

**HAMILTON INSURANCE COMPANY LIMITED**  
**FINANCIAL STATEMENTS - 31 DECEMBER 1999**  
**TOGETHER WITH DIRECTORS'**  
**AND AUDITORS' REPORTS**

**The Company's registered number is 1655888**



# **HAMILTON INSURANCE COMPANY LIMITED**

## **DIRECTORS & OFFICERS**

Directors : C J Messer - Chairman  
P J Blackmore  
S G Boyle  
P A de Chazal  
A H Doggart  
A K A Ferguson - Managing Director  
A R Hill  
R V Lovering

Secretary : C J Rivers

Registered Office : North Street  
Winkfield  
Windsor  
Berkshire  
SL4 4TD

Auditors : Arthur Andersen  
1 Surrey Street  
London  
WC2R 2PS

Bankers : The Royal Bank of Scotland plc  
Corporate Banking Office  
PO Box 450  
5-10 Great Tower Street  
London  
EC3P 3HX

# **HAMILTON INSURANCE COMPANY LIMITED**

## **DIRECTORS' REPORT**

### **FOR THE YEAR ENDED 31 DECEMBER 1999**

The Directors present their annual report on the affairs of the Company, together with the financial statements and Auditors' report, for the year ended 31 December 1999.

#### **PRINCIPAL ACTIVITY AND BUSINESS REVIEW**

The Company is a wholly owned subsidiary of HFC Bank plc and is a member of the Household International, Inc. group of companies.

The principal activity of the Company continues to be the transaction of general insurance business. The Directors expect operations to continue to grow at current levels.

#### **FINANCIAL RESULTS**

Net earned premium income increased by £2,534,000 during the year to £47,118,000 (1998 - £44,584,000) and profit after taxation increased by £567,000 to £3,456,000 (1998 - profit £2,889,000).

The Directors do not recommend a dividend payment (1998 - 24.35pence).

Results were as follows:-

	<u>1999</u>
	£000
Retained profit for the year	3,456
Retained profit, beginning of year	6,665
Retained profit, end of year	<u>10,121</u>

# **HAMILTON INSURANCE COMPANY LIMITED**

## **DIRECTORS' REPORT (Continued)**

### **DIRECTORS AND DIRECTORS' INTERESTS**

The Directors of the Company are shown on page 1.

On 6 September 1999 A H Doggart was appointed as a Director.

None of the Directors had at any time during the year any disclosable interest in the shares or loan stock of the Company or any Group Company incorporated within the United Kingdom.

### **DIRECTORS' RESPONSIBILITIES**

Company law requires the Directors to ensure that financial statements are prepared for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In those financial statements the Directors are required to ensure that:

- appropriate accounting policies have been selected and applied consistently;
- judgements and estimates made are reasonable and prudent;
- a statement is given as to whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the provisions of the Companies Act 1985 as applicable to insurance companies. They are also responsible for taking all reasonable steps to ensure the assets of the company are safeguarded and that steps are taken for prevention and detection of fraud and other irregularities.

In exercising these duties and responsibilities the Directors take account of the advice given to them and obtained by them. The Directors regularly review reports on the systems and controls which are established to give reasonable assurance that the business is being conducted in accordance with the above principles.

# **HAMILTON INSURANCE COMPANY LIMITED**

## **DIRECTORS' REPORT (Continued)**

### **EMPLOYEE INFORMATION**

Details are given in note 7 to the financial statements.

### **PAYMENT OF CREDITORS**

All amounts incurred are settled by the Company's parent, HFC Bank plc. The policy of the group of which the Company is part is to pay for goods or services received, invoiced and not in dispute within the payment terms agreed with its suppliers. Where no payment terms have been agreed for goods or services received, payment typically occurs within 60 days of receipt of the invoice. Trade creditor days for the Group as at 31 December 1999 were 1 day (1998 1 day), calculated in accordance with the requirements set down in the Companies Act 1985 and its Regulations. This represents the ratio, expressed in days between the amount due to suppliers at the end of the year by the Group and the amount invoiced by suppliers in the year.

### **YEAR 2000 COMPLIANCE**

During 1999 the Company completed its programme to manage the Year 2000 issue, which arose from the inability of many older computer programmes to deal with the century date change.

The Company completed a detailed review of its computer systems and processes and completed a plan to ensure all systems were Year 2000 compliant. This review included regular updates for senior management and the Board.

In addition to the systems review, contingency plans were put in place and tested to ensure they worked should Year 2000 issues be found.

Testing of all systems and the contingency planning continued upto the year end and close monitoring occurred over the millennium weekend, including regular updates to the Financial Services Authority.

