

Zurich Holdings (UK) Limited

Registered in England No. 2306320

**Zurich Holdings
(UK) Limited**

**Directors' Report
and Financial Statements**

31 December 1997



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
R M Farr, BA(Oxon) (resigned 11 April 1997)

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 1997.

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 net loss for the year after taxation in the Company amounted to £62K (1996: net profit of £5,813K). The consolidated net profit for the year after taxation in the Group amounted to £35,199K (1996: net profit of £16,076K), which is included in the balance now carried forward on the profit and loss account. The results and transfers to reserves for the year are detailed in the General Insurance 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 1997. It is envisaged that results in future years will continue to build on this position. All Group subsidiaries are striving to achieve Zurich's global mission to become "World Class".

On 23 December 1997, it was announced that Zurich Insurance Company, the ultimate holding company, had entered into a binding agreement in principle with B.A.T Industries p.l.c for the merger of the financial services businesses of B.A.T with the Zurich Group. The merger was completed on 8 September 1998.

The directors do not recommend the payment of a dividend.

Directors and directors' interests

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

R M Farr resigned as a director on 11 April 1997.

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

Share capital

During the year 8,100,000 non-cumulative redeemable 5% preference shares of £1 each were issued at par in order to finance the purchase and further capitalisation of Zurich Investment Management Limited.

Directors' responsibilities for 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 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.

Zurich Holdings (UK) Limited

Directors' report (continued)

The directors are responsible for maintaining proper accounting records, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

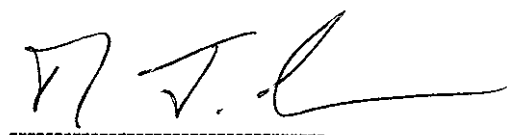
Auditors

Grant Thornton resigned as auditors with effect from 28 November 1997 and have stated that there are no circumstances connected with their ceasing to hold office which they consider should be brought to the attention of the members or creditors of the company.

With effect from 28 November 1997, the directors appointed Coopers & Lybrand, pursuant to section 388(1) (as amended) of the Companies Act 1985, to fill the vacancy.

Coopers & Lybrand resigned as auditors with effect from the 20 July 1998, on which date the directors appointed PricewaterhouseCoopers to fill the vacancy.

By order of the Board

A handwritten signature in black ink, appearing to read 'M J Chandler', written over a horizontal dashed line.

M J Chandler
Secretary

21 October 1998

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 26 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

As described on page 3, the Group's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

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 1997 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 the Company's and the Group's affairs as at 31 December 1997 and of the Group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London

26 October 1998

Zurich Holdings (UK) Limited

Consolidated Profit and Loss Account: Technical Account - General Business
for year ended 31 December 1997

	Note	£'000	1997 £'000	1996 £'000
Gross premiums written	4	328,395	376,364	
Outward reinsurance premiums		(155,792)	(151,665)	
Premiums written, net of reinsurance			172,603	224,699
Change in the gross provision for unearned premiums		3,677	(10,512)	
Change in the provision for unearned premiums, reinsurers' share		8,688	14,803	
			<u>12,365</u>	<u>4,291</u>
Earned premiums, net of reinsurance			184,968	228,990
Other technical income, net of reinsurance			2,616	288
Claims paid				
Gross amount		(218,571)	(183,267)	
Reinsurers' share		<u>95,825</u>	<u>72,935</u>	
		(122,746)	(110,332)	
Change in the provision for claims				
Gross amount		1,885	(72,555)	
Reinsurers' share		(8,417)	<u>7,899</u>	
		(6,532)	(64,656)	
Claims incurred, net of reinsurance			(129,278)	(174,988)
Changes in other technical provisions				
Unexpired risks provision			352	(601)
Net operating expenses	5		(77,475)	(70,157)
Change in the equalisation provision			(3,348)	(100)
Balance on the technical account for general business			<u>(22,165)</u>	<u>(16,568)</u>

All figures relate to continuing operations.
The notes on pages 11 to 26 form part of these accounts.

