is subject to future adjustments based upon among other items, ZFUSA's estimates of future operating earnings and capital gains.

Zurich Finance (USA), Inc.
Notes to Financial Statements
December 31, 2009

3. Federal Income Taxes

The Company's income tax (charge) / benefit in the year December 31, 2009 and 2008 consist of the following

	2009	2008
Current	\$ 2,645,551	\$ 2,744,842
Deferred	<u>(58,480,754)</u>	<u>37,528,077</u>
Total Income tax (charge)/ benefit	<u>\$ (55,835,203)</u>	<u>\$ 40,272,919</u>

The actual federal income tax (charge) / benefit in the year December 31, 2009 and 2008 were comprised of the following:

	2009	2008
Tax calculated by applying the U.S federal tax rate of 35% to loss / (gain) before income tax (charge)/ benefit	(55,835,203)	\$40,272,919
Total Income tax (charge)/ benefit	<u>\$ (55,835,203)</u>	<u>\$ 40,272,919</u>

The net tax effect of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes are reflected in deferred income taxes.

ZF USA deferred an Income tax liability of (\$15,344,742) as of December 31, 2009 and an Income tax asset of \$76,379,541 as of December 31, 2008 which consists of the tax impact of foreign currency translation and swap (losses) or gains. ZF USA is in a deferred tax liability position.

Pursuant to a Declaration to Forego Tax (Charges) / Benefits as executed by affiliates of ZFUSA having current tax payable balances and that are members of the ZHCA Tax Sharing Agreement, ZFUSA has realized forgiveness of a tax payable of \$(2,645,551) as of December 31, 2009 and has forgiven a tax receivable balance of \$4,017,955 as of December 31, 2008. These adjustments have been recorded as a deemed capital contribution and as a deemed dividend respectively.

The statutes of limitations for all tax returns through the year ended December 31, 1999 are closed. The examination of the tax years 2003 through 2004 was settled with the Appeals Division of Internal Revenue Service ("IRS") and is awaiting final approval by Joint Committee on Taxation. The IRS completed its examination for the tax years 2005 and 2006, and on March 25, 2009 issued a Revenue Agent's Report ("RAR"). Zurich Holding Company of America, Inc. ("ZHCA") protested certain disputed amounts and IRS issued its Rebuttal to Protest. ZHCA will seek resolution of the disputed tax matters through the Appeals Division of the IRS. In October 2009, the IRS commenced its examination of the tax years 2007 and 2008, which is scheduled to be completed by the end of June 2011. The Company believes the ultimate liability for the matters referred to above is not likely to have a material adverse effect on the Company's financial position; however, it is possible the effect could be material to the Company's results of operations for an individual future reporting period.

Zurich Finance (USA), Inc.
Notes to Financial Statements
December 31, 2009

4. Bonds Payable

The following is a summary of the bonds payable outstanding at December 31, 2009 and 2008:

	2009	2008
Senior debt		
4.5% 10-year, 1 Billion Euro bond swapped into U.S. dollars ¹ , maturing September 17, 2014 includes \$ 8,549,335 and \$9,838,374 of unamortised costs at December 31, 2009 and 2008 respectively, effective yield of 4.59%	\$ 1,443,210,398	\$ 1,394,873,620
3.5% 3-year, 300 million CHF bond swapped into U.S. dollars commenced 22 September 2008 ² , and maturing November 11, 2011 includes \$839,321 and \$1,204,731 of unamortised costs December 31, 2009 and 2008 respectively, effective yield of 3.52%	\$ 304,177,970	\$ 298,469,222
6.5% 6.5-year, 600m EUR swapped into U.S. dollars commenced April 14 2009, and maturing October 14, 2015 ³ includes \$3,429,933 of unamortised costs at December 31, 2009, effective yield of 4.77%	\$ 856,579,766	-
4.875% 3-year, 800m EUR swapped into U.S. dollars commenced April 14 2009, and maturing April 14 2012 ⁴ includes \$ 4,126,826 of unamortised costs at December 31, 2009, effective yield of 3.51%	\$ 1,142,552,774	-
Subordinated debt		
5.75% 20-year, 500 million Euro bond swapped into U.S. dollars, maturing October 2, 2023, ⁴ (callable 2013) includes \$9,407,541 and \$9,563,752 of unamortised costs at December 31, 2009 and 2008 respectively, effective yield of 6.14%	\$ 707,267,208	\$ 686,635,748
4.5% 20-year, (callable in 2015), 500 million Euro bond swapped into U.S. dollars, maturing June 15, 2025 ² includes \$3,004,248 and \$3,374,784 of unamortised costs at December 31, 2009 and 2008 respectively, effective yield of 4.5%	\$ 730,416,675	\$ 691,375,241
	<u>\$ 5,184,204,791</u>	<u>\$ 3,071,353,831</u>
Total debt		

None of the bonds payable listed above were in default as of December 31, 2009 and 2008.

