

ZURICH FINANCE (UK) plc

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2008

COMPANY REGISTRATION NUMBER: 4463547

ZURICH FINANCE (UK) plc

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for Zurich Finance (UK) plc (the "Company") for the year ended 31 December 2008.

Principal Activities, Business Review and Future Developments

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

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

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

There has been no debt issued since.

The profit for the financial year before taxation amounted to £366,000 (2007: £323,000). After taking taxation of £39,682,000 (2007: £(10,050,000)) into account, the profit transferred to retained reserves was £40,048,000 (2007: £9,727,000 loss transferred from retained reserves).

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

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

The execution of the Company's strategy is subject mainly to financial risks. The Company's financial instruments and its exposure to financial risks are summarised in notes 5 and 11.

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

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

Dividends

The directors do not recommend a final dividend (2007: £nil).

Directors

The directors who served during the year were:

N J Evans	
N T Garzetti	(Appointed 27 th May 2008)
V J Rennie	(Appointed 9 th December 2008)
P Dark	(Resigned 3 rd October 2008)
M Murphy	(Resigned 27 th May 2008)

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

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

ZURICH FINANCE (UK) plc

DIRECTORS' REPORT (continued)

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company as at the end of the financial period and of the profit or loss for the financial period. In preparing those financial statements, the directors are required to:

- Select appropriate policies and apply them consistently, subject to any material departures being disclosed and explained;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed; and
- Prepare the financial statements on the going concern basis, unless they consider that to be inappropriate.

The Directors are responsible for ensuring that the Company keeps sufficient accounting records to disclose with reasonable accuracy the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985.

They are also responsible for taking reasonable steps to safeguard the assets of the Company, and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to the prevention and detection of fraud and other irregularities.

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

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

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

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have signified their willingness to continue in office.

By order of the Board

Signature H Rogers

Name H Rogers
 (Secretary)

Date 17-03-2009

ZURICH FINANCE (UK) plc

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

We have audited the financial statements of Zurich Finance (UK) plc for the year ended 31 December 2008 which comprise the Profit and Loss account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's member as a body in accordance with Section 235 of the Companies Act 1985 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 and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 judgements 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 United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.


PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

Date: 17/3/09

ZURICH FINANCE (UK) plc

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2008

Amount in £'000	Notes	2008	2007
Other Interest Receivable and Similar Income	3	33,948	33,498
Interest Payable on Subordinated Bonds and Other Finance Costs		<u>(33,582)</u>	<u>(33,175)</u>
Profit on Ordinary Activities Before Taxation		366	323
Tax on Profit on Ordinary Activities	4	39,682	(10,050)
Profit / (Loss) for the Financial Year		<u>40,048</u>	<u>(9,727)</u>

There are no material differences between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalents.

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

The results above all relate to continuing operations.

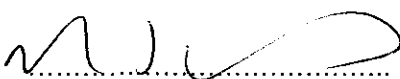
ZURICH FINANCE (UK) plc

BALANCE SHEET

AT 31 DECEMBER 2008

Amount in £'000	Notes	2008	2008	2007	2007
Fixed Assets					
Investments	5 & 11		583,163		442,884
Current Assets					
Debtors: Amounts Falling Due Within One Year	6	8,336		18	
Cash at Bank and in Hand	11	1,476		1,253	
		9,812		1,271	
Current Liabilities					
Creditors: Amounts Falling Due Within One Year	7	(8,594)		(39,987)	
Net Current Assets / (Liabilities)					
			1,218		(38,716)
Total Assets Less Current Liabilities					
			584,381		404,168
Creditors: Amounts Falling Due After More Than One Year	8 & 11		(583,126)		(442,961)
Net Assets / (Liabilities)					
			1,255		(38,793)
Capital and Reserves					
Called-up Share Capital	9		50		50
Profit and Loss Account	10		1,205		(38,843)
Equity Shareholder's Funds / (Deficit)					
			1,255		(38,793)

The financial statements on page 4 to page 13 were approved by the Board of Directors and were signed on its behalf by

Signature 

Name NEIL EVANS
(Director)

Date 17th MARCH 2009

The accounting policies and notes on pages 6 to 13 form an integral part of these financial

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

1.1 Basis of Presentation

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable United Kingdom accounting standards.

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

1.2 Cash Flow Statement

The Company qualifies as exempt from the requirement to produce a cash flow statement under Financial Reporting Standard ("FRS") 1 'Cash Flow Statements (Revised 1996)'. It is a subsidiary undertaking of Zurich Financial Services, which prepares a consolidated cash flow statement.

1.3 Profit and Loss Account

Interest income and expense for financial assets and liabilities that are not classified as fair value through the profit and loss account are recognised using the effective interest method.

