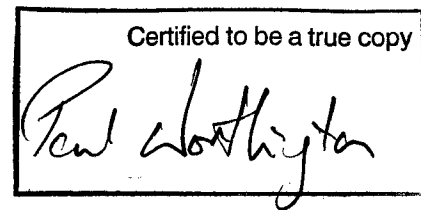




00066804

Registered number 173444



Secretary

NAVIGATORS AND GENERAL INSURANCE COMPANY LIMITED

REPORT AND ACCOUNTS

31 DECEMBER 2004



Contents	Page
Company information	1
Directors' report	2
Statement of directors' responsibilities	5
Independent auditors' report to the members of Navigators and General Insurance Company Limited	6
Profit and loss account - technical account	8
Profit and loss account - non-technical account	9
Reconciliation of movements in shareholders' funds	9
Balance sheet	10
Accounting policies	12
Notes to the accounts	16

CONFIDENTIAL

Company information

Directors

M C Chessher

J D Parry (appointed 29 September 2004)

I C R Stuart (appointed 13 July 2004)

A J Thompson (appointed 11 October 2004)

Secretary

J C Atkinson

P F Worthington (appointed 02 August 2004)

Registered office

The Zurich Centre

3000 Parkway

Whiteley

Fareham

Hampshire

PO15 7JZ

Auditors

PricewaterhouseCoopers LLP

Southwark Towers

32 London Bridge Street

London

SE1 9SY

Directors' report

The directors present their report and audited financial statements for the year ended 31 December 2004.

Principal activities and review of the business

The Company carries on marine, aviation and transport insurance business. The Company's insurance business is 100% net quota shared to Zurich Insurance Company after utilisation of other available reinsurance covers. The Company will continue to undertake business relating to these activities.

Results

The results for the year are shown in the profit and loss account on pages 8 and 9.

Dividends

The directors do not propose the payment of a dividend for the year (2003: £nil).

Directors

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

The following directors resigned during the year:

R W H Daniel (resigned 12 July 2004)

I B Owen (resigned 19 January 2004)

G M Riddell (resigned 13 July 2004)

R G Smith (resigned 14 September 2004)

Directors' interests

The Company is a wholly owned subsidiary of Zurich Financial Services, a company incorporated in Switzerland. As such, no director had any interests in shares and debentures required to be disclosed under the Companies Act 1985.

No directors exercised options in Zurich Financial Services during the year.

Two of the directors had Zurich Financial Services shares receivable under long-term incentive schemes.

No directors had material interests in contracts of significance with the Company or any subsidiary company of Zurich Financial Services during the year.

Directors' report

Employee involvement

The Company has adopted, where appropriate, group policies and the practices of Zurich Financial Services.

During 2004, Zurich Financial Services continued with its policy to involve its people on issues that are important to them as employees and build their awareness of the financial and economic factors affecting performance. This entailed communication and consultation mechanisms such as regular meetings with employee representatives, employee surveys, team meetings, presentations and workshops which were supplemented by various other communication initiatives. The role of electronic communication in keeping people informed has continued with the use and growth of intranet communication vehicles such as Connect (Group wide) and UKi, the new intranet for the whole of the UK.

In the UK General Business there is a partnership agreement with the Union of Finance Staff.

The more extensive use of senior management business events where staff have the opportunity to meet and discuss matters of general importance with heads of businesses has also been a feature of the communication and consultation process across the Zurich Financial Services Group during 2004.

Zurich Financial Services operated bonus schemes during 2004 based on the performance of the various businesses as well as rewarding individual contribution.

Employee share schemes

The directors recognise the importance of the involvement of employees through share ownership and operates several employee share schemes, which encourage both awareness of Zurich Financial Services' financial performance and participation in its success.

Since 1 January 2003, the Government have removed tax free benefits from future rewards under existing approved profit sharing schemes, such as the Zurich Financial Services UK Share Participation Scheme (SPS).

Zurich Group Holdings operates a Inland Revenue approved Share Incentive Plan (SIP) and the Partnership element of the SIP was launched in 2003 enabling participating employees to make monthly purchases of shares in Zurich Financial Services out of gross pay. In March 2004, the free shares element of the SIP was established under the brand 'Reward Shares'. This profit-sharing element replaced SPS and allocated shares in Zurich Financial Services in May 2004 were based on the business performance of operating units for the year ended 31 December 2004 in which eligible employees worked.

