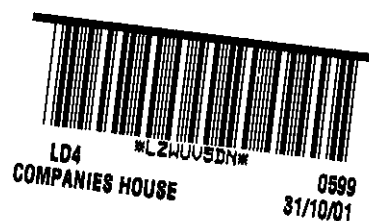


***THE CHESTER STREET
EMPLOYERS' ASSOCIATION
LIMITED***

ANNUAL REPORT AND ACCOUNTS

31 DECEMBER 2000



DIRECTORS

B V Strickland MA, FCA
G L Carswell CA
P J Grant
W R Hardy MA, ACA
R E Beveridge MA
W J Cain BCom, FCA
W Stockdale BSc, PhD
D J Turner FCA

(Chairman)

(Vice Chairman)

(Chief Executive)

Resigned 16 May 2000

Appointed 16 May 2000

Resigned 18 February 2000

Resigned 30 March 2000

SECRETARY

R E Beveridge
J B Wilson

Appointed 22 September 2000

Resigned 22 September 2000

REGISTERED OFFICE

Clarebell House
5/6 Cork Street
London W1S 3NX

REGISTERED NUMBER

57061

BANKERS

The Royal Bank of Scotland Plc
Barclays Bank Plc

AUDITORS

Ernst & Young LLP

REPORT OF THE DIRECTORS

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their Annual Report and the Accounts for the year ended 31 December 2000.

STATUS, PRINCIPAL ACTIVITIES, REVIEW OF BUSINESS DEVELOPMENTS, SUBSEQUENT EVENTS AND FUTURE DEVELOPMENTS

The Chester Street Employers' Association Limited (the Association) is a mutual company limited by guarantee without any share capital.

The Association ceased to write business with effect from 1 January 1990. From that date all general insurance business was written by Iron Trades Insurance Company Limited ('the Company'), the principal trading company within the Iron Trades Insurance Group ('the Group'). All assets and liabilities of the Association were transferred to Iron Trades Holdings Limited ('Holdings') (name changed to Chester Street Insurance Holdings limited, effective 18 February 2000), the principal subsidiary of the Association at the end of 1997.

On 16th December 1999, an agreement was signed for Holdings to sell its 100% shareholding in Iron Trades Insurance Company Limited to QBE International Insurance Limited. The sale was completed on 18th February 2000.

At the time of the sale of the Company, Holdings entered into a long-term agreement with Iron Trades Management Services Limited ('ITMS') under the terms of which ITMS agreed to provide claims handling and other management services to Holdings. Holdings recruited a small senior management team to work with the board of directors in effecting the measures necessary to reflect the changed circumstances of Holdings following the disposal of its subsidiary.

Recognising the uncertainty underlying the future development of the company's insurance liabilities, the board of Holdings engaged PricewaterhouseCoopers as consultants to advise generally upon the strategic options for the company and subsequently upon the implementation of a contingent Scheme of Arrangement under section 425 of the Companies Act 1985 ('the Scheme'). Such a Scheme was designed to maximise the assets available for creditors and to minimise the disruption caused should the company, at some point in the future, become insolvent. A notice proposing the Scheme was sent to all creditors of Holdings on 19th December 2000.

In early January 2001 the directors of Holdings received the preliminary findings of an actuarial review of its reserves, which indicated that a substantial increase would be required in the level of its provision for claims incurred but not yet reported, particularly insofar as that provision was for losses forecast to arise out of claims for asbestos-related diseases. These findings reflected the impact of significant increases in both the number and average cost of asbestos-related disease claims notified during 2000.

The board of Holdings, having considered those findings and taken appropriate advice, determined that Holdings' liabilities exceeded its assets and that Holdings was insolvent. On 9th January 2001, the High Court granted the petition of the directors for the appointment of Dan Schwarzmans and Colin Bird of PricewaterhouseCoopers as provisional liquidators.

Following a unanimous vote of the creditors attending and voting at meetings held on 5th February 2001, the Scheme was sanctioned by the Court and became effective on 5th March 2001, with Dan Schwarzmans and Colin Bird of PricewaterhouseCoopers as Scheme Administrators. On 25th July, Mark Batten, also of PricewaterhouseCoopers, replaced Colin Bird as a provisional liquidator and Scheme Administrator.

At the end of March 2001, the Scheme Administrators set an initial payment percentage of 5% pursuant to the Scheme. In May 2001, the Association of British Insurers (ABI) announced that its members would fund compensation for certain claimants, whose claims would otherwise fail to be met in full because their former employer was no longer able to pay and the claim failed to meet the criteria for compensation by the Policyholders Protection Board (PPB).

Payments to creditors under the Scheme began to be made in July 2001. Holdings is cooperating with its policyholders and with the PPB and the ABI to ensure that claimants receive prompt payment.

Further reviews of the Scheme payment percentage will be undertaken in the future and it is hoped that the payment percentage can be increased as the uncertainty concerning the number and cost of future claims diminishes.

Note 2 to the Accounts describes the changes to the method of calculating Holdings' technical provisions consequent upon Holdings' insolvency and subsequent entry into the Scheme.

In the opinion of the Board, the attached accounts show the manner in which the affairs of the Group have been conducted during the year ended 31 December 2000 and show the position of the Group at that date. The directors do not recommend payment of a dividend.

RESULTS

The Profit and Loss Account for the Group appears on pages 4 and 5. These accounts consolidate the results, assets and liabilities of the Group and its subsidiary undertakings as listed in note 20 to the accounts. The results of Iron Trades Insurance Company Limited have been included up to the date of its disposal on 18 February 2000.