1.4 Fixed Asset Investments

Fixed asset investments are included in the balance sheet at amortised cost. The interest income is credited to the profit and loss account using the effective interest method. The effective interest method is used to allocate all cash flows over the expected life of the investments. An effective interest rate of 7.56% (2007: 7.56%) was used for the calculation of the amortisation on the £450m bonds and an effective rate of 6.70% was used for the calculation of the amortisation on the £140m bonds issued during the year.

1.5 Creditors: Amounts Falling Due After More Than One Year

Subordinated and unsubordinated liabilities are initially included in the balance sheet at fair value, i.e. the value of consideration received, net of unamortised capitalised issue costs. These liabilities are thereafter stated at amortised cost using the effective interest method which is used to allocate all cash flows over the expected life of the debt. An effective interest rate of 7.49% (2007: 7.49%) was used for the calculation of amortisation on the £450m subordinated perpetual loan and an effective interest rate of 6.47% was used for the calculation of amortisation on the £140m dated unsubordinated loan issued during the year.

NOTES TO THE FINANCIAL STATEMENTS (continued)**2. Profit and Loss Account**

All of the expenses of management including the auditors' remuneration are borne by Zurich Financial Services (UKISA) Limited. The fee payable to the Company's auditor for the audit of the Company's financial statements is £4,630 (2007: £6,527).

The emoluments of the directors for services to the Company as directors during the year were £nil (2007: £nil).

The Company has no employees. Staff utilised by the Company are employed by fellow subsidiary companies. The principal disclosures in respect of these staff appear in the financial statements of Zurich Employment Services Limited, copies of which can be obtained from The Secretary, UK Life Centre, Station Road, Swindon, SN1 1EL.

3. Other Interest Receivable and Similar Income

Amount in £'000	2008	2007
Interest receivable on fixed asset investments	33,878	33,447
Interest receivable on cash at bank	70	51
	33,948	33,498

4. Taxation

Taxation in the profit and loss account is as follows:

Amount in £'000	2008	2007
UK Corporation Tax Charge at an effective rate of 28.5% (2007: 30%)	104	10,050
Adjustments in respect of prior year	(39,786)	-
Tax on Profit on Ordinary Activities	(39,682)	10,050

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

The tax assessed for the current year and prior year can be reconciled to the effective rate of Corporation Tax in the UK of 28.5% (2007: 30%). The differences are explained below:

Amount in £'000	2008	2007
Profit on Ordinary Activities Before Taxation	366	323
Profit on Ordinary Activities multiplied by the effective rate of Corporation Tax in the UK of 28.5% (2007: 30%)	104	97
Expenses not deductible for tax purposes	-	9,953
Adjustments to tax charge in respect of prior years	(39,786)	-
Current Tax (Credit) /Charge for the Year	(39,682)	10,050

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**5. Fixed Assets - Investments****Loans and Receivables**

Amount in £'000	2008	2007
At 1 January	442,884	442,625
Additions / Advances	140,000	-
Amortisation in the year	279	259
At 31 December	583,163	442,884

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

On 16 December 2008, the Company issued £140m 6.450% dated unsubordinated guaranteed bonds. The gross proceeds of £140m were loaned to Zurich Financial Services (UKISA) Limited at an interest rate of 6.702%. This loan to Zurich Financial Services (UKISA) Limited is not listed.

The total maximum credit exposure as at 31 December 2008 was £583.2m (2007: £442.9m).

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

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

The fixed asset investments are carried at amortised cost.

6. Debtors: Amounts Falling Due Within One Year

Amount in £'000	2008	2007
Amounts owed by parent company	8,044	-
Amounts owed by group undertakings	269	-
Other debtors	23	18
	8,336	18

Amounts owed by parent company and group undertakings are unsecured, interest free and have no fixed date of repayment.

NOTES TO THE FINANCIAL STATEMENTS (continued)**7. Creditors: Amounts Falling Due Within One Year**

Amount in £'000	2008	2007
Corporation Tax payable	-	24,922
Amounts owed to parent company	-	6,858
Amounts owed to group undertakings	785	774
Accruals and deferred income	7,809	7,433
	8,594	39,987

Amounts owed to parent company and group undertakings are unsecured, interest free and have no fixed date of repayment.

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

Amount in £'000	2008	2007
Other creditors	583,126	442,961
	583,126	442,961

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

At 31 December 2008, the open market values of the Bonds were:

Amount in £'000	2008	2007
£450m 6.625% Undated Subordinated Guaranteed Bonds	307,679	441,581
£140m 6.45% Dated Unsubordinated Guaranteed Bonds	142,010	-
	449,689	441,581

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. Share Capital

The authorised and issued share capital was as follows:

Amount in £'000	2008	2007
Authorised		
50,000,000 Ordinary Shares of £1 each	50,000	50,000
Allotted, Issued, Called Up and Fully Paid		
50,000 Ordinary Shares of £1 each	50	50

