Registered number 41334

ZURICH INTERNATIONAL (UK) LIMITED

FINANCIAL STATEMENTS

31 DECEMBER 2006

Contents

Company information

Directors

W Lewis
D J Martin

Secretaries

P F Worthington
M A Porter (appointed 07 August 2006)

Registered office

Zurich House
Stanhope Road
Portsmouth
Hampshire
PO1 1DU

Auditors

PricewaterhouseCoopers LLP
Southwark Towers
32 London Bridge Street
London
SE1 9SY

Directors' report

The directors present their report and audited financial statements for the year ended 31 December 2006.

Business Review

This review is designed to help explain the accounts and the financial performance of the Company. Set out below is a brief explanation of the methods used to measure and monitor the performance of the Company as well as providing commentary of the financial result for the year.

Principal activities

The Company principally carries on various classes of general insurance business and provides specialist products and services for multinational and large UK based corporate customers and complementary to these activities is permitted to invest in stocks, shares, properties and loans.

Performance measurement

The Company's strategy is to satisfy its insurance obligations whilst maximising profit. In order to do this, the Company aims to minimise risk by applying suitable forms of reinsurance and maximise return on assets by investing on a prudent and efficient basis. Set out below are the key performance measures which are used to monitor performance against this strategy.

Solvency margin - The strength of the Company, by measuring regulatory asset surplus over that required to cover minimum regulatory capital requirements.

Gross loss ratio - The ratio of gross claims incurred to gross earned premiums.

Return on investment - The rate of return on assets held for investment.

Results and key performance measures for the year

The results for the Company show a pre-tax profit of £15,750,000 (2005: £28,291,000) for the year and gross written premiums of £206,883,000 (2005: £198,745,000).

The Company has net assets of £102,390,000 (2005: £116,633,000).

Key performance measures are as follows:

- Solvency margin 514.15% (2005: 572.96%)
- Gross loss ratio 26.60% (2005: 58.64%)
- Return on investment 5.05% (2005 5.67%)

Directors' report

Principal risks and uncertainties

The principal risks from our general insurance business arise from fluctuations in the timing, frequency and severity of claims compared to our expectations when setting prices; inadequate reinsurance protection; and inadequate reserving. To minimise these risks we have established underwriting and reinsurance strategies, which are approved by the directors and communicated clearly throughout the business through policy statements and guidelines.

Dividends

The directors recommend a final dividend of 37.5p per share (totalling £15m) for the year (2005: £25m).

The final dividend for 2005 of £25m was paid on 28 April 2006.

Directors

The names of the directors at the date on which the accounts were approved are shown on page 1.

The following director resigned during the year:

I C R Stuart (resigned 04 September 2006)

Directors' interests

The Company is a wholly owned subsidiary of Zurich Financial Services, a company incorporated in Switzerland. As such, no director had any interests in shares and debentures required to be disclosed under section 324 (1&2) of the United Kingdom Companies Act 1985.

No directors had material interests in contracts of significance with the Company or any subsidiary company of Zurich Financial Services during the year.

Directors' indemnity

Qualifying third party indemnity provisions (as defined in Section 309B(1) of the United Kingdom Companies Act 1985) are in force for the benefit of directors.

Staff pension schemes arrangement

The Company participates in the Zurich Financial Services UK Pension Scheme. In December 2006, following statutory consultation with all UK employees covered by the pension scheme, the principle employer, Zurich Financial Services (UKISA) Limited, approved three key changes to the pension scheme:

- All new employees will be offered money purchase pension provision, on an age related scale, with an average employer contribution of 10% of salaries.
- Existing members of the pension scheme will be offered the chance to switch to the new money purchase section, but with an average employer contribution of 20% of salaries.
- Existing members of the pension scheme can choose to keep their defined pension benefits, but all future service will be on harmonised terms and all members will be required to share the cost of pension provision (5% for standard 60th accrual, 6.25% for 48th accrual or 7.5% for 40th accrual).

These changes will be implemented with effect 1 April 2007.

Directors' report

Employee involvement

Communication and consultation initiatives such as regular meetings with employee representatives, employee surveys, team meetings, presentations and workshops were again key actions in 2006. The role of electronic communication in keeping people informed has continued with the use and growth of intranet communication vehicles such as Connect (Group wide), and Uki, the intranet for the whole of the UK. Business briefings are also core activities where the Company seeks to build employee awareness of the financial and economic factors affecting performance.