¹ The bond is part of a qualifying cash flow hedge (80% of the total) and fair value hedge (20% of the total)

² The bond is part of a qualifying fair value hedge relationship

³ The bond is part of a qualifying cash flow hedge relationship

⁴ The bond is economically hedged, but hedge accounting treatment has not been applied.

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ZF USA is a participant in a Euro Medium Term Note ("EMTN") Program together with affiliate companies, Zurich Finance (UK) plc, Zurich Finance (Luxembourg), Zurich Insurance Company and Zurich Bank, which allows for potential issuance of senior and subordinated notes up to a maximum of USD 10 billion. ZF USA utilized proceeds from the issuance of bonds under the EMTN to make loans to its parent ZHCA and ZCMMFC. The bond issuances under the EMTN require either annual or quarterly interest payments on the anniversary date of the issuance and principal repayment upon maturity.

Senior debt

In 2004, ZF USA issued EUR 1 billion senior bond and utilized the proceeds to make loans to ZHCA. The 300m CHF Debt issued in 1998 matured on July 22, 2008. On September 23, 2008 300m CHF Debt was issued under the EMTN program and the proceeds were lent to ZHCA. On April 14, 2009 1.4 billion EUR Debt was issued in two tranches (EUR 800m and EUR 600m) and the proceeds were lent to ZHCA and ZCM Match Funding Corp (ZCM MF).

Subordinated debt

Subordinated notes are obligations of ZF USA which, in case of liquidation, rank junior to all present and future senior indebtedness and certain other obligations of the company. Subordinated notes are callable, have step-up clauses and are subject to various redemption conditions, including mandatory redemption as a result of various taxes, default or other events.

In 2003 ZF USA issued a EUR 500 million subordinated bond and utilized the proceeds to make loans to ZHCA and to other Farmer Insurance Group affiliates, Promatic Service Corporation (California) and Promatic Service Corporation (Nevada). On August 30, 2007 ZHCA took over the outstanding obligation of the Farmer Insurance Group affiliates.

In 2005, ZF USA issued EUR 500 million subordinated bond and utilized the proceeds to enter into an agreement with ZIC whereby ZF USA purchased a share of certain surplus notes previously issued by an affiliate, Zurich American Insurance Company ("ZAIC") and the funds were lent onto ZHCA.

Hedged debt

ZF USA uses cross-currency interest rate swaps and currency swaps to manage the risks inherent in non-USD bond issuances. Where the relationship qualifies for hedge accounting, such hedge accounting is applied as described in note 2.

The objective of the fair value hedges of debt issues is to protect against changes in the foreign currency exposure and interest rate exposure of EUR-denominated debt issuances, while the objective of the cash flow hedge on debt is to hedge changes in USD cash flows of the EUR / CHF-denominated debt resulting from changes in relevant exchange rates.

A fair value hedge relationship on EUR 500 million 4.5 percent subordinated bond due June 2025 was entered into at the issuance of the debt instrument in 2005 and will end on June 15, 2015.

A fair value hedge relationship on 20 percent of the EUR 1 billion 4.5 percent senior debt due 2014 and cash flow hedge relationship on the remaining 80 percent of this debt were entered into on January 1, 2007 and will end at maturity of the underlying debt instrument in 2014.

A fair value hedge relationship exists on the debt issuance of 300m CHF in 2008, maturing in 2011.

A cash flow hedge relationship was created on the new EUR 600 million issued April 14, 2009. These proceeds were on lent to ZCM MF (USD 730.1 million) and ZHCA (USD 63million).

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The maturity schedule (based on contractual maturity dates) of outstanding debt as of December 31, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Within 1 year	-	-
1 - 2 years	304,177,970	-
2 -3 years	1,142,552,774	298,469,222
3 - 4 years	707,267,208	-
5 years and after	3,030,206,839	2,772,884,609
Total Bonds Payable	<u>\$ 5,184,204,791</u>	<u>\$ 3,071,353,831</u>

