Registered number
41334

Zurich International (UK) Limited

Financial Statements

31 December 2008

Contents

Company information

Directors

G V Dodds (appointed 4 March 2008)
W Lewis

Secretary

M A Porter

Registered office

The Zurich Centre
3000 Parkway
Whiteley
Fareham
Hampshire
PO15 7JZ

Auditors

PricewaterhouseCoopers LLP
Hay's Galleria
1 Hays Lane
London
SE1 2RD

Directors' report

The directors present their report and audited financial statements for the year ended 31 December 2008.

Business review

This review is designed to help explain the financial statements 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 on the financial results 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 complimentary to these activities is permitted to invest in stocks, shares, properties and loans.

On 25 May 2007 the directors resolved that the Company should be put into run-off and a Scheme of Operations has been submitted to the Financial Services Authority. The Company ceased to effect new contracts of insurance business on 30 June 2007.

On 01 January 2009, pursuant to a portfolio transfer under Part VII of the Financial Services and Markets Act 2000 (the Part VII) following Court approval on 15 December 2008, assets of £307,130,000 and liabilities of £184,495,000 were transferred to the UK Branch of Zurich Insurance plc (formerly Zurich Insurance Ireland Limited UK Branch), for £nil consideration.

The Part VII has transferred all the insurance business of the Company to Zurich Insurance plc UK Branch.

The effect on the Company's financial statements for the year ended 31 December 2008 is a loss of £122,635,000.

As a result of the Part VII transfer an application to de-authorise the Company from effecting and carrying out contracts of insurance was accepted with effect from 31 December 2008.

Going concern

As a result of the Part VII transfer and the nil net assets position, the Directors have considered how the financial statements should be prepared. As at the end of 2008 there is no change to the Company's business or operation; the Part VII transfer does not affect the underlying business itself or how it should be reflected in the 2008 financial statements. It has therefore been deemed that it is appropriate to prepare the accounts on a basis consistent with the going concern presumption in FRS 18.

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 maximising 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 is assessed by measuring regulatory asset surplus over that required to cover minimum regulatory capital requirements.

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 loss of **£95,458,000** (2007: profit of £23,005,000) for the year and gross written premiums of **£4,608,000** (2007: £(5,660,000)).

The Company has net assets of **£nil** (2007: £103,706,000).

Directors' report

Key performance measures are as follows:
- Solvency margin **1275.17%*** (2007: 698.81%)
- Return on investment **5.09%** (2007: 5.43%)

* The 2008 solvency margin is calculated excluding the Part VII transfer provision of £122,635,000.

The overall financial position of the Company at the end of the year was satisfactory, the nil net assets position and loss for the year being as a result of the provision made for the portfolio transfer as referred to above under the principal activities.

Principal risks and uncertainties
The following were defined as key business risks prior to the Part VII transfer on 1 January 2009. The principal risks from our general insurance business arise from fluctuations in the timing, frequency and severity of claims compared to our expectations; inadequate reinsurance protection; and inadequate reserving. To minimise these risks the Company has established strategies, which are approved by the directors and communicated clearly throughout the business through policy statements and guidelines.

Dividends
The directors do not propose the payment of a dividend for the year (2007: £nil).

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

The following director resigned during the year:
D J Martin (resigned 4 March 2008)

Directors' interests
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 234(2) of the Companies Act 2006) are in force for the benefit of the 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 principal employer, Zurich Financial Services (UKISA) Limited, approved three key changes to the pension scheme:

- all new employees to 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 to 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 already invested, but all future service will be on harmonised terms and all members will be required to share the cost of pension provision.

These changes were implemented with effect from 1 April 2007.

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 2008. 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 continued to be a feature of the communication and consultation process across Zurich Financial Services during 2008.

Zurich Financial Services operated bonus schemes during 2008 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 Reward Share Scheme.

The Reward Share Scheme is an element of a Revenue Approved Share Incentive Plan (SIP) operated by Zurich Group Holdings. Shares are allocated in Zurich Financial Services based on the business performance of operating units for the year ended 31 December 2008 in which eligible employees worked.