DIRECTORS

A list of the present directors appears on page 1.

The following directors resigned during the year:

Mr W R Hardy on 18 February 2000, Mr D J Turner on 30 March 2000 and Mr G L Carswell on 16 May 2000.

Mr P J Grant was appointed a director and chief executive on 16 May 2000.

In accordance with the Articles of Association, Messrs P J Grant and R E Beveridge retired, and being eligible, offered themselves for re-election at the Annual General Meeting on 15 August 2001.

All other directors held office throughout the year ended 31 December 2000.

EMPLOYEES

The Group had two employees during the year, other than the period to 18 February 2000, and Iron Trades Management Services Limited has provided all necessary management and administrative services.

DONATIONS

During the year, the Group contributed £nil to charitable organisations (1999: £9,856). No donations were made for political purposes.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The directors confirm that they have complied with the above requirements when preparing the accounts, other than preparing the Group accounts on a break-up basis since Holdings is no longer a going concern.

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

AUDITORS

On 28 June 2001, Ernst & Young, the Company's auditor, transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Directors consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28 June 2001. A resolution to re-appoint Ernst & Young LLP as the Company's auditor was passed at the Annual General Meeting on 15 August 2001.

Clarebell House
5/6 Cork Street
London
W1S 3NX

29th October 2001

By order of the board

R E Beveridge
Secretary

ACCOUNTS

CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 31 December 2000

TECHNICAL ACCOUNT – GENERAL BUSINESS DISCONTINUED OPERATIONS

	Note	2000 £m	1999 Restated £m
Gross premiums written		32.2	230.5
Outward reinsurance premiums		(3.9)	(22.4)
Net premiums written		28.3	208.1
Change in the gross provision for unearned premiums		(2.5)	(9.5)
Change in the provision for unearned premiums, reinsurers' share		1.0	0.1
Change in the net provision for unearned premiums		(1.5)	(9.4)
Earned premiums, net of reinsurance		26.8	198.7
Total technical income		26.8	198.7
Claims paid			
- gross amount		67.2	251.6
- reinsurers' share		(3.0)	(17.2)
- net of reinsurance		64.2	234.4
Change in the provision for claims			
- gross amount		1,187.7	(24.8)
- reinsurers' share		1.0	0.6
- net of reinsurance		1,188.7	(24.2)
Claims incurred, net of reinsurance	3	1,252.9	210.2
Net operating expenses	4	13.7	59.0
Total technical charges		1,266.6	269.2
Balance on the technical account for general business before equalisation provision		(1,239.8)	(70.5)
Change in equalisation provision	13	-	-
Balance on the technical account for general business after equalisation provision		(1,239.8)	(70.5)

ACCOUNTS

CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 31 December 2000

NON-TECHNICAL ACCOUNT

DISCONTINUED OPERATIONS		2000	1999
	Note	£m	Restated £m
Balance on the technical account for general business		(1,239.8)	(70.5)
Investment income	5	19.1	134.4
Investment expenses and charges		0.4	0.8
Unrealised losses on investments		8.1	63.7
		8.5	64.5
(Loss)/profit before taxation and exceptional items		(1,229.2)	(0.6)
Exceptional loss on disposal of subsidiary undertaking	6,17	(64.4)	-
(Loss) on ordinary activities before tax		(1,293.6)	(0.6)
Tax on loss on ordinary activities	7	(1.3)	(6.0)
(Loss) retained for the financial year		(1,294.9)	(6.6)

The Group has no recognised gains or losses other than the loss for the financial year.

ACCOUNTS

CONSOLIDATED BALANCE SHEET as at 31 December 2000

ASSETS

		2000	1999
	Note	£m	£m
Investments			
Land and buildings	8	-	25.0
Other financial investments	9	173.0	672.5
		173.0	697.5
Reinsurers' share of technical provisions			
Provision for unearned premiums		-	7.2
Claims outstanding		0.3	52.1
		0.3	59.3
Debtors			
Debtors arising out of direct insurance operations – intermediaries		-	25.1
- policyholders		-	15.5
Debtors arising out of reinsurance operations		-	4.1
Other debtors		-	11.7
		-	56.4
Other assets			
Tangible assets	10	-	2.2
Cash at bank and in hand		-	0.5
		-	2.7
Prepayments and accrued income			
Accrued interest		1.5	4.2
Deferred acquisition costs	11	-	17.1
Prepayments and accrued income		-	1.2
		1.5	22.5
Total Assets		174.8	838.4

ACCOUNTS

LIABILITIES

	Note	2000	1999
Reserves		£m	£m
Profit and loss account	12	(1,217.0)	77.9
Technical Provisions			
Provision for unearned premiums		-	101.5
Claims outstanding		1,387.7	629.7
Equalisation provision	13	-	-
		1,387.7	731.2
Provisions for other risks and charges	14	0.9	9.6
Creditors	15		
Creditors arising out of reinsurance operations		-	2.8
Other creditors including taxation and social security		0.1	6.4
Corporation tax		0.3	2.5
		0.4	11.7
Accruals and deferred income		2.8	8.0
Total Liabilities		174.8	838.4

Approved by the Board on 29th October 2001


B V Strickland

Chairman


P J Grant

Director

ACCOUNTS

ASSOCIATION ONLY BALANCE SHEET as at 31 December 2000

ASSETS

	Note	2000 £m	1999 £m
Fixed Assets			
Investments			
Shares in group undertaking	18	-	30.9
Total Assets		-	30.9

