Zurich GSG Limited

Financial Statements

31 December 2008

Contents

Office and Registered Office: Second Floor, Sandfield House, Water Lane, Wilmslow, Cheshire, SK9 5BZ
Telephone 01625 527242 Fax 01625 549499

Company registered in England No. 378093

Board of Directors

Richard J. White	*Managing Director*
Wayne Lewis	
John V. Newsham	
Reto H. Koller	*(Appointed 1 April 2008)*
David Martin	*(Resigned 21 January 2008)*
Vincent Vandendael	*(Resigned 1 April 2008)*

Secretary

John V. Newsham

Bankers

The Royal Bank of Scotland plc

St Ann Street, Manchester, M60 2SS

Auditors

PricewaterhouseCoopers LLP

Hay's Galleria, 1 Hay's Lane, London, SE1 2RD

Report of the Board of Directors

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

Activities
The Company is an insurance company within the meaning of the Financial Services and Markets Act 2000 and the Companies Act 1985, underwriting suretyship business. The Company specialised in the issue of Performance Bonds and other forms of Guarantee Bonds.

On 1 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 £23,652,304 and liabilities of £14,896,692 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 part of the insurance business of the Company to Zurich Insurance Plc UK branch. The Company remains authorised by the Financial Services Authority as it was not possible to transfer all of the business under the Part VII. The remaining business has been in run off since 1994. There is no continuing business and no trading, however, assets are required to meet FSA solvency requirements.

The effect of the Part VII on the Company's financial statements for the year ended 31 December 2008 is a loss of £8,755,612 as a result of the net asset transfer for £nil consideration.

In addition, on 31 October 2008, the Company ceased to have any active employees accruing benefits under the Staff Pensions Schemes. As a result, the Company made a payment of £3,660,000 to discharge a liability arising to the Scheme under S75 of the Pensions Act 1995.

Review of Business, Results and Dividends
Gross written premiums in 2008 amounted to £6,233,253 (2007: £6,031,228) and there was a technical account surplus of £2,312,578 (2007: £4,088,481). The overall claims position was satisfactory and the Company continued to place great emphasis on the importance of a prudent approach to underwriting.

The loss for the year after tax was £(9,006,781) (2007: profit £3,575,029). No ordinary dividend was paid during the year (2007: £1,500,000).

The Directors believe that the above financial figures are appropriate Key Performance Indicators in order to assess the financial performance of the business.

The overall financial position of the Company at the end of year was satisfactory, the loss for the year being as a result of a special pensions payment and the provision made for the portfolio transfer as referred to above.

Directors
The names of the Directors of the Company who currently hold office are shown on page 2.

Mr David Martin resigned as a Director on 21 January 2008, and Mr Vincent Vandendael resigned as a Director on 1 April 2008. Mr Reto Koller was appointed as a Director on 1 April 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 directors.

Staff Pension Schemes Arrangement
The Company participated 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 a 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; and
- 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 1st April 2007.

As noted above, the Company ceased to have any active employees accruing benefits under the Schemes on 31 October 2008 (see note 24).

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 page 6 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;
- 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 a 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.

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 been 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 (see note 25).

The Reward Share Scheme is 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.

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.

Report of the Board of Directors (continued)

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, health insurance arrangements and ill health early retirement provisions.

Financial Instruments
Financial Risk Management Objectives

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

The Company is exposed to currency risk in respect of liabilities under Guarantee Bonds denominated in currencies other than sterling. The most significant currencies to which the Group is exposed are the US Dollar and the Euro. The Company mitigates the risk by its reinsurance arrangements which provide protection against losses including currency movements.

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

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from direct clients; and
- amounts due from intermediaries.

The Company has approval procedures in place for all the counterparties that it deals with.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as a primary insurer. If a reinsurer fails to pay a claim, the Company remains liable for the payment. The creditworthiness of reinsurers is considered on a regular basis by reviewing their financial strength prior to finalisation or renewal of any contract. The Company also monitors and controls its exposures to direct clients and intermediaries.

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Company holds its financial assets primarily in UK Government Debt Securities and Bank Deposits which have short term liquid characteristics and also enters into reinsurance arrangements to manage liquidity risk, which have cash call recovery rights.

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

J V NEWSHAM
Company Secretary
20 March 2009

Independent Auditors' Report to the Members of Zurich GSG Limited

We have audited the financial statements of Zurich GSG Limited for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's 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.