Immediately after the year end all live production systems were tested and no Year 2000 issues were found.

### **THE EURO**

Other than an immaterial amount of business transacted in the Republic of Ireland and the Channel Islands, all the Company's activities are carried out in the United Kingdom. The Company has implemented procedures to deal with the Euro and it is not envisaged that the Euro will have any significant systems implications.

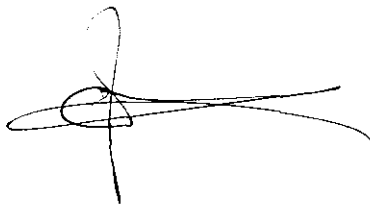
# **HAMILTON INSURANCE COMPANY LIMITED**

## **DIRECTORS' REPORT (Continued)**

### **AUDITORS**

The Company having passed in General Meeting an elective resolution in accordance with s.379(A) Companies Act 1985 to dispense with the obligation to appoint auditors annually as permitted by s.386 Companies Act 1985, Arthur Andersen shall be deemed to be re-appointed as auditors to the Company for the next financial year.

BY ORDER OF THE BOARD

A handwritten signature in black ink, consisting of a large, stylized 'C' followed by a horizontal line and a vertical line crossing it.

**C J Rivers**  
*Secretary*

**13 March 2000**

# **HAMILTON INSURANCE COMPANY LIMITED**

## **Auditors' report to the members of Hamilton Insurance Company Limited**

We have audited the financial statements on pages 7 to 19, which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 11 and 12.

### **Respective responsibilities of directors and auditors**

As described on page 3 the Company's Directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

### **Basis of opinion**

We conducted our audit in accordance with Auditing Standards 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 circumstances of the company, 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 of the state of affairs of the Company at 31 December 1999 and of its profits for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**Arthur Andersen**  
**Chartered Accountants and Registered Auditors**  
**1 Surrey Street**  
**London**  
**WC2R 2PS**  
**13 March 2000**

# HAMILTON INSURANCE COMPANY LIMITED

## Profit and loss account for the year ended 31 December 1999

### Technical Account - General Business

	Notes	1999	1998
		£000	£000
<b>Earned premiums</b>			
Gross premiums written	2	60,970	46,559
Outward reinsurance premiums	2	(10,385)	(4,424)
Net premiums written		50,585	42,135
Change in gross provision for unearned premiums		(3,430)	2,603
Change in provision for unearned premiums, reinsurers share		(37)	(154)
		(3,467)	2,449
<b>Earned Premiums, net of reinsurance</b>	2	47,118	44,584
Allocated investment income transferred from the non-technical account		3,176	4,039
Claims paid			
- gross amount		(15,243)	(12,949)
- reinsurers share		8,807	3,969
- net of reinsurance		(6,436)	(8,980)
Change in the provision for claims			
- gross amount		(837)	(600)
- reinsurers share		(92)	(30)
- net of reinsurance		(929)	(630)
<b>Claims incurred, net of reinsurance</b>	2	(7,365)	(9,610)
Net operating expenses	2,4	(37,900)	(34,826)
<b>Balance on the technical account - general business</b>		5,029	4,187

*The accompanying notes are an integral part of this profit and loss account*



# HAMILTON INSURANCE COMPANY LIMITED

## Profit and loss account for the year ended 31 December 1999

### Non-technical account

	Notes	1999	1998
		£000	£000
Balance on the general technical account		5,029	4,187
Investment Income	5	3,176	4,039
Allocated investment return transferred to the general business technical account		(3,176)	(4,039)
<b>Profit on ordinary activities before tax</b>		<u>5,029</u>	<u>4,187</u>
 Tax on profit on ordinary activities	9	<u>(1,573)</u>	<u>(1,298)</u>
<b>Profit on ordinary activities after tax</b>		3,456	2,889
Dividends		-	(2,000)
<b>Retained profit for the year</b>		<u><u>3,456</u></u>	<u><u>889</u></u>

The only recognised gains or losses in the accounting period are those disclosed in the profit and loss account. All operations of the Company continued throughout both periods and no operations were acquired or discontinued.