The more extensive use of senior management business events where staff have the opportunity to meet and discuss matters of general importance with Heads of Business has also been a feature of the communication and consultation process across Zurich Financial Services during 2006.

Zurich Financial Services operated bonus schemes during 2006 based on business performance and individual contribution.

Employee share schemes

The Company encourages both awareness of Zurich Financial Services financial performance and participation in its success through our Share Schemes.

Zurich Group Holding operates a Revenue approved Share Incentive Plan (SIP) and the Partnership element of the SIP enables participating employees to make monthly purchases of shares in Zurich Financial Services out of gross pay. The free shares element of the SIP is administered under the brand 'Reward Shares' and shares are allocated in Zurich Financial Services based on the business performance of operating units for the year ended 31 December 2006 in which eligible employees worked.

Employment of disabled staff in the United Kingdom

Zurich Financial Services' policy on recruitment and promotion is based on an individual's capability to do the job. Full and fair consideration is given to experience, qualifications and overall ability to perform the job. Zurich Financial Services' training functions are equipped to meet any special needs of disabled individuals and favourable consideration is given to the modification of facilities and provision of special aids or equipment.

The Company actively monitors recruitment, development and promotion to ensure that Zurich Financial Services provide career development opportunities to disabled employees and the Company remains satisfied that policy and practice exceeds statutory requirements.

For those employees becoming disabled during the course of their employment, every effort is made to ensure they remain with the Zurich Financial Services Group by finding them suitable alternative employment, whether through retraining or redeployment, or, where this is not possible, financial provision is made for such permanent employees through the operation of long-term sickness cover and health insurance arrangements.

Creditor payment policy

All external creditors, excluding amounts due in respect of the settlement of insurance and reinsurance claims, are settled by other group companies.

Financial Instruments

(i) Financial risk management objectives

The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from policies as they fall due. The most important components of this financial risk are interest rate risk, currency risk, credit risk and liquidity risk.

The Company manages these positions within an asset liability management (ALM) framework that has been developed to achieve investment returns in excess of obligations under insurance contracts. The principal technique of the Company's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders.

The Company's ALM is integrated with the management of the financial risks associated with the Company's other financial assets and liabilities not directly associated with insurance and investment liabilities. The Company does not use hedge accounting.

(ii) Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities. In addition, to the extent that claims inflation is correlated to interest rates, liabilities to policyholders are exposed to interest rate risk.

The Company monitors interest rate risk by calculating the mean duration of the investment portfolio and of the policyholder liabilities. The mean duration is an indicator of the sensitivity of the assets and liabilities to changes in current interest rates.

(iii) Currency risk

The Company is exposed to currency risk in respect of liabilities under policies of insurance denominated in currencies other than sterling. The Company seeks to mitigate the risk in cases where the currency liabilities are material by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

(iv) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- exposure to corporate bonds,
- reinsurers' share of insurance liabilities,
- amounts due from reinsurers in respect of claims already paid,
- amounts due from insurance contract holders, and
- amounts due from insurance intermediaries.

Directors' report

(iv) Credit risk (continued)

The Company places limits on its exposure to a single counterparty, or groups of counterparty, and to geographical and industry segments.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract. In addition, the recent payment history of reinsurers is used to update the reinsurance purchasing strategy.

(v) Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover anticipated liabilities and unexpected levels of demand.

Statement of disclosure of information to auditors

Each of the persons who is a director at the date of this report confirms that:

- so far as each of them is aware, there is no information relevant to the audit of the Company's financial statements for the year ended 31 December 2006 of which the auditors are unaware; and
- the directors have taken all the steps that they ought to have taken in their duty as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

The directors have taken advantage of the elective regime, under Section 386 of the United Kingdom Companies Act 1985, and passed a resolution for the dispensation from the annual appointment of auditors. The auditors, PricewaterhouseCoopers LLP, have signified their willingness to continue in office.

By order of the Board

Paul Worthington

P F Worthington
Company Secretary
26 March 2007

Statement of directors' responsibilities

The following statement sets out the responsibilities of the directors in relation to the financial statements of the Company. The report of the auditors, shown on pages 8 and 9, sets out their responsibilities in relation to the financial statements.