LIABILITIES

Reserves	12		
Profit and loss account		-	30.8
		-	30.8
Creditors	15		
Other creditors including taxation and social security		-	0.1
Total Liabilities		-	30.9

Approved by the Board on 29th October 2001



B V Strickland

Chairman



P J Grant

Director

ACCOUNTS

CONSOLIDATED CASH FLOW STATEMENT for the year ended 31 December 2000

	Note	2000 £m	1999 £m
Net cash (outflow) from operating activities	17	(28.2)	(51.2)
Taxation		(0.8)	(1.8)
Capital expenditure		-	(2.4)
Acquisitions and disposals – disposal of subsidiary undertaking	17	99.3	-
Cash available for investment		70.3	(55.4)
Net portfolio (investment)/disinvestments	17	(117.2)	96.8
Net cash (outflow)/inflow for the year	17	(46.9)	41.4

NOTES TO THE ACCOUNTS

NOTES TO THE ACCOUNTS

for the year ended 31 December 2000

1 ACCOUNTING POLICIES

Basis of Presentation and Consolidation.

The Company accounts have been prepared in accordance with the provisions of Section 255 of and Schedule 9A to the Companies Act 1985, which cover the disclosures applicable to insurance companies.

The Association only balance sheet has been prepared in accordance with the provisions of Section 226 of, and Schedule 4 to the Companies Act 1985 and under the historical cost convention modified to include the revaluation of investments in shares in group undertakings. As permitted by Section 230 of the Companies Act 1985 a separate profit and loss account for the Association is not presented.

The consolidated accounts incorporate the assets and liabilities of the Group and all of its subsidiaries as at 31 December 2000 and the results for the year ended on that date. The results of Iron Trades Insurance Company Limited have been included up to the date of its disposal on 18 February 2000.

The assets and liabilities of Chester Street Insurance Holdings Limited have been prepared on a break-up basis as the company is not a going concern, having entered into a Scheme of Arrangement with its creditors under section 425 of the Companies Act 1985 (the Scheme) on 5 March 2001. The accounts comply with applicable accounting standards. They also comply with the current guidance on Accounting for Insurance Business issued by the Association of British Insurers.

Basis of Accounting

The annual basis of accounting has been applied to all classes of business.

Premiums

All premium income included in the profit and loss account arises from discontinued operations, is shown gross of commissions paid to intermediaries and is exclusive of Insurance Premium Tax.

Premium income relates to business incepted during the year and includes an estimate of pipeline premiums, being premiums for business written up to the year end but not yet debited, less an allowance for cancellations. Unearned premiums are calculated on a time apportionment basis.

Claims

Claims outstanding represents the ultimate cost of settling all claims (including direct and indirect claims settlement costs) arising from events which have occurred up to the balance sheet date including a provision for claims incurred but not yet reported less any amounts paid in respect of these liabilities. Claims outstanding is reduced by anticipated salvage and other recoveries.

NOTES TO THE ACCOUNTS

Claims Discounting

Claims provisions are not discounted. Previously discounting of claims provisions has been applied in respect of certain categories of claims at a rate justified by the performance of the assets supporting the provision.

Claims Handling Expenses

The provision for claims handling expenses (which is included in the balance sheet within technical provisions – claims outstanding) consists of all estimated future costs of negotiating and settling claims until the date that the Directors have anticipated that all claims will have been settled under the Scheme. No deduction has been made for anticipated investment income.

Run-Off Provision

The run-off provision (which is included in the balance sheet within technical provisions - claims outstanding) consists of all other estimated operational costs until the date that the Directors have anticipated that all claims will have been settled under the Scheme. This provision has been discounted at a rate justified by anticipated investment income. No further deduction for anticipated investment income has been made. Previously no such provision was made since expected future investment return was expected to fully offset it.

Deferred Acquisition Costs

These represent commissions and other fixed and variable costs arising from the conclusion of insurance contracts relating to unearned premiums which have been deferred to a future period.

Investments

Investments are stated in the Group balance sheet on the following bases:

- Redeemable fixed income securities are valued at amortised cost.
- All other listed securities and option contracts at their middle market values on 31 December.
- Unquoted investments at the directors' valuation except for subsidiary companies, which are included in the Association's only balance sheet at nil reflecting the valuation of Chester Street Insurance Holdings Limited on a break-up basis.
- Properties are formally valued every year. Valuations were undertaken in December 1999 by Chesterton plc, external property consultants, on an open market value basis with existing use.
- Under the Companies Act 1985, buildings are required to be depreciated over their expected useful economic lives. In respect of investment properties, this requirement conflicts with the generally accepted accounting principle set out in Statement of Standard Accounting Practice (SSAP) 19 "Accounting for Investment Properties", that no depreciation should be provided in respect of such investments. The directors consider that to depreciate the investment properties would not give a true and fair view and accordingly the provisions of SSAP 19 have been adopted.
- The directors consider that the useful economic lives of the freehold and leasehold properties partly occupied by the Group and their residual values (based on prices prevailing at the time of acquisition or subsequent valuation) are such that their depreciation is insignificant and is thus not provided.
- All other investments are valued at cost.

Investments in subsidiaries in the Company balance sheet are valued at their cost less any impairment in their value.

NOTES TO THE ACCOUNTS

Income from Investments

All realised and unrealised gains and losses are taken to the profit and loss account. Realised gains are measured by reference to original cost. In the Association only balance sheet unrealised losses on subsidiaries are taken directly to the profit and loss account.

