Zurich Finance (USA), Inc.

Financial Statements
December 31, 2010

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Management Information

Board of directors and officers at 30 March 2011

Name	Function	Business Address
Michael T. Foley	Director	1400 American Lane, Schaumburg, IL 60196, U.S.A.
Richard J. Hauser	Director & Assistant Secretary	1400 American Lane, Schaumburg, IL 60196, U.S.A.
Vibhu R. Sharma	Director	1400 American Lane, Schaumburg, IL 60196, U.S.A.
Barry S. Paul	Director & President	1400 American Lane, Schaumburg, IL 60196, U.S.A
Pierre Wauthier	Director	Mythenquai 2, 8002 Zurich, Switzerland
Thomas Rogers	Senior Vice President	105 East 17th Street, New York, NY 10003-2105, U.S.A.
Jon Nagel	Secretary	105 East 17th 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, IL 60661, U.S.A.

Registered Office

c/o Corporation Service Company,
2711 Centerville Road, Suite 400
Wilmington, DE 19808, U.S.A.

Signed: ____________
Name: Barry S. Paul
Title: Director & President

Signed: ____________
Name: Richard J. Hauser
Title: Director & Assistant Secretary

Zurich Finance (USA), Inc.

Management Report and Responsibility Statement as at 31 December 2010

Management Review

The nature and purpose of Zurich Finance (USA), Inc. (the "Company") is to act mainly as a vehicle for raising external debt for the Zurich Financial Services Ltd 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 2010, assets exceed liabilities. The guarantee in place is 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 exposures to such risks are, in the main, economically hedged (as described in Note 2).

Business Review

In 2010, the Company made an after tax profit of $9,847,548. The gain for the year is driven by fair value movements on derivatives.

All debt issuances, their related loans and hedges and related loans covered their costs, except for 2003, 2004 and 2008 tranches which marginally failed to do so.

Net Interest Income was affected by restructuring of the USD 609.5m Sub participation acquired in 2005. In August 2010, this fixed rate loan 6% was matured early and replaced by a 6 month floating Libor + 177bps. All interest arrears (including non current interest) was repaid on that date. The reduction in Interest Income was offset by a favorable movement in the EUR and CHF foreign exchange ("FX") Rate on Interest expense.

Interest income, Interest expense and guarantee fees were also impacted by a full year of the debt tranches issued in April 2009; however, this did not have a material impact on Net Interest Income.

The results reflect the movement in derivatives due to significant volatility experienced in future expected interest rates used to determine fair values on debt tranches where hedge accounting is not applied. FX movement on Bond and related swap largely offset each other.

The financial statements incorporate basis spread adjustments on the EUR/CHF leg of the Derivative Financial Instruments. A gain of USD 36 million has been included in Fair value gains/(losses) from derivative financial instruments in the income statement (net impact after tax USD 23.4 million), and a USD 28.6 million gain was deferred to equity on Cashflow hedges.

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 (30 March 2011).

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 financial statements be prepared that 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 them 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 2010, confirm to the best of our knowledge, the financial statements for the year ended December 31, 2010, 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: B. S. Paul
Name: Barry S. Paul
Title: Director & President

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

PRICEWATERHOUSECOOPERS

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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 2010 which comprise the Statement of Operations, the Balance Sheet, Statement of Changes 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 members 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.

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 2010 and of its profit and cash flows for the year then ended.

PricewaterhouseCoopers.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Dublin, Ireland

18 April 2011

Zurich Finance (USA), Inc.
Balance Sheet
December 31, 2010

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	$ 27,544,707	$ 12,883,011
Interest receivable from affiliates (note 5)	52,195,851	71,747,370
Total current assets	79,740,558	84,630,381
Non current assets:		
Derivative financial instruments assets (note 6)	414,238,420	730,221,785
Interest receivable from affiliates (note 5)	-	35,046,413
Notes receivable from affiliates (note 5)	4,626,960,517	4,567,194,689
Current income tax Asset	85,708	-
Total non current assets	5,041,284,645	5,332,462,887
Total assets	**5,120,025,203**	**5,417,093,268**
Liabilities and Stockholder's Equity		
Current Liabilities:		
Interest payable	$ 93,305,001	$ 99,845,209
Due to affiliates (note 8)	3,707,485	3,741,319
Total current liabilities	97,012,486	103,586,528
Non current Liabilities:		
Deferred income tax liability (note 3)	3,791,228	15,344,742
Bonds payable (note 4)	4,909,615,500	5,184,204,791
Total non current liabilities	4,913,406,728	5,199,549,533
Total liabilities	5,010,419,214	5,303,136,061
Stockholder's Equity:		
Common stock at $.01 par value; authorized 1000 shares; issued and outstanding 100 shares	1	1
Additional paid-in capital	100,653,318	94,413,135
Retained earnings and reserves	36,804,838	26,957,290
Loss on Cash flow hedge (after tax)	(26,852,168)	(7,413,219)
Total Stockholder's Equity	110,605,989	113,957,207
Total Liabilities and Stockholder's Equity	**$ 5,120, 025,203**	**$ 5,417,093,268**

