

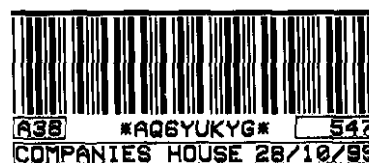
**Zurich Holdings (UK) Limited**

Registered in England No. 2306320

**Zurich Holdings  
(UK) Limited**

**Directors' Report  
and Financial Statements**

**31 December 1998**



## **Zurich Holdings (UK) Limited**

### **DIRECTORS**

R F Huppi, (Swiss), Chairman  
G Gose, (German), Deputy Chairman  
D W White, ACII, Managing Director  
B J Howett, BComm FCA  
M J Chandler, BSc ACIS (Alternate for D W White) (appointed 03/09/98)

### **SECRETARY**

M J Chandler, BSc ACIS

### **AUDITORS**

PricewaterhouseCoopers  
1 Embankment Place  
London  
WC2N 6NN

### **BANKERS**

National Westminster Bank PLC  
PO Box 25  
130/132 Commercial Road  
Portsmouth  
Hampshire  
PO1 1ES

### **REGISTERED OFFICE**

Zurich House  
Stanhope Road  
Portsmouth  
Hampshire  
PO1 1DU

Registered in England No. 2306320

## **Zurich Holdings (UK) Limited**

### **DIRECTORS' REPORT**

The directors present their annual report together with the financial statements for the year ended 31 December 1998.

#### **Principal activity**

The principal activity of the Company is to act as a holding company. The principal activity of its subsidiary undertakings is the transaction of insurance and reinsurance business.

#### **Business review**

The consolidated net profit in the Group for the year after taxation and minority interests amounted to £31,827K (1997: net profit of £52,814K). The results and transfers to reserves for the year are detailed in the General Business Technical and Non-technical Consolidated Profit and Loss Accounts on pages 6 to 7.

Both the insurance and reinsurance businesses within the Group have reported satisfactory results in 1998. It is envisaged that results in future years will continue to build on this position.

The London market reinsurance arm has been discontinued and is disclosed as a discontinued operation in the technical accounts.

A subsidiary company, Zurich Investment Management Limited (ZIM), was sold to Scudder Kemper Holdings (U.K.) Limited on the 21 May 1998 for gross consideration of £11m. On the same day, ZIM changed its name to Scudder Investments (UK) Limited

On 7 September 1998, Zurich Insurance Company, then the Company's ultimate holding company, merged with the financial services businesses of B.A.T. Industries under Zurich Financial Services, a company incorporated in Switzerland.

#### **Dividends**

A dividend of 5p per redeemable 5% preference share of £1 each was paid on 23 December 1998.

An interim dividend totalling £28,225,000 was paid to ordinary shareholders on 23 December 1998. A second interim dividend totalling £19,500,000 was paid to ordinary shareholders on 1 April 1999. The directors do not recommend a final dividend.

#### **Charitable Donations**

During the year the group made charitable donations of £109,910 (1997: £6,561)

#### **Directors and directors' interests**

The directors who held office during the year are listed on page 2.

On 3 September 1998, M J Chandler was appointed alternate director to D W White.

None of the directors had any disclosable interest in the shares of the Company.

The Company is a subsidiary of Zurich Financial Services, a company incorporated in Switzerland which is owned 57% by Zurich Allied AG, incorporated in Switzerland and 43% by Allied Zurich p.l.c., incorporated in England and Wales. Neither Zurich Allied AG nor Allied Zurich p.l.c. falls within the definition of a holding company in Section 736, Companies Act 1985. None of the Directors are directly interested in any shares or debentures of Zurich Financial Services.

## **Zurich Holdings (UK) Limited**

### **Directors' report (continued)**

#### **Directors' responsibilities for the financial statements**

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **Year 2000 compliance**

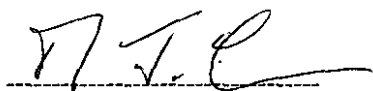
The programme to ensure that the year 2000 date change does not disrupt our operations started in early 1996. During 1998, the programme has continued to progress in line with our expectations. The programme is based on a detailed risk assessment that includes such areas as health and safety, continuity of supplied services and contingency planning as well as our individual computer systems. The overall cost of the programme is expected to be £5,336K incurred over 4 years.

*Zurich Financial Services has taken a rigorous stance in the application of its underwriting policy in respect of Year 2000 risks.*

#### **Auditors**

Following their merger with Price Waterhouse, Coopers & Lybrand resigned as auditors with effect from 20 July 1998, on which date the directors appointed PricewaterhouseCoopers as the new auditors.

By order of the Board



**M J Chandler**  
*Secretary*

21 October 1999

Zurich House  
Stanhope Road  
Portsmouth  
Hampshire  
PO1 1DU

## **Zurich Holdings (UK) Limited**

### **AUDITORS' REPORT**

Report of the auditors to the members of Zurich Holdings (UK) Limited.