Since Chester Street Insurance Holdings Limited is no longer a going concern all investment return has been allocated to the non-technical account. In the past an allocation was made from the non-technical account to the *general business technical account of the actual return on investments* supporting the general insurance technical provisions and was made on the basis of the relationship between the net assets underlying general insurance operations and those supporting shareholders' equity interests.

Fixed Assets and Depreciation

Computer system costs of a capital nature are capitalized and written off from the date when first brought into use on a straight line basis over three years. Office fixtures and fittings are written off in the year of purchase.

Taxation

Deferred taxation is calculated on the liability basis and is only recognised where it is likely that the amount will become payable or recoverable in the foreseeable future.

Prior Year Restatement

The provisions of Financial Reporting Standard 16 ('Current Tax') have been adopted and the 1999 figures restated accordingly. The restatement has reduced both the tax charge and investment income by £1.1m.

2 CHANGE IN BASIS FOR ESTIMATING OUTSTANDING CLAIMS RESERVES

The completion of the sale of Iron Trades Insurance Company Limited on 18 February 2000 means that the technical provisions relating to that company are not shown in the consolidated balance sheet as at 31 December 2000, although they are shown in the comparative figures as at 31 December 1999. Because of the insolvency and subsequent entry of Holdings into a Scheme of Arrangement under Section 425 of the Companies Act 1985, as described in the Directors' report *ante*, the directors consider that it is no longer appropriate to discount the provisions for outstanding claims and claims incurred but not reported ('IBNR'). For the purpose of comparison, the technical provisions for Holdings included within the technical provisions shown in the consolidated balance sheet as at 31 December 1999, before discounting, were £306m. The directors have reviewed the assumptions made for the purposes of the actuarial review of Holdings' provision for IBNR claims. They consider that the significant adverse development in the number and average claims cost of claims reported during 2000 and, the figures so far would suggest, in 2001, especially those claims arising from asbestos-related disease, requires the adoption of more pessimistic assumptions as to the likely development, of the principal categories of such claims. Chief among those assumptions is the year when claims notifications are expected to peak ('the peak year'). This assumption is made as an extrapolation from a number of subsidiary assumptions, such as the latency profile of the diseases in respect of which the projections are being made, the exposure profile, based on the usage of asbestos within the insured industries, the average period of exposure and the age of the workforce.

For a number of categories of asbestos-related claims, particularly Mesothelioma and Pleural Plaque claims from the shipbuilding and, especially, the non-shipbuilding sectors, the development in the pattern of new claims notifications during 2000 has meant that the assumptions made at the end of 1999 as to the peak years are no longer tenable. The directors have therefore selected revised assumptions that in their view better reflect the claims notification patterns as they now appear. Assumed average claims costs have also been revised significantly upwards in certain categories, most notably for Mesothelioma claims. As a result of these changes, the IBNR on an undiscounted basis has increased by £960.9m, from £241.3m at 31 December 1999 to £1,202.2m at 31 December 2000.

NOTES TO THE ACCOUNTS

2. CHANGE IN BASIS FOR ESTIMATING OUTSTANDING CLAIMS RESERVES (CONTINUED)

The Holdings technical provisions represent the directors' best estimate of the likely outcome of the run-off of the company's insurance liabilities and are therefore not comparable with any figure that may be inferred from the level of the initial payment percentage to Holdings' creditors set by the Scheme Administrators pursuant to the Scheme of Arrangement. The technical provisions are still fundamentally uncertain because of the difficulty of forecasting the future development of the claims to which they relate.

3 CLAIMS

Below is a summary of the gross outstanding claims of Chester Street Insurance Holdings Limited:

	31 December 2000	31 December 1999	31 December 1999
	Undiscounted	Undiscounted	Discounted
	£m	£m	£m
Notified Outstanding Claims	86.9	58.6	56.8
Incurred But Not Reported	1,202.2	241.3	132.3
Claims Handling Provision	61.3	12.6	9.0
	1,350.4	312.5	198.1
Run-Off Provision (discounted)	37.3	-	-
	1,387.7	312.5	198.1

3.1 Fundamental uncertainty

The Group has a substantial exposure to disease claims arising from employers' liability policies written many years ago. The majority of this exposure is in respect of asbestos. There is a significant uncertainty over the ultimate out-turn of asbestos related claims which reflects the limited data available particularly in relation to exposure analysis, the latency period for asbestos related claims and mortality profile of claimants. The claims are extremely long tail in nature and the latency period for these claims is significant – the usage of asbestos was at its peak over 40 years ago. There is very limited available data in respect of the number of employees of policyholders exposed to asbestos. The future costs arising from these claims cannot, therefore, be predicted with certainty. Accordingly, the provision for claims outstanding in respect of asbestos related claims relies on a considerable degree of judgement as to the number of claims which will emerge, the timing of the claims and the amounts at which they will be settled. The provision for disease claims is based on information currently available and the ultimate liability may vary as a result of subsequent information and events, and could result in significant adjustments to the amounts provided. Adjustments to the technical provisions are reflected in the accounts for the period in which the adjustments are made. Whilst the net movement in prior years' provision for claims outstanding is significant it should be noted that, as detailed in the note 2, the provision for claims incurred but not reported reflects the revised set of actuarial assumptions.

3.2 Movement in prior years' provision for claims outstanding	2000	1999
	£m	£m
Liability	(1,227.5)	(4.7)
Direct Motor	-	(8.1)
Property	-	(0.2)
Personal Accident & Health	-	(0.8)
Under provision for prior years' claims outstanding	(1,227.5)	(13.8)

3.3 Discounting of claim provisions

Previously discounting of the provisions for claims had been applied in respect of Employers' Liability claims arising from latent diseases (EL). At 31 December 1999 the estimated gross payments pattern arising were discounted at an effective rate of 6.5% per annum and claims inflation had been recognised at 4.5% per annum.