Company law requires the directors to prepare financial statements for each financial year that 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 confirm they have complied with the above requirements in preparing the financial statements.

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 United Kingdom Companies Act 1985.

They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the shareholders of Zurich International (UK) Limited

We have audited the financial statements of Zurich International (UK) Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Reconciliation of movement in shareholders' funds 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' responsibilites 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 members 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 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.

Independent auditors' report to the shareholders of Zurich International (UK) Limited

Equalisation provisions

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation provisions. The nature of equalisation provisions, the amounts set aside at 31 December 2006, and the effect of the movement in those provisions during the year on shareholders' funds, the balance on the general business technical account and profit before tax, are disclosed in note 14.

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 2006 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.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors

29 March 2007

Profit and loss account
Technical account - general business
for the year ended 31 December 2006

£000's	Notes	2006	2005
Earned premiums, net of reinsurance			
Gross premiums written	1	**206,883**	198,745
Outward reinsurance premiums		**(195,568)**	(179,135)
Net premiums written		**11,315**	19,610
Change in the gross provision for unearned premiums		**(9,926)**	13,938
Change in the provision for unearned premiums, reinsurers' share		**3,096**	(16,428)
		(6,830)	(2,490)
Earned premiums, net of reinsurance		**4,485**	17,120
Other technical income, net of reinsurance		**160**	166
Total technical income		**4,645**	17,286
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		**(106,196)**	(85,211)
Reinsurers' share		**87,776**	73,863
		(18,420)	(11,348)
Change in the provision for claims			
Gross amount		**53,803**	(39,507)
Reinsurers' share		**(29,696)**	51,843
		24,107	12,336
Claims incurred, net of reinsurance		**5,687**	988
Net operating expenses	3	**(1,272)**	(5,301)
Change in the equalisation provision	14	**1,613**	(184)
Total technical charges		**6,028**	(4,497)
Balance on the technical account for general business		**10,673**	12,789

All figures relate to continuing operations

Profit and loss account
Non-technical account
for the year ended 31 December 2006

£000's	Notes	2006	2005
Balance on the general business technical account		**10,673**	12,789
Investment income	7	**18,813**	17,543
Unrealised gains on investments		**-**	1,211
Investment expenses and charges	7	**(11,756)**	(3,986)
Unrealised losses on investments		**(1,980)**	-
Investment return		**5,077**	14,768
Other charges		**-**	734
Profit on ordinary activities before tax		**15,750**	28,291
Tax on profit on ordinary activities	8	**(4,993)**	(8,932)
Profit on ordinary activities after tax and profit for the financial year		**10,757**	19,359
All figures relate to continuing operations			

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2006

£000's	Share capital	Share premium account	Profit and loss account	2006	2005
Opening shareholders' funds	40,000	7,000	69,633	**116,633**	97,274
Profit attributable to shareholders	-	-	10,757	**10,757**	19,359
Dividends paid	-	-	(25,000)	**(25,000)**	-
Closing shareholders' funds	40,000	7,000	55,390	**102,390**	116,633

Balance Sheet
as at 31 December 2006

£000's	Notes	2006	2005
Assets			
Investments			
Other financial investments	10	**317,182**	415,726
Reinsurers' share of technical provisions			
Provision for unearned premiums		**49,856**	46,760
Claims outstanding		**257,149**	286,845
		307,005	333,605
Debtors			
Debtors arising out of direct insurance operations:			
policyholders		**493**	1,310
intermediaries		**3,259**	4,057
Debtors arising out of reinsurance operations	15	**71,119**	55,263
Other debtors	11	**3,421**	3,570
		78,292	64,200
Other assets			
Cash at bank and in hand		**155**	14,760
Prepayments and accrued income			
Accrued interest and rent		**3,255**	2,932
Deferred acquisition costs		**5,340**	4,350
		8,595	7,282
Total assets		**711,229**	835,573