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

for the year ended 31 December 2008

£	Note	2008		2007	
Earned premiums, net of reinsurance					
Gross premiums written	2	6,233,253		6,031,228	
Outward reinsurance premiums		(5,309,752)		(5,106,836)	
Net premiums written			923,501		924,392
Change in the gross provision for unearned premiums	19	(106,934)		(74,536)	
Change in the provision for unearned premiums, reinsurers' share	19	122,730		48,178	
			15,796		(26,358)
Earned premiums, net of reinsurance			939,297		898,034
Claims incurred, net of reinsurance					
Claims paid:					
Gross amount		(721,441)		(188,428)	
Reinsurers' share		673,151		162,000	
		(48,290)		(26,428)	
Change in the provision for claims:	19				
Gross amount		1,156,316		385,248	
Reinsurers' share		(971,794)		(391,318)	
		184,522		(6,070)	
Claims incurred, net of reinsurance			136,232		(32,498)
Other operating income	5		2,688,977		2,591,837
Reinsurance commission and profit participation	5		0		1,991,123
Other operating expenses	5		(1,451,928)		(1,360,015)
Balance on the technical account for general business			2,312,578		4,088,481

All figures relate to discontinued operations.

Profit and loss account: non-technical account

for the year ended 31 December 2008

£	Note	2008		2007	
Balance on the technical account for general business			**2,312,578**		4,088,481
Investment income	6	**987,292**		980,348	
Investment expenses and charges	7	**(4,218)**		(4,213)	
		983,074		976,135	
Other charges, including value adjustments		**3,283**		(2,611)	
			986,357		973,524
Provision for loss on Part VII portfolio transfer	3		**(8,755,612)**		0
Special pensions payment	3		**(3,660,000)**		0
(Loss)/profit on ordinary activities before taxation	8		**(9,116,677)**		5,062,005
Tax on (loss)/profit on ordinary activities	11		**109,896**		(1,486,976)
(Loss)/profit for the financial year			**(9,006,781)**		3,575,029

All figures relate to discontinued operations.

The Company has no recognised gains or losses in the period other than the (loss)/profit for the period, therefore no statement of recognised gains or losses has been included.

Reconciliation of movements in shareholder funds

for the year ended 31 December 2008

£	Note	2008	2007
(Loss)/profit for the financial year		**(9,006,781)**	3,575,029
Dividend paid		**0**	(1,500,000)
Retained (loss)/profit for the financial year and net movement in shareholder funds	18	**(9,006,781)**	2,075,029
Opening shareholder funds		**12,564,779**	10,489,750
Closing shareholder funds		**3,557,998**	12,564,779

Balance sheet

as at 31 December 2008

£	Note	2008		2007	
Assets					
Investments					
Investments in group undertakings		**0**		2	
Other financial investments	12	**17,376,357**		18,964,442	
			17,376,357		18,964,444
Reinsurers' share of technical provisions	19				
Provision for unearned premiums		**7,169,831**		7,047,101	
Claims outstanding		**41,823**		809,012	
			7,211,654		7,856,113
Debtors					
Debtors arising out of direct insurance operations	13	**611,065**		210,486	
Debtors arising out of reinsurance operations	14	**484,152**		339,033	
Other debtors	15	**574,954**		6,523	
			1,670,171		556,042
Other assets					
Tangible assets	16	**0**		379	
Cash at bank and in hand		**434,420**		1,027,997	
			434,420		1,028,376
Prepayments and accrued income					
Accrued interest		**226,917**		207,434	
Deferred acquisition costs		**282,453**		239,970	
Other prepayments and accrued income		**8,331**		11,889	
			517,701		459,293
Total assets			**27,210,303**		28,864,268

Balance sheet

as at 31 December 2008

£	Note	2008		2007	
		£	£	£	£
Liabilities					
Capital and reserves					
Called up share capital	17	**1,500,000**		1,500,000	
Profit and loss account	18	**2,057,998**		11,064,779	
Shareholders' funds attributable to equity interests			**3,557,998**		12,564,779
Technical provisions - gross	19				
Provisions for unearned premiums		**8,281,419**		8,174,485	
Claims outstanding		**754,381**		1,871,627	
			9,035,800		10,046,112
Reinsurers' share of technical provisions	19				
Claims outstanding			**1,419,314**		1,208,464
Provision for other charges	3		**8,755,612**		0
Deposits received from reinsurers			**105,535**		105,438
Creditors					
Creditors arising out of direct insurance operations	21	**155,946**		85,594	
Creditors arising out of reinsurance operations	22	**201,480**		109,312	
Other creditors including taxation	23	**198,063**		1,151,852	
			555,489		1,346,758
Accruals and deferred income					
Deferred reinsurance commissions		**3,744,571**		3,515,836	
Other accruals and deferred income		**35,984**		76,881	
			3,780,555		3,592,717
Total liabilities			**27,210,303**		28,864,268