*The accompanying notes are an integral part of this profit and loss account*

# HAMILTON INSURANCE COMPANY LIMITED

## Balance sheet at 31 December 1999

	Notes	1999 £000	1998 £000
<b>ASSETS</b>			
<b>Investments</b>	10	58,750	52,510
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums		659	788
Claims outstanding		129	191
Debtors arising out of reinsurance operations		2,664	572
<b>Debtors</b>			
Debtors arising out of direct insurance operations	11	4,338	3,868
<b>Other assets</b>			
Cash at bank and in hand		977	57
<b>Prepayments and accrued income</b>			
Accrued interest		1,773	1,408
Deferred acquisition costs		10,162	14,712
<b>TOTAL ASSETS</b>		<u>79,452</u>	<u>74,106</u>

*The accompanying notes are an integral part of this balance sheet*

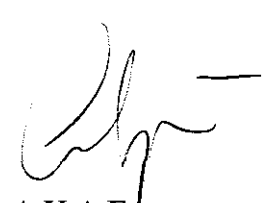
# HAMILTON INSURANCE COMPANY LIMITED

## Balance sheet at 31 December 1999

	Notes	1999 £000	1998 £000
<b>LIABILITIES</b>			
<b>Capital and reserves</b>			
Called up share capital	15	8,212	8,212
Capital contribution		93	93
Profit and loss account	16	10,121	6,665
Shareholders' funds - equity interests		<u>18,426</u>	<u>14,970</u>
<b>Technical provisions</b>			
Provision for unearned premiums		35,152	31,722
Claims outstanding	3	17,615	16,702
		<u>52,767</u>	<u>48,424</u>
<b>Deposits received from reinsurers</b>	19	1,302	-
<b>Creditors</b>			
Creditors arising out of direct insurance operations	12	5,632	8,156
Creditors arising out of reinsurance operations		227	494
Other creditors including taxation	13	1,098	2,062
		<u>6,957</u>	<u>10,712</u>
<b>TOTAL LIABILITIES</b>		<u><u>79,452</u></u>	<u><u>74,106</u></u>

The financial statements on pages 7 to 19 were approved by the Board of Directors on 13 March 2000 and signed on its behalf by the Directors listed below.

  
C J Messer  
Chairman

  
A K A Ferguson  
Managing Director & Chief Executive  
Officer

*The accompanying notes are an integral part of this balance sheet*

# HAMILTON INSURANCE COMPANY LIMITED

## Notes to the financial statements for the year ended 31 December 1999

### 1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom and with the Statement of Recommended Practice issued by the Association of British Insurers in December 1998. The financial statements have been prepared in accordance with Section 255 and Schedule 9A of the Companies Act 1985.

A summary of the more important accounting policies, which have been applied consistently throughout this year and the preceding year, unless otherwise stated, is set out below.

#### (a) Basis of Accounting

The financial statements are prepared in accordance with the historical cost convention.

#### (b) Annual Basis

The technical result for accident and health, miscellaneous financial loss, and property damage is determined 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) Written premiums are recognised when the policy liability is set up and the premium is due for payment.
- (ii) Premium income is earned over the life of each contract, using rules appropriate to the type of each insurance contract, and taking account of the effect of reinsurance agreements.
- (iii) Provision is made for net unearned premiums. The unearned premiums are set aside to provide for periods of risk extending beyond the year end. Unearned premiums are calculated on a basis appropriate to the contract.
- (iv) Acquisition costs, which represent commission and other related expenses, are deferred subject to recoverability against future margins and amortised over the period in which the related premiums are earned.
- (v) Claims paid includes amounts for claims received but not paid. Claims incurred comprise claims and related expenses paid in the year, changes in 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.

# **HAMILTON INSURANCE COMPANY LIMITED**

## **Notes to the financial statements for the year ended 31 December 1999 (continued)**

### **(c) Premiums**

Premiums are stated net of Insurance Premium Tax.

### **(d) Investments**

Investments in fixed and variable interest securities are shown in the balance sheet at cost, adjusted for the amortisation of any premium or discount on redemption value on a straight line basis.

Gross investment income is accounted for on an accruals basis.

### **(e) Transfer of investment return**

A transfer of investment return, including unrealised gains and losses, expenses and charges, is made from the non-technical account to the technical account - general business to reflect the return made on those assets directly attributable to the insurance business.

### **(f) Cashflow statement**

Under the provisions of Financial Reporting Standard No. 1 (Revised 1996) the Company has not prepared a cashflow statement because its ultimate holding company Household International, Inc., which is incorporated in the United States of America, has prepared consolidated accounts which include the results of the Company for the year which contain a consolidated cashflow statement.

### **(g) Taxation**

Corporation tax is provided on taxable profits at the current rate.