Balance Sheet
as at 31 December 2006

£000's	Notes	2006	2005
Liabilities			
Capital and reserves			
Called up share capital	13	**40,000**	40,000
Share premium account		**7,000**	7,000
Profit and loss account		**55,390**	69,633
Shareholders' funds attributable to equity interests		**102,390**	116,633
Technical provisions - gross			
Provision for unearned premiums		**77,542**	67,616
Claims outstanding		**332,824**	386,627
Equalisation provision	14	**-**	1,613
		410,366	455,856
Creditors			
Bank overdraft		**369**	-
Creditors arising out of direct insurance operations		**1,234**	1,672
Creditors arising out of reinsurance operations	15	**69,493**	102,076
Amounts owed to credit institutions	16	**118,000**	125,394
Other creditors including taxation and social security	17	**6,230**	30,776
		195,326	259,918
Accruals and deferred income		**3,147**	3,166
Total liabilities		**711,229**	835,573

The financial statements on pages 10 to 25 were approved by the Board on 26 March 2007 and were signed on its behalf by

W Lewis

W Lewis
Director

Accounting policies
for the year ended 31 December 2006

Basis of preparation

The Company's financial statements have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985, and with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("the ABI SORP") dated December 2005 (as amended in December 2006).

The financial statements have been prepared in accordance with applicable accounting standards.

The Company has taken advantage of the exemption in FRS1 (Revised) and has not prepared a cash flow statement as the Company is a wholly owned subsidiary of a parent company that prepares a cash flow statement.

Basis of accounting for general insurance business

The results for all classes of business are accounted for on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

i) Premiums

Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the Company, less an allowance for cancellations.

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards reinsurance business being reinsured.

ii) Unearned premiums

Unearned premiums represent the proportion of premiums that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis.

iii) Acquisition costs

Acquisition costs, which represent commission and other related expenses, both direct and indirect, are deferred over the period in which the related premiums are earned.

iv) Claims incurred

Claims incurred compromise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

Accounting policies
for the year ended 31 December 2006

v) Claims provisions

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Company. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until many years after the event giving rise to the claims has happened. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the Company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in Company processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods

- changes in the legal environment

- the effects of inflation

- changes in the mix of business

- the impact of large losses

- movements in industry benchmarks

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Company has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are considered separately, and may be measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible the Company adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assists in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

v) Claims provisions (continued)

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

Provisions for policy rebates are accrued over the life of related insurance policies to the extent that a rebate is estimated to be repayable per the terms of the contract.

vi) Reinsurance recoveries

Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the Company's reinsurance programme over time. An assessment is also made of the recoverability of reinsurance recoveries having regard to market data on the financial strength of each of the reinsurance companies.

Equalisation provision

Amounts are set aside as equalisation provisions in accordance with the FSA's Prudential Sourcebook for Insurers for the purpose of mitigating exceptionally high loss ratios in future years. The amounts provided are not liabilities because they are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date. Notwithstanding this, they are required by Schedule 9A to the United Kingdom Companies Act 1985 to be included within technical provisions.

Investments

Investments are stated at current value. For this purpose, listed investments are stated at market value on the balance sheet date.

Investment return

Investment return comprises all investment income (which includes the amortisation charge in respect of investments carried at amortised cost), realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Dividends are recorded on the date on which shares are quoted ex-dividend. Interest, rents and expenses are accounted for on an accruals basis.

Realised gains and losses on investments, carried at market value are calculated as the difference between net sales proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Accounting policies
for the year ended 31 December 2006

Deferred tax

Provision is made for deferred tax liabilities, using the liability method, on all material timing differences,, including revaluation gains and losses on investments recognised in the profit and loss account. Deferred tax is calculated at the rates at which it is expected that the tax will arise and discounted to take into account the likely timing of payments and the pattern of the expected realisation of investments. The discount rates used are the post-tax yields to maturity that could be obtained at the balance sheet date on government bonds with maturity dates and in currencies similar to those of the deferred tax assets or liabilities. Deferred tax is recognised in the profit and loss account for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the statement of total recognised gains and losses.

Foreign currencies

Assets and liabilities in foreign currencies are translated at rates of exchange ruling at year end. Foreign currency translations are reflected in the non-technical account and are translated at the spot rate at the date of the transaction where practicable, or at an average monthly rate.

Pension costs

The Company participates in two multi-employer defined benefit schemes operated by an intermediate holding company. The schemes are valued on a triennial basis by independent qualified actuaries and contributions are made based on their recommendations.