The financial statements on pages 7 to 20 were approved and authorised for issue by the Board of Directors on 20 March 2009 and were signed on its behalf by:

J V Newsham
Director

Notes to the Financial Statements

1 Accounting Policies for the year ended 31 December 2008

(a) 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 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.

(b) Direct Business Unearned Premiums

Direct business is accounted for in accordance with the annual basis of accounting. Unearned premiums, after reinsurance, are carried forward and represent that part of premiums written which it is estimated will be earned, based on the duration and profile of the risks, in the following or subsequent financial years.

(c) Premiums Written

Premiums written relate to business incepted during the year together with adjustments for additional or return premiums for business incepted in prior years.

(d) Direct Business Commissions

Commissions payable and reinsurance commission income (including reinsurance profit commission income) are recognised in the profit and loss account as earned on a basis consistent with the premium income recognition, taking into account the risk profile of the business.

Deferred acquisition costs in the balance sheet represent the proportion of acquisition costs incurred which are carried forward on a basis consistent with unearned premiums.

Deferred reinsurance commission income in the balance sheet represents the proportion of income which is carried forward on a basis consistent with unearned premiums.

(e) Direct Business 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 recoveries.

(f) Direct Business Claims Provisions

Provision is made on the basis of available information for the estimated ultimate cost of claims notified but not settled at the balance sheet date and for claims incurred but not notified at that date; the provision reflects claims' settlement expenses and anticipated reinsurance and other recoveries.

The level of the provision has been set on the basis of the information which is currently available on a case by case basis, including potential outstanding loss advices, experience of the development of similar claims and case law and the expected impact of current business conditions.

Whilst the Directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amount provided. Adjustments to the amounts of provisions are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

(g) Treaty Reinsurance Business

In 1993 the Company substantially withdrew from treaty reinsurance business and arranged a stop loss reinsurance agreement to ensure that the technical provision is adequate to meet the outstanding liabilities.

The technical provision represents the best estimate of the ultimate cost of settling these liabilities.

(h) Currency Translations

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the appropriate rate of exchange ruling at the balance sheet date. Profit and loss items are valued using the exchange rate prevailing at the dates of the transactions and the exchange gains or losses arising are shown in the non-technical account as "other charges including value adjustments".

Notes (continued)

(i) Investment Income, Expenses and Charges

Investment income is accounted for on a receivable basis. Interest is accrued up to the balance sheet date.

Investment return, comprising investment income (including amortisation of redeemable debt securities), unrealised and realised gains and losses, and investment expenses are included within the non-technical account.

Realised gains or losses arising on sales of investments represent the difference between net sales proceeds and the latest carrying value for the investments. An amendment to FRS3 confirmed the requirements of the ABI SORP that, for insurance companies and groups, both realised and unrealised gains on investments held as part of investment portfolios should be included as part of the investment return in the profit and loss account.

(j) Investments

Redeemable debt securities are included in the balance sheet at amortised cost. The amortisation charge is taken to the non technical account.

Deposits with credit institutions are included in the balance sheet at cost.

(k) Depreciation

Depreciation on assets is provided on a straight line basis based on the following annual rates:

Fixtures, fittings and equipment - 33%

(l) Deferred Taxation

Provision is made for deferred tax liabilities, using the liability method, on all material timing differences. Deferred tax is calculated at the rates at which it is expected that the tax will arise. Deferred tax balances are not discounted.

(m) 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 24.

2 Segmental Information

The only business of the Company is credit and suretyship which is written in the United Kingdom.

The Company also conducts the run-off of treaty reinsurance business (refer to note 1(g)).

3 Provision for loss on Part VII portfolio transfer and special pensions payment

On 1 January 2009, pursuant to a portfolio transfer under Part VII of the Financial Services and Markets Act 2000, assets of £23,652,304 and liabilities of £14,896,692 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 £8,755,612 has been provided for in the results of the Company for the year ended 31 December 2008.