Zurich Holdings (UK) Limited

Consolidated Profit and Loss Account: Non-technical Account
for year ended 31 December 1997

	Note		<u>1997</u>	<u>1996</u>
		£'000	£'000	£'000
Balance on the general business technical account			(22,165)	(16,568)
Investment income	6	60,480		43,432
Investment expenses and charges	7	(8,517)		(6,755)
Exceptional other income	8	10,126		-
Other income		<u>10,159</u>		<u>2,412</u>
			<u>72,248</u>	<u>39,089</u>
Profit on ordinary activities before tax	9		50,083	22,521
Tax on profit on ordinary activities	11		(12,042)	(5,399)
Profit on ordinary activities after tax			38,041	17,122
Profit attributable to minority interest			(2,842)	(1,046)
Retained profit for the financial year transferred to reserves			<u>35,199</u>	<u>16,076</u>
Statement of Total Recognised Gains and Losses				
<i>for year ended 31 December 1997</i>				
			<u>1997</u>	<u>1996</u>
			£'000	£'000
Profit for the financial year after taxation			35,199	16,076
Unrealised gains on investments			17,748	5,302
Foreign exchange gains / (losses)			<u>2,474</u>	<u>(5,115)</u>
Total consolidated recognised gains			<u>55,421</u>	<u>16,263</u>

All figures relate to continuing operations.
The notes on pages 11 to 26 form part of these accounts.

Zurich Holdings (UK) Limited

Consolidated Balance Sheet - Group
as at 31 December 1997

	Note	1997	1996
		£'000	£'000
ASSETS			
Investments	14		
Land and buildings		46,240	36,058
Other financial investments			
Shares and other variable-yield securities and units in unit trusts - listed		124,190	88,961
Debt securities and other fixed-income securities - listed		591,253	529,738
Deposits with credit institutions		<u>70,595</u>	<u>78,688</u>
Total investments		832,278	733,445
Reinsurers' share of technical provisions			
Provision for unearned premiums		61,626	52,103
Claims outstanding		<u>434,141</u>	<u>434,468</u>
		495,767	486,571
Debtors			
Debtors arising out of direct insurance operations	15	74,803	50,273
Debtors arising out of reinsurance operations		153,403	173,462
Taxation debtor		1,322	2,407
Other debtors	16	<u>12,733</u>	<u>8,445</u>
		14,055	10,852
Other assets			
Tangible assets	12	4,863	2,125
Cash at bank and in hand		<u>21,933</u>	<u>26,613</u>
		26,796	28,738
Prepayments and accrued income			
Accrued interest and rent		9,655	10,602
Deferred acquisition costs		28,065	29,693
Other prepayments and accrued income		<u>2,256</u>	<u>2,200</u>
		<u>39,976</u>	<u>42,495</u>
Total assets		<u>1,637,078</u>	<u>1,525,836</u>

The notes on pages 11 to 26 form part of these accounts.

Zurich Holdings (UK) Limited

Consolidated Balance Sheet - Group (continued)
as at 31 December 1997

	Note	£'000	1997 £'000	1996 £'000
LIABILITIES				
Capital and reserves				
Ordinary share capital			86,600	86,600
Preference share capital			35,500	27,400
Called up share capital	17		122,100	114,000
Revaluation reserve	18		27,127	6,905
Profit and loss account	18		17,360	(17,839)
Goodwill reserve	18		(1,175)	-
Equity shareholders' funds			129,912	75,666
Non-equity shareholders' funds			35,500	27,400
Shareholders' funds			165,412	103,066
Minority interests	19		15,384	12,542
Total capital and reserves	23		180,796	115,608
Technical provisions				
Provisions for unearned premiums		171,617	172,650	
Claims outstanding		1,018,210	1,004,824	
Other technical provisions		<u>3,597</u>	<u>601</u>	
			1,193,424	1,178,075
Provisions for other risks and charges				
Provisions for deferred taxation	20		10,216	4,835
Creditors				
Creditors arising out of direct insurance operations		18,084	10,905	
Creditors arising out of reinsurance operations		113,194	106,670	
Other creditors including taxation and social security	21	102,564	92,436	
Amounts owed to credit institutions		<u>-</u>	<u>3,127</u>	
			233,842	213,138
Accruals and deferred income			<u>18,800</u>	<u>14,180</u>
Total liabilities			<u>1,637,078</u>	<u>1,525,836</u>

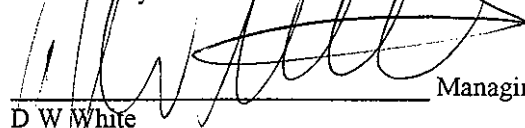
The notes on pages 11 to 26 form part of these accounts.