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

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

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

Zurich Finance (USA), Inc.
Statement of Operations
Year Ended December 31, 2010

	2010	2009
Interest Income		
Interest income - notes receivable from affiliate	$ 246,928,215	$ 231,010,044
Interest income - short-term investments	32,695	2,696
Interest Expense	(218,664,982)	(201,777,318)
Net Interest Income	**28,295,928**	**29,235,422**
Fair value (losses) / gains from derivative financial instruments (note 6)	(283,936,107)	397,385,847
Gains / (Losses) on Bonds Payable (Note 4)	286,691,565	(252,296,315)
Total Operating (Expense) / Income	**31,051,386**	**174,324,954**
Expenses		
Guarantee Fees (note 8)	(15,868,360)	(14,765,583)
Other Expenses	(6,446)	(5,877)
Audit Fees (note 8)	(26,506)	(24,345)
	(15,901,312)	**(14,795,805)**
Operating Income before income tax	15,150,074	159,529,149
Income Tax (Charge) /Benefit (note 3)	(5,302,526)	(55,835,203)
Net Income for the Year	**$ 9,847,548**	**$ 103,693,946**

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Title: Director & President

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Name: Richard J. Hauser
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Zurich Finance (USA), Inc.
Statement of Changes in Equity
Year Ended December 31, 2010

	Common Stock		Additional	Fair Value Losses on Cash Flow Hedge,	Retained Earnings /	Total Stockholder's
	Shares	Amount	Paid-in Capital	Net of Tax	(Deficit)	Equity (Deficit)
Balances as of Dec 31, 2009	**100**	**$ 1**	**94,413,135**	**(7,413,219)**	**26,957,290**	**113,957,207**
Net Gain / (Loss) on revaluation of cash flow hedges				(19,438,949)		(19,438,949)
Capital Contribution Tax Dividend adjustment (note 3)			6,240,183			6,240,183
Net income/(loss)					9,847,548	9,847,548
Balances as of Dec 31, 2010	**100**	**1**	**100,653,318**	**(26,852,168)**	**36,804,838**	**110,605,989**

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

Zurich Finance (USA), Inc.

Statement of Cash Flows
Year Ended December 31, 2010

Cash flows used in operating activities

	2010	2009
(Loss) / Gain before income tax	$ 15,150,074	$ 159,529,149
Adjustment for :		
Notes Receivable from Affiliates (note 5)	(59,765,828)	(1,849,318,528)
Tax reimbursement settlement	(234,437)	-
Derivative financial instruments	315,983,365	(520,899,387)
(includes changes in Cash flow hedge before tax)	(29,806,078)	94,981,510
Interest Receivable from Affiliates (note 5)	54,597,932	(37,994,018)
Interest Payable (note 4)	(6,540,207)	51,945,846
Due to Affiliates (note 8)	(33,834)	708,734
Net decrease in cash and cash equivalents used in operations	289,350,987	(2,101,046,694)
Cash flow provided by financing activities		
Bonds Payable (note 4)	(274,589,291)	2,112,850,960
Net Increases in cash and cash equivalents provided by financing	(274,589,291)	2,112,850,960
Net Increases in cash and cash equivalents	14,661,696	11,804,266
Cash & Cash equivalents — At Beginning of Year	12,883,011	1,078,745
At End of the Year	$ 27,544,707	$ 12,883,011

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

1. Corporate Description and Related Parties and Basis for Presentation

Zurich 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, Inc. ("ZHCA"), a Delaware corporation, and began operations on July 2, 1998. ZHCA is a subsidiary of Zurich Insurance Company Ltd ("ZIC"), an entity organized under the laws of Switzerland. ZIC is 100% owned by Zurich Financial Services Ltd ("ZFS"), an entity organized under the laws of Switzerland.