Pension costs for the principal scheme, which are included in expenses where appropriate, are accounted for as if the Scheme were a defined contribution scheme using the exemptions set out in paragraph 9(b) of FRS 17, as the contributions to the scheme are affected by a surplus and the Company is unable to identify its share of the underlying assets and liabilities in the Scheme on a constant and reasonable basis. Further details are given in the notes to the accounts.

Notes to the financial statements
for the year ended 31 December 2006

1 Segmental analysis

The geographical analysis has been prepared using the location of the insured or reinsured as the basis. All of the Company's gross direct premiums were written in the United Kingdom. Inwards reinsurance premiums relate to premiums written in local territories and reinsured back to the UK.

£000's	2006	2005
Analysis of premiums		
By geographical segment:		
United Kingdom	**34,431**	34,657
Other EU members	**67,749**	65,268
Other Europe	**11,529**	9,666
North America	**57,417**	46,606
Other	**35,757**	42,548
Total	**206,883**	198,745
By class of business:		
Direct	**35,946**	34,949
Reinsurance	**170,937**	163,796
Total	**206,883**	198,745

Origin represents the territory from which the service/underwriting is undertaken. By destination Freedom of Services business originating within the United Kingdom of **£12,641,000** (2005: £6,066,000) relates to risks written within Other EU members.

All net assets continue to be held within the UK.

Based on the global network that supports the writing of multinational business within this company, the determination of profit before tax by geographical segment is not practicable.

1 Segmental analysis (continued)

Gross premiums written, gross premiums earned, gross claims incurred, gross operating expenses and the reinsurance balance by class of business are analysed as follows:

£000's	2006 Gross premiums written	2006 Gross premiums earned	2006 Gross claims incurred	2006 Gross operating expenses	2006 Reinsurance balance
Direct insurance					
Accident and health	-	-	4	-	(2)
Motor	1,169	1,195	2,667	(106)	(2,826)
Marine, aviation and transport	340	284	320	(235)	(450)
Fire and other damage to property	21,062	20,132	(36,952)	(3,398)	20,764
Third party liability	9,522	9,791	16,914	(963)	(15,950)
Miscellaneous	3,853	4,368	23,553	(1,097)	(27,991)
	35,946	35,770	6,506	(5,799)	(26,455)
Reinsurance acceptances					
Motor	25,608	25,286	(21,198)	(7,436)	6,070
Marine, aviation and transport	10,702	11,138	(11,255)	(1,117)	1,632
Fire and other damage to property	95,368	85,740	575	(10,690)	(83,672)
Third party liability	39,259	39,023	(27,021)	(4,025)	(4,172)
	170,937	161,187	(58,899)	(23,268)	(80,142)
Total	206,883	196,957	(52,393)	(29,067)	(106,597)

	2005 Gross premiums written	2005 Gross premiums earned	2005 Gross claims incurred	2005 Gross operating expenses	2005 Reinsurance balance
Direct insurance					
Accident and health	5	5	21	-	-
Motor	1,183	1,280	769	(541)	(396)
Marine, aviation and transport	177	200	1,297	(85)	(898)
Fire and other damage to property	19,472	24,086	(10,937)	(4,600)	(5,609)
Third party liability	8,123	8,992	(7,041)	(228)	(4,095)
Miscellaneous	5,989	5,370	(5,954)	(393)	634
	34,949	39,933	(21,845)	(5,847)	(10,364)
Reinsurance acceptances					
Motor	23,018	21,413	(12,987)	(4,449)	(4,073)
Marine, aviation and transport	6,451	8,559	(8,402)	(1,331)	1,158
Fire and other damage to property	90,923	98,665	(66,535)	(8,217)	(16,904)
Third party liability	43,404	44,113	(14,948)	(5,022)	(20,110)
Reinsurance acceptances	163,796	172,750	(102,872)	(19,019)	(39,929)
Total	198,745	212,683	(124,717)	(24,866)	(50,293)

The reinsurance balance represents the (charge)/credit to the technical account from the aggregate of all items relating to reinsurance outwards.