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

10. Reconciliation of Movements in Shareholder's Funds

Amount in £'000	Share Capital	Profit and Loss Account	Total 2008	Total 2007
Equity Shareholder's Funds Deficit Brought Forward	50	(38,843)	(38,793)	(29,066)
Profit / (Loss) for the Financial Year	-	40,048	40,048	(9,727)
Equity Shareholder's Funds / (Deficit) Carried Forward	50	1,205	1,255	(38,793)

11. Financial Instruments

The Company's financial instruments comprise borrowings arising from the issue of subordinated and unsubordinated bonds and receivables from the loan of the proceeds of those bonds to Zurich Financial Services (UKISA) Limited. The main purpose of the bonds was to raise finance for the Zurich group. The Company has in issue two classes of fixed rate interest bonds. The main risk to the Company arising from its financial instruments is credit risk, which is addressed in Note 5. The financial assets and liabilities have fixed interest rates, which result in interest receivable exceeding interest payable. As such, the Company has no interest rate risk. In addition, as the underlying instruments are denominated in sterling, the instruments are matched in maturity and interest payments and receipts are made concurrently, they carry no exchange or material liquidity risk. The Company's finances are actively managed in conjunction with the Zurich Financial Services group activities to ensure that sufficient funds are available to meet liabilities as they fall due, which together with the guarantee for payments of principal and interest that the Company holds with ZIC, mitigates any remaining liquidity risk that the Company may face.

Interest rate risk profile of financial liabilities and assets

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

Amount in £'000	2008	2007
Fixed Rate Financial Liabilities	443,238	442,961
Fixed Rate Financial Liabilities	139,888	-
	583,126	442,961

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Financial Instruments (continued)

	Fixed Rate Financial Liabilities	
	Weighted average fixed interest rate %	Weighted average period for which rate is fixed (years)
At 31 December 2008		
£450m Undated Subordinated Bonds	6.625%	13.75
£140m Dated Unsubordinated Bonds	6.450%	4.96
At 31 December 2007		
£450m Undated Subordinated Bonds	6.625%	14.75

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

Amount in £'000	2008	2007
Fixed Rate Financial Assets	443,163	442,884
Fixed Rate Financial Liabilities	140,000	-
	583,163	442,884

	Fixed Rate Financial Assets	
	Weighted average fixed interest rate %	Weighted average period for which rate is fixed (years)
At 31 December 2008		
£450m Subordinated Perpetual Loan	7.375%	13.75
£140m Subordinated Perpetual Loan	6.702%	4.96
At 31 December 2007		
£450m Subordinated Perpetual Loan	7.375%	14.75

11.1 Maturity Analysis of Financial Liabilities

The maturity of funding is managed in conjunction with the profile of that of the entire Zurich Financial Services UKISA group. The group's objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings. As noted above, at the Company's discretion, £450m of the Company's total borrowings at the year end will mature in 13.75 years and £140m will mature in 4.96 years.

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

Amount in £'000	2008	2007
In one to five years	139,888	-
In greater than five years	443,238	442,961
	583,126	442,961

NOTES TO THE FINANCIAL STATEMENTS (continued)**11. Financial Instruments (continued)**

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

Amount in £'000	2008	2007
Less than one year	38,842	29,813
One to five years	295,024	119,250
Over five years	711,207	741,101
	1,045,073	890,164

11.2 Borrowing Facilities

The Company has no undrawn borrowing facilities available to it.

11.3 Fair Values of Financial Assets and Financial Liabilities

Set out below is a comparison by category of book values and fair values of all financial assets and financial liabilities as at 31 December. The quoted market values for financial liabilities have been used to represent an estimate of fair value for the purposes of this disclosure. The fair value of the long-term loans to the parent undertaking, Zurich Financial Services (UKISA) Limited, have been calculated as the present value of future cash flows using a discount rate, of 8.92% (2007: 6.84%). The discount rate is based on a 12 month LIBOR rate of 3.07% (2007: 5.74%) plus a margin of 0.35% (2007: 0.35%) and a risk premium of 5.50% (2007: 0.75%). The book value of the cash at bank and in hand has been taken to represent fair value.

Amount in £'000	Book Value 2008	Book Value 2007	Fair Value 2008	Fair Value 2007
Financial Assets				
Long-term loans to parent undertaking	583,163	442,884	520,611	471,990
Cash at bank and in hand	1,476	1,253	1,476	1,253
Financial Liabilities				
Long-term borrowings	(583,126)	(442,961)	(449,689)	(441,581)

12. Related Party Transactions

The Company has taken advantage of an exemption from FRS 8 'Related Party Disclosures' not to disclose transactions with Zurich Financial Services' group undertakings. Balances with Zurich Financial Services group undertakings are shown in notes 6 and 7.

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

13. Ultimate Parent Company

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

The Secretary
Zurich Financial Services
Mythenquai 2
8002 Zurich
Switzerland.