In March 2007 the Partnership Shares element of the SIP scheme which enabled participating employees to make monthly purchases of shares in Zurich Financial Services out of gross pay was withdrawn due to the low number of participants in relation to the cost to run the scheme.

Employment of staff with disabilities in the United Kingdom
Zurich Financial Services' policy on recruitment and promotion is based on an individual's ability to do the job. Full and fair consideration is given to experience, qualifications and overall competence to perform the job. Zurich Financial Services' training functions are equipped to meet any special needs of individuals with disabilities 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 provides career development opportunities to employees with disabilities and the Company remains satisfied that policy and practice meets and in some cases exceeds statutory requirements.

For those employees who develop a disability 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 making appropriate adjustments, retraining or redeployment, or, where this is not possible, financial provision is made for such employees through the operation of long-term sickness cover and ill health early retirement provisions.

Directors' report

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.

Any gap between the mean duration of the assets and the estimated mean duration of the liabilities is minimised by means of buying and selling fixed interest securities of different durations.

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.

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 credit worthiness of reinsurers is monitored on an ongoing basis by reviewing their financial strength.

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.

Directors' report

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 2008 of which the auditors are unaware; and
- the directors have taken all 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 auditors, PricewaterhouseCoopers LLP, have signified their willingness to continue in office.

By order of the Board

Margaret Porter

M A Porter
Company Secretary
25 March 2009

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, 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 suitable accounting policies and then apply them consistently, with the exception of changes arising on the adoption of new accounting standards in the year;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going-concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors confirm they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985, and where applicable, with the Companies Act 2006.

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

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 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds, the Accounting Policies 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 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 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 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.

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

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 loss 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
London
25 March 2009

Profit and loss account
Technical account - general business
for the year ended 31 December 2008

£'000	Notes	2008	2007
Earned premiums, net of reinsurance			
Gross premiums written	1	**4,608**	(5,660)
Outward reinsurance premiums		**(2,492)**	(19,950)
Net premiums written		**2,116**	(25,610)
Change in the gross provision for unearned premiums		**(387)**	76,942
Change in the provision for unearned premiums, reinsurers' share		**(365)**	(49,375)
		(752)	27,567
Earned premiums, net of reinsurance		**1,364**	1,957
Other technical income, net of reinsurance	2	**79**	126
Total technical income		**1,443**	2,083
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	1	**(36,394)**	(90,774)
Reinsurers' share		**32,250**	77,402
		(4,144)	(13,372)
Change in the provision for claims			
Gross amount	1	**65,418**	103,753
Reinsurers' share		**(48,916)**	(81,792)
		16,502	21,961
Claims incurred, net of reinsurance		**12,358**	8,589
Net operating (expenses)/income	4	**(3,251)**	1,743
Total technical (charges)/income		**9,107**	10,332
Balance on the technical account for general business		**10,550**	12,415

All figures relate to discontinued operations.

Profit and loss account
Non-technical account
for the year ended 31 December 2008

£'000	Notes	2008	2007
Balance on the technical account for general business		**10,550**	12,415
Investment income	8	**12,042**	15,560
Unrealised gains on investments		**8,447**	1,907
Investment expenses and charges	8	**(3,935)**	(6,877)
Investment return		**16,554**	10,590
Other income		**73**	-
Provision for loss on Part VII transfer	9	**(122,635)**	-
(Loss)/profit on ordinary activities before taxation		**(95,458)**	23,005
Taxation on (loss)/profit on ordinary activities	10	**(8,248)**	(6,689)
(Loss)/profit for the financial year		**(103,706)**	16,316

All figures relate to discontinued operations.

The Company has no other recognised gains or losses other than the profit/(loss) for the above financial years.

There is no material difference between the profit on ordinary activities as reported and on an historical cost basis.