Notes to the financial statements
for the year ended 31 December 2006

2 Movement in prior year's provision for claims outstanding

A positive run-off deviation was experienced during the year of **£13,168,000** in respect of third party liability, **£3,984,000** in respect of Motor and **£94,000** in respect of Marine (2005: £8,605,000 in respect of fire and other damage of property, £1,293,000 in respect of third party liability, £4,911,000 in respect of Motor, £838,000 in respect of Marine and £82,000 in respect of Miscellaneous). An adverse run-off deviation was experienced during the year of **£8,540,000** in respect of fire and other damage to property and **£248,000** in respect of Miscellaneous.

3 Net operating expenses

£000's	2006	2005
Acquisition costs	**18,881**	17,228
Change in gross deferred acquisition costs	**(990)**	851
Administrative expenses	**11,176**	6,787
Reinsurance commissions and profit participation	**(27,795)**	(19,565)
Total	**1,272**	5,301

Total commissions for direct insurance accounted for by the Company during the year amounted to **£4,116,072** (2005: £3,071,192).

4 Auditors' remuneration

During the year the Company obtained the following services from the Company's auditor at costs as detailed below:

£000's	2006	2005
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**80**	80
Fee's payable to the Company's auditor and its associates for other services:		
- Other services pursuant to legislation, including the audit of the regulatory return	**20**	20
	100	100

5 Staff costs

Employees in the UK working on behalf of the Company are employed by either Zurich UK General Employee Services Limited, or Zurich UK General Services Limited. These employees may also work on behalf of any other Zurich Financial Services' companies.

The principal disclosures in respect of these staff, including disclosures in relation to share based payments, appear in the accounts of Zurich UK General Employee Services Limited and Zurich UK General Services Limited, copies of which can be obtained from The Secretary, The Zurich Centre, 3000 Parkway, Whiteley, Fareham, Hampshire, PO15 7JZ.

6 Directors' emoluments

The aggregate emoluments of the directors in respect of their services to the Company were **£16,000** (2005: nil).

7 Investment income expenses and charges

£000's	**2006**	2005
Income from other investments	**18,813**	14,771
Gains on the realisation of investments	-	2,772
Investment income	**18,813**	17,543
Investment management expenses	**6,456**	715
Losses on the realisation of investments	**5,300**	3,271
Investment expenses and charges	**11,756**	3,986

8 Taxation

Taxation in the profit and loss account was as follows:

£000s	**2006**	2005
United Kingdom taxation:		
- UK corporation tax at 30% (2005: 30%) for the year	**4,848**	8,627
- Adjustments in respect of prior years	**(255)**	2,705
	4,593	11,332
Deferred tax:		
Origination and reversal of timing differences	**385**	(2,522)
Movement in discount	**15**	122
Tax on profit on ordinary activities	**4,993**	8,932

Notes to the financial statements
for the year ended 31 December 2006

8 Taxation (continued)

Factors affecting the tax charge for the period:

The tax assessed for the year differs from the standard rate of corporation tax in the UK (30%). The differences are explained below:

£000s	2006	2005
Profit/(Loss) on ordinary activities before tax	**15,750**	28,291
Profit /(Loss) on ordinary activities at the standard rate of corporation tax in the UK of 30% (2005: 30%)	**4,725**	8,487
Income not chargeable for tax purposes	**-**	-
Movement in timing differences	**123**	140
Adjustments to tax charge in respect of previous periods	**(255)**	2,705
Current tax charge for the period	**4,593**	11,332

See also note 12 entitled 'Deferred taxation'.

9 Dividends

£000's	2006	2005
Equity shares		
Dividend paid of 62.5p per share (2005: nil)	**25,000**	-
	25,000	-

In addition the directors are proposing a final dividend in respect of the financial year ended 31 December 2006 of 37.5p per share, which will absorb an estimated £15m of shareholders' funds.

10 Other financial investments

£000's	2006	2005
Shares and other variable-yield securities and units in unit trusts	**137,491**	83,332
Debt securities and other fixed-income securities	**174,793**	332,394
Deposits with credit institutions	**4,898**	-
	317,182	415,726

Included in the carrying values above are amounts in respect of listed investments as follows:

Shares and other variable-yield securities and units in unit trusts	**117,040**	83,332
Debt securities and other fixed-income securities	**174,793**	332,394
	291,833	415,726

The historical cost of total other financial investments is **£319,881,563** (2005: £418,453,879).