Revaluation Loss on bonds payable recognized in Statement of Operations

As of December 31	<u>2009</u>	<u>2008</u>
Swiss Franc 300million bond, maturing 2008	-	(21,638,273)
EUR 500 million Bond, maturing 2023	(20,497,205)	39,479,902
EUR 1 billion Bond, maturing 2014	(43,654,816)	49,194,581
EUR 500 million Bond, maturing 2025	(39,088,431)	(20,607,716)
Swiss Franc 3 year 300million Bond (issued 2008)	(8,328,212)	(22,410,371)
EUR 600 million Bond, maturing 2015	(63,488,631)	-
EUR 800 million Bond, maturing 2012	(77,239,020)	-
Total gain / (loss) on bonds payable	<u>\$ (252,296,315)</u>	<u>\$ 24,018,123</u>

5. Notes Receivable from Affiliates

As of December 31, 2009 and 2008, ZF USA has notes receivable due from the following affiliates:

Notes Receivable from Affiliates	<u>2009</u>	<u>2008</u>
Zurich Holding Company of America	\$ 3,837,094,689	\$ 2,717,876,161
Zurich Capital Markets Match Funding Corporation	730,100,000	-
	<u>\$ 4,567,194,689</u>	<u>\$ 2,717,876,161</u>

During 2005, ZF USA entered into a Participation Agreement with ZIC to purchase a 60.950285% share in certain surplus notes previously issued by ZAIC in the aggregate principle of \$1billion. The surplus notes do not have a stated maturity date. Semi-annual interest and principal payments may be made by ZAIC only with the prior approval of the Superintendent of Insurance of the State of New York. Interest of \$73,140,343 was paid in July 22, 2008 (two years of arrears) and \$18,808,028 was paid on December 15, 2009. This Interest was re lent to ZHCA as a short term loan until October 2, 2008, then relented to ZHCA as a \$62m short term loan until December 15, 2008 and as a \$48.2m loan

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from December 15, 2008 to June 15, 2009. On June 15, 2009 \$37.7m was lent to ZHCA until December 15, 2009 and then rolled to June 15, 2010.

Although not contractually required to do so, in order to offset the impact of ZAIC not paying the full amount of interest on its surplus note, ZHCA made capital contribution to the Company in the amount of \$20 million during 2008, there was no capital contribution in 2009. The Participation Agreement was subsequently transferred from ZIC to ZHCA.

As part of the EUR1.4bn debt issuance in April 2009, \$730.1m was lent to Zurich Match Funding Corporation in Bermuda.

<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Notes Receivable</u>	<u>Interest Receivable</u>
ZHCA				
October 2, 2003	October 2, 2023	7.25%	147,973,107	2,688,542
September 17 2004	September 17 2014	5.4755%	969,243,928	15,425,822
September 17 2004	September 17 2014	6 mth LIBOR + .8375%	242,320,126	1,085,756
June 15, 2005	None	6%	609,502,850	54,956,840
October 2, 2008	October 2, 2013	7.25%	429,600,000	7,873,017
September 23, 2008	November 23, 2011	6 Month Libor Rate + 88.8bp	272,474,678	407,497
April 14, 2009	April 14, 2012	5.5%	1,065,280,000	12,531,835
April 14, 2009	October 14, 2015	6.96%	63,000,000	937,860
December 15, 2009	June 15, 2010	1.00313%	37,700,000	17,859
ZCM MF				
April 14, 2009	October 14, 2015	6.96%	730,100,000	10,868,755
Notes/Interest receivable from affiliates			4,567,194,689	106,793,783

6. Derivative Financial Instruments

As discussed above, ZF USA is exposed to interest rate and foreign currency risk as a result of holding liabilities which are also denominated in currencies other than U.S. dollars.

ZF USA manages these risks through the use of internal and external cross currency and interest rate swaps. In certain circumstances these instruments meet the definition of an effective hedge for accounting purposes. As of December 31, 2009, the internal and external transactions represent 100% and 0%, respectively, of the total hedging transactions.

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Derivative financial instruments held for economic hedging purposes

	Remaining life	2009		2008
		Notional Amount	Fair Value	Fair Value
Fair Value hedge				
2004 Fair value hedge	1 to 5 years	243,800,000	64,463,580	47,668,130
2005 Fair value hedge	Over 5 years	613,750,000	139,158,016	93,406,461
2008 Fair value hedge	1 to 5 years	273,747,605	27,560,334	16,557,995
Trading Swaps				
2003 Cross currency swap	Over 5 years	586,000,000	139,483,749	(10,874,884)
2009 Cross currency swap	1 to 5 years	1,065,280,000	104,912,170	-
Cashflow Hedge				
2004 Cashflow hedge	1 to 5 years	975,200,000	170,407,270	62,564,696
2009 Cashflow hedge	Over 5 years	793,100,000	84,236,666	-
		\$ 4,550,877,605	\$ 730,221,785	\$ 209,322,398

2003 Cross currency swap maturing in 2023: This related party swap was entered into with ZIC in order to reduce its exposure to foreign currency and interest rate risk associated with October 3 2003 issuance of EUR 500 million bonds with a fixed annual coupon of 5.75% maturing on October 3 2023. Under the terms of the agreement, ZF USA entered into a fixed-to-fixed currency swap, swapping Euro 500 million against USD 586 million at a rate of 6.55%.