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2008

£'000	Notes	Share capital	Share premium account	Profit and loss account	2008	2007
Opening shareholders' funds		40,000	7,000	56,706	**103,706**	102,390
(Loss)/profit for the financial year		-	-	(103,706)	**(103,706)**	16,316
Dividends paid	11	-	-	-	-	(15,000)
Net (deficit)/addition to shareholders' funds		-	-	(103,706)	**(103,706)**	1,316
Closing shareholders' funds		**40,000**	**7,000**	**(47,000)**	-	103,706

Balance sheet
as at 31 December 2008

£'000	Notes	2008	2007
Assets			
Investments			
Other financial investments	12	**160,826**	243,395
Deposits with ceding undertakings		**5,124**	3,554
		165,950	246,949
Reinsurers' share of technical provisions			
Provision for unearned premiums		**116**	481
Claims outstanding		**126,441**	175,357
		126,557	175,838
Debtors			
Debtors arising out of direct insurance operations:			
- policyholders		**81**	143
- intermediaries		**-**	393
Debtors arising out of reinsurance operations		**11,711**	13,418
Other debtors	13	**1,200**	3,644
		12,992	17,598
Other assets			
Cash at bank and in hand		**380**	1,295
Prepayments and accrued income			
Accrued interest and rent		**1,183**	2,055
Deferred acquisition costs		**68**	129
		1,251	2,184
Total assets		**307,130**	443,864

Balance sheet
as at 31 December 2008

£'000	Notes	2008	2007
Liabilities			
Capital and reserves			
Called up share capital	15	**40,000**	40,000
Share premium		**7,000**	7,000
Profit and loss account		**(47,000)**	56,706
Shareholders' funds attributable to equity interests		**-**	103,706
Technical provisions - gross			
Provision for unearned premiums		**987**	600
Claims outstanding		**163,652**	229,071
		164,639	229,671
Provision for other risks and charges	16	**122,635**	-
Creditors			
Creditors arising out of direct insurance operations		**21**	193
Creditors arising out of reinsurance operations		**9,693**	28,396
Amounts owed to credit institutions	18	**1,293**	75,018
Other creditors including taxation	19	**8,837**	6,273
		19,844	109,880
Accruals and deferred income		**12**	607
Total liabilities		**307,130**	443,864

The financial statements on pages 10 to 24 were approved and authorised for issue by the Board on 25 March 2009 and were signed on its behalf by:

W Lewis
Director

Accounting policies
for the year ended 31 December 2008

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 in accordance with applicable accounting standards.

The financial statements have been prepared in accordance 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), with the exception of paragraph 219 in relation to the presentation of foreign currency exchange gains and losses in the non-technical account. It is the directors view that presentation of such gains and losses in the technical account does not render the financial statements any less relevant or reliable and the cost of re-presentation would not be of benefit to the user. The Company's accounting policy on the treatment of foreign currency gains and losses is detailed below.

The Company has taken advantage of the exemption in FRS 1 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:

Premiums
Premiums written relate to adjustments to policies incepted in prior years, and include estimates of premiums due but not yet receivable or notified to the Company, less an allowance for cancellations.

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

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

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

Claims incurred
Claims incurred comprise 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 2008

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, which for most classes of business are 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;
- the impact of large losses; and
- 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.

Accounting policies
for the year ended 31 December 2008

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 the related insurance policies to the extent that a rebate is estimated to be repayable per the terms of the contract.

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.

Investments

Investments are stated at current value. For this purpose, listed investments are stated at market value on the balance sheet date. Unlisted investments for which a market exists are stated at the average price at which they were traded on the balance sheet date or the last trading day before that date. Other unlisted investments are valued annually by the directors having prudent regard to their likely realisable value.

Investment return

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

In accordance with FRS 3 and the ABI SORP in relation to insurance companies and groups, both realised and unrealised gains on investments held as part of investment portfolios should be included as part of investment return in the profit and loss account.

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, other than investments in group undertakings, carried at market value are calculated as the difference between net sales proceeds and purchase price. Realised gains on investments in group undertakings are calculated as the difference between net sales proceeds and the revalued amount. 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.