We have audited the financial statements on pages 6 to 25 which have been prepared under the historic cost convention and the accounting policies set out on pages 11 to 14.

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

The directors are responsible for preparing the Annual Report, including as described on page 4 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

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. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

#### **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 Group'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, other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

#### **Equalisation reserves**

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amounts set aside at 31 December 1998 and the effect of the movement in those reserves during the year on the general business technical result and profit before tax, are shown 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 and the Group as at 31 December 1998 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers  
Chartered Accountants and Registered Auditors  
London

25 October 1999

# **Zurich Holdings (UK) Limited**

Consolidated Profit and Loss Account: Technical Account - General Business  
for year ended 31 December 1998

	Note	<u>1998</u>	<u>1997</u>
		(Restated)	(Restated)
		£'000	£'000
Gross premiums written	3		
- Continuing Business		181,666	237,084
- Discontinued Business		<u>96,603</u>	<u>91,311</u>
		278,269	328,395
Outward reinsurance premiums		<u>(128,129)</u>	<u>(155,792)</u>
Premiums written, net of reinsurance		150,140	172,603
Change in the gross provision for unearned premiums		10,532	3,677
Change in the provision for unearned premiums, reinsurers' share		<u>(12,019)</u>	<u>8,688</u>
		<u>(1,487)</u>	<u>12,365</u>
<b>Earned premiums, net of reinsurance</b>		148,653	184,968
Other technical income		1,056	2,616
<b>Claims paid</b>			
Gross amount		(200,238)	(218,571)
Reinsurers' share		<u>64,511</u>	<u>95,825</u>
		<u>(135,727)</u>	<u>(122,746)</u>
<b>Change in the provision for claims</b>			
Gross amount		4,215	1,885
Reinsurers' share		<u>23,026</u>	<u>(8,417)</u>
		<u>27,241</u>	<u>(6,532)</u>
<b>Claims incurred, net of reinsurance</b>		(108,486)	(129,278)
<b>Changes in other technical provisions</b>			
Unexpired risks provision		25	352
<b>Net operating expenses</b>	4	(72,978)	(77,552)
<b>Change in the equalisation provision</b>		<u>(737)</u>	<u>(3,348)</u>
<b>Balance on the technical account for general business</b>			
- Continuing Business		(12,242)	(20,907)
- Discontinued Business		<u>(20,225)</u>	<u>(1,335)</u>
		<u>(32,467)</u>	<u>(22,242)</u>

The notes on pages 11 to 25 form part of these accounts.

# Zurich Holdings (UK) Limited

Consolidated Profit and Loss Account: Non-technical Account  
for year ended 31 December 1998

	Note	1998	1997
		(Restated)	(Restated)
	£'000	£'000	£'000
<b>Balance on the technical account for general business</b>			
- Continuing Business	(12,242)	(20,907)	
- Discontinued Business	<u>(20,225)</u>	<u>(1,335)</u>	
		(32,467)	(22,242)
<b>Investment income</b>	5	96,166	79,531
<b>Investment expenses and charges</b>	6	(9,248)	(8,517)
<b>Revaluation of land and buildings</b>		-	10,126
<b>Other income</b>		<u>4,237</u>	<u>10,159</u>
		<u>91,155</u>	<u>91,299</u>
<b>Total Group operating profit</b>		58,688	69,057
<b>Exceptional other (charges)/income</b>	7	(1,931)	-
<b>Profit on ordinary activities before tax</b>	8	56,757	69,057
<b>Tax on profit on ordinary activities</b>	10	<u>(24,177)</u>	<u>(13,401)</u>
<b>Profit on ordinary activities after tax</b>		32,580	55,656
<b>Profit attributable to equity minority interest</b>		<u>(753)</u>	<u>(2,842)</u>
<b>Profit for the financial year</b>		31,827	52,814
<b>Dividends</b>	11	<u>(49,500)</u>	-
<b>Retained (loss)/profit for the financial year transferred to reserves</b>		<u>(17,673)</u>	<u>52,814</u>

Statement of Total Recognised Gains and Losses  
for year ended 31 December 1998

	1998	1997
		(Restated)
	£'000	£'000
<b>Profit for the financial year</b>	31,827	52,814
<b>Foreign exchange (losses)/gains</b>	<u>(1,288)</u>	<u>2,474</u>
<b>Total consolidated recognised gains relating to the year</b>	30,539	55,288
<b>Prior year adjustment</b>	<u>(646)</u>	-
<b>Total gains recognised since last annual report</b>	<u>29,893</u>	<u>55,288</u>