The Company made a pension payment of £3,660,000 to the Zurich Financial Services UK Pension Scheme in respect of a liability to the Scheme which had arisen as a result of the Company ceasing to have any active employees accruing benefits under the Scheme on 31 October 2008.

4 Movements in Prior Years' Claims Provisions

Over-provisions for net claims at the beginning of the year, after accounting for payments made during the year and provisions held at the end of the year in respect of prior years' claims, are £135,439 (2007: under provision £30,696).

5 **Other operating income and expenses**

£	2008	2007
Reinsurance commissions and profit commissions	**2,829,314**	2,889,273
Change in deferred reinsurance commissions	**(228,735)**	(378,260)
Other income	**88,398**	80,824
Other operating income	**2,688,977**	2,591,837
Commissions payable - acquisition costs	**(259,556)**	(143,362)
Change in deferred acquisition costs	**42,483**	(154,492)
Administrative expenses	**(1,234,855)**	(1,062,161)
Other operating expenses	**(1,451,928)**	(1,360,015)

6 **Investment income**

£	2008	2007
Income from other investments	**987,292**	980,348
	987,292	980,348

7 **Investment expenses and charges**

£	2008	2007
Interest payable	**4,218**	4,213
	4,218	4,213

8 **(Loss)/profit on ordinary activities before tax**

£	2008	2007
(Loss)/profit on ordinary activities before tax is stated after charging		
Depreciation	**379**	380
Auditor's remuneration:		
During the year the Company obtained the following services from the Company's auditor at costs as detailed belov		
Fees payable to the Company's auditor for the audit of the Company's financial statement	**19,185**	19,018
Fees payable to the Company's auditor for other services		
- Other services pursuant to legislation, including the audit of the regulatory retun	**9,532**	9,165
	28,717	28,183

9 Remuneration of directors

£	2008	2007
Aggregate Emoluments	**297,462**	284,528
Highest paid director:		
Aggregate emoluments and amounts receivable under a long term incentive scheme	**190,465**	183,831
Defined benefit pension scheme - accrued pension at end of year	**46,244**	38,355

Retirement benefits are accruing to two directors under the Company's defined benefit pension scheme.
One director receives shares under a long-term incentive scheme.

10 Staff numbers and costs

	2008	2007
The average number of persons employed by the Company during the year was as follows:		
Underwriting	**10**	10
Administration and finance	**3**	3
	13	13

£	2008	2007
The aggregate payroll costs in respect of these persons were as follows :		
Wages and salaries	**721,986**	638,316
Social security costs	**72,905**	65,850
Pension costs	**104,512**	87,260
	899,403	791,426

11 Taxation

£	2008	2007
UK corporation tax at 28.5% (2007: 30%) for the year	**159,727**	1,639,755
Adjustments in respect of prior years	**(18,550)**	(193,277)
Current tax charge for the year	**141,177**	1,446,478
Deferred tax (refer to note 20) for the year	**(251,073)**	40,498
Tax (credit)/charge on (loss)/profit on activities	**(109,896)**	1,486,976

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:

£	2008	2007
(Loss)/profit on ordinary activities before tax	**(9,116,677)**	5,062,005
(Loss)/profit on ordinary activities at the standard rate of corporation tax in the UK of 28.5% (2007: 30%)	**(2,598,253)**	1,518,601
Income not taxable for tax purposes	**0**	0
Expenses not deductible for tax purposes	**327**	340
Depreciation for period in excess of capital allowances	**107**	(2,098)
Disposal of property	**0**	122,912
Other timing differences	**262,196**	0
Part VII portfolio transfer	**2,495,349**	0
Adjustments to the tax charge in respect of previous periods	**(18,550)**	(193,277)
Current tax charge for the year	**141,177**	1,446,478

12 Other financial investments

£	Current Value 2008	Current Value 2007	Historical Cost 2008	Historical Cost 2007
Debt securities and other fixed income securities				
- listed investments at amortised cost	**17,376,357**	15,827,877	**17,408,183**	15,801,708
Deposits with credit institutions	**0**	3,136,565	**0**	3,136,565
	17,376,357	18,964,442	**17,408,183**	18,938,273

The debt securities and other fixed income securities, which are shown at amortised cost, are analysed below:

	2008	2007
Cost	**17,408,183**	15,801,708
Cumulative amortisation	**(31,826)**	26,169
Amortised cost	**17,376,357**	15,827,877
Market value	**18,396,125**	15,991,775

The redemption value of investments held at the year end was £626,357 less than the amortised cost (2007: £77,877 less).