3.4 Provision for claims handling expenses

Included in the balance sheet within technical provisions – claims outstanding is the provision for claims handling expenses of £61.3m (1999: £18.6m). This consists of all estimated future costs of negotiating and settling claims until the date that the Directors have anticipated that all claims will have been settled under the Scheme. No deduction has been made for anticipated investment income.

NOTES TO THE ACCOUNTS

3.5 Provision for run-off expenses

Included in the balance sheet within technical provisions - claims outstanding is the provision for run-off expenses of £37.3m. This consists of all other estimated operational costs until the date that the Directors have anticipated that all claims will have been settled under the Scheme. This provision has been discounted at 5%, a rate justified by anticipated investment income. No further deduction for anticipated investment income has been made. Previously no such provision was made since expected future investment return was expected to fully offset it. The directors consider that the basis previously adopted was no longer appropriate given the company's insolvency and the fundamental uncertainty concerning the quantum of future run-off expenses. The undiscounted provision is £95.4m. The average settlement period assumed in discounting this provision is 19.3 years.

4 NET OPERATING EXPENSES

	2000	1999
	£m	£m
Acquisition costs	3.9	41.6
Change in deferred acquisition costs	0.8	(2.0)
	4.7	39.6
Administration expenses (including industry levies)	9.0	20.6
Reinsurance commissions	-	(1.2)
	13.7	59.0

Included in acquisition costs are commissions for direct insurance amounting to £3.2m (1999: £28.3m)

Included under administrative expenses are:-

	2000	1999
	£000	£000
Directors' emoluments (Note 4.1)	380	982
Auditors' remuneration	76	241
- Audit fees	7	149
- Other services	109	201
Depreciation	188	1,066
Operating lease rentals	-	-
- Land and buildings	-	-

	2000	1999
	£000	£000
4.1 Directors' emoluments		
Aggregate emoluments - current directors	380	897
Payments in lieu of pension contributions	-	85
	380	982

	2000	1999
	£000	£000
Aggregate emoluments of highest paid director		
Aggregate emoluments	151	583
Payments in lieu of pension contributions	-	85
	151	668

The highest paid director participated in a defined benefit pension scheme. The accrued pension at the end of the year, for that year's highest paid director, in respect of the defined benefit scheme was £nil (1999: £10,570). The Group made no contributions in the year to secure money purchase benefits (1999: £nil).

NOTES TO THE ACCOUNTS

4.2 Employment costs:

	2000 £m	1999 £m
Wages and salaries	1.9	15.5
Redundancy costs	-	0.2
Social security costs	0.1	1.2
Other pension costs	-	0.3
	2.0	17.2

4.3 Average number of employees during the year

	2000 No	1999 No
Administration and other support	11	80
Underwriting	26	308
Claims	27	226
	64	614

4.4 Loans to Directors

The following director had a season ticket loan during the year as follows:

	Maximum Balance in the year 2000 £	At year end 2000 £	At year end 1999 £
W R Hardy	698	-	698

5 INVESTMENT INCOME

	2000 £m	1999 Restated £m
Gains on the realisation of investments	6.8	104.8
Income from land and buildings	0.3	1.9
Income from other investments	12.0	27.7
	19.1	134.4

NOTES TO THE ACCOUNTS

6 EXCEPTIONAL LOSS ON DISPOSAL OF SUBSIDIARY UNDERTAKING

On 18 February 2000 the Company sold its 100% shareholding in Iron Trades Insurance Company Limited for £175m, its book value, less adjustments, to QBE International Insurance Limited, resulting in a loss on disposal of £64.4m.

Of the £175m received, funds totalling £27m was retained in a joint escrow account with QBE International Insurance Limited to meet potential warranty claims. The warranty claims relate to certain undertakings in respect of the adequacy of the net claims provisions and the tax liabilities of Iron Trades Insurance Company Limited. The assessment of the quantum of the claim, if any, will occur no later than 28 February 2003. The Directors of the Company believe that there is significant uncertainty over whether a claim will be made against the funds in escrow. Therefore, the £27m in escrow has not yet been recognised as an asset on the grounds of prudence. Whilst a loss on disposal of £64.4m has been recognised in the current period, a profit of up to £27m may result in future accounting periods.

7 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2000	1999 Restated
	£m	£m
The charge for taxation comprises:		
United Kingdom Corporation Tax at 30% (1999: 30.25%)	4.1	10.7
Adjustments in respect of prior years	-	(2.6)
	4.1	8.1
Deferred tax	(2.8)	(2.1)
	1.3	6.0

8 LAND AND BUILDINGS (GROUP)

	Long Leasehold £m	Freehold £m	Total £m
At current value:			
At 1 January	23.6	1.4	25.0
Disposals (including those arising on disposal of subsidiary)	(23.6)	(1.4)	(25.0)
At 31 December	-	-	-
At cost			
At 1 January	2.4	1.1	3.5
Disposals (including those arising on disposal of subsidiary)	(2.4)	(1.1)	(3.5)
At 31 December	-	-	-

Land and buildings occupied by the Group for its own activities, at current values, are as follows:

At 31 December 2000	-	-	-
At 31 December 1999	10.7	-	10.7

NOTES TO THE ACCOUNTS

9 OTHER FINANCIAL INVESTMENTS

9.1 Other financial investments (Group)

	Current Value		Cost	
	2000	1999	2000	1999
	£m	£m	£m	£m
Listed investments				
Shares, options and other variable – yield securities and units in unit trusts	51.5	344.1	31.5	224.3
Debt securities and other fixed income securities				
- at current value	8.6	51.3	6.6	47.8
- at amortised cost (see note 9.2)	104.1	215.6	105.8	216.3
	112.7	267.0	112.4	264.1
Deposits with credit institutions	8.8	57.4	8.8	57.4
Other	-	4.0	-	3.8
	173.0	672.5	152.7	549.6

9.2 Debt securities and other fixed income securities

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

	2000	1999
	£m	£m
Cost	105.8	216.3
Cumulative amortisation	(1.7)	(0.7)
Amortised cost	104.1	215.6
Maturity value	94.4	205.9
Market value	108.3	210.5

10 TANGIBLE ASSETS (GROUP)

	2000	1999
	£m	£m
Cost:		
At 1 January	27.5	25.1
Additions	-	2.4
Disposals (including those arising on disposal of subsidiary)	(27.5)	-
At 31 December	-	27.5
Depreciation:		
At 1 January	25.3	25.1
Charge for the year	-	0.2
Disposals (including those arising on disposal of subsidiary)	(25.3)	-
At 31 December	-	25.3
Net book value at 31 December	-	2.2

All assets included above relate to computer systems.

NOTES TO THE ACCOUNTS

11 DEFERRED ACQUISITION COSTS

	Gross 2000 £m	1999 £m	Reinsurance 2000 £m	1999 £m
Balance at beginning of the year	17.1	15.1	0.5	0.5
Movement in the year	0.8	2.0	-	-
Movement arising on disposal of subsidiary	(17.9)	-	(0.5)	-
Balance at end of the year	-	17.1	-	0.5

Deferred reinsurance commissions are included in accruals and deferred income.

12 RECONCILIATION OF MOVEMENT IN RESERVES

Group

	Profit & Loss Account 2000 £m	Total 2000 £m	Profit & Loss Account 1999 £m	Total 1999 £m
1 January	77.9	77.9	84.5	84.5
(Loss) after tax for the financial year	(1,294.9)	(1,294.9)	(6.6)	(6.6)
31 December	(1,217.0)	(1,217.0)	77.9	77.9

Association only

	Profit & Loss Account 2000 £m	Revaluation Reserve 2000 £m	Total 2000 £m	Profit & Loss Account 1999 £m	Revaluation Reserve 1999 £m	Total 1999 £m
1 January	30.8	-	30.8	71.1	13.4	84.5
(Loss) after tax for the financial year	(30.8)	-	(30.8)			
Revaluation of subsidiaries in year	-	-	-	(40.3)	(13.4)	(53.7)
31 December	-	-	-	30.8	-	30.8

13 EQUALISATION PROVISION (GROUP)

Equalisation provisions are established in accordance with the requirements of the Insurance Companies (Reserves) Act 1995. The provisions, required by Statute, are over and above the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, and as such are not liabilities at that date. The provision is £nil at 31 December 2000 (1999: £nil). There is therefore no movement in the year in the general business technical account result and profit before taxation (1999: £nil).

NOTES TO THE ACCOUNTS

14 PROVISIONS FOR OTHER RISKS AND CHARGES

2000	Deferred Taxation £m	Pensions £m	Other Provisions £m	Total £m
At the beginning of the year	0.7	8.3	0.6	9.6
Movement in the year	(2.8)	-	-	2.8
Movement arising on disposal of subsidiary	3.0	(8.3)	(0.6)	(5.9)
At the end of the year	0.9	-	-	0.9

1999	Deferred Taxation £m	Pensions £m	Other Provisions £m	Total £m
At the beginning of the year	2.8	8.0	1.0	11.8
Movement in the year	(2.1)	0.3	(0.4)	(2.2)
At the end of the year	0.7	8.3	0.6	9.6

Deferred Taxation

Movements during the year:	2000 £m	1999 £m
Balance at the beginning of the year	0.7	2.8
Movement for the year		
- change in rate of tax	-	(0.2)
- decrease in tax applicable to market variation in investments	0.2	1.7
- timing differences	-	(3.6)
Balance at the end of the year	0.9	0.7

Additional liability for deferred taxation would only arise in the event of the disposal of the investments of the Group at the value at which they are included in these accounts, amounting to £nil (1999: £48.3m) (Association £nil (1999 £nil)). The group has unrelieved tax losses carried forward of £1.2bn which have not been recognised as a deferred tax asset.

Pensions

The pension details noted below relate to a subsidiary company disposed of during the year.

Contributions are determined by an independent qualified actuary on the basis of triennial valuations using the projected unit method. The most recently completed valuation was at 31 December 1999. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pension. It was assumed that the investment return would be 6.5 per cent per annum, that salary increases would be 4.25 per cent per annum and that present and future pensions would increase at the rate of 2.5 per cent per annum.

At 31 December 1999, the market value of the scheme's assets was £120.6m and the actuarial value of those assets represented 120% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The actuarial surplus was £6.0m.

A 'best estimate' basis as calculated by the actuary has been used to calculate the pension costs and the surplus has been spread using a 'level variation method'.

NOTES TO THE ACCOUNTS

15 CREDITORS

All creditors are payable within a period of five years.