The notes on pages 11 to 25 form part of these accounts

# Zurich Holdings (UK) Limited

## Consolidated Balance Sheet - Group as at 31 December 1998

	Note		<u>1998</u>		<u>1997</u>
		£'000	£'000	£'000	£'000
				(Restated)	(Restated)
<b>ASSETS</b>					
<b>Investments</b>					
Land and buildings	14	46,240		46,240	
Other financial investments	14	649,394		785,112	
Deposits with ceding undertakings		<u>704</u>		<u>751</u>	
<b>Total investments</b>			696,338		832,103
<b>Reinsurers' share of technical provisions</b>					
Provision for unearned premiums		49,529		61,626	
Claims outstanding		<u>456,476</u>		<u>434,141</u>	
			506,005		495,767
<b>Debtors</b>					
Debtors arising out of direct insurance operations	15	46,044		74,803	
Debtors arising out of reinsurance operations		132,698		153,403	
Taxation debtor		140		1,322	
Other debtors	16	<u>146,360</u>		<u>12,793</u>	
			325,242		242,321
<b>Other assets</b>					
Tangible fixed assets	12	1,436		4,863	
Cash at bank and in hand		<u>11,041</u>		<u>21,933</u>	
			12,477		26,796
<b>Prepayments and accrued income</b>					
Accrued interest and rent		9,904		9,655	
Deferred acquisition costs		33,589		28,524	
Other prepayments and accrued income		<u>1,514</u>		<u>2,256</u>	
			<u>45,007</u>		<u>40,435</u>
<b>Total assets</b>			<u>1,585,069</u>		<u>1,637,422</u>

The notes on pages 11 to 25 form part of these accounts.

# Zurich Holdings (UK) Limited

Consolidated Balance Sheet - Group (continued)  
as at 31 December 1998

	Note	1998	1997
		£'000	£'000
			(Restated)
<b>LIABILITIES</b>			(Restated)
<b>Capital and reserves</b>			
Called up share capital	17	122,100	122,100
Other reserves	18	(5,225)	(3,937)
Profit and loss account	18	30,105	47,778
Goodwill reserve	18	—	(1,175)
Equity shareholders' funds		111,480	129,266
Non-equity shareholders' funds		35,500	35,500
Shareholders' funds	23	146,980	164,766
Equity minority interests	19	16,137	15,384
<b>Total capital and reserves</b>		163,117	180,150
<b>Technical provisions</b>			
Provisions for unearned premiums		160,813	171,617
Claims outstanding		1,012,305	1,018,210
Other technical provisions		5,382	4,818
		1,178,500	1,194,645
<b>Provisions for other risks and charges</b>			
Provisions for deferred taxation	20	6,192	9,985
<b>Creditors</b>			
Creditors arising out of direct insurance operations		8,644	18,084
Creditors arising out of reinsurance operations		91,223	113,194
Other creditors including taxation and social security	21	128,720	102,564
Amounts owed to credit institutions		306	—
		228,893	233,842
<b>Accruals and deferred income</b>		8,367	18,800
<b>Total liabilities</b>		1,585,069	1,637,422

The notes on pages 11 to 25 form part of these accounts.

# Zurich Holdings (UK) Limited

## Balance Sheet - Company as at 31 December 1998

	Note	£'000	1998 £'000	1997 £'000
<b>FIXED ASSETS</b>			(Restated)	(Restated)
Tangible fixed assets	12		635	635
Investments in subsidiary undertakings	13		<u>159,766</u>	<u>170,806</u>
			160,401	171,441
<b>CURRENT ASSETS</b>				
Other debtors	16	47,127		3,411
Investments - short term deposits		4,852		802
Cash at bank		<u>1</u>	<u>1</u>	
		51,980	4,214	
<b>PREPAYMENTS AND ACCRUED INCOME</b>				
Accrued interest		<u>42</u>	<u>3</u>	
		52,022	4,217	
<b>CREDITORS</b>				
Amounts falling due within one year	21	<u>(64,764)</u>	<u>(48,029)</u>	
<b>NET CURRENT LIABILITIES</b>			<u>(12,742)</u>	<u>(43,812)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			147,659	127,629
<b>CREDITORS</b>				
Amounts falling due after more than one year	22		<u>(25,109)</u>	<u>(25,382)</u>
			<u>122,550</u>	<u>102,247</u>
<b>CAPITAL AND RESERVES</b>				
Called up share capital	17		122,100	122,100
Profit and loss account	18		<u>450</u>	<u>(19,853)</u>
			<u>122,550</u>	<u>102,247</u>
<b>SHAREHOLDERS' FUNDS</b>				
Shareholders' funds are analysed between:				
Equity			87,050	66,747
Non-equity			<u>35,500</u>	<u>35,500</u>
			<u>122,550</u>	<u>102,247</u>

The accounts on pages 6 to 25 were approved on 21 October 1999 by the Board of Directors and were signed on its behalf by:

D W White

Managing Director

The notes on pages 11 to 25 form part of these accounts.

**NOTES TO THE FINANCIAL STATEMENTS**

**1. BASIS OF PREPARATION**

The consolidated financial statements have been prepared in accordance with the provisions of Section 255A of, and Schedule 9A to, the Companies Act 1985, as amended by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993, and with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("the ABI SORP") dated December 1998.

The financial statements of the Parent Company have been prepared in accordance with the provisions of Schedule 4 of the Companies Act. As permitted by Section 230 of the Companies Act 1985, the Parent Company profit and loss account has not been included in these financial statements.