The nature and purpose of the Company is to raise proceeds through external debt offerings to loan to affiliated companies. 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 Programme 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. ZF USA does not employ any staff nor does it maintain separate operations. As such, ZIC has provided a guarantee to ZF USA 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, 2010 assets exceed liabilities. The guarantee in place is sufficient to satisfy the current obligations of ZF USA.

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 (as described in Note 2).

2. Summary of Significant Accounting Policies

Reporting Currency

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

Financial assets

The Company 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
- 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 Company 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 Company 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 Company 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 ZF USA. 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. The Company's exposures to such risks are, in the main, economically hedged through the use of derivative financial instruments, meaning that FX and Interest exposure on the Bonds are matched with cross currency interest rate swaps which convert the liabilities into USD.

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 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.

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 recognised 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 Company 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 USD 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, ZF USA 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, ZF USA's estimates of future operating earnings and capital gains.

3. Federal Income Taxes

The Company's income tax (charge) / benefit in the year December 31, 2010 and 2009 consist of the following

		2010		2009
Current	$	(6,388,912)	$	2,645,551
Deferred		1,086,386		(58,480,754)
Total Income tax (charge)/ benefit	$	**(5,302,526)**	$	**(55,835,203)**

The actual federal income tax (charge) / benefit in the year December 31, 2010 and 2009 were comprised of the following:

		2010		2009
Tax calculated by applying the U.S federal tax rate of 35% to loss / (gain) before income tax (charge)/ benefit		(5,302,526)		(55,835,203)
Total Income tax (charge)/ benefit	$	**(5,302,526)**	$	**(55,835,203)**

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 $(3,791,228) as of December 31, 2010 and an Income tax liability of ($15,344,742) as of December 31, 2009 which consists of the tax impact of foreign currency translation and swap (losses) or gains. ZF USA is in a deferred tax asset position.

Pursuant to a Declaration to Forego Tax (Charges) / Benefits as executed by affiliates of ZF USA having current tax receivable balances and that are members of the ZHCA Tax Sharing Agreement, ZF USA has realized forgiveness of a tax payable balance of $6,240,183 as of December 31, 2010 and has forgiven a tax recoverable balance of $(2,645,551) as of December 31, 2009. 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, 2004 are closed. The examination of the tax years 2003 through 2004 was settled with the Appeals Division of Internal Revenue Service ("IRS") and approved 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"). ZHCA protested certain disputed amounts and IRS Issued its Rebuttal to Protest. ZHCA is seeking resolution of the disputed tax matters through the Appeals Division of the IRS. In October 2009, the IRS commenced its examination of 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 affect 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.

4. Bonds Payable

The following is a summary of the bonds payable outstanding at December 31, 2010 and 2009:

	2010	2009
Senior debt		
4.5% 10-year, 1 Billion Euro bond swapped into U.S. dollars[1], maturing September 17, 2014 includes $ 6,444,139 and $8,549,335 of unamortised costs at December 31, 2010 and 2009 respectively, effective yield of 4.48%	$ 1,352,634,371	$ 1,443,210,398
3.5% 3-year, 300 million CHF bond swapped into U.S. dollars commenced 22 September 2008 [2], and maturing November 11, 2011 includes $62,782 and $839,321 of unamortised costs December 31, 2010 and 2009 respectively, effective yield of 3.33%	$ 329,568,847	$ 304,177,970
6.5% 6.5-year, 600m EUR swapped into U.S. dollars commenced April 14 2009, and maturing October 14, 2015 [3] includes $2,734,403 and $3,429,933 of unamortised costs at December 31, 2010 and 2009 respectively, effective yield of 6.60%	$ 800,725,597	$ 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 $2,227,630 and $ 4,126,826 of unamortised costs at December 31, 2010 and 2009 respectively, effective yield of 4.84%	$ 1,069,052,370	$ 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 $8,356,155 and $9,407,541 of unamortised costs at December 31, 2010 and 2009 respectively, effective yield of 5.89%	$ 661,193,845	$ 707,267,208
4.5% 20-year, (callable in 2015), 500 million Euro bond swapped into U.S. dollars, maturing June 15, 2025 [2] includes $2,347,321 and $3,004,248 of unamortised costs at December 31, 2010 and 2009 respectively, effective yield of 3.95%	$ 696,440,470	$ 730,416,675
Total debt	$ 4,909,615,500	$ 5,184,204,791

[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.