13 Debtors arising out of direct insurance operations

£	2008	2007
Amounts due from direct clients	**355,275**	135,279
Amounts due from intermediaries	**255,790**	75,207
	611,065	210,486

14 Debtors arising out of reinsurance operations

£	2008	2007
Amounts due from group undertakings	**87,744**	16,502
Amounts due from other reinsurers	**396,408**	322,531
	484,152	339,033

15 Other debtors

£	2008	2007
Corporation tax recoverable	**317,358**	0
Deferred taxation (refer to Note 20)	**257,596**	6,523
	574,954	6,523

Notes (continued)

16 **Tangible assets - Fixtures, fittings and equipment**

£	2008
Cost	
At 1 January 2008	46,198
Additions	0
Disposals	(1,231)
At 31 December 2008	**44,967**
Depreciation	
At 1 January 2008	45,819
Charge for the year	379
On disposals	(1,231)
At 31 December 2008	**44,967**
Net book value	
31 December 2008	**0**
31 December 2007	379

17 **Share Capital at 31 December 2008 and 2007**

	Number of shares	£
Authorised - £1 ordinary shares	2,000,000	2,000,000
Issued and fully paid	1,000,000	1,000,000
Issued - 50p paid	1,000,000	500,000
	2,000,000	1,500,000

18 **Reserves - Profit and loss account**

£	
At beginning of year	11,064,779
Retained loss for the year	(9,006,781)
At end of year	2,057,998

19 **Technical provisions**

£		Provision for unearned premiums	Claims outstanding	Total
Gross amount				
At beginning of year		8,174,485	1,871,627	10,046,112
Movement in the provision	- profit and loss account	106,934	(1,156,316)	(1,049,382)
Other movement in provision		-	39,070	39,070
At end of year		8,281,419	754,381	9,035,800
Reinsurance amount				
At beginning of year	- assets	7,047,101	809,012	7,856,113
	- liabilities	-	(1,208,464)	(1,208,464)
Movement in the provision	- profit and loss account	122,730	(971,794)	(849,064)
Other movement in provision		-	(6,245)	(6,245)
At end of year	- assets	7,169,831	41,823	7,211,654
	- liabilities	-	(1,419,314)	(1,419,314)
Net technical provisions at end of year		1,111,588	2,131,872	3,243,460

The reinsurance amount at the end of the year, for claims outstanding, includes an amount that may be payable upon the termination of a reinsurance arrangement. The ultimate amount due or payable will be dependent upon the future development of the business.

20 **Provisions for other risks and charges - Deferred taxation**

£	
At beginning of year	(6,523)
Charge for the year in the profit and loss account	(251,073)
At end of year - (asset per Note 15)	(257,596)

The provision for deferred taxation provided in the financial statements is as follows:

£	2008	2007
Accelerated capital allowances	0	(6,523)
Other short-term timing differences	(257,596)	0
Total deferred tax	(257,596)	(6,523)

In accordance with the provisions of FRS19 'Deferred Taxation', full provision has been made for deferred tax on assets and liabilities arising on timing differences.

Notes (continued)

21 **Creditors arising out of direct insurance operations**

£	**2008**	2007
Amounts due to direct clients	**13,341**	23,549
Amounts due to intermediaries	**107,036**	35,255
Collateral deposits	**35,569**	26,790
	155,946	85,594

The collateral amounts have been deposited by third parties as collateral against Guarantee Bonds issued by the Company. In addition, collateral deposits of £5,123,594 (2007: £2,580,717) have been deposited by third parties in bank accounts which are subject to trust arrangements. These deposits represent collateral against Guarantee Bonds issued by the Company and are not included in the assets of the Company.

22 **Creditors arising out of reinsurance operations**

£	**2008**	2007
Amounts due to group undertakings	**14,193**	17,691
Amounts due to other reinsurers	**187,287**	91,621
	201,480	109,312

23 **Other creditors including taxation**

£	**2008**	2007
Amounts due to group undertakings	**198,063**	166,758
Corporation tax payable	**0**	985,094
	198,063	1,151,852

All creditors fall due within one year.