Zurich Holdings (UK) Limited

Balance Sheet - Company
as at 31 December 1997

	Note	1997	1996
		£'000	£'000
FIXED ASSETS			
Tangible fixed assets	12	635	635
Investments in subsidiary undertakings	13	<u>170,806</u>	<u>159,766</u>
		171,441	160,401
CURRENT ASSETS			
Other debtors	16	3,411	11,591
Investments - short term deposits		802	181
Cash at bank		<u>1</u>	<u>2</u>
		4,214	11,774
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest		<u>3</u>	<u>3</u>
		4,217	11,777
CREDITORS			
Amounts falling due within one year	21	(48,029)	(48,855)
NET CURRENT LIABILITIES		<u>(43,812)</u>	<u>(37,078)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		127,629	123,323
CREDITORS			
Amounts falling due after more than one year	22	(25,382)	(29,114)
		<u>102,247</u>	<u>94,209</u>
CAPITAL AND RESERVES			
Ordinary shares		86,600	86,600
Preference shares		<u>35,500</u>	<u>27,400</u>
Called up share capital	17	122,100	114,000
Revaluation Reserve	18	(3)	(3)
Profit and loss account	18	<u>(19,850)</u>	<u>(19,788)</u>
		<u>102,247</u>	<u>94,209</u>
SHAREHOLDERS' FUNDS			
Shareholders' funds are analysed between:			
Equity		66,747	66,809
Non-equity		<u>35,500</u>	<u>27,400</u>
		<u>102,247</u>	<u>94,209</u>

The accounts on pages 6 to 26 were approved on 21 October 1998 by the Board of Directors and are signed on its behalf by:


D W White Managing Director

The notes on pages 11 to 26 form part of these accounts.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1997

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985. 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, and comply with the ABI Guidance on Accounting for Insurance Business issued in 1995 as amended in 1997.

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 Insurance Company, the ultimate parent undertaking.

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 Insurance Company Group.

2. ULTIMATE PARENT UNDERTAKING

The Company is a member of the Zurich Insurance Group and its ultimate holding company is Zurich Insurance Company which is incorporated in Switzerland.

Copies of the accounts of Zurich Insurance Company may be obtained from the Company's registered office on page 2.

3. ACCOUNTING POLICIES

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

Basis of consolidation

The group financial statements consolidate those of the Company and of its subsidiary undertakings drawn up to 31 December 1997. The results of subsidiary undertakings acquired during the year have been included from the date of acquisition. Profits or losses on intra-group transactions are eliminated in full.

Goodwill arising on consolidation is written off to reserves immediately on acquisition.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. ACCOUNTING POLICIES (continued)

Unearned premiums

Unearned premiums are calculated on a time apportionment basis unless a more appropriate method is available. Deductions are made in respect of reinsurance premiums ceded.

Claims incurred

Claims incurred includes all claims and claims settlement expense payments made in respect of the financial period, and the movement in provision for outstanding claims and settlement expenses and includes 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.

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.

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.

Acquisition costs

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

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. ACCOUNTING POLICIES (continued)

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 or if previously valued, the valuation at the last balance sheet date.

Investment income, realised gains and losses, expenses and charges are reported in the non-technical account.

Pension costs

The cost of providing pensions for the Group's employees is accounted for over the employees' working lives on a systematic basis as advised by qualified actuaries.

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.

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.

Unrealised gains and losses on investments

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 taken to the revaluation reserve.

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 every three years. Any surplus on revaluation in excess of original cost is transferred to a revaluation reserve.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. ACCOUNTING POLICIES (continued)

Depreciation

Depreciation on assets, other than freehold properties, is provided on a straight line basis over three years.

Land and buildings are not depreciated. It is the Group's practice to maintain the property in a continual state of sound repair. Accordingly, the directors consider that the economic life and residual value, based on price or valuations, is such that any depreciation is insignificant and is thus not provided.