2009 Cross currency swap maturing in 2012: This related party swap was entered into with ZIC in order to reduce its exposure to foreign currency and interest rate risk associated with April 14 2009 issuance of EUR 800 million bonds with a fixed annual coupon of 4.875% maturing on April 14 2012. Under the terms of the agreement, ZF USA entered into a fixed-to-fixed currency swap, swapping Euro 800 million against USD 1.065 billion at a rate of 5.11%.

Derivative financial instruments that qualify for hedge accounting

2004, 2005 and 2008 fair value hedges consist of cross currency interest rate swaps with ZIC used to protect ZF USA against changes in foreign currency exposure and interest rate exposure of CHF / EUR-denominated debt issued by ZF USA. Changes in the fair value of the derivatives designated as fair value hedges and changes in the fair value of the hedged item in relation to the risk being hedged are recognized in income.

2004 Cross currency interest rate swap: This related party swap was entered into with ZIC in order to reduce ZF USA's exposure to foreign currency and interest rate risk on 20 percent of EUR 1 billion bond maturing 2014. Under the terms of the agreement, ZF USA swapped Euro 200 million against USD 243.8 million. The swap also contains an interest rate component whereby ZF USA pays semiannually a USD coupon of 6 months USD LIBOR plus 0.3375% and receives an annual EUR coupon of 4.5%. The swap was designated as a fair value hedge of interest rate risk and foreign currency exchange risk on January 1, 2007 and will mature in 2014.

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2004 Cross currency swap: ZF USA uses cross currency swap with ZIC in a cash flow hedge to protect against exposures to variability in cash flows due to changes in EUR/USD exchange rate on 80 percent of the 4.5% EUR 1 billion bond payable, maturing in 2014. Under the terms of the agreement, ZF USA swapped EUR 800 million against USD 975.2 million at a rate of 4.9755%. The swap was designated as a foreign currency cash flow hedge on January 1, 2007 and will mature in 2014. The change in the fair value of the swap is recognized directly in shareholders' equity and the effective portion, related to spot rate changes in fair value of the hedging instrument, together with ineffectiveness are then recognized in current period income in line *Fair value gains from derivative financial instruments*. For the year ended December 31, 2009 the net loss after tax deferred in shareholders' equity on the swap designated as a cash flow hedge was USD 20,386,936 (2008 69,151,200). The net gain/loss amount transferred to the income statement was USD 32,564,998 (2008 53,788,396).

2005 Cross currency interest rate swap: This related party swap was entered into with ZIC in order to reduce ZF USA's exposure to foreign currency and interest rate risk for the first ten years of EUR 500 million bond maturing in 2025. Under the terms of the agreement, ZF swapped EUR 500 million against USD 613.8 million. The swap also contains an interest rate component whereby ZF USA pays semiannually a USD coupon of 6 months USD LIBOR plus 1.2304% and receives an annual EUR coupon of 4.5%. The swap, which covers 100% of the notional amount of the bond issued, is designated as a fair value hedge of interest rate risk and foreign currency exchange risk and matures in 2015.

2008 Cross currency interest rate swap: This related party swap was entered into with ZIC in order to reduce ZF USA's exposure to foreign currency and interest rate risk for the CHF 300 million Bond maturing 2011. Under the terms of the agreement, ZF USA swapped CHF 300 million against USD 272.47 million. The swap also contains an interest rate component whereby ZF USA pays semiannually a USD coupon of 6 months USD LIBOR plus 0.676% and receives an annual EUR coupon of 3.5%. The swap, which covers 100% of the notional amount of the bond issued, is held at fair value; it is designated as a fair value hedge of interest rate risk and foreign currency exchange risk, and matures in 2011.

2009 Cross currency swap: ZF USA uses a cross currency swap with ZIC in a cash flow hedge to protect against exposures to variability in cash flows due to changes in EUR/USD exchange rate and interest rate risk on the 6.5% EUR 600 million bond maturing on October 14, 2015. Under the terms of the agreement, ZF USA entered into a fixed-to-fixed currency swap, swapping Euro 600 million against USD 793.1 million at a rate of 6.6275%. For the year ended December 31, 2009 the net gain after tax deferred in shareholders' equity on the swap designated as a cash flow hedge was USD 12,973,717.