Foreign currencies

Assets and liabilities in foreign currencies are translated at rates of exchange ruling at year end; gains and losses on revaluation of investments are reflected in the non-technical account and on insurance assets and liabilities in the technical account. Foreign currency transactions are reflected in the non-technical account if arising from investment activity and in the technical account if arising from insurance business. These are translated at the spot rate at the date of the transaction where practicable, or at a materially equivalent rate.

Accounting policies
for the year ended 31 December 2008

Pension costs

Pension costs are charged to the profit and loss account in line with the contributions made to the Group Pension Schemes as disclosed in note 20.

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 year, 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.

Notes to the financial statements for the year ended 31 December 2008

1 Segmental analysis

The geographical analysis has been prepared using the location of the insured or reinsured as the basis. All business is supplied from the United Kingdom and all net assets are held within the United Kingdom.

£'000	2008	2007
Analysis of gross written premium		
By geographical segment:		
United Kingdom	**(40)**	2,189
Other EU members states	**2,317**	(1,416)
Other European countries	**203**	(569)
North America	**1,803**	(3,650)
Other	**325**	(2,214)
Total	**4,608**	(5,660)

Origin represents the territory from which the service/underwriting is undertaken. By destination Freedom of Services business originating within the United Kingdom of **£nil** (2007: £30,000) relates to risks written within other EU members.

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.

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

£'000	2008	2008	2008	2008	2008
	Gross premiums written	**Gross premiums earned**	**Gross claims incurred**	**Gross operating expenses**	**Reinsurance balance**
Direct insurance					
Accident and health	-	-	19	-	-
Motor	-	-	812	-	(940)
Marine, aviation and transport	(9)	(9)	(3)	(1)	(2)
Fire and other damage to property	(55)	7	2,132	(17)	(2,403)
Third party liability	(25)	(25)	3,191	24	(746)
Miscellaneous	-	-	5,761	(6)	(5,340)
	(89)	(27)	11,912	-	(9,431)
Reinsurance acceptances					
Motor	99	106	1,199	(69)	(1,565)
Marine, aviation and transport	2,057	2,057	(435)	(109)	(1,449)
Fire and other damage to property	3,184	2,724	5,796	(424)	(8,327)
Third party liability	(643)	(639)	10,552	82	(811)
	4,697	4,248	17,112	(520)	(12,152)
Total	4,608	4,221	29,024	(520)	(21,583)

Notes to the financial statements for the year ended 31 December 2008

1 Segmental analysis (continued)

£'000	2007	2007	2007	2007	2007
	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance
Direct insurance					
Accident and health	-	-	4	-	-
Motor	(1)	144	(806)	58	(198)
Marine, aviation and transport	(113)	(43)	390	(1)	(366)
Fire and other damage to property	1,768	6,720	(2,899)	349	(2,429)
Third party liability	100	1,387	20,876	150	(16,427)
Miscellaneous	519	891	(84)	(100)	(561)
	2,273	9,099	17,481	456	(19,981)
Reinsurance acceptances					
Motor	943	7,736	(5,434)	(1,075)	1,396
Marine, aviation and transport	1,073	3,078	2,753	(485)	(5,585)
Fire and other damage to property	(6,468)	36,392	8,025	(2,767)	(37,119)
Third party liability	(3,481)	14,977	(9,846)	(1,429)	(5,383)
	(7,933)	62,183	(4,502)	(5,756)	(46,691)
Total	(5,660)	71,282	12,979	(5,300)	(66,672)

The reinsurance balance represents the charges to the technical account from the aggregate of all items relating to reinsurance outwards.

2 Other technical income, net of reinsurance

Other technical income comprises fees for policy and administration services.