Directors' report

Employment of disabled staff in the United Kingdom

The Zurich Financial Services policy on recruitment and promotion continues to be based on an individual's capability to do the job. Full and fair consideration is given to both disabled and able-bodied staff where they have the appropriate experience, qualifications and ability to perform the job. Zurich Financial Services training functions are also equipped to meet any special needs of disabled individuals and favourable consideration is given to the modification of facilities and provision of special aids or equipment.

Extensive monitoring of the effectiveness of our policy continued during 2004. The whole of the Zurich Financial Services existing workforce is regularly assessed to establish the number of disabled employees currently employed and the nature of their disability. However, to ensure that disabled employees are fairly treated, their training and career development needs are carefully managed. In addition, processes have been established to monitor recruitment and promotion to continue to ensure that Zurich Financial Services attracts applications from both disabled and able-bodied persons. Full consideration is given to provide training and career development opportunities to disabled employees. We remain satisfied that policy and practice in relation to the recruitment, development and promotion of disabled employees exceeds statutory requirements.

For those employees becoming disabled during the course of their employment every effort is made to ensure they remain with Zurich Financial Services by finding them suitable alternative employment, whether through retraining or redeployment, or, where this is not possible, financial provision is made for such permanent employees through the operation of long-term sickness cover and health insurance arrangements.

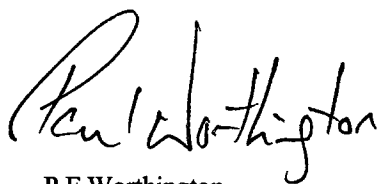
Creditor payment policy

All external creditors, excluding amounts due in respect of the settlement of insurance and reinsurance claims, are settled by other group companies.

Auditors

The directors have taken advantage of the elective regime, under Section 386 of the Companies Act 1985, for the dispensation from the annual appointment of auditors. The auditors, PricewaterhouseCoopers LLP, have signified their willingness to continue in office.

By order of the Board



P F Worthington
Company Secretary
30 March 2005

Statement of directors' responsibilities

The following statement sets out the responsibilities of the Directors in relation to the financial statements of the Company. The report of the auditors, shown on pages 6 and 7, sets out their responsibilities in relation to the financial statements.

Company law requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company as at the end of the financial period and of the profit or loss for the financial period. In preparing those financial statements, the directors are required to:

- Select appropriate policies and apply them consistently, subject to any material departures being disclosed and explained;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed; and
- Prepare the financial statements on the going concern basis, unless they consider that to be inappropriate.

The Directors are responsible for ensuring that the Company keeps sufficient accounting records to disclose with reasonable accuracy the financial position of the Company and to enable them to ensure that the financial statements comply with the United Kingdom Companies Act 1985.

They are also responsible for taking reasonable steps to safeguard the assets of the Company, and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of Navigators and General Insurance Company Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes, which have been prepared in accordance with the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and 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. The other information comprises the directors' report.

Basis of audit 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 Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report to the members of Navigators and General Insurance Company Limited

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 amount set aside at 31 December 2004, and the effect of the movement in those reserves during the year on the general business technical result and loss before tax, are referred to in the accounting policies and disclosed in the notes to the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
20 March 2005

Profit and loss account
Technical account - general business
for the year ended 31 December 2004

£000's	Notes	2004	2003
Earned premiums, net of reinsurance			
Gross premiums written	1	27,069	21,014
Outward reinsurance premiums		(23,925)	(13,992)
Net premiums written		3,144	7,022
Change in the gross provision for unearned premiums		(3,241)	(733)
Change in the provision for unearned premiums, reinsurers' share		-	(6,353)
		(3,241)	(7,086)
Earned premiums, net of reinsurance		(97)	(64)
Other technical income, net of reinsurance		186	156
Total technical income		89	92
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(10,339)	(8,763)
Reinsurers' share		15,180	22,231
		4,841	13,468
Change in the provision for claims			
Gross amount		(5,225)	410
Reinsurers' share		100	(13,930)
		(5,125)	(13,520)
Claims incurred, net of reinsurance		(284)	(52)
Changes in other technical provisions, net of reinsurance		-	(45)
Net operating expenses	2	383	426
Change in the equalisation provision	11	(188)	(421)
Total technical charges		(89)	(92)
Balance on the technical account for general business		-	-
All figures relate to continuing operations			