16 COMMITMENTS

The Group had no capital commitments at 31 December 2000 (1999: £nil)

Obligations under operating leases

Annual commitments under non-cancellable operating leases are as follows:

Group	Land and buildings		Other	
	2000 £000	1999 £000	2000 £000	1999 £000
Operating leases which expire:				
within one year	-	-	-	-
between two and five years	188	31	-	-
over five years	-	1,035	-	-
	<u>188</u>	<u>1,066</u>	<u>-</u>	<u>-</u>

Payments under operating leases are charged to the profit and loss account on a straight line basis.

NOTES TO THE ACCOUNTS

17 NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

	2000	1999
	£m	£m
Reconciliation of (loss)/ profit before taxation to net cash outflow from operating activities		
(Loss)/profit before taxation and exceptional items	(1,229.2)	0.6
Decrease/(increase) in insurance and other debtors	0.5	(0.8)
Increase/(decrease) in technical provisions	1,191.0	(14.8)
Increase in insurance and other creditors	2.2	4.3
Tax on franked and unfranked investment income	-	(2.1)
Realised and unrealised gains	5.8	(41.1)
Depreciation of tangible fixed assets	-	0.2
Amortisation of fixed income securities	1.9	3.1
Other non-cash movements	(0.4)	(0.6)
Net cash outflow from operating activities	(28.2)	(51.2)
Movements in opening and closing portfolio Investments net of financing	2000	1999
	£m	£m
Net cash (outflow)/inflow for the year	(46.9)	41.4
Cash flow movements from portfolio investments	117.2	(96.8)
Movements arising from cashflows	70.3	(55.4)
Disposal of subsidiaries	(585.3)	-
Changes in market values and exchange effects	(10.0)	38.1
Total movements in portfolio investments net of financing	(525.0)	(17.3)
Portfolio investments net of financing at 1 January	698.0	715.3
Portfolio investments net of financing at 31 December	173.0	698.0
	2000	1999
	£m	£m
Net portfolio investment		
Purchase of equity shares	(226.4)	(256.7)
Purchase of fixed interest investments	(220.2)	(305.4)
Purchase of other investments	-	(0.1)
Sale of equity shares	192.2	277.2
Sale of fixed interest investments	134.6	293.7
Sale of land and buildings	-	6.2
Sale of other investments	0.4	-
Changes in deposits with credit institutions	2.2	81.9
Net (investment)/disinvestments	(117.2)	96.8

NOTES TO THE ACCOUNTS

17 NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED) Movements in Cash and Portfolio Investment

	At 1 January 2000	Cash Flow	Disposal of subsidiary undertaking (excl. cash)	Changes in Market value and currencies	At 31 December 2000
	£m	£m	£m	£m	£m
Equity shares	344.1	34.2	(310.1)	(8.1)	51.5
Fixed interest investments	267.0	85.6	(246.6)	(1.9)	112.7
Land and buildings	25.0	-	(25.0)	-	-
Deposits with credit institutions	9.1	(2.2)	-	-	6.9
Other	4.0	(0.4)	(3.6)	-	-
	649.2	117.2	(585.3)	(10.0)	171.1
Cash at bank and in hand and short term deposits	48.8	(46.9)	-	-	1.9
Total	698.0	70.3	(585.3)	(10.0)	173.0

Disposal of subsidiary

Net assets disposed of:

Other investments	585.3
Debtors	56.9
Other assets	5.1
Cash at bank and in hand and short term deposits	48.7
Prepayments and accrued income	5.2
Technical provisions	(458.9)
Creditors	(13.4)
Accruals	(7.6)
Provisions	(8.9)
	212.4

Satisfied by cash consideration **148.0**

Loss on disposal **64.4**

Cash consideration from disposal **148.0**

Net cash disposed of with subsidiary **(48.7)**

Cash inflow from disposal of subsidiary **99.3**

Movements in technical provisions

	At 1 January 2000	Change during year	Disposal of subsidiary	At 31 December 2000
	£m	£m	£m	£m
Gross provision for unearned premiums	101.5	2.5	(104.0)	-
Reinsurers' share of provision for unearned premiums	(7.2)	(1.0)	8.2	-
Claims outstanding	629.7	1,187.7	(429.7)	1,387.7
Reinsurers' share of claims outstanding	(52.1)	1.0	50.8	(0.3)
Deferred acquisition costs	(17.1)	0.8	16.3	-
Reinsurers' share of deferred acquisition costs	0.5	-	(0.5)	-
	655.3	1,191.0	(458.9)	1,387.4

NOTES TO THE ACCOUNTS

18 Subsidiary Undertakings

Company	Principal activity	Current Value		Cost	
		2000	1999	2000	1999
		£m	£m	£m	£m
Chester Street Insurance Holdings Limited (formerly Iron Trades Holdings Limited: effective 18 February 2000)	General Insurance	-	30.9	74.1	74.1
Subsidiaries of Chester Street Insurance Holdings Limited					
Chester Street Investments Limited (formerly Iron Trades Investments Limited: effective 18 February 2000)	Investment holding				
Iron Trades Insurance Company Limited	General Insurance				
Subsidiaries of Chester Street Investments Limited					
Cartonleaf Limited	Dormant				
Islandstream Limited	Investment holding				
Longspiral Limited	Dormant				
Mossisland Limited	Dormant				
Retoria Limited	Dormant				
Subsidiaries of Iron Trades Insurance Company Limited					
Belgravia Facilities Limited	Dormant				
Iron Trades Claims Services Limited	Dormant				
IT Investments (1990) Limited	Investment holding				
IT Insurance Company Limited	Investment holding				
Iron Trades Promotions Limited	Dormant				
Westking Limited	Dormant				
Iron Trades Management Services Limited	Management Services Provider				

All subsidiaries are wholly owned and registered in England and Wales.