Notes (continued)

24 Pension and Post-Retirement Benefits

The Company participated in two defined benefit schemes operated by Zurich Financial Services (UKISA) Limited. 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. Both defined benefit schemes are affected by a deficit.

The Company is unable to identify its share of the underlying assets and liabilities on a consistent and reasonable basis. Thus, using the exemptions set out in paragraph 9(b) of FRS 17, the Company has accounted for these schemes as defined contribution schemes. Employer contributions are being made in accordance with the Scheme Actuary's recommendations.

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. All other information in relation to the schemes is provided in the financial statements of Zurich Financial Services (UKISA) Limited.

The Company ceased to have any active employees accruing benefits under the schemes on 31 October 2008 and the Company made a payment of £3,660,000 to the schemes in respect of its liability pursuant to section 75 of the Pensions Act 1995.

25 Share Based Payments

The various share plans described below are part of the Zurich Financial Services Group ("the ZFS Group") arrangements.

The ZFS Group has adopted various share-based compensation and cash incentive and plans to attract, retain and motivate executives and employees. The plans are designed to reward employees for their contribution to the performance of the ZFS Group and to encourage employee share ownership. Share-based compensation plans include plans under which shares and options to purchase shares, based on the performance of the businesses, are awarded. Share-based plans are based on the provision of shares in the ultimate parent Zurich Financial Services.

(a) Share based compensation plans for employees

The ZFS Group encourages employees to own shares of Zurich Financial Services and has set up a framework based on the implementation of either share options and/or performance share programs. Actual plans are tailored to meet local market requirements.

The total expense/(credit) recognised in relation to the share-based compensations in 2008 was £10,438 (2007: £(6,492)).

The explanations below give an overview of the plans of the ZFS Group.

<u>UK Sharesave Plan</u>
There have been no new grants since 2002 and the plan matured on 30 November 2007. Participants entered into a savings contract with a bank for the accumulation of contributions of between £5 and £250 per month for a period of three or five years. An interest bonus was credited at the end of the savings period. Participants were granted options to acquire Zurich Financial Services shares at a pre-determined price, which is not less than 80% of the market price prior to grant. Options under the plan were normally exercised for a period of six months after the end of the savings period. Early exercise, limited to the value of shares that can be acquired with accrued savings, was permitted in certain circumstances. There were no participants remaining in the plan as of 31 December 2008 with options that were still exercisable due to missed monthly contributions (2007: Nil).

<u>Share Incentive Plan</u>
The ZFS Group established an Inland Revenue approved Share Incentive Plan and launched the partnership shares element of this plan in 2003. This plan enabled participating employees to make monthly purchases of Zurich Financial Services shares at the prevailing market price out of their gross earnings. The partnership element of the plan ceased in April 2007 and since that date there have been no further share allocations. There were no participants in the partnership element of the plan as of 31 December 2008 (2007: 3).

Notes (continued)

The ZFS Group also operates the profit-sharing element of the Share Incentive Plan (reward shares) which was launched in 2004 with annual share allocations being made in May each year subject to business performance. The awards are based on the performance of the participating employee's business unit for the year, subject to a maximum award of 5% of participant's base salary (before any flexible benefit adjustments) or £3,000. The total number of participating employees of the Company in the reward share element of the plan as of 31 December 2008 was 13 (2007:12).

(b) Executive long-term performance share plans

The ZFS Group operates a long-term incentive plan for selected executives. This plan comprises the allocation of a target number of share grants with the vesting of share grants being subject to the achievement of specific financial performance goals.

Each year, selected executives are granted performance shares which vest on an annual basis over the subsequent three year period. The actual level of vesting, which can be between 0% and 175% of the original number of shares and/or options granted, depends on the performance of the ZFS Group during the previous three calendar years. The current performance metrics are the ZFS Group's return on equity and the position of its total annual relative shareholder return measured against an international peer group of insurance companies. One-half of the shares that actually vest are sales-restricted for a further period of three years. The actual number of performance shares granted at the beginning of the performance period is determined such that the economic value is a defined percentage of the annual salary in the year of allocation. The Company had 1 (2007: 1) participant in this plan at 31 December 2008.

Due to the Part VII transfer, the employees of the Company have transferred to the new entity and there will be no share based payments going forward in relation to the Company.

26 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 14, 22 and 23.

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.

27 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.