Notes to the financial statements for the year ended 31 December 2006

11 Other debtors

£000's	2006	2005
Amounts due from group undertakings	**358**	285
Deferred tax (see note 12)	**1,520**	1,920
Other	**1,543**	1,365
	3,421	3,570

12 Deferred taxation

The deferred taxation balance comprises:

£000's	2006	2005
Unrealised gains on investments	**(137)**	(379)
Other short-term timing differences	**1,755**	2,382
	1,618	2,003
Discount	**(98)**	(83)
Deferred taxation balance	**1,520**	1,920

In accordance with the provisions of FRS 19 'Deferred Tax', full provision has been made for deferred tax on assets and liabilities arising on timing differences. As permitted by FRS 19, deferred tax balances have been discounted to reflect the time value of money.

13 Share capital

£000's	2006	2005
Allotted, called up and fully paid:		
40,000,000 ordinary shares of £1 each	**40,000**	40,000
	40,000	40,000
Authorised:		
40,000,000 ordinary shares of £1 each	**40,000**	40,000
	40,000	40,000

14 Equalisation provision

As explained in the accounting policies, an equalisation provision is established in the Company's financial statements. The effect of this provision is to reduce shareholders' funds by **£nil** (2005: £1,613,000). The decrease in the provision during the year had the effect of increasing the balance on the technical account for general business and the profit on ordinary activities before taxation by **£1,613,000** (2005: increase £184,000).

15 Reinsurance transactions with group undertakings

Amounts due from group undertakings of **£108,187,745** (2005: £121,677,869) are included in reinsurers' share of technical provisions and **£56,844,928** (2005: £52,576,918) are included in debtors arising out of reinsurance operations. Amounts due to group undertakings of **£118,162,996** (2005: £143,708,666) are included in technical provisions and **£16,812,060** (2005: £81,348,749) are included in creditors arising out of reinsurance operations.

16 Amounts owed to credit institutions

£000's	2006	2005
Repayable otherwise by instalments:		
Within one year or on demand	**118,000**	125,394
	118,000	125,394

17 Other creditors including taxation and social security

£000's	2006	2005
Amounts due to group undertakings	**3,333**	8,068
Current taxation payable	**2,664**	19,561
Other creditors	**233**	3,147
	6,230	30,776

All creditors fall due within one year.

18 Pension and post-retirement benefits

Employees of the Company are members of two funded defined benefit schemes operated by the intermediate holding company Zurich Financial Services (UKISA) Limited. The principal scheme is the Zurich Financial Services UK Pension Scheme. The last actuarial valuation of the principal Scheme, at 30 June 2004 and which was carried out by qualified independent actuaries, identified a surplus of £27m. It is not possible to identify the Company's share of the underlying assets and liabilities on a consistent and reasonable basis, and so the company has accounted for the scheme as a defined contribution scheme. Contributions by the Company to the principal scheme in the period were £56m (2005: £61m), being 20% of pensionable salary.

Details of the Scheme and the disclosures required by FRS 17 appear in the accounts of Zurich Financial Services (UKISA) Limited.

19 Ultimate parent company

The Company's ultimate parent company is Zurich Financial Services which is incorporated in Switzerland. Copies of the consolidated financial statements of Zurich Financial Services can be obtained from The Secretary, Zurich Financial Services, Mythenquai 2, 8002 Zurich, Switzerland.

Zurich Insurance Company is the parent company of the smallest group of companies of which the Company is a wholly owned subsidiary for which group accounts are prepared. Copies of the consolidated financial statements of Zurich Insurance Company can be obtained from The Secretary, Zurich Insurance Company, Mythenquai 2, 8002 Zurich, Switzerland.

20 Related party transactions

The Company has taken advantage of an exemption from within FRS8 not to disclose transactions with Zurich Financial Services' group undertakings. Balances with Zurich Financial Services' group undertakings are shown in notes 11, 15 and 17.

There were no material transactions with any other related party.

The directors of the Company and its key management had no material transactions with the Company or any of the Group's undertakings. The terms 'director' and 'key management' include members of their families.

21 Principal subsidiary undertakings

The Company has taken advantage of Section 231 (5) of the United Kingdom Companies Act 1985 and has not listed any subsidiary undertaking as they have not principally affected the figures shown in the accounts.