From 18 February 2000 Iron Trades Insurance Company Limited and its subsidiaries were no longer part of the Group.

19 PARENT COMPANY ACCOUNTS

Included in the loss of the Group is £30.8m (1999: £nil) relating to the Association

NOTES TO THE ACCOUNTS

20 SEGMENTAL REPORTING

	Liability £m	Direct Motor £m	Property £m	Personal Accident & Health £m	Total £m
2000					
Gross premiums written	11.1	16.8	2.8	1.5	32.2
Gross premiums earned	10.0	15.0	3.1	1.6	29.7
Gross claims incurred	(1,236.1)	(14.0)	(3.3)	(1.5)	(1,254.9)
Gross operating expenses	(7.3)	(5.0)	(1.3)	(0.1)	(13.7)
Gross technical result	(1,233.4)	(4.0)	(1.5)	-	(1,238.9)
Reinsurance balance	(0.5)	-	(0.4)	-	(0.9)
Equalisation provision	-	-	-	-	-
Balance on the technical account	(1,233.9)	(4.0)	(1.9)	-	(1,239.8)
Net technical provisions, excluding deferred acquisition costs	1,387.4	-	-	-	1,387.4

	Liability £m	Direct Motor £m	Property £m	Personal Accident & Health £m	Total £m
1999					
Gross premiums written	74.9	115.0	27.7	12.9	230.5
Gross premiums earned	70.2	111.1	27.0	12.7	221.0
Gross claims incurred	(69.6)	(114.4)	(29.6)	(13.2)	(226.8)
Gross operating expenses	(18.1)	(30.3)	(10.7)	(1.1)	(60.2)
Gross technical result	(17.5)	(33.6)	(13.3)	(1.6)	(66.0)
Reinsurance balance	(3.9)	(4.1)	3.4	0.1	(4.5)
Equalisation provision	-	-	-	-	-
Balance on the technical account	(21.4)	(37.7)	(9.9)	(1.5)	(70.5)
Net technical provisions, excluding deferred acquisition costs	459.5	177.9	23.7	10.8	671.9

An analysis of the profit before taxation and net assets by class of business has not been provided because, in the opinion of the directors, the above segmental analysis of the balance on the technical account and net technical provisions, respectively, is the most appropriate to the nature of the business. The directors consider that a segmental analysis of net technical provisions, although a liability, provides a useful indication of the assets supporting the business.

NOTES TO THE ACCOUNTS

21 RELATED PARTY TRANSACTIONS

In the opinion of the directors, the following may be considered to be Related Parties in terms of Financial Reporting Standard No. 8 "Related Party Disclosures", the value of transactions with whom requires to be disclosed:

- a) the Scheme Administrator (PricewaterhouseCoopers)
- b) the management services provider (Iron Trades Management Services Limited)

Amounts paid (excluding Value Added Tax) during the year:

	2000 £000	1999 £000
Scheme Administrator:		
scheme administration fees	141	-
other services and fees	12	-
Amounts paid to the management services provider	2,082	-

Amounts due at 31 December:

	2000 £000	1999 £000
Amounts due to PricewaterhouseCoopers	-	-
Amounts due to Iron Trades Management Services Limited	-	-

Amounts in respect of related parties included in accruals at 31 December:

	2000 £'m	1999 £'m
PricewaterhouseCoopers	1.6	-

Amounts in respect of related parties included in run-off provision at 31 December:

	2000 £'m	1999 £'m
PricewaterhouseCoopers	20.3	-
Iron Trades Management Services Limited	3.0	-

22 FUNDING

The Association has entered into an arrangement with its subsidiary, Chester Street Insurance Holdings Limited ('Holdings'), whereby Holdings settles liabilities of the Association for the purpose of discharging its debts as they fall due to creditors in the ordinary course, whilst it is in the interest of Holdings' scheme creditors. This arrangement does not cover liabilities arising out of the Association's negligence, fraud, wilful default, breach of duty, breach of trust or other like action.

REPORT OF THE AUDITORS

To the members of **The Chester Street Employers Association Limited**

We have audited the accounts on pages 5 to 26 which have been prepared on a break-up basis and the accounting policies set out on pages 11 to 13.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on pages 3 and 4 the Group's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

FUNDAMENTAL UNCERTAINTIES

Latent Disease: In forming our opinion, we have considered the adequacy of the disclosure made in the accounts concerning the provision for employers' liability outstanding claims arising from latent disease. The accounts include provisions for gross notified and incurred but not reported outstanding claims of £1,289.1m (1999: £611.1m). These provisions rely on a considerable degree of judgement due to the uncertainty as to the number of claims which will emerge and the amounts at which they will be settled. Details of the circumstances relating to this fundamental uncertainty are described in notes 2 and 3.1. Given the nature of this issue, it is not possible to quantify the potential effects of the resolution of the uncertainty.

Claims Handling and Run-Off Expenses: The accounts include a claims handling provision of £61.3m (1999: £18.6m) and a run-off provision of £37.3m (1999:nil) for estimated operational costs of the run-off. The ultimate cost of the run-off is dependent upon future events and could be materially different from the amount provided. Details of this fundamental uncertainty are described in the accounting policies section (claims handling expenses and run-off provision) on page 12 and in note 3 on pages 14 and 15.

Our opinion is not qualified in respect of the above matters.

OPINION

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2000 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
London

31 October 2001