None of the bonds payable listed above were in default as of December 31, 2010 and 2009.

ZF USA is a participant in a Euro Medium Term Note ("EMTN") Programme together with affiliate companies, Zurich Finance (UK) plc (an entity organized under the laws of England), Zurich Finance (Luxembourg) S.A. (an entity organized under the laws of Luxembourg), Zurich Insurance Company (an entity organized under the laws of Switzerland) and Zurich Bank (an entity organized under the laws of Ireland), 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 ZCM Matched Funding Corporation ("ZCMMFC"), an entity organized under the laws of the Cayman Islands. 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. On September 23, 2008, 300m CHF Debt was issued under the EMTN program and the proceeds were lent to ZHCA.
On April 14, 2009, 1.4billion EUR Debt was issued in two tranches (EUR 800m and EUR 600m) and the proceeds were lent to ZHCA and ZCMMFC.

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, Prematic Service Corporation (California) and Prematic 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. On August 4, 2010, a new inter company loan was entered with ZHCA to replace the previous sub participation agreement that it had entered to purchase certain surplus notes with Zurich American Insurance Company ("ZAIC"), a New York corporation 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 EUR 600 million issued April 14, 2009. These proceeds were on lent to ZCMMFC (USD 730.1 million) and ZHCA (USD 63million).

The maturity schedule (based on contractual maturity dates) of outstanding debt as of December 31, 2010 and 2009 is as follows:

	2010	2009
Within 1 year	329,568,847	-
1 – under 2 years	1,069,052,370	304,177,970
2 – under 3 years		1,142,552,774
3 – under 5 years	1,352,634,371	707,267,208
5 years and after	2,158,359,912	3,030,206,839
Total Bonds Payable	$ 4,909,615,500	$ 5,184,204,791

Revaluation Gain (Loss) on bonds payable recognized in Statement of Operations

As of December 31	2010	2009
EUR 500 million Bond, maturing 2023	47,180,518	(20,497,205)
EUR 1 billion Bond, maturing 2014	93,364,297	(43,654,816)
EUR 500 million Bond, maturing 2025	35,590,497	(39,088,431)
Swiss Franc 3 year 300million Bond (issued 2008)	(24,349,607)	(8,328,212)
EUR 600 million Bond, maturing 2015	77,779,879	(63,488,631)
EUR 800 million Bond, maturing 2012	57,123,488	(77,239,020)
All other foreign exchange	2,493	-
Total gain / (loss) on bonds payable	$ 286,691,565	$ (252,296,315)

5. Notes Receivable from Affiliates

As of December 31, 2010 and 2009, ZF USA has notes receivable due from the following affiliates:

Notes Receivable from Affiliates	2010	2009
Zurich Holding Company of America, Inc.	$ 3,896,860,517	$ 3,837,094,689
ZCM Matched Funding Corporation	730,100,000	730,100,000

$ 4,626,960,517	$ 4,567,194,689

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 principal of $1 billion. On August 4, 2010, this sub participation was terminated and replaced with a new inter company loan with ZHCA. This loan has a maturity date of June 15, 2015. Interest on the sub participation up to the date of restructuring ($58,309,106) was on lent to ZHCA as a short term loan up to December 15, 2010. These funds were then added to a $37.7 million loan which matured on that date and re-issued as a new short term loan for $96,009,106 up to December 15, 2011.

As part of the EUR1.4bn debt issuance in April 2009, $730.1m was lent to ZCMMFC.

Issue Date	Maturity Date	Interest Rate	Notes Receivable	Interest Receivable
ZHCA				
October 2, 2003	October 2, 2023	7.25%	148,062,995	2,688,542
September 17 2004	September 17 2014	5.4755%	970,371,343	15,425,822
September 17 2004	September 17 2014	6 mth LIBOR + .8375%	242,559,545	941,848
August 4, 2010	June 15, 2015	6 mth LIBOR + 1.77%	609,502,850	640,778
October 2, 2008	October 2, 2013	7.25%	429,600,000	7,699,983
September 23, 2008	November 23, 2011	6 Month Libor Rate + .888%	272,474,678	392,647
April 14, 2009	April 14, 2012	5.5%	1,065,280,000	12,531,836
April 14, 2009	October 14, 2015	6.96%	63,000,000	937,860
December 15, 2010	December 15, 2011	I year Libor Rate + .71%	96,009,106	67,780
ZCMMFC				
April 14, 2009	October 14, 2015	6.96%	730,100,000	10,868,755
Notes/Interest receivable from affiliates			**4,626,960,517**	**52,195,851**

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, 2010, the internal and external transactions represent 100% and 0%, respectively, of the total hedging transactions.