The financial statements have also been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of investments and freehold land and buildings.

The Group has utilised the exemptions provided under Financial Reporting Standard No. 1 and has not presented a cash flow statement. A group cash flow statement has been presented in the group accounts of Zurich Financial Services, the ultimate parent undertaking, which is incorporated in Switzerland.

There were no material transactions with directors and, as permitted by Financial Reporting Standard No. 8, the Company has not disclosed transactions with other companies within the Zurich Financial Services group.

**2. ACCOUNTING POLICIES**

***Changes in accounting policies***

Following the publication of the ABI SORP, the Group now accounts for unrealised gains and losses on investments through its profit and loss account. This is a change from the group's previous policy of accounting for unrealised gains and losses through a revaluation reserve. Comparative figures have been restated as appropriate. The impact on current year profit on ordinary activities before tax is a decrease of £17,932k (1997: increase £19,159k).

The accounts of a subsidiary company, Zurich GSG Limited, have been amended to reflect a change in accounting policies. The effect on the Group accounts is not material but comparatives have been restated as appropriate.

Following the implementation of FRS10, "Goodwill and intangible assets", goodwill is capitalised and amortised over its useful economic life. As permitted under the transitional arrangements of FRS10, goodwill previously written off to reserves has not been reinstated.

The cumulative effects of these changes in accounting policy are disclosed in note 18.

The following accounting policies have been applied consistently in dealing with items which are considered material to the Group's financial statements

**Notes to the financial statements (continued)**

**Basis of consolidation**

The consolidated financial statements incorporate the assets, liabilities and results of the Company and its subsidiary undertakings drawn up to 31 December each year. The results of subsidiary undertakings acquired or sold during the year are included in the consolidated results from the date of acquisition or up to the date of disposal. On acquisition of a subsidiary undertaking, all of its assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date.

Profits or losses on intra-group transactions are eliminated in full.

All subsidiary undertakings listed in Note 13 have been consolidated.

**Basis of accounting for underwriting activities**

All classes of business are accounted for on an annual basis.

**Premiums**

Premiums written are stated gross of commission payable to intermediaries. They comprise premiums on contracts entered into during the financial year, regardless of whether such amounts relate in whole or in part to a later financial year, and are exclusive of any taxes and duties levied on premiums.

**Unearned premiums**

Unearned premiums are calculated on a time apportionment basis unless a more appropriate method is available.

**Claims incurred**

Claims incurred includes all claims payments and claims settlement expenses made in respect of the financial period, together with anticipated salvage or subrogation recoveries and the movement in provision for outstanding claims and settlement expenses, including claims incurred but not reported.

**Claims outstanding**

Outstanding claims comprise provisions for the estimated cost of settling all claims incurred up to but not paid at the balance sheet date whether reported or not, together with related claims handling expenses. These provisions are determined using the best information available of claims settlement patterns, forecast inflation trends and after recognising the potential time elapsed in the reporting, development and settlement of claims.

**Unexpired risks**

Deficiencies arising are provided for when unearned premiums are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated having regard to events which have occurred prior to the balance sheet date but not taking account of post balance sheet events.

Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises.

**Acquisition costs**

Acquisition costs comprise the expenses, both direct and indirect, of acquiring insurance policies written during the year.

## **Zurich Holdings (UK) Limited**

### **Notes to the financial statements (continued)**

#### **Deferred acquisition costs**

The costs of acquiring new insurance contracts and the renewal of existing insurance contracts which are incurred during a financial year but which relate to a subsequent year are deferred to the extent that they relate to *unearned premiums at the balance sheet date*.

#### **Operating leases**

Payments made under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

#### **Equalisation reserves**

Equalisation provisions have been established in accordance with the Insurance Companies (Reserves) Act 1995 and are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date. They are required by schedule 9A to the Companies Act 1985 to be included in technical provisions.

#### **Investment income, expenses and charges**

Investment income is accounted for on a receivable basis, including, where appropriate, the imputed tax credit. Dividends are recognised on the date on which the related investment goes "ex-dividend". Interest is accrued up to the balance sheet date. Realised gains or losses represent the difference between net sales proceeds and purchase price. Investment income, realised gains and losses, expenses and charges are reported in the non-technical account.

Unrealised gains and losses represent the difference between the valuation of investments at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date. All unrealised gains and losses are reported in the non-technical account.

#### **Foreign currencies**

Revenue transactions in foreign currencies are translated to sterling at rates ruling during the year. Assets and liabilities are translated at rates ruling at the year end.

Exchange gains or losses arising on translation of short term monetary items are included in profit or loss for the year.

#### **Investments**

Listed investments are stated at their middle market value at 31 December, except that securities which the group has the ability to, and generally intends to, hold to maturity are stated at amortised cost. All investments are currently available for sale.

#### **Freehold land and buildings**

Land and buildings are valued at open market value by an independent property valuer at least every three years. *Changes in the value of land and buildings are included in the profit and loss account.*

## Zurich Holdings (UK) Limited

### Notes to the financial statements (continued)

#### Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that a liability will crystallise.