4. SEGMENTAL INFORMATION

Analysis of gross premiums

	<u>1997</u> £'000	<u>1996</u> £'000
By geographical segment:		
UK	95,834	95,954
Other EC Members	17,629	25,558
Other Europe	<u>7,184</u>	<u>8,927</u>
Total Europe	<u>120,647</u>	<u>130,439</u>
USA	167,232	192,054
Canada	<u>8,979</u>	<u>3,650</u>
Total North America	<u>176,211</u>	<u>195,704</u>
Other	<u>31,537</u>	<u>50,221</u>
Total	<u>328,395</u>	<u>376,364</u>

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.

5. NET OPERATING EXPENSES

	<u>1997</u> £'000	<u>1996</u> £'000
Acquisition costs	74,100	83,486
Change in gross deferred acquisition costs	<u>2,842</u>	<u>(11,379)</u>
	76,942	72,107
Administrative expenses	<u>24,874</u>	<u>23,185</u>
Gross operating expenses	101,816	95,292
Reinsurance commissions and profit participation	(24,854)	(25,248)
Change in deferred reinsurance commission	<u>513</u>	<u>113</u>
	<u>77,475</u>	<u>70,157</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. INVESTMENT INCOME

	<u>1997</u> £'000	<u>1996</u> £'000
Income from investments	44,226	40,509
Gains on the realisation of investments	<u>16,254</u>	<u>2,923</u>
	<u>60,480</u>	<u>43,432</u>

7. INVESTMENT EXPENSES AND CHARGES

	<u>1997</u> £'000	<u>1996</u> £'000
Investment management expenses, including interest paid	8,399	6,249
Exchange losses on realisation of investments	<u>118</u>	<u>506</u>
	<u>8,517</u>	<u>6,755</u>

8. EXCEPTIONAL OTHER INCOME

Land and buildings in the group were revalued as at 31 December 1997, and this amount comprises the reversal of part of the diminution in value (£10,126K) of freehold property charged to the profit and loss account in previous years.

9. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

	<u>1997</u> £'000	<u>1996</u> £'000
Profit on ordinary activities before tax is stated:		
<i>after crediting:</i>		
Income from listed investments	45,627	35,349
Income from unlisted investments	<u>14,853</u>	<u>8,083</u>
<i>after charging:</i>		
Auditors' remuneration:		
Audit	226	152
Other services	99	25
Depreciation	1,549	1,434
Other operating lease rentals	3,651	2,383
Interest payable to group undertakings	<u>5,522</u>	<u>5,747</u>

Zurich Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. DIRECTORS AND EMPLOYEES

	<u>1997</u> £'000	<u>1996</u> £'000
Wages and salaries	20,890	15,226
Social security costs	2,367	1,457
Other pension costs	<u>2,219</u>	<u>1,512</u>
	<u>25,476</u>	<u>18,195</u>

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

	<u>1997</u>	<u>1996</u>
Reinsurance accepted	25	23
Direct business	58	58
Administration	<u>242</u>	<u>189</u>
	<u>325</u>	<u>270</u>

The directors are paid by the ultimate holding company and a split of their remuneration in respect of services within the Group is not practicable. There were no employees paid by Zurich Holdings (UK) Limited.

11. TAXATION

The corporation tax charge is based on the profit for the year at the rate of 31.5% (1996: 33%).

	<u>1997</u> £'000	<u>1996</u> £'000
Corporation tax	15,217	7,663
Tax credits on franked investment income at 20%	340	656
Prior year items	(1,800)	341
Deferred tax (see note 20)	<u>(1,715)</u>	<u>(3,261)</u>
	<u>12,042</u>	<u>5,399</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. TANGIBLE ASSETS

Group	<u>1997</u> £'000
Fixtures, fittings and computer equipment	
Cost or valuation	
At 1 January 1997	8,116
Acquisition of subsidiary	1,521
Additions	3,925
Disposals	<u>(2,538)</u>
At 31 December 1997	<u>11,024</u>
Depreciation	
At 1 January 1997	5,991
Acquisition of subsidiary	600
Charge for year	1,708
Adjustments on disposals	<u>(2,138)</u>
At 31 December 1997	<u>6,161</u>
Net book value at 31 December 1996	<u>2,125</u>
Net book value at 31 December 1997	<u>4,863</u>
Company	<u>1997</u> £'000
Freehold land and buildings	
Cost or valuation	
At 1 January 1997 and 31 December 1997	<u>635</u>
Net book value at 31 December 1996 and at 31 December 1997	<u>635</u>

No depreciation is charged 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 1995 by an independent valuer Mellersh & Harding. The surplus arising on revaluation of £147K has been recognised in the profit and loss account.