3 Movement in prior year's provision for claims outstanding

A positive run-off deviation of **£12,974,000** was experienced during the year in respect of third party liability business, **£84,000** in respect of marine business and **£423,000** in respect of miscellaneous business, and an adverse run-off deviation of **£593,000** was experienced in respect of fire and other property damage business and **£131,000** in respect of motor business (2007: positive run-off deviation of £4,403,000 in respect of fire and other property damage business, £3,895,000 in respect of third party liability business, £1,619,000 in respect of motor business, £624,000 in respect of marine business and £264,000 in respect of miscellaneous business).

4 Net operating expenses/(income)

£'000	**2008**	2007
Acquisition costs	**455**	2,585
Change in gross deferred acquisition costs	**62**	5,211
Administrative expenses	**674**	(2,496)
Reinsurance commissions and profit participation	**2,060**	(7,043)
Total	**3,251**	(1,743)

4 Net operating expenses/(income) (continued)

Total commissions for direct and assumed insurance accounted for by the Company during the year amounted to **£430,000** (2007: £6,438,000). Total commission on reinsurance contracts was **£(2,060,000)** (2007: £7,043,000).

5 Auditors' remuneration

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

£'000	2008	2007
Fees payable to the Company's auditor for the audit of the Company's financial statements	**13**	94
Fees payable to the Company's auditor and its associates for other services:		
- Other services pursuant to legislation, including the audit of the regulatory return	**3**	24
Total	**16**	118

6 Staff costs

Employees in the UK working on behalf of the Company are employed by either Zurich UK General Employee Services Limited, Zurich UK General Services Limited or Zurich Global Corporate UK 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, Zurich UK General Services Limited and Zurich Global Corporate UK Limited, copies of which can be obtained from The Secretary, The Zurich Centre, 3000 Parkway, Whiteley, Fareham, Hampshire, PO15 7JZ.

7 Directors' emoluments

The aggregate emoluments of directors in respect of their services to the Company were **£12,000** (2007: £12,000).

8 Investment income, interest and charges

£'000	2008	2007
Income from other financial investments	**12,042**	15,560
Investment income	**12,042**	15,560
Investment management expenses	**3,386**	5,434
Net losses on the realisation of investments	**549**	1,443
Investment expenses and charges	**3,935**	6,877

8 Investment income, interest and charges (continued)

Investment management expenses includes interest payable on amounts owed to credit institutions of **£3,297,000** (2007: £5,380,000).

9 Provision for loss on Part VII transfer

On 1 January 2009, pursuant to a portfolio transfer under Part VII of the Financial Services and Markets Act 2000, assets of **£307,130,000** and liabilities of **£184,495,000** were transferred from the Company to the UK Branch of Zurich Insurance Plc, another group company, for £nil consideration. The transfer received court approval on 15 December 2008 and therefore the resulting loss of **£122,635,000** has been provided for in the results of the Company for the year ended 31 December 2008.

See also note 16 entitled 'Provisions for other risks and charges'.

10 Taxation

Taxation in the profit and loss account was as follows:

£'000	**2008**	2007
United Kingdom taxation:		
UK corporation tax at 28.5% (2007: 30%) for the year	**7,745**	6,534
Adjustments in respect of prior years	**495**	(1,336)
	8,240	5,198
Deferred taxation:		
Reversal of timing differences	**10**	1,586
Movement in discount	**(2)**	(95)
Tax on (loss)/profit on ordinary activities	**8,248**	6,689

Factors affecting the tax charge for the period:
The tax for the year differs from the standard rate of corporation tax in the UK (28.5%). The differences are explained below:

£'000	**2008**	2007
(Loss)/profit on ordinary activities before taxation	**(95,458)**	23,005
(Loss)/profit on ordinary activities at standard rate of corporation tax in the UK of 28.5% (2007: 30%)	**(27,206)**	6,902
Provisions not deductible for taxation purposes	**34,951**	-
Movement in timing differences	**-**	(368)
Adjustments to the tax charge in respect of previous periods	**495**	(1,336)
Current tax charge for the year	**8,240**	5,198

See also note 14 entitled 'Deferred taxation'.