#### Depreciation

Tangible fixed assets, other than freehold properties, are depreciated on a straight line basis over three years.

In accordance with SSAP 19 no depreciation or amortisation is provided in respect of freehold investment properties. The requirement of the Companies Act 1985 is to depreciate all properties, but that requirement conflicts with the generally accepted accounting principle set out in SSAP 19. The directors consider that, as these properties are not held for consumption but for investment, to depreciate them would not give a true and fair view, and that it is necessary to adopt SSAP 19 in order to give a true and fair view.

### 3. SEGMENTAL INFORMATION

#### Analysis of gross premiums

	1998 £'000			1997 £'000		
By geographical segment:						
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
UK	60,758	18,821	79,579	78,754	17,082	95,836
Other EU						
Members	14,741	-	14,741	17,629	-	17,629
Other Europe	4,565	-	4,565	7,184	-	7,184
Total Europe	80,064	18,821	98,885	103,567	17,082	120,649
USA	88,012	70,411	158,423	102,181	65,051	167,232
Canada	3,130	-	3,130	8,979	-	8,979
Total North America	91,142	70,411	161,553	111,160	65,051	176,211
Other	10,460	7,371	17,831	22,357	9,178	31,535
Total	181,666	96,603	278,269	237,084	91,311	328,395

The geographical analysis has been prepared using the location of the insured or reinsured as the basis. All of the Group's gross direct premium was written in the United Kingdom.

# Zurich Holdings (UK) Limited

## Notes to the financial statements (continued)

### 4. NET OPERATING EXPENSES

	1998 £'000	1997 £'000 (Restated)
Acquisition costs	(66,607)	(74,100)
Change in gross deferred acquisition costs	<u>2,647</u>	<u>(2,715)</u>
	(63,960)	(76,815)
Administrative expenses	<u>(28,551)</u>	<u>(24,874)</u>
Gross operating expenses	(92,511)	(101,689)
Reinsurance commissions and profit participation	19,905	24,565
Change in deferred reinsurance commission	<u>(372)</u>	<u>(428)</u>
	<u><u>( 72,978)</u></u>	<u><u>( 77,552)</u></u>

### 5. INVESTMENT INCOME

	1998 £'000	1997 £'000 (Restated)
Income from investments	63,532	44,233
Gains on the realisation of investments	50,566	16,139
Unrealised (losses)/gains on investments	<u>(17,932)</u>	<u>19,159</u>
	<u><u>96,166</u></u>	<u><u>79,531</u></u>

### 6. INVESTMENT EXPENSES AND CHARGES

	1998 £'000	1997 £'000
Investment management expenses, including interest paid	(9,248)	(8,399)
Exchange losses on the realisation of investments	<u>-</u>	<u>(118)</u>
	<u><u>(9,248)</u></u>	<u><u>(8,517)</u></u>

### 7. EXCEPTIONAL OTHER (CHARGES)/INCOME

	1998 £'000	1997 £'000
Fundamental restructuring of London reinsurance market	(5,471)	-
Profit on sale of ZIM, a subsidiary company	3,445	-
ZIM exceptional items:-		
Scudder merger costs	(250)	-
Exceptional credit	345	-
	<u><u>(1,931)</u></u>	<u><u>-</u></u>
The tax effect of exceptional items is £1,638K (1997 fnil)		

# Zurich Holdings (UK) Limited

## Notes to the financial statements (continued)

### 8. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

	<u>1998</u> £'000	<u>1997</u> £'000
Profit on ordinary activities before tax is stated:		
<i>after crediting:</i>		
Income from listed investments	45,801	37,711
Income from unlisted investments	<u>17,731</u>	<u>6,522</u>
<i>after charging:</i>		
Auditors' remuneration:		
Audit	246	226
Other services	369	99
Depreciation	1,176	1,549
Other operating lease rentals	3,983	3,651
Interest payable to group undertakings	<u>6,288</u>	<u>5,522</u>

### 9. DIRECTORS AND EMPLOYEES

	<u>1998</u> £'000	<u>1997</u> £'000
Wages and salaries	18,728	20,890
Social security costs	1,149	2,367
Other pension costs	<u>1,204</u>	<u>2,219</u>
	<u>21,081</u>	<u>25,476</u>

The average number of employees of the group during the year was:

	<u>1998</u>	<u>1997</u>
Reinsurance accepted	15	25
Direct business	54	58
Administration	<u>177</u>	<u>242</u>
	<u>246</u>	<u>325</u>

Emoluments for each director are paid by the ultimate parent company or by other group companies. The services of the directors are non-executive in nature and their emoluments are deemed to be wholly attributable to their services to the ultimate parent company or to Zurich Insurance Company. There were no employees paid by Zurich Holdings (UK) Limited.

# Zurich Holdings (UK) Limited

## Notes to the financial statements (continued)

### 10. TAXATION

The corporation tax charge is based on the profit for the year at the rate of 31% (1997: 31.5%).