Derivative financial instruments held for economic hedging purposes

		2010		2009
	Remaining life	Notional Amount	Fair Value	Fair Value
Fair Value hedge				
2004 Fair value hedge	1 to 5 years	243,800,000	50,406,844	64,463,580
2005 Fair value hedge	1 to 5 years	613,750,000	110,530,854	139,158,016
2008 Fair value hedge	1 to 5 years	273,747,605	57,126,480	27,560,334
Trading Swaps				
2003 Cross currency swap	Over 5 years	586,000,000	79,781,236	139,483,749
2009 Cross currency swap	1 to 5 years	1,065,280,000	26,809,486	104,912,170
Cash flow Hedge				
2004 Cash flow hedge	1 to 5 years	975,200,000	83,192,765	170,407,270
2009 Cash flow hedge	1 to 5 years	793,100,000	6,390,755	84,236,666
		$ 4,550,877,605	$ 414,238,420	$ 730,221,785

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.

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, 2010, the net loss after tax deferred in shareholders' equity on the swap designated as a cash flow hedge was USD 26,500,468 (2009 20,386,936). The net gain/loss amount transferred to the income statement was USD 75,036,755 loss (2009 32,564,998 gain).

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 the 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, 2010, the net gain after tax deferred in shareholders' equity on the swap designated as a cash flow hedge was USD 351,701 (2009 USD 12,973,717).

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

As of December 31	2010	2009
Gains / (losses)		
On hedging instruments:		
2004 Cross currency interest rate swap[1]	(13,935,230)	15,018,507
2005 Cross currency interest rate swap[1]	(27,465,019)	44,705,651
2008 Cross currency interest rate swap[1]	29,551,219	9,821,288
On hedged debt:		
EUR 200 mil bond, maturing 2014	17,171,727	(14,238,273)
EUR 500 mil bond, maturing 2025	(34,431,485)	(38,584,706)
CHF 300 mil bond, maturing 2011	31,262,298	(9,440,336)

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

As of December 31 2010 and 2009, ZF USA recorded the following fair value gains (losses) in the Statement of Operations from derivative financial instruments as follows:

Fair Value Gains and Losses	2010	2009
2003 currency swap	(58,127,325)	154,332,993
2004 currency swap (cashflow hedge)	(76,747,418)	32,392,501
2004 variable swap (fair value hedge)	(13,935,230)	15,018,507
2005 fair value hedge	(27,465,019)	44,705,651
2008 fair value hedge	29,551,219	9,821,288
2009 currency swap	(56,549,700)	63,420,640
2009 currency swap (cashflow hedge)	(80,662,634)	77,694,267

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

Fair Value gain / (loss) from derivative financial Instruments	$ (283,936,107)	$ 397,385,847

Concentration of Credit Risk

The credit risk associated with the swap agreements is derived from the potential failure of the counterparties to the transactions 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 ZFS treasury securities valuation system. These values have been compared to values from conventional external sources and management is satisfied that the overall difference is immaterial. It is management's 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:

	2010		2009	
Fair Value of Financial Instruments	**Carrying Amount**	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Notes Receivable from Affiliates	$ 4,626,960,517	$ 4,634,966,634	$ 4,567,194,689	$ 4,576,657,528
Bonds Payable	4,909,615,500	5,138,098,875	5,184,204,791	5,375,139,808

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	-	$ 414,238,420	-	$ 414,238,420
Fair Value Assets	-	**414,238,420**	-	**414,238,420**

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

8. Transactions with Affiliates

In conjunction with the EMTN Programme, 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 $15,868,360 and $14,765,583 in 2010 and 2009, respectively. At December 31, 2010, the guarantee fee accrued liability to ZIC is $3,680,982.

Audit Fees of $26,506 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 30 March , 2011.