11 Dividends

£'000	2008	2007
Equity shares		
Dividend paid of £nil (2007: 37.5p per share)	-	15,000

12 Other financial investments

£'000	2008	2007
Shares and other variable-yield securities and units in unit trusts	**9,774**	86,572
Debt securities and other fixed-income securities	**105,759**	124,772
Deposits with credit institutions	**45,293**	32,051
Total	**160,826**	243,395

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	**9,774**	86,572
Debt securities and other fixed-income securities	**105,759**	124,772
Total	**115,533**	211,344

The historical cost of total other financial investments is **£153,503,000** (2007: £244,797,000).

13 Other debtors

£'000	Note	2008	2007
Amounts due from group undertakings		**379**	1,342
Deferred taxation	14	**21**	29
Current taxation recoverable		**-**	1,208
Sundry debtors		**800**	1,065
Total		**1,200**	3,644

14 Deferred taxation

The deferred taxation balance comprises:

£'000	2008	2007
Other short-term timing differences	**22**	32
	22	32
Discount	**(1)**	(3)
Discounted provision for deferred taxation	**21**	29

In accordance with the provisions of FRS 19 'Deferred Taxation', 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.

Notes to the financial statements
for the year ended 31 December 2008

15 Share capital

£'000	2008	2007
Allotted, called up and fully paid:		
40,000,000 ordinary shares of £1 each	**40,000**	40,000
Authorised:		
40,000,000 ordinary shares of £1 each	**40,000**	40,000

16 Provisions for other risks and charges

£'000	Note	2008	2007
Other provisions	9	**122,635**	-
Total		**122,635**	-

17 Reinsurance transactions with group undertakings

Amounts due from group undertakings of **£77,776,000** (2007: £79,310,000) are included in reinsurers share of technical provisions, and **£1,959,000** (2007: £869,000) are included in debtors arising out of reinsurance operations. Amounts due to group undertakings of **£91,112,000** (2007: £105,922,000) are included in technical provisions - gross, and **£7,854,000** (2007: £12,406,000) are included in creditors arising out of reinsurance operations. Deposits with group undertakings of **£5,124,000** (2007: £3,554,000) are included in deposits with ceding undertakings.

18 Amounts owed to credit institutions

£'000	2008	2007
Bank loans - secured	-	73,000
Bank overdrafts	**1,293**	2,018
Total	**1,293**	75,018

19 Other creditors including taxation

£'000	2008	2007
Amounts due to group undertakings	**91**	2,221
Current tax payable	**7,428**	4,031
Sundry creditors	**1,318**	21
Total	**8,837**	6,273

All creditors fall due within one year.

Notes to the financial statements for the year ended 31 December 2008

20 Pension and post-retirement benefits

The Company participates in a defined benefit scheme. The date of the last full actuarial valuation for each scheme was 30 June 2007, with roll forward valuations performed as at 31 December 2008. The valuation of the schemes is carried out by independent actuaries. The scheme is affected by a deficit.

The majority of active members of the Scheme are employees of Zurich UK General Services Limited (ZUKGS). The Company itself is not an employer.

Contributions by the group of **£72,400,000** (2007: £77,000,000) were made during the year and contribution rates are set at **26.6%** of salaries (2007: 20%). From 1 April 2007 contribution rates for new members of the scheme were set at 10% of salaries. Contributions by the Company to the schemes in the year were **£nil** (2007: £nil). All other information in relation to the scheme is provided in the financial statements of ZUKGS.

21 Contingent liabilities

The Company holds no contingent liabilities at the end of the year (2007 : £nil).

22 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 financial statements of this company can be obtained from The Secretary, Zurich Insurance Company, Mythenquai 2, 8002 Zurich, Switzerland.

23 Related party transactions

The Company has taken advantage of an exemption from within FRS 8 not to disclose transactions with Zurich Financial Services' group undertakings. Balances with Zurich Financial Services' group undertakings are shown in notes 13, 17 and 19.

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 Zurich Financial Services group's undertakings. The terms 'director' and 'key management' includes members of their families.

24 Principal subsidiary undertakings

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