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Gains and losses arising from fair value hedges are as follows:

As of December 31	2009	2008
Gains / (losses)		
<i>On hedging instruments:</i>		
2004 Cross currency interest rate swap ¹	15,018,507	5,134,699
2005 Cross currency interest rate swap ¹	44,705,651	16,332,309
2008 Cross currency interest rate swap ¹	9,821,288	13,539,827
<i>On hedged debt:</i>		
EUR 200 mil bond, maturing 2014	(14,238,273)	(6,457,905)
EUR 500 mil bond, maturing 2025	(38,584,706)	(20,605,096)
CHF 300 mil bond, maturing 2011	(9,440,336)	(22,410,371)

Overall gains / losses on derivative financial instruments held for economic and accounting hedging purposes

As of December 31 2009 and 2008 ZF USA recorded the following fair values gains (losses) in the Statement of Operations from derivative financial instruments as follows:

Fair Value Gains and Losses	2009	2008
1998 currency cash flow swap	-	21,092,656
2003 currency swap	154,332,993	(124,777,095)
2004 currency swap (cashflow hedge)	32,392,501	(57,436,269)
2004 variable swap (fair value hedge)	15,018,507	5,134,699
2005 fair value hedge	44,705,651	16,332,309
2008 fair value hedge	9,821,288	13,539,835
2009 currency swap	63,420,640	-
2009 currency swap (cashflow hedge)	77,694,267	-
	\$ 397,385,847	\$ (126,113,865)
Fair Value gain / (loss) from derivative financial Instruments		

¹ Excluding current interest income, this is booked on the same line as interest expense on the hedged debt.

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Concentration of Credit Risk

The credit risk associated with the swap agreements is derived from the failure of the counterparties to the transaction to perform as contracted. ZF USA does not anticipate non-performance by these counterparties, and management believes the likelihood of incurring material losses due to credit risk is remote.

7. Fair Value of Financial Instruments

In fair valuing both, the bonds payable and the notes receivable, we have used the discount method and valuations from the group treasury system. These have been compared to external sources and the overall difference is immaterial such that management is satisfied. It is management belief that the par value of the notes receivable is a close approximation of the fair value .

The carrying amount and estimated fair value of the Company's financial instruments are as follows:

	2009		2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Fair Value of Financial Instruments				
Notes Receivable from Affiliates	\$ 4,567,194,689	\$ 4,576,657,528	\$2,717,876,161	\$3,228,161,280
Bonds Payable	5,184,204,791	5,375,139,808	3,071,353,831	3,263,218,823

The table below shows the classification within the valuation hierarchy of the company's financial assets and liabilities that are recognised and subsequently measured in the balance sheet at fair value.

	Level 1	Level 2	Level 3	Total
Derivative Financial Instruments	-	\$ 730,221,785	-	\$ 730,221,785
Fair Value Assets	-	730,221,785	-	730,221,785

Determination of fair value hierarchy

ZF USA uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: quoted prices in active markets for the same instrument
- Level 2: quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data
- Level 3: valuation techniques for which any significant input is not based on observable market data

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8. Transactions with Affiliates

In conjunction with the EMTN Program, the debt incurred by ZF USA is uncollateralized, but guaranteed by ZIC as evidenced by separate contractual agreements. The guarantee is unconditionally and irrevocably guaranteed on a subordinated basis by ZIC and covers principal and interest due by ZF USA on its outstanding note offerings, up to the following maximum amounts:

5.75%, 20-year, 500million Euro bond, maturing October 2, 2023	EUR	586,336,900
4.5%, 10-year, 1billion Euro bond, maturing September 17, 2014	EUR	1,135,082,000
4.5%, 10-year, 500million Euro bond, maturing June 15, 2025	EUR	567,582,000
3.5% 3-year, 300million CHF bond, maturing November 23, 2011	CHF	331,610,000
4.875% 3-year, 800m EUR bond, maturing April 14, 2012	EUR	917,134,992
6.5% 6-year, 600m EUR bond, maturing October 14, 2015	EUR	853,634,992

As consideration for this guarantee, ZF USA incurred guarantee expenses of \$14,765,583 and \$11,959,035 in 2009 and 2008, respectively. At December 31, 2009, the guarantee fee accrued liability to ZIC is \$ 3,648,898.

Audit Fees of \$24,345 were incurred for the year. Audit fees are paid by ZHCA on ZF USA's behalf and then reimbursed to ZHCA.

Other transactions with affiliates are also discussed in the various notes to the financial statements.

9. Approval of financial statements

The directors approved the financial statements on 24th March 2010.