	1998 £'000	1997 £'000
Corporation tax	(28,872)	(15,217)
Tax credits on franked investment income at 20%	(369)	(340)
Changes in prior year estimates	6	1,800
Deferred tax (see note 20)	<u>5,058</u>	<u>356</u>
	<u>(24,177)</u>	<u>(13,401)</u>

### 11. DIVIDENDS

	1998 £'000	1997 £'000
<b>Non-equity shares</b>		
Dividend paid of 5p per share (1997:nil)	1,775	-
<b>Equity Shares</b>		
Interim dividend paid of 32.59p per share (1997:nil)	28,225	-
Second interim dividend paid of 22.52p per share (1997:nil)	<u>19,500</u>	-
	<u>49,500</u>	-

### 12. TANGIBLE ASSETS

Group				1998 £'000
	Fixtures, Fittings and Equipment	Computer Equipment	Motor Vehicles	Total
<b>Cost or valuation</b>				
At 1 January	7,915	2,471	638	11,024
Additions	376	787	-	1,163
Disposals	<u>(4,180)</u>	<u>(1,018)</u>	<u>(566)</u>	<u>(5,764)</u>
At 31 December	<u>4,111</u>	<u>2,240</u>	<u>72</u>	<u>6,423</u>
<b>Depreciation</b>				
At 1 January	4,718	1,074	369	6,161
Charge for year	221	845	71	1,137
Adjustments on disposals	<u>(1,218)</u>	<u>(707)</u>	<u>(386)</u>	<u>(2,311)</u>
At 31 December	<u>3,721</u>	<u>1,212</u>	<u>54</u>	<u>4,987</u>
Net book value at 31 December 1997	<u>3,196</u>	<u>1,397</u>	<u>269</u>	<u>4,863</u>
Net book value at 31 December 1998	<u>390</u>	<u>1,028</u>	<u>18</u>	<u>1,436</u>

## Zurich Holdings (UK) Limited

### Notes to the financial statements (continued)

<b>Company</b>	<b>1998</b>
	<b>£'000</b>
<b>Freehold land and buildings</b>	
<b>Cost or valuation</b>	
At 31 December 1998 and 31 December 1997	<u>635</u>
Net book value at 31 December 1998 and at 31 December 1997	<u>635</u>

No depreciation is charged on freehold buildings as noted in the accounting policies.

The freehold land and buildings which represents land adjacent to Zurich House, Stanhope Road, Portsmouth was purchased on 13 March 1989. The historical cost of the land was £945K.

Independent valuations are carried out every three years in accordance with HM Treasury Insurance Directorate regulations. The land was revalued from its previous valuation of £488K on an open market basis at 31 December 1996 by an independent valuer Mellersh & Harding. The surplus arising on revaluation of £147K has been recognised in the profit and loss account.

### 13. INVESTMENTS - COMPANY

#### In subsidiary undertakings

At 31 December 1998, the Company held investments in the following subsidiary companies:

	Country of registration	Class of capital	Proportion held		Nature of business
			By parent company	By the Group	
Zurich Specialties London Limited (formerly Zurich Reinsurance (London) Limited)	England and Wales	Ordinary	100%	-	Insurance and reinsurance
Zurich GSH Limited	England and Wales	Ordinary	100%	-	Holding company
Zurich GSG Limited	England and Wales	Ordinary	-	100%	Surety bonds
Zurich International (UK) Limited	England and Wales	Ordinary	-	100%	Insurance
ZPC (Construction) Company Limited	England and Wales	Ordinary	-	75.01%	Property investment

Zurich Investment Management Limited (ZIM), was sold to Scudder Kemper Holdings (UK) Limited on the 21 May 1998 for gross consideration of £11m. On the same day, ZIM changed its name to Scudder Investments (UK) Limited.

# **Zurich Holdings (UK) Limited**

## **Notes to the financial statements (continued)**

### **14. INVESTMENTS - GROUP**

	Market Value		Purchase Price	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Land and buildings	<u>46,240</u>	<u>46,240</u>	<u>53,378</u>	<u>53,378</u>
Other financial investments				
Shares and other variable yield securities and units in unit trusts	54,064	124,190	45,000	94,242
Debt securities and other fixed income securities	554,916	520,200	537,544	506,071
Mortgage backed securities	-	70,976	-	70,664
Deposits with credit institutions	<u>40,414</u>	<u>69,746</u>	<u>40,414</u>	<u>69,746</u>
	<u>649,394</u>	<u>785,112</u>	<u>622,958</u>	<u>740,723</u>

The value of land and buildings occupied by the Group is £27,902K.

All shares and other variable yield securities and debt securities and other fixed interest securities are listed on recognised stock exchanges. The debt securities and other fixed interest securities are in government stock, stock explicitly guaranteed by governments or AAA rated corporate stock.