Profit and loss account
Non-technical account
for the year ended 31 December 2004

£000's	Notes	2004	2003
Balance on the general business technical account		-	-
Investment income	6	724	326
Unrealised gains on investments		10	15
Investment expenses and charges	6	(64)	(143)
Investment return		670	198
Profit on ordinary activities before tax		670	198
Tax on profit on ordinary activities	7	-	96
Profit on ordinary activities after tax and profit for the financial year		670	294

All figures relate to continuing operations

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

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2004

£000's	Share capital	Share premium account	Profit and loss account	2004	2003
Opening shareholders' funds	1,000	1	1,206	2,207	1,913
Profit attributable to shareholders' funds	-	-	670	670	294
Increase in share capital	1,500	-	-	1,500	-
Closing shareholders' funds	2,500	1	1,876	4,377	2,207

Balance Sheet
as at 31 December 2004

£000's	Notes	2004	2003
Assets			
Investments			
Other financial investments	8	4,376	4,190
Reinsurers' share of technical provisions			
Claims outstanding		687	587
Debtors			
Debtors arising out of direct insurance operations:			
Policyholders		605	1,041
Intermediaries		1,925	1,593
Debtors arising out of reinsurance operations	12	1,008	1,783
Other debtors	9	71	130
		3,609	4,547
Other assets			
Cash at bank and in hand		26,165	18,660
Prepayments and accrued income			
Accrued interest and rent		18	13
Deferred acquisition costs		2,456	1,964
		2,474	1,977
Total assets		37,311	29,961

Balance Sheet
as at 31 December 2004

£000's	Notes	2004	2003
Liabilities			
Capital and reserves			
Called up share capital	10	2,500	1,000
Share premium account		1	1
Profit and loss account		1,876	1,206
Shareholders' funds attributable to equity interests		4,377	2,207
Technical provisions - gross			
Provision for unearned premiums		10,327	7,086
Claims outstanding		19,332	14,107
Equalisation provision	11	609	421
		30,268	21,614
Creditors			
Creditors arising out of direct insurance operations		24	-
Creditors arising out of reinsurance operations	12	650	4,214
Other creditors including taxation and social security	13	1,426	1,834
		2,100	6,048
Accruals and deferred income		566	92
Total liabilities		37,311	29,961

The financial statements on pages 8 to 20 were approved by the Board on 30 March 2005 and were signed on its behalf by



M C Chessher
Director

Accounting policies for the year ended 31 December 2004

Basis of preparation

The financial statements have been prepared in accordance with Section 255 of, and Schedule 9A to, the United Kingdom Companies Act 1985 and with the Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business (ABI SORP) dated November 2003.

The financial statements have been prepared in accordance with applicable accounting standards.

The Company has taken advantage of the exemption in FRS1 (Revised) and has not prepared a cash flow statement as the Company is a wholly owned subsidiary of a parent company that prepares a cash flow statement.

Basis of accounting for general insurance business

The results for all classes of business are accounted for on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

i) Premiums

Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the company, less an allowance for cancellations.

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

ii) Unearned premiums

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

iii) Acquisition costs

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

iv) Claims incurred

Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

Accounting policies for the year ended 31 December 2004

v) Claims provisions

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Company. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until many years after the event giving rise to the claims has happened. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the Company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in company processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods
- changes in the legal environment
- the effects of inflation
- changes in the mix of business
- the impact of large losses
- movements in industry benchmarks

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Company has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are considered separately, and may be measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

**Accounting policies
for the year ended 31 December 2004**

v) Claims provisions (continued)

Where possible the Company adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

vi) Reinsurance recoveries

Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the company's reinsurance programme over time. An assessment is also made of the recoverability of reinsurance recoveries having regard to market data on the financial strength of each of the reinsurance companies.

Equalisation provision

Amounts are set aside as equalisation provisions in accordance with the Integrated Prudential Sourcebook for Insurers for the purpose of mitigating exceptionally high loss ratios in future years. The amounts provided are not liabilities because they are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date. Notwithstanding this, they are required by Schedule 9A to the United Kingdom Companies Act 1985 to be included within technical provisions.

Investments

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

Accounting policies for the year ended 31 December 2004

Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

An amendment to FRS3 in 1999 confirmed the requirements of the ABI SORP that, for insurance companies and groups, both realised and unrealised gains on investments held as part of investment portfolios should be included as part of investment return in the profit and loss account.