Zurich Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. INVESTMENTS - COMPANY

Subsidiary undertakings

At 31 December 1997, the group held more than 20% of the equity of the following principal companies:

	Country of registration	<u>Proportion held</u>		By the group	Nature of business
		Class of capital	By parent company		
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	England and Wales	Ordinary	100%	-	Investment management

On 9 January 1997, Zurich Holdings (UK) Limited acquired 100% of the ordinary share capital of Zurich Investment Management Limited for £3,540,000, the cost of which was met by the issue of 3,600,000 non-cumulative redeemable 5% preference shares of £1 each.

The book value of Zurich Investment Management Limited at 9 January 1997 of £2,356,901 was fair value. The goodwill arising on consolidation was £1,174,898.

On 29 April 1997, Zurich Holdings (UK) Limited acquired a further 4,500,000 £1 ordinary shares in Zurich Investment Management Limited at par. The cost of this acquisition was met by the issue of 4,500,000 non-cumulative redeemable 5% preference shares of £1 each.

On 31 October 1997, Zurich Holdings (UK) Limited acquired a further 3,000,000 £1 ordinary shares in Zurich Investment Management Limited at par. The cost of this acquisition was met by an interest free loan from Zurich Insurance Company in the amount of £3,000,000 repayable within twelve months.

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. INVESTMENTS - GROUP

	<u>1997</u> £'000	<u>1996</u> £'000
Cost:		
Land and buildings	53,378	53,378
Other financial investments	<u>735,926</u>	<u>676,002</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 cost of debt securities and other fixed income securities as at 31 December 1997 was £505,970K. The debt securities and other fixed interest securities are all AAA rated being in Government stock or explicitly guaranteed by Governments.

15. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	<u>1997</u> £'000	<u>1996</u> £'000
Amounts owed by policyholders	3,086	2,840
Amounts owed by intermediaries	<u>71,717</u>	<u>47,433</u>
	<u>74,803</u>	<u>50,273</u>

16. OTHER DEBTORS

Group

	<u>1997</u> £'000	<u>1996</u> £'000
Amounts due from group undertakings	9,705	6,611
Other debtors	<u>3,028</u>	<u>1,834</u>
	<u>12,733</u>	<u>8,445</u>

Company

	<u>1997</u> £'000	<u>1996</u> £'000
Amounts due from group undertakings	950	8,700
Other debtors	<u>2,461</u>	<u>2,891</u>
	<u>3,411</u>	<u>11,591</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. SHARE CAPITAL

	<u>1997</u> £'000	<u>1996</u> £'000
Authorised:		
Ordinary shares of £1 each	86,600	86,600
Non-cumulative redeemable 5% preference shares of £1 each	<u>38,400</u>	<u>38,400</u>
	<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	<u>35,500</u>	<u>27,400</u>
	<u>122,100</u>	<u>114,000</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.

On 9 January 1997, a total of 3,600,000 non-cumulative redeemable 5% preference shares of £1 each were issued at par.

On 29 April 1997, a total of 4,500,000 non-cumulative redeemable 5% preference shares of £1 each were issued at par.

Zurich Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. RESERVES

Group

	Goodwill reserve £'000	Revaluation reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 1997	-	6,905	(17,839)	(10,934)
Revaluation of investments	-	17,748	-	17,748
Foreign exchange gains	-	2,474	-	2,474
Goodwill written off	(1,175)	-	-	(1,175)
Retained profit for the year	-	-	35,199	35,199
At 31 December 1997	<u>(1,175)</u>	<u>27,127</u>	<u>17,360</u>	<u>43,312</u>

Company

	Revaluation reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 1997	(3)	(19,788)	(19,791)
Retained profit for the year	-	(62)	(62)
At 31 December 1997	<u>(3)</u>	<u>(19,850)</u>	<u>(19,853)</u>

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 loss for the year, after taxation in the Company was £62K (1996: profit of £5,813K).