### **15. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS**

	1998 £'000	1997 £'000
Amounts owed by policyholders	1,836	3,086
Amounts owed by intermediaries	<u>44,208</u>	<u>71,717</u>
	<u>46,044</u>	<u>74,803</u>

### **16. OTHER DEBTORS**

<b>Group</b>	1998 £'000	1997 £'000
Amounts due from group undertakings	144,735	9,705
Other debtors	<u>1,625</u>	<u>3,088</u>
	<u>146,360</u>	<u>12,793</u>
 <b>Company</b>		
	1998 £'000	1997 £'000
Amounts due from group undertakings	26,827	950
Other debtors	<u>20,300</u>	<u>2,461</u>
	<u>47,127</u>	<u>3,411</u>

# Zurich Holdings (UK) Limited

## Notes to the financial statements (continued)

### 17. SHARE CAPITAL

	1998 £'000	1997 £'000
Authorised:		
Ordinary shares of £1 each	86,600	86,600
Non-cumulative redeemable 5% preference shares of £1 each	38,400	38,400
	<u>125,000</u>	<u>125,000</u>
Allotted, issued, called up and fully paid up:		
Ordinary shares of £1 each	86,600	86,600
Non-cumulative redeemable 5% preference shares of £1 each	35,500	35,500
	<u>122,100</u>	<u>122,100</u>

The non-cumulative redeemable 5% preference shares are non-voting. A dividend is payable on these shares only in the year of payment of an ordinary dividend.

Non-cumulative preference shares have priority on winding up. There is no specific date of redemption and redemption is at the option of the Company. There is no premium payable on redemption.

### 18. RESERVES

#### Group

	Goodwill reserve £'000	Other Reserves £'000	Profit and loss account £'000	Total £'000
At 1 January 1998 as previously stated	(1,175)	27,127	17,360	43,312
Prior year adjustment	-	(31,064)	30,418	(646)
At 1 January 1998 as restated	(1,175)	(3,937)	47,778	42,666
Foreign exchange loss	-	(1,288)	-	(1,288)
Goodwill written back on disposal	1,175	-	-	1,175
Retained loss for the year	-	-	(17,673)	(17,673)
At 31 December 1998	-	(5,225)	30,105	24,880

#### Company

	Revaluation reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 1998 as previously stated	(3)	(19,850)	(19,853)
Prior year adjustment	3	(3)	-
At 1 January 1998 at restated	-	(19,853)	(19,853)
Retained profit for the year	-	20,303	20,303
At 31 December 1998	-	450	450

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Company has not been separately presented in these financial statements. The net profit for the year, after taxation in the Company was £69,801K (1997: loss £62K).

# **Zurich Holdings (UK) Limited**

## **Notes to the financial statements (continued)**

### **19. MINORITY SHAREHOLDERS' INTERESTS**

	<u>1998</u> <u>£'000</u>	<u>1997</u> <u>£'000</u>
At 1 January	15,384	12,542
Profit and loss account	<u>753</u>	<u>2,842</u>
At 31 December	<u>16,137</u>	<u>15,384</u>

This relates to the 24.99% of ZPC (Construction) Company Limited's shares held by an intermediate holding company, Zurich Insurance Company.

### **20. PROVISIONS FOR OTHER RISKS AND CHARGES**

#### **Deferred Taxation**

	<u>1998</u> <u>£'000</u>	<u>1997</u> <u>£'000</u> (Restated)
At 1 January	9,985	4,835
Profit and loss account	(5,058)	(356)
Other movements	<u>1,265</u>	<u>5,506</u>
At 31 December	<u>6,192</u>	<u>9,985</u>

The amounts provided for deferred taxation and the amounts not provided are set out below

	<u>1998</u> <u>£'000</u>	<u>1998</u> <u>£'000</u>	<u>1997</u> <u>£'000</u>	<u>1997</u> <u>£'000</u>
	Provided	Unprovided	Provided	Unprovided
Other timing differences	3,473	-	(1,622)	-
On revaluation	<u>2,719</u>	<u>8,257</u>	<u>11,607</u>	<u>4,605</u>
	<u>6,192</u>	<u>8,257</u>	<u>9,985</u>	<u>4,605</u>

# Zurich Holdings (UK) Limited

## Notes to the financial statements (continued)

### 21. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

#### Group

	<u>1998</u> <u>£'000</u>	<u>1997</u> <u>£'000</u>
Group and parent undertakings	93,153	78,930
Long term unsecured loan	1,475	1,475
Taxation	32,519	17,566
Other creditors	<u>1,573</u>	<u>4,593</u>
	<u>128,720</u>	<u>102,564</u>

	<u>1998</u> <u>£'000</u>	<u>1997</u> <u>£'000</u>
Repayable as follows:		
1 year or less	76,720	75,707
Between one and two years	37,500	12,500
Between two and five years	<u>14,500</u>	<u>14,357</u>
	<u>128,720</u>	<u>102,564</u>

#### Company

	<u>1998</u> <u>£'000</u>	<u>1997</u> <u>£'000</u>
Amounts owed to subsidiary undertaking	18	18
Amounts owed to other group undertaking	22,598	22,500
Loan from ultimate parent undertaking	22,599	25,500
Dividend Payable	19,500	-
Other creditors	<u>49</u>	<u>11</u>
	<u>64,764</u>	<u>48,029</u>

Included within amounts owed to the parent undertaking and its group undertakings is a loan from Zurich Insurance Company for £22,500K and a loan from Turegum Insurance Company for £22,500K. Interest is payable on these loans at 1.25% above the 12 month LIBOR interest rate, or such lower rate as may be agreed in writing from time to time between the parties.