# HAMILTON INSURANCE COMPANY LIMITED

Notes to the financial statements for the year ended 31 December 1999 (continued)

## 2 Segmental Information

A	1999			1998		
	Reinsurance			Reinsurance		
Written premiums	Gross £000	Ceded £000	Net £000	Gross £000	Ceded £000	Net £000
<b>Direct insurance</b>						
Accident and health	33,872	(7,936)	25,936	26,586	(3,380)	23,206
Miscellaneous financial loss	26,784	(2,209)	24,575	19,605	(765)	18,840
Property damage	314	(240)	74	368	(279)	89
	<u>60,970</u>	<u>(10,385)</u>	<u>50,585</u>	<u>46,559</u>	<u>(4,424)</u>	<u>42,135</u>

All premiums are in respect of direct insurance business and are written in the United Kingdom, Channel Islands and the Republic of Ireland. Business written outside the United Kingdom represents less than 5% of total gross premiums and has therefore not been analysed.

B	1999			1998		
	Reinsurance			Reinsurance		
Earned Premiums	Gross £000	Ceded £000	Net £000	Gross £000	Ceded £000	Net £000
<b>Direct insurance</b>						
Accident and health	32,910	(7,969)	24,941	28,447	(3,531)	24,916
Miscellaneous financial loss	24,311	(2,209)	22,102	20,341	(765)	19,576
Property damage	319	(244)	75	374	(282)	92
	<u>57,540</u>	<u>(10,422)</u>	<u>47,118</u>	<u>49,162</u>	<u>(4,578)</u>	<u>44,584</u>

# HAMILTON INSURANCE COMPANY LIMITED

Notes to the financial statements for the year ended 31 December 1999 (continued)

C	1999			1998		
	Reinsurance			Reinsurance		
	Gross	Ceded	Net	Gross	Ceded	Net
Incurring claims	£000	£000	£000	£000	£000	£000
<b>Direct insurance</b>						
Accident and health	11,639	(7,153)	4,486	10,036	(3,048)	6,988
Miscellaneous financial loss	4,192	(1,460)	2,732	3,292	(745)	2,547
Property damage	249	(102)	147	220	(145)	75
	<u>16,080</u>	<u>(8,715)</u>	<u>7,365</u>	<u>13,548</u>	<u>(3,938)</u>	<u>9,610</u>

D	1999			1998		
	Reinsurance			Reinsurance		
	Gross	Ceded	Net	Gross	Ceded	Net
Operating expenses	£000	£000	£000	£000	£000	£000
<b>Direct insurance</b>						
Accident and health	19,844	-	19,844	15,683	-	15,683
Miscellaneous financial loss	17,984	-	17,984	19,060	-	19,060
Property damage	143	(71)	72	161	(78)	83
	<u>37,971</u>	<u>(71)</u>	<u>37,900</u>	<u>34,904</u>	<u>(78)</u>	<u>34,826</u>

E	1999			1998		
	Reinsurance			Reinsurance		
	Gross	Ceded	Net	Gross	Ceded	Net
Profit on ordinary activities before tax	£000	£000	£000	£000	£000	£000
<b>Direct insurance</b>						
Accident and health	3,271	(817)	2,454	4,677	(483)	4,194
Miscellaneous financial loss	3,468	(749)	2,719	77	(20)	57
Property damage	(73)	(71)	(144)	(6)	(59)	(65)
	<u>6,666</u>	<u>(1,637)</u>	<u>5,029</u>	<u>4,748</u>	<u>(562)</u>	<u>4,186</u>

# HAMILTON INSURANCE COMPANY LIMITED

## Notes to the financial statements for the year ended 31 December 1999 (continued)

### 3 Movements in prior years provisions for claims outstanding

	£000	£000
Opening claims outstanding	16,702	16,634
Payments in respect of previous years' claims	(8,843)	(7,284)
Run off variance in prior years' provisions	(3,479)	(5,279)
Claims reserving for current year	19,635	18,296
Claims paid in respect of current year	(6,400)	(5,665)
Closing claims outstanding	<u>17,615</u>	<u>16,702</u>

Favourable run-off deviations were experienced during the year of £1,840,000 in respect of Accident and Health business and £1,387,000 in respect of Miscellaneous Financial Loss business. In 1998 there were favourable run-off deviations of £2,590,000 in respect of Accident and Health business and £1,173,000 in respect of Miscellaneous Financial Loss business.

### 4 Net operating expenses

	1999 £000	1998 £000
Acquisition costs	31,566	39,437
Changes in deferred acquisition costs	4,550	(5,205)
Administrative expenses	1,855	672
	<u>37,971</u>	<u>34,904</u>
Reinsurance commissions	(71)	(78)
Net operating expenses	<u>37,900</u>	<u>34,826</u>

### 5 Investment Return

	1999 £000	1998 £000
UK listed variable rate securities	-	1
UK listed fixed rate securities	1	97
Cash deposits	1,630	3,503
Certificates of Deposit	1,545	438
	<u>3,176</u>	<u>4,039</u>



# HAMILTON INSURANCE COMPANY LIMITED

## Notes to the financial statements for the year ended 31 December 1999 (continued)

6 Directors' emoluments	1999	1998
	£000	£000
Aggregate emoluments as Directors	142	80
Company pension contributions to money purchase schemes	7	5
	<u>149</u>	<u>85</u>

Retirement benefits are accruing to two Directors under a money purchase scheme.