19. MINORITY SHAREHOLDERS' INTERESTS

	<u>1997</u> £'000	<u>1996</u> £'000
At 1 January	12,542	11,496
Profit and loss account	<u>2,842</u>	<u>1,046</u>
At 31 December	<u>15,384</u>	<u>12,542</u>

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. PROVISIONS FOR OTHER RISKS AND CHARGES

Deferred Taxation

	<u>1997</u> £'000	<u>1996</u> £'000
At 1 January	4,835	6,804
Profit and loss account	(1,715)	(3,261)
Other movements	<u>7,096</u>	<u>1,292</u>
At 31 December	<u>10,216</u>	<u>4,835</u>

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

	<u>1997</u> £'000	<u>1997</u> £'000	<u>1996</u> £'000	<u>1996</u> £'000
	Provided	Unprovided	Provided	Unprovided
Other timing differences	(1,391)	-	139	240
On revaluation	<u>11,607</u>	<u>4,605</u>	<u>4,696</u>	<u>4,337</u>
	<u>10,216</u>	<u>4,605</u>	<u>4,835</u>	<u>4,577</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

Group

	<u>1997</u> £'000	<u>1996</u> £'000
Group and parent undertakings	78,930	83,029
Long term unsecured loan	1,475	1,475
Taxation	17,566	6,180
Other creditors	<u>4,593</u>	<u>1,752</u>
	<u>102,564</u>	<u>92,436</u>

	<u>1997</u> £'000	<u>1996</u> £'000
Repayable as follows:		
1 year or less	75,707	61,847
Between one and two years	12,500	-
Between two and five years	<u>14,357</u>	<u>30,589</u>
	<u>102,564</u>	<u>92,436</u>

Company

	<u>1997</u> £'000	<u>1996</u> £'000
Amounts owed to subsidiary undertaking	18	23
Amounts owed to other group undertaking	22,500	24,405
Loan from ultimate parent undertaking	25,500	24,405
Other creditors	<u>11</u>	<u>22</u>
	<u>48,029</u>	<u>48,855</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 (1996: 2.00% above the Royal Bank of Scotland plc base 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 one month's notice any time thereafter.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

Company

	<u>1997</u> £'000	<u>1996</u> £'000
Amounts owed to ultimate parent undertaking	<u>25,382</u>	<u>29,114</u>

Amounts owed to the ultimate parent undertaking include loans totalling £25,000,000 from the parent undertaking 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>1997</u> £'000	<u>1996</u> £'000
Profit for the financial year (after minority interest)	35,199	16,076
Goodwill on acquisition of ZIM	(1,175)	-
Other recognised gains relating to the year (net of tax)	20,222	187
Increase in share capital	<u>8,100</u>	<u>7,100</u>
Net addition to shareholders' funds	62,346	23,363
Opening shareholders' funds	<u>103,066</u>	<u>79,703</u>
Closing shareholders' funds	<u>165,412</u>	<u>103,066</u>
	<u>1997</u> £'000	<u>1996</u> £'000
Equity	129,912	75,666
Non-equity	<u>35,500</u>	<u>27,400</u>
Total shareholders' funds	<u>165,412</u>	<u>103,066</u>

24. CAPITAL COMMITMENTS

There are no commitments for capital expenditure (1996: nil).

Zurich Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. LEASE COMMITMENTS

Group

	<u>1997</u> £'000	<u>1996</u> £'000
(a) Annual commitments under land and building operating leases were repayable as follows:		
1 year or less	3,087	2,505
Between 2 and 5 years	<u>1,781</u>	<u>3,894</u>
	<u>4,868</u>	<u>6,399</u>
	<u>1997</u> £'000	<u>1996</u> £'000
(b) Annual commitments under other operating leases were repayable as follows:		
1 year or less	41	60
Between 2 and 5 years	<u>72</u>	<u>113</u>
	<u>113</u>	<u>173</u>

26. CONTINGENT LIABILITIES

It is the view of the directors that there are no material contingent liabilities at the year end (1996: 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.

Zurich Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

27. PENSIONS (continued)

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.

28. POST BALANCE SHEET EVENTS

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.