Dividends are recorded on the date on which shares are quoted ex-dividend. Interest, rents and expenses are accounted for on an accruals basis.

Realised gains and losses on investments, other than investments in group undertakings, carried at market value are calculated as the difference between net sales proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Deferred tax

Provision is made for deferred tax liabilities, using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the profit and loss account. Deferred tax is calculated at the rates at which it is expected that the tax will arise and discounted to take into account the likely timing of payments and the pattern of the expected realisation of investments. The discount rates used are the post tax yields to maturity that could be obtained at the balance sheet date on government bonds with maturity dates and in currencies similar to those of the deferred tax assets or liabilities. Deferred tax is recognised in the profit and loss account for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the statement of total recognised gains and losses.

**Notes to the accounts
for the year ended 31 December 2004**

1 Segmental analysis

The Company only operates in the general insurance sector and all its business is managed from the UK. Therefore all of the premiums, profits and net assets of the Company relate to a single segment of business in operations entirely in the UK.

The destination of Gross premium written is analysed as follows:

£000's	
	2004 Gross premiums written
Direct insurance	
UK	19,768
Other EU member states	3,506
Other Europe	3,648
In other countries	147
Total	27,069

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

	2004 Gross premiums written	2004 Gross premiums earned	2004 Gross claims incurred	2004 Gross operating expenses	2004 Reinsurance balance
Direct insurance					
Marine, aviation and transport	27,069	23,828	15,564	9,015	753
Total	27,069	23,828	15,564	9,015	753

	2003 Gross premiums written	2003 Gross premiums earned	2003 Gross claims incurred	2003 Gross operating expenses	2003 Reinsurance balance
Direct insurance					
Marine, aviation and transport	21,014	20,281	8,353	4,595	(7,023)
Total	21,014	20,281	8,353	4,595	(7,023)

**Notes to the accounts
for the year ended 31 December 2004**

2 Net operating expenses

£000's	2004	2003
Acquisition costs	6,770	4,767
Change in gross deferred acquisition costs	(491)	(1,208)
Administrative expenses	2,736	1,036
Reinsurance commissions and profit participation	(9,398)	(5,021)
Total	(383)	(426)

Total commissions for direct insurance accounted for by the Company during the year amounted to £5,301,800 (2003: £3,197,000).

3 Auditors' remuneration

The remuneration of the auditors of the Company and its subsidiaries for audit services for 2004 was £10,641 (2003: £nil). Fees paid to PricewaterhouseCoopers LLP for non-audit services in the UK were £nil (2003: £nil).

4 Staff costs

Employees in the UK working on behalf of the Company are employed by Eagle Star Direct Services Limited, Zurich UK General Employee Services Limited and Zurich UK General Services Limited. These employees may work on behalf of any of the Group's General Business.

During 2004, management charges were made to the Company, which included staff costs. The element of these charges relating to these costs cannot be separately ascertained, therefore no disclosure has been made for staff numbers and costs.

The principal disclosures in respect of these staff appear in the accounts of Eagle Star Direct Services Limited, Zurich UK General Employee Services Limited and Zurich UK General Services Limited, copies of which can be obtained from The Secretary, The Zurich Centre, 3000 Parkway, Whiteley, Fareham, Hampshire, PO15 7JZ.

5 Directors' emoluments

Five directors were also directors of holding companies and their emoluments in respect of their services to this company and the holding companies are disclosed in the holding companies' financial statements.

The disclosable emoluments of the three remaining directors (2003:1) are £45,000 (2003: £72,000). These directors are deemed to provide qualifying services to the company but these emoluments have been borne by the holding companies.

The emoluments of the highest paid director were £39,000 (2003: £72,000). This director accrued benefits under a defined benefit pension scheme and had an accrued pension at the year end of £31,000 (2003: £29,000).

Retirement benefits are accruing to all directors (2003: All) under defined benefit pension schemes.