Interest on the long term unsecured loan is at 10% per annum and the loan is repayable in December 2001 with the option to give three month's notice any time thereafter.

# **Zurich Holdings (UK) Limited**

## **Notes to the financial statements (continued)**

### **22. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

#### **Company**

	<u>1998</u> <u>£'000</u>	<u>1997</u> <u>£'000</u>
Amounts owed to an intermediate holding company	<u>25,109</u>	<u>25,382</u>

Amounts owed to an intermediate holding company include loans totalling £25,000K from that company which are for an initial period of five years. Thereafter they can be terminated by either party giving to the other at least three months prior written notice of termination. The earliest termination date in respect of the loans from Zurich Insurance Company is December 1999. Interest is payable on these loans at 1.25% above the 12 month LIBOR interest rate, or such lower rate as may be agreed in writing from time to time between the parties.

### **23. RECONCILIATION OF MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' FUNDS**

	<u>1998</u> <u>£'000</u>	<u>1997</u> <u>£'000</u> (Restated)
Profit for the financial year (after minority interest)	31,827	52,814
Dividend	(49,500)	-
Goodwill on sale/acquisition of subsidiary	1,175	(1,175)
Other recognised (losses)/gains relating to the year (net of tax)	(1,288)	2,474
Increase in share capital	-	8,100
	<u>(17,786)</u>	<u>62,213</u>
Opening shareholders' funds	<u>164,766</u>	<u>102,553</u>
Closing shareholders' funds	<u>146,980</u>	<u>164,766</u>
Equity	111,480	129,266
Non-equity	<u>35,500</u>	<u>35,500</u>
Total shareholders' funds	<u>146,980</u>	<u>164,766</u>

### **24. CAPITAL COMMITMENTS**

There are no commitments for capital expenditure (1997: nil).

## Zurich Holdings (UK) Limited

### Notes to the financial statements (continued)

#### 25. LEASE COMMITMENTS

##### Group

	<u>1998</u> £'000	<u>1997</u> £'000
(a) Annual commitments under non-cancellable land and building operating leases were repayable as follows:		
1 year or less	1,405	3,087
Between 2 and 5 years	<u>181</u>	<u>1,781</u>
	<u>1,586</u>	<u>4,868</u>
	<u>1998</u> £'000	<u>1997</u> £'000
(b) Annual commitments under other operating leases were repayable as follows:		
1 year or less	38	41
Between 2 and 5 years	<u>35</u>	<u>72</u>
	<u>73</u>	<u>113</u>

#### 26. CONTINGENT LIABILITIES

It is the view of the directors that there are no material contingent liabilities at the year end (1997: nil).

#### 27. PENSIONS

Certain group companies participate in an approved pension plan in the UK, namely Zurich Insurance Company's United Kingdom Pension Fund. In addition, there are unfunded, unapproved arrangements in respect of certain executive employees.

The fund is a defined benefit arrangement and operates on a funded basis. The funding policy is to contribute such variable amounts as, on the advice of the actuary, will achieve a 100% funding level on a projected salary basis. Actuarial assessments covering expenses and contributions are carried out by a qualified actuary, who is an employee of the Zurich group, with the latest such review being carried out as at 31 December 1996.

The projected unit method was adopted for the valuation of the Fund. Assets were valued by discounting income from a notional portfolio. The main actuarial assumptions used to assess the pension costs for accounting purposes were:

Investment yield	9.0%	p.a.
Individuals' salary growth	7.0%	p.a.
Equity dividend growth	5.0%	p.a.
Pension increases	4.0%	p.a.

The market value of the Fund's assets was £216,597K as at 31 December 1996. The actuarial value of the assets represented 120% of the Fund's ongoing liabilities of the Fund. The contribution to the Fund will be adjusted to remove this surplus over the future working lifetime of active members. Surpluses or deficits, net of any prepayment items, are being amortised for accounting purposes over the expected remaining average service life of the members expressed as constant percentages of salary.

**Zurich Holdings (UK) Limited**

**Notes to the financial statements (continued)**

**28 ULTIMATE PARENT COMPANY**

The Company's ultimate parent company is Zurich Financial Services which is incorporated in Switzerland. Zurich Financial Services is owned 57% by Zurich Allied AG, incorporated in Switzerland and 43% by Allied Zurich p.l.c., incorporated in England and Wales.

Copies of the consolidated financial statements of Zurich Financial Services may be obtained from The Secretary, Allied Zurich p.l.c., 22 Arlington Street, London SW1A 1RW.