## 7 Employee Information

The Company does not employ any staff directly. All staff used by the Company were employed and provided by HFC Bank plc for both 1999 and 1998.

8 Profit on ordinary activities before tax	1999	1998
	£000	£000
Profit on ordinary activities before tax is stated after:		
Auditors' remuneration - Audit	21	22
- Other	-	-
Directors' remuneration	<u>149</u>	<u>85</u>

9 Taxation	1999	1998
	£000	£000
Corporation tax at 30.25% (1998 - 31%)	<u>1,573</u>	<u>1,298</u>

# HAMILTON INSURANCE COMPANY LIMITED

## Notes to the financial statements for the year ended 31 December 1999 (continued)

<b>10 Investments</b>	<b>1999</b>	<b>1998</b>
	<b>£000</b>	<b>£000</b>
Cash deposits	23,250	34,510
Certificates of Deposit	35,000	15,500
Cash deposits with parent company	500	2,500
	<u>58,750</u>	<u>52,510</u>

The amortised cost of investments held at 31 December 1999 is the same as original cost. The market value of investments held was £58,153,000 (1998 - £52,585,000). The maturity value of these investments is £58,750,000.

<b>11 Debtors arising out of direct insurance operations</b>	<b>1999</b>	<b>1998</b>
	<b>£000</b>	<b>£000</b>
Premiums collected by parent company	<u>4,338</u>	<u>3,868</u>

<b>12 Creditors arising out of direct insurance operations</b>	<b>1999</b>	<b>1998</b>
	<b>£000</b>	<b>£000</b>
Amount owed to parent company	4,314	7,336
Insurance premium tax	764	508
External commissions	230	125
Expenses	324	187
	<u>5,632</u>	<u>8,156</u>

# HAMILTON INSURANCE COMPANY LIMITED

## Notes to the financial statements for the year ended 31 December 1999 (continued)

<b>13</b>	<b>Other creditors including taxation</b>	<b>1999</b>	<b>1998</b>
		<b>£000</b>	<b>£000</b>
	Taxation	1,098	1,393
	Amount owed to parent company	-	669
		<u>1,098</u>	<u>2,062</u>
<b>14</b>	<b>Reconciliation of shareholders' funds</b>	<b>1999</b>	<b>1998</b>
		<b>£000</b>	<b>£000</b>
	Retained profit for the year	3,456	889
	Opening shareholders' funds	14,970	14,081
	Closing shareholders' funds	<u>18,426</u>	<u>14,970</u>
<b>15</b>	<b>Called up share capital</b>	<b>1999</b>	<b>1998</b>
		<b>£000</b>	<b>£000</b>
	Authorised :-		
	10,000,000 Ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>
	Allotted, called up and fully paid :-		
	8,212,000 Ordinary shares of £1 each	<u>8,212</u>	<u>8,212</u>
<b>16</b>	<b>Profit and Loss Account</b>	<b>1999</b>	<b>1998</b>
		<b>£000</b>	<b>£000</b>
	Balance as at 1 January	6,665	5,776
	Retained profit for the year	3,456	889
	Balance as at 31 December	<u>10,121</u>	<u>6,665</u>

# **HAMILTON INSURANCE COMPANY LIMITED**

## **Notes to the financial statements for the year ended 31 December 1999 (continued)**

### **17 Ultimate parent company**

The Company's immediate holding company is HFC Bank plc. The ultimate holding company and the largest group in which HFC Bank plc and its subsidiary companies are consolidated is Household International, Inc., which is incorporated in the State of Delaware, United States of America.

The smallest group in which the results of the Company are consolidated is that headed by HFC Bank plc. The consolidated accounts of these groups are available to the public and may be obtained from the Company Secretary at the Company's registered office.

Hamilton Insurance Company Limited is registered in England and Wales.

### **18 Related Party Transactions**

The Company has taken advantage of the exemption in FRS8 to not disclose intercompany transactions within the Group.

### **19 Deposits received from reinsurers**

During 1999, the Company entered into a reinsurance arrangement the terms of which involved the payment by the reinsurer of an initial expense allowance. This advance, of £1.8 million, is repayable to the reinsurer from product margins. At the end of 1999 £1.3 million was outstanding to the reinsurer and this amount is shown as a deposit received from reinsurers.