**Notes to the accounts
for the year ended 31 December 2004**

6 Investment income, expenses and charges

£000's	2004	2003
Investment income		
Income from other investments	724	326
Investment income	724	326
Losses on the realisation of investments	64	143
Investment expenses and charges	64	143

7 Taxation

£000's	2004	2003
United Kingdom taxation:		
Current tax on income for the period	-	(96)
Tax on profit on ordinary activities	-	(96)

The effective rate of taxation for the year is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

£000's	2004	2003
Profit on ordinary activities before tax	670	198
Profit on ordinary activities multiplied by standard rate of corporate tax in the UK of 30% (2003: 30%)	201	59
Losses surrendered free from other group companies	(201)	(59)
Adjustments to tax charge in respect of previous periods	-	(96)
Current tax charge / (credit) for the year	-	(96)

8 Other financial investments

£000's	2004	2003
Shares and other variable-yield securities and units in unit trusts	4,376	4,190
	4,376	4,190

The historical cost of total other financial investments is £4,376,000 (2003: £4,190,000).

Included in the carrying values above are amounts in respect of listed investments as follows:

Shares and other variable-yield securities and units in unit trusts	4,376	4,190
	4,376	4,190

**Notes to the accounts
for the year ended 31 December 2004**

9 Other debtors

£000's	2004	2003
Amounts due from group undertakings	71	71
Other	-	59
	71	130

10 Share capital

£000's	2004	2003
Allotted, called up and fully paid:		
2,500,000 (2003: 1,000,000) ordinary shares of £1 each	2,500	1,000
	2,500	1,000
On 28 May 2004 1,500,000 ordinary shares of £1 each were allotted at par for a total consideration of £1,500,000.		
Authorised:		
10,000,000 (2003: 1,000,000) ordinary shares of £1 each	10,000	1,000
	10,000	1,000

On 28 May 2004 the authorised share capital was increased by £9,000,000 (9,000,000 shares).

11 Equalisation provision

As explained in the accounting policies, an equalisation provision is established in the Company's financial statements. The effect of this provision is to reduce shareholders' funds by £609,000 (2003: £421,000). The increase in the provision during the year had the effect of reducing the balance on the technical account for general business and the profit on ordinary activities before taxation by £188,000 (2003: £421,000).

12 Reinsurance transactions with group undertakings

Amounts due from group undertakings of £557,182 (2003: £60,000) are included in debtors arising out of reinsurance operations. Amounts due to group undertakings of £285,900 (2003: £3,987,000) are included in creditors arising out of reinsurance operations.

13 Other creditors including taxation and social security

£000's	2004	2003
Amounts due to group undertakings	663	1,434
Other creditors	763	400
	1,426	1,834

All creditors fall due within one year.

**Notes to the accounts
for the year ended 31 December 2004**

14 Pension and post-retirement benefits

Employees of the Company are members of two funded defined benefit schemes operated by the intermediate holding company Zurich Financial Services (UKISA) Limited. The principal scheme is the Zurich Financial Services UK Pension Scheme. The last actuarial valuation of the principal Scheme, at 30 June 2001 and which was carried out by qualified independent actuaries, identified a surplus of £642m, which is being eliminated by reduced company contributions. An actuarial valuation of the principal Scheme, as at 30 June 2004 is currently being carried out. It is not possible to identify the Company's share of the underlying assets and liabilities on a consistent and reasonable basis, and so the company has accounted for the scheme as a defined contribution scheme. Contributions by the group to the principal scheme in the period were nil (2003: £92m).

Details of the Scheme and the disclosures required by FRS 17 appear in the accounts of Zurich Financial Services (UKISA) Limited.

15 Ultimate parent company

The Company's ultimate parent company is Zurich Financial Services which is incorporated in Switzerland. Copies of the consolidated financial statements of Zurich Financial Services can be obtained from The Secretary, Zurich Financial Services, Mythenquai 2, 8002 Zurich, Switzerland.

Eagle Star Insurance Company Limited is the parent company of the smallest group of companies of which the company is a wholly owned subsidiary for which consolidated accounts are prepared. Copies of the financial statements for this company can be obtained from The Secretary, Eagle Star Insurance Company Limited, The Zurich Centre, 3000 Parkway, Whiteley, Fareham, Hampshire, PO15 7JZ.

16 Related party transactions

The Company has taken advantage of an exemption from FRS8 not to disclose transactions with Zurich Financial Services' group undertakings. Balances with Zurich Financial Services' group undertakings are shown in notes 9, 12 and 13.

There were no material transactions with any other related party.

The Directors of the Company and its key management had no material transactions with any related parties of the Zurich Financial Services Group. The term 'Director and key management' includes members of their families.